

UNFPA

Policies and Procedures Manual Internal Control Framework

Policy Title	UNFPA Internal Control Framework (ICF)
Previous title (if any)	UNFPA Internal Control Framework (2015)
Policy objective	The UNFPA Internal Control Framework outlines the principles of the internationally recognized COSO model of internal controls as applicable to UNFPA.
Target audience	This policy applies to all UNFPA personnel, management and process owners in particular.
Risk Control matrix	A Risk Control matrix is waived as it is not applicable for this document.
Checklist	Not applicable.
Effective date	September 2016
Revision History	Issued: March 2009 Revision 1: April 2015 Revision 2: September 2016
Mandatory revision date	September 2019
Policy owner unit	Director, Division for Management Services and Director, Programme Division.

INTERNAL CONTROL FRAMEWORK

Table of Contents

Contents

I. Introduction.....	1
II. Internal control and its five components.....	2
III. UNFPA ICF and the three lines of defense	3
IV. “Present and Functioning” and “Operating Together” Internal Controls.....	5
V. Taking Action to Enhance and Strengthen UNFPA’s Overall System of Internal Controls ...	5
VI. Providing Assurance on the Effectiveness of Internal Controls in UNFPA	6
VII. Limitation of Internal Control – the Concept of Reasonable Assurance	7

I. Introduction

The present document outlines the principles of internal control, which are to be followed by all UNFPA personnel in their actions and behaviors, in order to increase the likelihood of achieving the organization's objectives.

The ICF document:

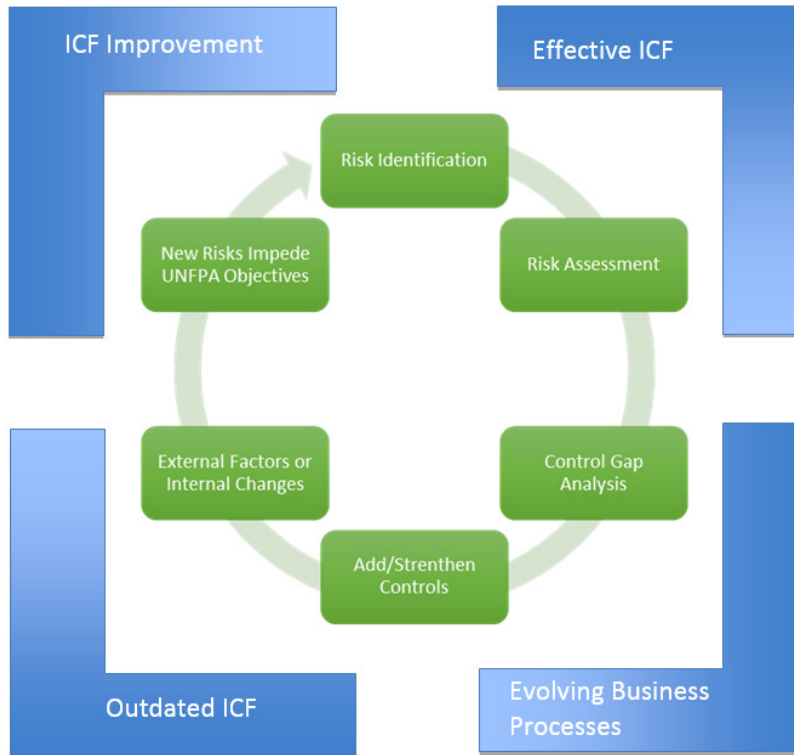
- Constitutes an integral part of UNFPA Enterprise Risk Management (ERM);
- Applies the “three lines of defense” model as part of UNFPA control activities as encouraged by the United Nations High Level Committee on Management (HLCM);
- Defines internal control to ensure all UNFPA personnel have a common understanding of the concept and how it is applied in UNFPA;
- Provides a set of principles based on acknowledged best practice against which UNFPA's internal control systems can be assessed and progressively enhanced to achieve optimum performance;
- Assigns accountability to all UNFPA personnel for implementing internal controls;
- Reinforces the importance of ethics and integrity in establishing effective internal control;
- Underlines the limitations inherent in any system of internal control;
- Identifies the manner in which the overall effectiveness of internal control systems in UNFPA is assessed and reported on regularly.

This policy will be supplemented by additional materials, such as guidance on internal controls and risk based policy writing tools.

The ICF comes into effect in September, 2016. It is to be read in conjunction with the UNFPA [ERM framework](#) and the UNFPA [policy for Atlas User Profiles and Global Directory Application Guide](#), which provides guidance on system access and segregation of duties.

The ICF is a living document by nature and will be modified and enhanced in line with the evolution and strengthening of the design and effectiveness of UNFPA's internal controls. In *Figure 1* below, the outer boxes illustrates how the ICF evolves based on the identification and assessment of internal and external risks that may impede organization's objectives and its response through improved processes and controls.

Figure 1. The iterative process toward an effective ICF



II. Internal control and its five components

UNFPA defines internal control as a process effected by UNFPA’s Executive Board, management and all other personnel designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

UNFPA recognizes five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring activities. UNFPA has adopted 17 principles (see **Figure 2** below) that must be present and functioning in an integrated manner to meet the five components of internal control¹, in order for the organization to achieve its operational and strategic objectives in all areas of its mandate.

¹ Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework, May 2013

Figure 2. The Five Components and 17 Principles of internal control



III. UNFPA ICF and the three lines of defense

The effective application of internal controls within UNFPA rests on three cascading levels of controls, in line with the three lines of defense model, supplemented by an external line of defense. The model addresses how specific duties related to risk and control could be assigned and coordinated within an organization. This is illustrated in *Figure 3* below².

² [The Three Lines of Defense in Effective Risk Management and Control, The Institute of Internal Auditors, January 2013.](#)

Figure 3. The Three Lines of Defense Model



Internal Line of Defense

- First line of defense: The first level concerns functions that *own and manage* risks and controls (‘front line’ operating management). At UNFPA these functions are carried out by all organizational personnel at field, regional and headquarters offices. This is done by applying existing policies and procedures in their daily work to ensure that objectives are met and resources entrusted to UNFPA are properly managed. E.g.: contract/partner engagement management, procurement activities, human resources management, etc.
- Second line of defense: The second level concerns functions that *oversee* risks and controls. Controls at the second level are designed to monitor the operational effectiveness of the first level and mitigate related risks. They are exercised by those units responsible for monitoring the effectiveness of process internal controls, such as regional offices and headquarter divisions. In fact, some units, as well as individual roles at headquarters, regional and country office levels, carry out different functions that are part of both the first and second line of defense. The second line of defense includes functions such as planning and budgeting processes, quality management and assurance, results and performance management, etc.
- Third line of defense: The third level concerns functions that provide independent assurance of the efficiency and effectiveness of processes and controls in place. These are undertaken by internal audit and other independent internal units such as investigation, independent evaluation, and ethics.

External Line of Defense

The internal line of defense, as outlined above, is supplemented with an external line of defense which is comprised of UNFPA governing bodies, such as the United Nations General Assembly and the UNFPA Executive Board, the Audit Advisory Committee, the external auditors and regulatory authorities.

IV. “Present and Functioning” and “Operating Together” Internal Controls

For any organization to be effective, each of the five components and seventeen relevant principles must be present and functioning.

The phrase “present and functioning” applies to both the components and the principles.

- “Present” refers to the existence of components and relevant principles within UNFPA’s business procedures that achieve specified objectives.
- “Functioning” refers to the determination that components and relevant principles are in fact serving their purpose within UNFPA’s business procedures by enabling UNFPA to achieve its objectives.
- “Operating together” refers to the five components coherently and efficiently reducing the risk of UNFPA not achieving its objectives to an acceptable level.

V. Taking Action to Enhance and Strengthen UNFPA’s Overall System of Internal Controls

The system of internal controls in an organization is only as strong as the attention and attitudes of senior managers’ and other personnel’s attention and attitudes towards them.

The Executive Director is accountable to the Member States, the Secretary-General of the United Nations and the UNFPA Executive Board for ensuring the organization wide implementation of internal control frameworks.

The ED ensures that a system of internal controls that is efficient, effective and in compliance with international standards and best practices is established and that action is taken to address significant internal control weaknesses as soon as they become apparent, and identifying risks involved and the costs of addressing them.

Opportunities for improvement in internal control may come to the attention of the ED in a number of ways, such as:

- regular review of the risk register³;

³ The Risk Register is under development and it will include all risks and related internal controls as documented by each process owner

UNFPA

Policies and Procedures Manual Internal Control Framework

- escalation of events that may generate risks from country offices, regional offices and headquarters units;
- the reports and recommendations of the Office of Audit and Investigation Services (OAIS), Ethics Office, External Auditor, Joint Inspection Unit (JIU) and the Office of Evaluation;
- normal oversight of UNFPA activities by the Executive Board and the Audit Advisory Committee; and
- management reviews or evaluations of policies, strategies, programmes, and related interventions.

The Risk Owners⁴ will report to the Executive Committee, as necessary, on progress in addressing known internal control weaknesses.

Furthermore, all UNFPA personnel have the responsibility to apply existing internal controls in the exercise of their functions towards achievement of UNFPA's strategic and operational objectives. This responsibility is built into personnel job descriptions and unit functions as described in the [UNFPA Organizational Handbook](#).

UNFPA management sets and manages the organization's objectives. Unit managers use the Strategic Information System (SIS) to plan, regularly monitor and report on the achievement of results. UNFPA managers promote the accountability of personnel for achieving these results and evaluate their performance using systems such as the Performance Appraisal and Development (PAD) System.

Policies and procedures are developed using a risk based approach outlined in the guidance for policy writing, and controls are designed to address identified risks. Segregation of duties is typically built into the selection and development of control activities, wherever needed.

VI. Providing Assurance on the Effectiveness of Internal Controls in UNFPA

There is no single or straightforward way to assess the effectiveness of UNFPA's system of internal controls along the three lines of defense. Internal controls need to be present and functioning at every level of the organization and across all business processes. Every person working in the organization implements internal controls in some way or another. Moreover, internal controls must be continuously reviewed to address new risks that arise from changing environments and evolving business processes.

As a way to ensure that UNFPA is continuously monitoring the progress of the ICF, management has implemented the following procedures:

⁴ Members of the Executive Committee have been selected as risk owners, leading UNFPA in assessing and responding to key risk areas and strengthening accountability, while improving governance, risk management and internal controls. These risk owners form the Risk Committee for UNFPA and chair a Risk Treatment Working Group for their respective risk areas.

UNFPA

Policies and Procedures Manual Internal Control Framework

- Each year, the Director of the Division for Management Services (DMS) prepares a letter of certification, which is appended to the Annual Financial Statements for Executive Board approval, where he/she certifies that accounting procedures and related systems of internal controls provide reasonable assurance regarding the safeguarding of assets, reliability of financial records, and implementation of policies and procedures with an appropriate segregation of duties.
- Each member of the Executive Committee acts as a risk owner and provides a statement in which they confirm that UNFPA financial regulations, rules, policies and procedures were adhered to and that any non-compliance or weaknesses in internal controls were brought to the attention of management.

These statements are prepared based on the feedback from across the three lines of defense:

- Every year, as part of the accounts closure procedures, each head of unit provides a series of certifications including cash losses, contingent liabilities, and fraud allegations. Also, each head of unit completes an annual risk self-assessment as part of the UNFPA ERM Programme.
- The Audit Advisory Committee regularly reviews the effectiveness of UNFPA systems of internal control and provides advice accordingly.
- The Audit Management Committee regularly reviews patterns in audit findings and gaps in internal controls and monitors mitigating actions.
- The Director of OASIS prepares an annual opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and internal control processes on the basis of the audit work undertaken during the year and additional sources of evidence, as appropriate.

VII. Limitation of Internal Control – the Concept of Reasonable Assurance

Internal control helps an organization achieve its strategic objectives, produce reliable financial and performance information, and comply with relevant policies and procedures. In addition, a solid internal control framework is conducive to an organizational environment and culture where all personnel are inspired by integrity and ethical values in their actions and behaviors. However, internal control cannot influence external factors such as reduced funding levels or operational constraints resulting from political or military actions. Proscribed practices including fraud and collusion also undermine the effectiveness of internal controls.

UNFPA personnel should recognize that the aim of internal control is to achieve reasonable assurance that the organization will achieve its objectives in an efficient manner. Internal control systems cannot provide absolute assurance that UNFPA will achieve all its objectives.