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REFERENCE RISK MANAGEMENT, OVERSIGHT & ACCOUNTABILITY MODEL FOR THE UN SYSTEM

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1. OVERVIEW

In considering the specific request priority “D” from the HLCM Strategic Plan (CEB/2013/HLCM/2) and paragraph 167 of the QCPR resolution A/RES/67/226, the Finance and Budget Network (FBN) reached the following conclusions:

- There is a clear expectation that all UN agencies require robust governance and oversight and therefore must, at the very least, adhere to effective standards of governance and oversight. As a minimum, to ensure an effective level exists, this should include various mandatory elements with well-defined responsibilities and clear lines of accountability. This includes: a credible Governing Body, Senior Management and independent assurance functions covering: internal audit, investigation and evaluation (for programme-based agencies).
- Given the range of organizational mandates across UN agencies, it was not possible to mandate a single prescriptive approach for how governance and oversight should be administered. In particular, the determination of what an appropriate level of oversight should be and what resources are required, depends on an organization’s size, mandate, complexity, maturity and business model.
- Accepting this proviso and based on interviews with nine UN agencies, oversight elements, tools and processes which were considered to be effective include:
    - An independent Audit Committee;
    - An independent Ethics function;
    - An organization wide internal control framework in accordance with a recognized international standard;
    - A Statement on Internal Control;
    - Performance or Results Based management; and
    - Risk Management in accordance with a recognized international standard.
- The Institute of Internal Auditors’ “Three Lines of Defense”[1] model was validated by the FBN and confirmed as a suitable reference model in which to discuss governance and oversight in the UN System. As every UN agency’s mandate is unique, there is no one “right” way to implement the “Three Lines of Defense”, however all three lines should exist in some form for every UN agency, regardless of size or complexity. The three lines consist of: (i) functions that own and manage risks; (ii) functions that oversee risks; and (iii) functions that provide independent assurance.
- There is a difference between the existence of an internal control framework and the extent to which it is effectively implemented on the ground. Furthermore, effective accountability will only be achieved when actual practice is both implemented and maintained at a granular, operational level. Thus the maturity of oversight and the associated practices varied from agency to agency, as progress was dependent on both the availability of resources and whether emphasis was placed upon subsequent improvements and refinements.
- Finally the impact and robustness of an organization’s governance and oversight depends upon the “tone at the top”. That is, to what extent are Senior Management and the Governing Body actively participating and following through, in administering a robust governance and oversight programme.

[1] IIA (2013) “Position Paper: The Three lines of Defense in Effective Risk Management and Control.”

2. EXECUTIVE SUMMARY

Based on its discussion and analysis of the governance and oversight mechanisms for nine UN entities, the Finance and Budget Network (FBN) recommends that UN system organizations:

- continue the positive trend of strengthened financial reporting, control, oversight and accountability across the UN System;
- recognize that the demands placed upon an agency's assurance processes depends on how much risk an organization faces, which itself depends upon: its mandate, control environment, structure, geographical spread and resource base;
- request that the UN agencies continue to strive to ensure that their oversight model is in keeping with effective practices and responds to the changing assurance requirements of the governing bodies; and to regularly communicate to the donor communities on progress in developing the maturity of their governance and oversight;
- endorse the Institute of Internal Auditors' "Three Lines of Defense Model" as a suitable governance and oversight model of reference for the common positioning of the UN System. (see section 6 for more details on this model); and
- take note of the following suggested elements on how to apply and implement the "Three Lines of Defense" model.

In this model the "Three Lines" consist of: (i) functions that own and manage risks; (ii) functions that oversee risks; and (iii) functions that provide independent assurance. Therefore, the working group recommends that the following points be considered when applying the "Three Lines of Defense" as a base model for UN agencies:

- The governing bodies and senior management are the primary stakeholders served by the "Three Lines of Defense", and retain collective responsibility for establishing the necessary governance structures and processes to accomplish the organization's strategic objectives;
- Because every organization's mandate is unique, there is no one "right" way to implement the "Three Lines of Defense", however all three lines should exist in some form at every organization, regardless of size or complexity;
- Senior Management is responsible for ensuring synergy between the three lines (controls, risk management and independent assurance) so that these operate as a whole effectively. Each line of defense should: be supported by appropriate policies, identify the individuals accountable, and clearly delineate key roles and responsibilities;
- Based on the responses from the respondents, practices considered to be effective include:
  - An independent Audit Committee;
  - An organization wide internal control framework in accordance with a recognized international standard;
  - A Statement on Internal Control ;
  - Risk Management in accordance with a recognized international standard;
  - Performance or Results Based measurement;
  - An independent Ethics function.
- The following assurance elements are required, whose independence is mandatory in line with the respective governing international professional standards:

- An Internal Audit function[2];
- An Evaluation function (for programme based agencies)[3]; and
- An Investigation function[4].

By submitting these elements to independent quality assurance or self-assessments, UN agencies have been able to benchmark their functions' conformance with standards and promote quality improvement in their capacity and efficiency.

[2] Institute of Internal Auditors (2013), "International Standards for the Professional Practice of Internal Auditing"; Standard 1100 – Independent and Objectivity.
[3] UNEG (2005) "Norms for Evaluation in the UN System"; N6 - Independence.
[4] "Uniform Guidelines for Investigations" paragraph 3, as endorsed at the 10th Conference of International Investigators (CII), Jordan, 2010.

3. BACKGROUND

Specific requests from both the HLCM Strategic Plan (CEB/2013/HLCM/2 – priority "D")[5] which *"calls for the development of a consolidated and trust-based relationship with Member States on the level and quality of controls in place in Organizations to allow for rationalized oversight, focus on key risks and better internal resource allocation"*; as well as the QCPR resolution A/RES/67/226 paragraph 167; which *"recognizes progress in improving transparency, and calls for further efforts to ensure coherence and complementarity in the oversight functions, audit and evaluations across the United Nations development system".*

The CEB Finance and Budget Network (FBN) was delegated responsibility for following up on this priority. As a result in 2013 the FBN created a working group to:

(i) determine what are the key governance elements of United Nations organizations;
(ii) identify if a common governance baseline can be distinguished; and
(iii) recognize best practice in oversight (including risk management) and establish whether any specific models can be applied more broadly across the UN system.

The working group comprised representatives of UNFPA, UNOPS and UNESCO and was supported by the CEB Secretariat.

[5] Please refer to Annex 5 for full text.

4. METHODOLOGY

For phase one of the review, the working group focused upon identifying and documenting the existing governance and oversight models within the UN system, and in identifying examples of common or effective practices.

The working group followed a two- step methodology:

- canvased participants with a preliminary survey; and
- utilized qualitative interviews, to further explore and follow up on responses.

Based on the discussion at the Finance and Budget Network meeting, the intent of the exercise was to come up with a "base model" that reflected existing oversight mechanisms based on the feedback received from organizations who took part in the survey. Participation would be on a voluntary basis, leading to nine organizations being assessed, including all three working group members.

The surveys that were conducted between September 2013 and May 2014 established an inventory of each organization's principal elements. The data collected was generalized in nature, such that comparisons could be made between the tabulated data summarizing the various UN agencies.

The subsequent interviews provided greater detail and built upon the responses provided in the survey. Interviews were primarily conducted using teleconferencing and in two instances face-to-face, with each respondent being asked a standard set of questions. In part one, answers to the questionnaire were discussed and further clarified. In part two, the Working Group leading the discussion asked followed-up non-structured questions, to enable respondents to focus on what they thought was most relevant and to allow them to provide a broader perspective.

The working group's approach and methodology identified many more similarities between the agencies' existing governance frameworks than differences. Specific examples where particular governance aspects were more mature were noted, but all agencies expressed satisfaction with their existing governance and oversight arrangements.

Due to the varying size, mandate and business models resulted in different governance and oversight needs, it was difficult determining what size sample would be considered representative of the broader UN system.[6] However, the working group believes that some general conclusions can still be made about the status of the overall Governance and Oversight in the UN System.

The complete results in the form of graphical representation of data can be found on the UNSCEB site link here or on the following link http://unsceb.org/content/june-2014.

[6] For additional details on the assumptions and limitations of the stock-taking survey, refer to Annex 2.

5. DEFINITIONS

With respect to the stock-taking survey, the following definitions were proposed:

- Accountability – is the obligation of the Secretariat and its staff members to be answerable for all decisions made and actions taken by them, and to be responsible for honouring their commitments, without qualification or exception. Accountability includes achieving objectives and high-quality results in a timely and cost-effective manner, in fully implementing and delivering on all mandates to the Secretariat approved by the United Nations intergovernmental bodies and other subsidiary organs established by them in compliance with all resolutions, regulations, rules and ethical standards; truthful, objective, accurate and timely reporting on performance results; responsible stewardship of funds and resources; all aspects of performance, including a clearly defined system of rewards and sanctions; and with due recognition to the important role of the oversight bodies and in full compliance with accepted recommendations.[7]
- Audit Committee – The governance (or advisory) group independent from the executive charged with providing assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.[8]
- Assurance Framework – This is the primary tool used by a Board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.[9]
- Board - The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization.[10]
- Governing body – The person(s) or group with primary responsibility for overseeing the strategic direction and accountability of the entity.[11]
- Governance - The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.[12]
- Oversight – The supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.[13]
- Internal control – A process, effected by an entity's Board, management and other personnel, designed to provide reasonable assurance regarding the achievement of

[7] United Nations (2010) "Towards an accountability system in the United Nations Secretariat"; A/RES/64/259, paragraph 9, *Definition of accountability and roles and responsibilities*.
[8] CIPFA (2013) "Position statement on Audit Committees"
[9] IIA (2013) "Public Sector Internal Audit Standards (Applying the IIA International Standards to the UK Public Sector)"
[10] IIA (2012); "International Standards for the Professional Practice of Internal Auditing"
[11] IFAC (2013); "Good Governance in the Public Sector— Consultation Draft for an International Framework"
[12] IIA (2012); "International Standards for the Professional Practice of Internal Auditing"
[13] International Public Sector Accounting Standards (2012) "Glossary of defined terms"

objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.[14]

- Risk management — Coordinated activities to direct and control an organization with regard to risk.[15]
- Enterprise Risk management – It is a process, effected by an entity's Board, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.[16]
- External Auditor of UN organizations – It consists of an external auditor providing independent audit services to UN agencies and the General Assembly.
- Senior Management – The officer or officers responsible and accountable to the Board for all aspects of the organization's strategic, programme and operational activities.
- UN agency: An agency of the United Nations system. UN agencies, UN entities and UN organizations shall be used interchangeably in this report.

[14] The Committee of Sponsoring Organizations of the Treadway Commission – COSO (2013) "Internal Control–Integrated Framework"
[15] ISO (2009); "Standard 31000:2009 —Risk Management".
[16] COSO (2004); "Enterprise Risk Management — Integrated Framework".

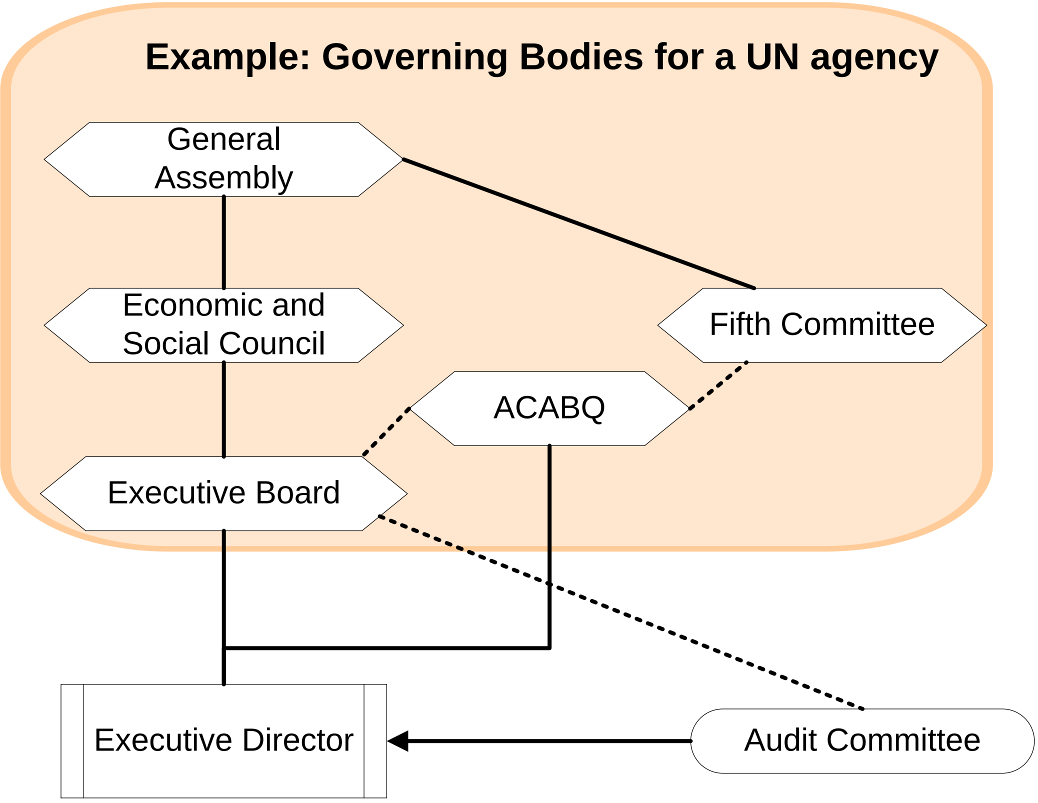
6. KEY FINDINGS FROM THE STOCK-TAKING INTERVIEWS

6.1. Governing Bodies

UN organizations all have an immediate governing body as the primary interlocutor with the Senior Management Team. This body is typically referred to as the "Executive Board" or "Executive Committee" (one of the respondents was governed directly by the General Assembly). Governing bodies wield considerable influence in terms of holding the organization accountable and by influencing and directing the entity's strategy. Accountability to the governing body comes with the requirement to submit for discussion a range of specific reports on a regular basis, with all such material being made publicly available.
In addition to the immediate governing body, agencies within the United Nations system are also accountable to other UN bodies, including the General Assembly.

All UN agencies indicated that their governing bodies were sufficiently engaged and played an effective role in ensuring that their activities and operational strategies were consistent with the General Assembly and the Council's overall policy guidance.

The following example below illustrates some of the governing bodies which frequently oversee a UN agency:



Conclusion: the architecture of the UN system governing bodies is relatively complex and unique to each agency, largely due to the historical reason of which of the United Nations legislative provisions determined the respective agency's mandate and "raison d'être". As such each supplementary governing body adds to a UN agency's overall accountability responsibilities.

6.2. Executive Board (or Executive Committee)

The UN agencies interviewed raised the following issues in relation to their Executive Board or Committee:

- **Relationship built on trust** – a recurring theme was that for an effective, optimal working relationship to develop between the Board and Management it was necessary for there to be a high degree of trust. For example, one respondent explained how it had taken them several years to build sufficient trust with the Board until their budgetary discussions could move to a higher, less granular level. Another respondent shared a positive experience of conducting induction sessions with new Board Members, enabling them to bring new delegates up to speed and increase recognition.
- **Size of the Board** - the impact and effectiveness of the Board is affected by its size. Too many members representing the Board is likely to negatively impact the discussion and advice received unless well-coordinated and driven by common thrust. The organizations surveyed indicated that in general they were satisfied with their board members numbering between 30-36 members.
- **Board Members "wear different hats to different parties"** – respondents implored upon the need for a consistent voice (approach) from the same members at the board as well as during bilateral discussion e.g. behaviour, dialogue and positioning in matters such as administrative efficiency, standard recovery rates, standardized reporting, single audit principle, etc. should be consistent.
- **Sub-committees should be only by necessity** – while acknowledging the role of sub-committees in dealing with technical matters; their deployment should be made up of experts that can directly contribute to the dialogue and should be on "as needs" basis, where their expertise will contribute positively to the dialogue.
- **Strategic Issues** –Most respondents agreed that there was scope for their governing bodies to focus increasingly on strategic issues and look to senior management to address the operational issues.

Summary of good practices identified included:

- Training/ information seminars for Executive Board members; and
- Sub-committee made up of technical experts to deal with complex technical issues on behalf of the board.

Past instances of these practices helped UN agencies get better value from their governing bodies.

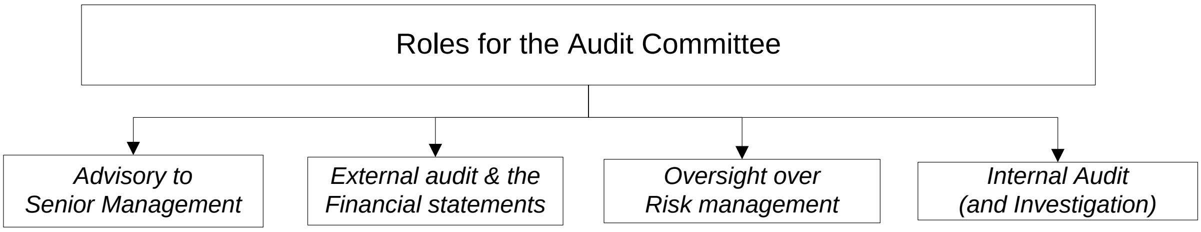
Conclusion: Boards are highly effective where clear boundaries and a trust-based relationship with Management is established, with discussion being focused upon strategic issues. Sub-committees should be established with a clear purpose and terms of reference and be made up of technical experts to deal with complex issues, as needs require.

6.3. Audit Committee

In accordance with common practice, all sampled organizations had an Audit Committee, of independently appointed members without conflict of interests. Selection was established on a competitive basis, with membership being overwhelmingly represented by professional experience outside of the United Nations. Members were appointed on fixed duration basis with limited renewal opportunities.

Audit Committees were also independent from Board membership. Thus the Board was represented by individuals acting in a Member States' capacity, in contrast to the audit committee which was represented by individuals and professionals acting in their own right, typically with expertise in financial and oversight. In all cases the Audit Committee had a direct reporting line to the Board, formalized by the submission of an annual report, usually combined with the right to speak and respond to queries from the Board.

In line with common practice, the scope and role of the Audit Committee typically stretched across four common areas:



It was concluded the purpose and role of the Audit Committee needs to be tailored to the organization's requirements, given the range of activities currently undertaken.

<u>Conclusion</u>: It was agreed that a properly vetted Audit Committee with the right skills and competencies significantly adds value to the organization's governance. Each Audit Committee's terms of reference will vary depending on organizational requirements.

6.4. External Audit

External audit provides both independent assurance as well as oversight on the organization. All respondents recognized that their External Auditors added significant value.

The UN-wide adoption of independent IPSAS accounting standards and move to annual audits strengthened the accuracy, transparency and comparability of financial accounting. All but one of the organizations interviewed had adopted IPSAS and all had received clean audit opinions.

The adoption of IPSAS was recognized as a trigger event, as it enhanced the opportunity for external audit to partner and support UN agencies in implementing IPSAS, as well leading to an increase in the frequency of external audits. Many respondents underlined the importance of continuous dialogue with their External Auditor to leverage from their unique skills and experience, such as reviews of accounting standard policies, etc.

Respondents all agreed that as an effective practice internal audit and external audit functions should share and ensure that their audit plans are complementary, so as to minimize any duplication of work and optimize the use of their resources.

At least two respondents indicated that the respective scope and mandates between internal audit and external audit were not properly delineated, resulting in some overlap and leading to each service diluting their focus from their respective core strengths.

The published modus operandi of the UN BOA[17] clearly states that the core responsibility of the Board is an audit of the respective UN entities' financial statements. Performance or operational audits are secondary. There were situations where this was not strictly adhered to. Ultimately, the experience and qualification of the audit team contributed directly to the quality of the audit.

Conclusion: Audit services provided by each respective External Auditor was recognized as adding value, particularly where the auditor was instrumental in providing advice and support on key technical and IPSAS related matters.

6.5. Senior Management

Although the stock-taking interviews did not primarily focus on the responsibilities of Senior Management, from discussions with the UN agencies it was understood that Management always has a major role in driving and ensuring adequate oversight across the organization as well as being accountable to the governing bodies on those arrangements.

Conclusion: Senior Management is responsible and accountable to the Executive Board for the use of resources and for delivering on the Strategic Plan. This responsibility extends to the requirement for ensuring that the necessary internal controls, management of risks and other checks and balances are implemented throughout all levels of the organization.

6.6. Internal control frameworks (ICF)

The area of internal controls is best approached by examining the underlying internal control framework operating within each UN agency. Where such a framework exists, it is typically founded upon the organization's Financial Regulations and Rules (FRR's) as approved by the Board, since the FRRs delegate overall responsibility for internal control to the head of the organization. However internal control frameworks also need to be broader than the FRR's, as the framework must encompass both organizational strategy as well as the policies associated in tackling programmatic and operational risks.

Each UN agency interviewed had established its own ICF citing its FRRs as underlying authoritative basis. Additionally these ICFs aspired to cover most of the key controls at work across the respective organization. All but one of the agencies had issued their ICF based on the Committee of Sponsoring Organizations of the Tread way Commission (COSO Model), but there were differences in the extent and application of the resultant ICFs.

The majority of UN agencies stated that they frequently used a range of tools to hold their workforce accountable. For example: performance appraisals, self-certifications, attestations and task completion checklists.

In common with all UN agencies, the organizations' control environment was established via a framework of detailed policies, procedures and processes and by determining the thresholds and

[17] UN Board of Auditors, "Modus Operandi of the Board"; www.un.org/en/auditors/board/modusop.shtml

tolerances within which Management and Officers are entitled to make decisions on behalf of the organization. In addition, all of the UN agencies operated ERP systems with built-in system-based controls to help manage key processes.

Two organizations identified that they considered their inclusion of a statement on internal control (SIC) in their financial statements as a good practice. In support of their SIC, each organization first developed and propagated a process of control self-assessment or attestation to validate the functioning and existence of key controls across its operations. Many other UN agencies confirmed their plans to also issue a SIC in the future and had begun obtaining additional certifications on assurance.

Conclusion: UN Agency ICF's explicitly define the control environment and key principles, such as the need for segregation of duties, transparency and accountability. The inclusion of a SIC within the financial statements was considered as an effective practice and proof of an organization's confidence in its internal controls.

6.7. Management controls

In general terms, Management controls consist of principle based checks and balances that do not fall into either the category of structured internal controls, nor independent assurance processes. Such management controls include functions which provide oversight over risk. From the nine agencies interviewed it was noted that the range of each agencies' management controls necessary depended upon its mandate.

The following generic examples of management controls were identified:

- Risk Management;
- Budgeting processes – preparation, review, analysis;
- Working capital management;
- Results and performance management, including balance score cards and results based management;
- Specific programme based methodologies and processes;
- Quality assurance.

It was recognized as a common practice, that a properly designed ERP system could be used an effective tool to support the application of management controls. For example, by embedding monitoring systems (e.g. alerts or dashboards) into the ERP, helped to highlight the adequacy and effectiveness of control, or identify the emergence of issues and risks.

Conclusion: All UN agencies interviewed have established management functions as a second line of defense, to monitor and ensure that the first line of defense was properly designed, in place and operating as intended. In particular, effective practice was characterized by establishing suitable performance based measurement approaches, which were able to monitor the organization's achievement of outcomes against its stated objectives.

6.8. Risk Management

Governing Boards and Senior Management have embraced the concept of risk management as an important approach furthering their governance and oversight responsibilities towards stakeholders.

Of the two recognized international standards ISO 31000 and COSO Enterprise Risk Management (ERM), most UN agencies referred to a preference for implementing the COSO ERM approach. ERM is a process which provides a robust and holistic overview of key risks facing an organization. To help boards and management understand the critical elements of an enterprise-wide approach to risk management, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued its “Enterprise Risk Management – Integrated Framework” in 2004.

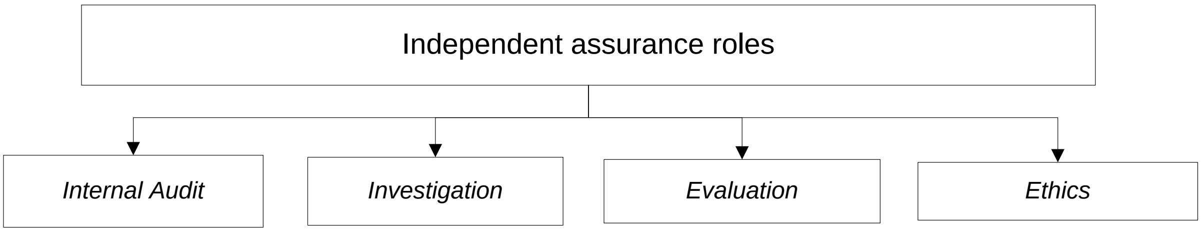
From discussions on risk management throughout interviews, it was determined that the term is used as a broad label encompassing a wide range of activities. Thus risk management can be considered either an approach to governance (through establishing the necessary mandate, commitment and a risk committee), as a process to providing oversight (determined by the design of a risk management framework and the reiterative strengthening of the process through feedback and communication), or as a series of operational steps (risk identification, analysis, assessment and treatment).

There were differences in how the individual respondents described and articulated their risk management framework. Key policy elements include the establishment of risk committees, and clarifying terminology around risk thresholds, risk appetite and risk tolerance. Key operational elements and tools included risk champions, risk assessments and a basis for how to measure and assess risk likelihood and impact. The maturity of these elements reflected the experience and range of the respondents’ risk management arrangements. Each agency had considerably customized their risk management interface across the organization and depending on the basis and justification for risk management; each had progressed differently in how they had embedded their risk management whether adopting a top down or bottom up approach, in response to finding a good fit to the prevailing organizational culture.

Recognizing these differences, Annex 1 provides case studies from three of the respondents and outlines the salient points of their respective risk management framework, basis, tools and approach.

Conclusion: UN agencies have responded to their governing bodies, by beginning to explicitly articulate how their respective organization manages risk. In practice, progress in developing an effective risk policy, plan and support arrangements is contextual, as it depends on the overall risk environment faced and the resources available to implement mitigating measures. Further, to be successful in implementing risk management, good communication and consultation between senior and operational management is essential, so as to develop the necessary culture and environment where the positive and negative dimensions of risk are recognized and valued.

6.9. Independent Assurance



The range of independent assurance roles varied across UN organizations, as well as the grouping. Where an organization had both internal audit and investigation, these were usually grouped together under a single Director level role.

For some UN agencies, evaluation was also included, grouping these three assurance functions together as the most common oversight elements. The range and varied approaches to evaluation were significant, reflecting the various differences in mission, mandate and operating models. Thus at least two UN organizations did not have an evaluation function at all, with one respondent citing that this was because as a project-based organization (rather than a programme-based organization). This also reflects that each agency attributed a different chain of results to being impacted upon by its activities. The longer the chain of results, the more expansive the Evaluation function.

However, in a bid to differentiate their operating model, at least two UN agencies had begun to voluntarily expand their chain of results by considering issues of sustainability and resilience.

In general, all of the organizations recognized and complied with the common practice of keeping ethics separate from the other assurance functions. This was also in line with the UN's proposed ethics[18] practice as set down by the Joint Inspection Unit's (JIU). However in practice and as documented in all five of the JIU comparative reports on assurance functions (on oversight lacunae[19], ethics, ERM[20], audit[21] and investigations[22]), it was broadly recognized that the form, breadth and resourcing of assurance varies considerably across the UN, depending on mandates and assurance requirements.

From the nine UN agencies interviewed, at least two UN agencies outsourced parts of their assurance functions including ethics, internal audit and investigation due to resource limitations. The agencies expressed that the investment in independent internal oversight was a cost the organization is not able to bear at this point.

[18] JIU (2010), "ETHICS IN THE UNITED NATIONS SYSTEM"; JIU/REP/2010/3.
[19] JIU (2006), "Oversight lacunae in the United Nations system"; JIU/REP/2006/2.
[20] JIU (2010), "REVIEW OF ERM IN THE UNITED NATIONS SYSTEM – benchmarking framework"; JIU/REP/2010/4.
[21] JIU (2010), "THE AUDIT FUNCTION IN THE UNITED NATIONS SYSTEM"; JIU/REP/2010/5.
[22] JIU (2011), "The Investigation function in the United Nations System"; JIU/REP/2011/7.

Finally, at least half of the UN agencies interviewed placed some reliance on the services of external auditors to provide assurance on project activities (usually fiduciary assurance on the project's statement of resources/expenses). These "project audits" were necessary in particular when the activities were undertaken by governmental partners, thus requiring the services of an independent non-UN auditor so as to avoid a conflict of interest. Such project audits were undertaken under the tacit understanding of the organization's External Auditor.

The majority of the organizations had implemented a whistleblower mechanism as a mechanism to address fraud and/or mismanagement in their organization.

Conclusion: All UN agency respondents recognized the value provided by their various independent assurance functions, and how this helped their primary stakeholders obtain the necessary comfort. Principal assurance functions operating in most of the UN agencies responding to the survey include: internal audit, investigation, evaluation and ethics.
Furthermore, depending on the respective UN agency's mandate, business needs and chain of results, the additional assurance functions of project audit and programme evaluation may also exist.

6.10. Other independent assurance functions

Other independent assurance functions exist in the United Nations system, one of which being the Joint Inspection Unit (JIU). As per its statute, the JIU "shall provide an independent view through inspection and evaluation aimed at improving management and methods and at achieving greater co-ordination between organizations.[23] Without prejudice to the principle that external evaluation remains the responsibility of appropriate intergovernmental bodies, the Unit, with due regard to its other responsibilities, may assist them in carrying out their responsibilities for external evaluation of programmes and activities. On its own initiative or at the request of the executive heads, the Unit may also advise organizations on their methods for internal evaluation, periodically assess these methods and make ad hoc evaluations of programmes and activities.[24] The Inspectors may propose reforms or make recommendations they deem necessary to the competent organs of the organizations. They shall not, however, have the power of decision, nor shall they interfere in the operations of the services they inspect.[25] "

Conclusion: The IIA's January 2013 position paper on the Three Lines of Defense[26] states that "External auditors, regulators, and other external bodies reside outside the organization's structure, but they can have an important role in the organization's overall governance and control structure. This is particularly the case in regulated industries, such as financial services or insurance. When coordinated effectively, external auditors, regulators, and other groups outside the organization can be considered as additional lines of defense, providing assurance to the organization's governing body and senior management. Given the specific scope and objectives of their missions, however, the risk information gathered is generally less extensive than the scope addressed by an organization's internal Three Lines of Defense."

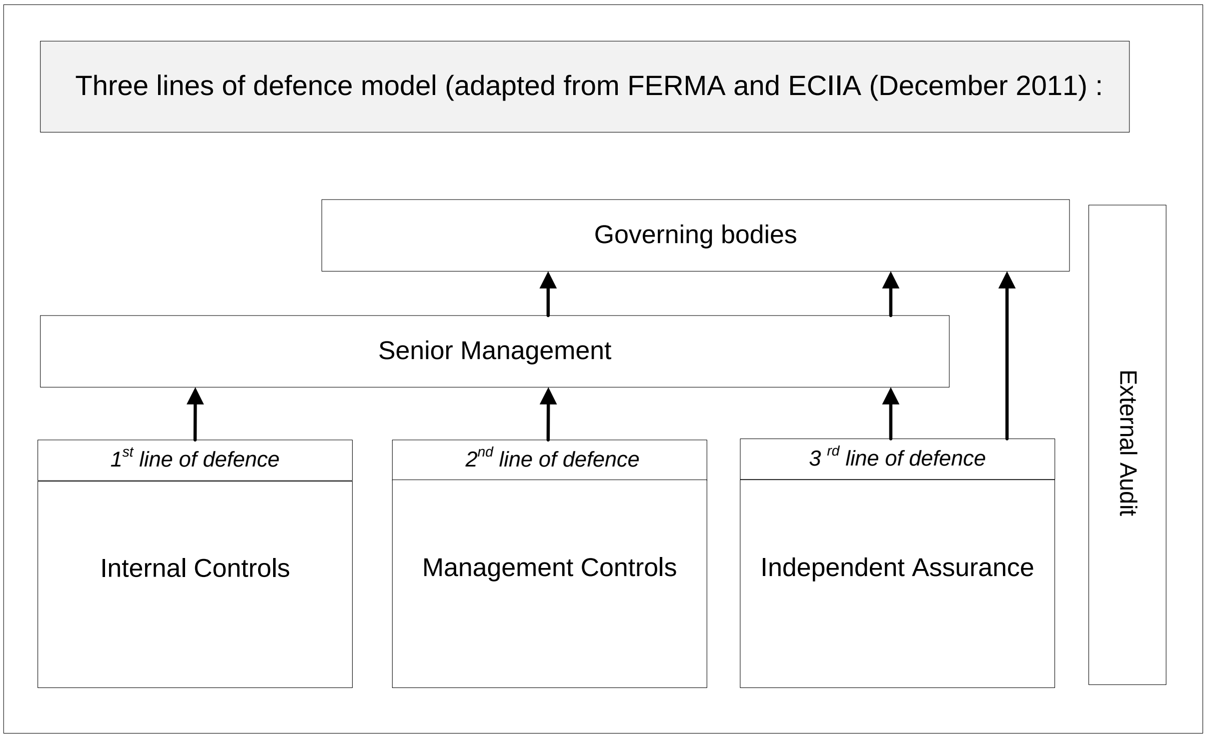
[23] Statute of the JIU, Chapter III, Article 5, paragraph 2; https://www.unjiu.org
[24] Statute of the JIU, Chapter III, Article 5, paragraph 4; https://www.unjiu.org
[25] Statute of the JIU, Chapter III, Article 5, paragraph 5; https://www.unjiu.org
[26] IIA (2013) "Position Paper: The Three lines of Defense in Effective Risk Management and Control."

7. THREE LINES OF DEFENSE MODEL

7.1. The “Three Lines of Defense” model

In raising the issue of “good governance” both the HLCM and the QCPR use terminology including: “risk management; oversight architecture; oversight functions; accountability, transparency, evaluation.” To make sense of these terms, given that in the context of oversight their meaning is frequently in relation to another term, it was proposed to define and place the key terms in context using the IIA’s “Three Lines of Defense” model.

The model was first suggested by the Federation of European Risk Management Associations (FERMA) and the European Confederation of Institutes of Internal Auditing (ECIIA) in the December 2011. Its principle elements are illustrated as follows:



The “Three Lines of Defense Model” is often used to communicate the roles played by management, business-enabling functions, and the various independent functions in providing assurance on internal controls.

The first line of defense is operations management and employees. The second line of defense is centralized business-enabling functions with specialized skills, such as Budget management, Risk Management, legal and regulatory compliance, and Quality Assurance. The third line of defense is independent assurance, including internal audit.

The three lines are co-dependent, with the need for clear communication between each function, so as to ensure the overall effectiveness of the governance, risk management, monitoring and control practices.

7.2. Applicability of the model

The “Three Lines of Defense” model is useful in that it provides a simple structure to communicate the essential roles, duties and elements that make up an organization’s oversight, as well as providing a relational map by referring these back to Management and the governing bodies.

The model:

- Recognizes that governing bodies and senior management are the primary stakeholders served by the “Three Lines of Defense” to ensure that the organization is kept “on mission”;
- Clearly identifies the separate components which make up the governance and oversight of an organization;
- Provides flexibility in what labels can be applied to denote the various constituent elements; and
- It proposes a logical grouping of the various elements such as the inclusion of risk management within Management Control.

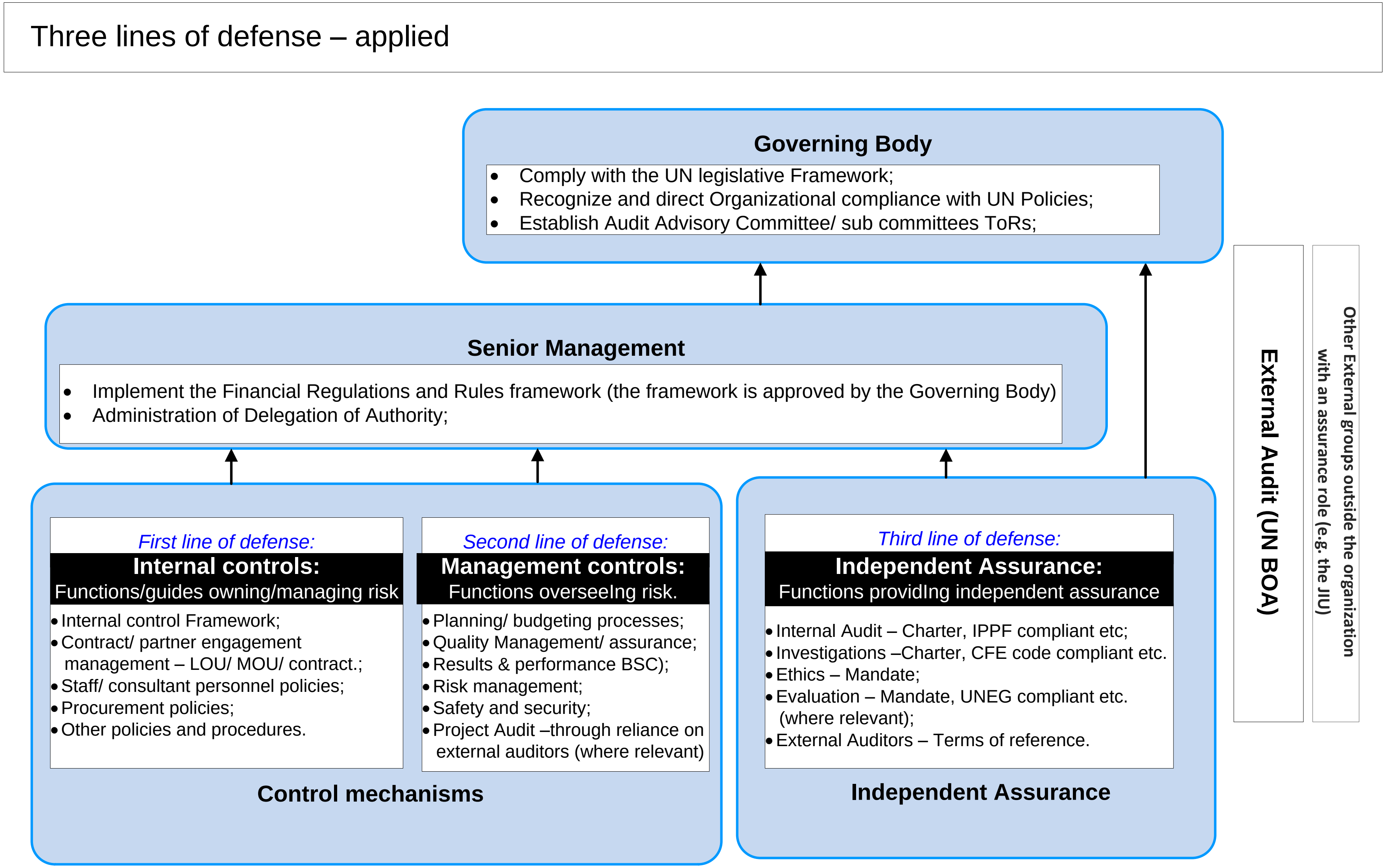
Secondly, by considering the relative connections between the roles we can deduce that:

- ➢ Operations and line-management are part of “functions that own and manage risks”;
- ➢ Quality assurance and risk management are “functions that oversee risks”; and
- ➢ Independent Assurance is a broad category that refers to many “functions that provide independent assurance”.

In January 2013 when commenting on the model, the IIA’s US chapter stated that both the Governing bodies and senior management are jointly the primary stakeholders “which are best positioned to ensure that the model is adequately reflected across the organization’s risk management and control processes.”

This corroborates with what some of the United Nations organizations surveyed expressed. Namely that when examining their governance process and in assessing whether their internal controls and oversight processes are in proportion to the control risks associated, it is important that their governing body are committed and involved in this work, and not as passive actors.

7.3. UN Agency illustration of the "Three Lines of Defense" model



8. CONCLUSIONS

The HLCM and QCPR priorities for strengthening oversight and governance did not arise in a vacuum. A review of recent UN literature indicates that over the past eight years, at least seven separate reviews were presented to the United Nations and General Assembly on this subject. Six of these reviews were undertaken by the Joint Inspection Unit, the other being done as an independent external evaluation.

These seven reports are as follows: "Oversight lacunae in the United Nations System" (JIU/REP/2006/2); "Comprehensive Review of Governance and Oversight within the United Nations, Funds, Programmes and Specialized Agencies (A/60/883/Add.1 – 28 August 2006)"; "Ethics in the UN System (JIU/REP/2010/3); "Review of ERM in the UN System – benchmarking framework" (JIU/REP/2010/4); "The Audit Function in the UN System" (JIU/REP/2010/5); "Accountability frameworks in the United Nations system" (JIU/REP/2011/5); and "The Investigation function in the United Nations System" (JIU/REP/2011/7). Each report covered various elements of oversight, supported by a comparative study of several UN agencies and proposed high level recommendations on how to strengthen oversight in the UN System.

Within the context of studying the HLCM and QCPR priorities, the working group concluded that the ECIIA's "Three Lines of Defense Model" be adopted as an effective practice to illustrate key governance relationships, core elements of oversight, and to structure discussion on any subsequent research activities. Particularly it was seen as a practical way of grouping the information provided by the respondents.

In particular the "Three Lines of Defense Model" helped to classify risk management, internal audit and evaluation as key components of oversight, while highlighting that as a principle of good governance, each element should focus on being accountable to the organization's primary stakeholders.

From the sample of nine UN agencies who voluntarily participated in the survey and assessment, the respondents' overall responses indicated that:

- The "Three Lines of Defense Model" was confirmed as a suitable common reference model in which to discuss oversight and accountability in the UN System.
- The quality and maturity of oversight in the UN System has increased during the past five years. Common examples cited included the introduction or strengthening of Audit Committees, that agencies are actively working towards publishing a Statement on Internal Control, the growing professionalism in the practice of Internal Audit (including their being asked to undertake increasing levels of advisory work by Management) and the embedding and alignment of Risk Management with key controls.
- All respondents emphasised that risk management was receiving increased focus in their organizations and this often translated to new roles and units and certainly always more management interest and prioritization – the "new IPSAS" was how one respondent aptly put it.

In addition, a majority of the respondents identified the following issues:

- The ad-hoc governance reviews undertaken by contributory donors, such as the European Commissions' "pillars assessment", were considered as being a "necessary cost of doing business" even though there was considerable duplication and overlap for each assessment, with one UN agency citing as having to participate in three such assessments simultaneously. It was a repeated concern that the number and complexity of such reviews and assessments were taking an increasing amount of resources to deal with. It was also noted that some members participated in more than one such recognized survey group. There is an opportunity for donors to take advantage of the strengthened mechanisms in the UN system before requesting further assurance. This would ensure a greater proportion of resources for donor aid was available for pursuing the UN development agenda.
- The reporting requirements for Agencies to the General Assembly, Advisory Committee on Administrative and Budgetary Question, United Nations Development Group and other UN organs were considered to be relatively time consuming. These requirements were considered as in addition to the mandatory financial statements.
- When coordinated effectively External auditors, regulators, and other external bodies residing outside the organization's structure, can have an important role in the organization's overall governance and control structure. However, given the specific scope and objectives of their missions, the risk information gathered from these bodies is generally less extensive than the scope addressed by an organization's internal three lines of defense.
- The introduction of IPSAS has resulted in further strengthening and standardizing of financial reporting across the UN system. Modern ERP systems ensure more timely access to complete and accurate financial information. Therefore the governing bodies and individual donors are encouraged to take advantage of these annual financial statements and other readily available published data before seeking new information from the agencies. Both UN agencies and donors should collaborate as to how to make the reporting more effective.

The way forward

The interviews conducted with the UN agencies indicated a progressive trend of improving financial management, internal controls, as well as agencies' increasingly articulating elements of their risk management process. As such, the participating UN agencies broadly agreed that they were approaching a new level of maturity in their financial performance and risk management, and enhanced credibility from financial statements complying with internationally-recognized accounting standards.

The "Three Lines of Defense" model is a common reference point that organizations may use to communicate and structure the discussion regarding their oversight and accountability. UN agencies should engage with their governing bodies and stakeholders to explain the model's relevance and the role of their corresponding elements and functions. While application of the model is not mandatory, it constitutes an effective practice when applied in context of an organization's accountability and governance needs.

Annex 1 – UN case studies contrasting how risk management can be implemented

The table below illustrates the case study for how three UN agencies have implemented risk management:

Characteristic	UN Agency 1	UN Agency 2	UN Agency 3
Framework	ERM COSO linked to COSO internal control framework.	ERM COSO	Simple variant based on "classic" risk management.
Basis	Beginning with a top down focus, risk management is closely associated via direct links to organizational strategic risks, and being used to actively strengthen programme management.	Top down – implementation of risk management prioritized as a requirement for good governance.	Bottom up – risk is assessed proactively at the decision point when negotiating contracts, with a risk premium being a component of the respective fee to be charged.
Implemen-tation approach	Cross fertilization and strong collaboration across all organizational divisions respectively responsible for strategic targets, strategic risks and key controls.	Dedicated risk management team disseminating knowledge and face to face training.	Risk management is embedded in key processes, and is a cornerstone during each decision making. Risk also dynamically discussed at the Strategic level.
Entry point	Top down driven risk management in line with COSO ERM. Determining which risks to focus upon begins with the organization's strategic plan.	Top down enterprise risk management incentivized by the governing bodies and in line with COSO ERM.	Risk Management is actively managed across the whole organization, by individuals responsible for decision making. So risk management is embedded in key processes.
Overall description	Enterprise risk management sits centrally and is cross-cutting across the board from Strategy down through to controls. Each business managers responsible for the main programmes are key drivers in maintaining and managing risk.	Risk management is top down driven by the mandate of an oversight committee. Business units also maintain risk registers with a dynamic discussion between the two levels. Risk management framework in place, including policy and processes for how to escalate any risks.	Management of risk includes "risk intelligent" elements – namely that it is a mandatory, explicit and concrete step for personnel in their decision-making process, i.e. determining the risk in each engagement acceptance.
Platform	Yes – an in-house developed risk management platform closely linked to results based management.	Yes – a risk management IT module is currently being rolled out. This will tie risk registers and performance plans more closely.	Nascent only – currently risk management assessments are manually documented as part of each key decision point.
Linkages	Risk management is part of a multifaceted chain of results. There is a clear alignment between the organization's strategic plan, its results based management, its risk management, the internal control framework, down to key controls. These linkages are explicit documented.	Risk management strongly taps into individual business unit's self-attestation, with a primary focus on escalating key concerns. Risk management also contributes directly to the organization being able to produce an annual Statement on Internal Controls.	The risk management for each key contract/work order is assessed independently. Linkages are more informal, based on two-way dialogue between project managers, middle management and Senior Management.
Risk registers	Yes – focuses on documenting key programme risks.	Yes – every business process owner is responsible for pro-active risk monitoring and updates to risks.	Yes – in line with its project management approach, each project has a risk register which is proactively updated.
Ownership	Specific risk owners are each identified and delegated	Risk champions are clearly identified. Support and	Risk management is a primary responsibility for all

Characteristic	UN Agency 1	UN Agency 2	UN Agency 3
	ownership.	coordination provided by the Performance Management and Monitoring Group.	operational personnel.
Risk Committee	The committee is made up of members from Senior management.	Senior management consisting of the Executive Management Group.	No such named committee operates, but clear lines of accountability stretch from the Audit Committee, to the Senior management, with frequent conversations thereon.
Accountability	Risks are discussed at the uppermost levels of Governance. Risk management includes in key personnel's annual performance appraisal.	Direct reporting line to the Audit Committee for whom Risk Management is a core responsibility in their TORs. The organization's risk appetite is widely reported internally via the intranet.	Direct reporting line to the Audit Committee for whom Risk Management is a core responsibility in their TORs.
Transparency	All key are publically disclosed (except for confidential items) and are justified by discussion with the Executive Board in formal Board papers. Risk is part of the programme budget process.	Risk registers are not publically shared.	The organization is an active proponent of full transparency, providing extensive detail, including its implicit risk management decisions via the International Aid Transparency Initiative portal.

Annex 2 – Survey questionnaire for conducting qualitative interviews

Questions for the interview in relation to the Stock-taking and comparative survey of controls, risk management and oversight models in place in the UN System organizations

Governance

A. Are the governing bodies provided in section IV of the Survey engaged sufficiently and are they playing an effective role of addressing organizational issues in order to strengthen the oversight within the organization (ongoing)?

B. If not, what suggestions are we making to improve this as an agency and as the UN system as a whole?

Qualitative Assessment

C. Which are the components of your oversight and risk management framework that you feel are providing the most value purely from an oversight perspective?

D. From which components can we get better value or which components do you feel have scope for improvement?

E. Are there any components of the oversight and risk management framework that exist in your organization that you would advise other agencies to implement?

Interaction among Oversight Bodies

F. What other opportunities exist to streamline the oversight mechanism and the collaboration between the oversight bodies?

G. Do you feel the oversight mechanisms complement each other? Where do you feel there is room for improving complementarity and where do you see areas of overlaps among oversight bodies?

Additional Proposed Questions

H. Does the composition of the Audit Advisory Committee include lots of members from within the UN System? If yes, do you feel they have engaged sufficiently and are they playing an effective role of addressing organizational issues?

I. Does your organization operate service centres? If yes, have you benefited from this approach to servicing Country Offices through improvements in the compliance and oversight?

Annex 3 – List of UN agencies interviewed

UN Agency	Total 2012 Revenue by UN Agency (in US$) Source: http://unsceb.org/content/FS-A00-03	Interview date
UN Secretariat DPKO	3,965 million 8,023 million	23 May 2014
UNDP	5,089 million	13 November 2013
UNESCO	721 million	27 November 2013
UNFPA	980 million	11 December 2013
UNOPS	683 million	9 December 2013
UN-WOMEN	220 million	30 May 2014
WFP	4,211 million	27 September 2013
WHO	2,293 million	16 May 2014
WIPO	372 million	2 October 2013

Annex 4 – Assumptions and limitations

While designing the methodology and conducting the stock-taking interviews the following assumptions and limitations were noted:

- Factors increasing awareness in oversight – Some of the organizations interviewed referred to recent external developments and events impacting on calls for them to strengthen their governance and oversight. Common factors included COSO, IPSAS and the UN BOA. At least two participating UN agencies were also significantly influenced by current organizational reform processes.
- Interlocutor bias – There was a broad range of interlocutors' roles and job titles represented during the nine UN agencies interviews, with participants' particular point of view introducing an element of bias as to how they phrased their responses. At least five of the agencies included one senior representative from the Finance and Budget Network, and at least seven agencies also included an individual responsible for either risk management, internal control, internal audit or results based management;
- Motivation – Participation was voluntary, reflecting the willingness of some participants to appreciate how mature their governance and oversight was when benchmarked to other UN agencies;
- Mandate, objectives and resources – The respondents' organizational mandate, key objectives and the amount of resources available, influenced how mature key components of oversight were.
- One-time interview: The results of this questionnaire are on the basis of a one-time interview with the respondents.

Annex 5 – HLCM Strategic Plan extract

Extract from High Level Committee on Management (Strategic Plan 2013 – 2016)

D. Strengthening the risk management and oversight architecture

27. HLCM aims to develop a consolidated and trust-based relationship with Member States on the level and quality controls in place in the organizations to allow for rationalized oversight, more focus on key risks and better internal resource allocation. The underlying challenge is to derive greater value from the UN's audit and oversight architecture, by assessing its increasing costs and focusing, in partnership with oversight entities, on strengthening accountability – both corporate and individual and managing and mitigating risks.

28. Most UN system organizations have or are in the process of strengthening their internal control and risk management processes. In this regard, HLCM recognizes the strategic value of a collective engagement – to devise effective approaches for the identification of events that could affect the organization's , and in managing risks within the individual organization's risk appetite, so as to provide reasonable assurance regarding achievement of the organization's objectives, while ensuring effectiveness and efficiency of operations, reliability of financial and performance reporting, and compliance with rules and regulations. An important component of this undertaking is represented by the further integration of risk management into the programme planning processes and within the performance dialogue with legislative bodies and Member States.

29. HLCM similarly places a high priority on coordinated work in the area of crisis preparedness and response, business continuity and cyber-security. UN system organizations recognise the critical role of IC as the backbone of the operational system. Despite some organization-specific requirements, they recognize considerable common ground with respect to how to best protect themselves from business disruptions and security threats; and how to do so while, at the same time, providing increasingly open and user-friendly ICT and web-enabled services and communications.

The HLCM Strategic Plan sets out the following Key Activities and the respective timelines for this work are the following:

Key Activity	**Timeline**
1. Design and launch and comprehensive stock-taking and comparative survey of control and oversight models in place.	2013
2. Analyse results and identify communalities and major differences currently in place. 3. Identify key risks for the different areas of work and business models	2014
4. Assess the benefits and costs (financial and non-financial), with reference to experience outside the UN system. 5. Identify minimum common denominator applicable to all Organizations irrespectively of business model.	2014
6. Present model to organizations	2014
7. Develop communication strategy with Member States.	2014