



INTERNAL AUDIT DIVISION

REPORT 2018/048

Advisory review of the implementation of risk management and control responsibilities of functions considered part of the second line of defence at the Office of the United Nations High Commissioner for Refugees

25 May 2018
Assignment No. VR2017/160/03

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Advisory review of the implementation of risk management and control responsibilities of functions considered part of the second line of defence at the Office of the United Nations High Commissioner for Refugees

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an advisory engagement on the review of the implementation of risk management and control responsibilities of functions considered part of the second line of defence at the Office of the United Nations High Commissioner for Refugees (UNHCR).

2. The United Nations High-Level Committee on Management (HLCM) in its report CEB/2014/HLCM/14/Rev.1 dated 10 October 2014 recommended that United Nations system organizations implement the “Three Lines of Defence Model” as a common reference point for discussions around oversight and accountability. In the report of an external consultant engaged by UNHCR on the “Review of the Oversight Functions in UNHCR” dated 18 June 2016 the following recommendation was raised: “UNHCR should undertake a comprehensive mapping of the risk management and control processes that are in place in UNHCR across all three lines of defence in order to ensure that there are neither gaps nor unnecessary duplications in coverage in the controls that are in place and to rationalise the way in which these work together to meet the objectives of the Office”. To implement this recommendation, UNHCR adopted in June 2017 a three lines of defence model (hereinafter referred to as the “3LoD model”), aligned with its specific needs and structure.

3. The objective of the 3LoD model is to address how specific functions related to risk and control are assigned and coordinated within the Organization to ensure complementarity and that those entities assigned responsibility for these functions provide assurance that risks are effectively mitigated to increase the likelihood of achieving organizational objectives. The model is also expected to clarify the differences and relationships between UNHCR’s various assurance and monitoring activities. This is because if such activities are not clearly defined they can be misunderstood, unnecessary, increase duplication of efforts as well as gaps in procedures, and therefore difficulties may arise in enforcing accountabilities.

4. The three lines of defence consist of:

- The 1st line that owns and manages risks. In UNHCR’s 3LoD model, the 1st line of defence functions are typically assumed by the country operations and some specialized functions at Headquarters such as public information, donor relations, human resources and information technology;
- The 2nd line that oversees risks. These are the functions that this report refers to, and in UNHCR are mainly assumed by Regional Offices, Regional Service Centres, Regional Bureaux and Divisions at Headquarters, as well as the Enterprise Risk Management (ERM) Unit, the Legal Affairs Service (LAS), the Organizational Development and Management Service (ODMS), the Ombudsman’s Office and the Ethics Office; and
- The 3rd line that provides independent assurance. In UNHCR these functions are assumed by OIOS, the Inspector General’s Office and the Evaluation Service.

5. UNHCR has defined responsibilities of units and individuals within the second line of defence to support meeting its organizational objectives. These are referred to in this report as “the six key responsibilities of entities considered part of the second line of defence”, and are as follows:

- Policy design and development - Designing and developing policies, processes and controls to manage risks, and to ensure quality and consistency of management as well as adequacy of organizational structures;
- Performance monitoring - Defining activities to monitor and measure success;
- Compliance monitoring - Monitoring the adequacy and effectiveness of internal control activities;
- Risk management support and oversight - Providing risk management frameworks;
- Emerging issues monitoring - Identifying and monitoring known and emerging issues; and
- Guidance and training - Providing guidance and training to operations.

II. OBJECTIVE, SCOPE, METHODOLOGY AND APPROACH

6. The objective of this advisory engagement was to assist UNHCR in assessing whether the different entities that are considered part of the second line of defence in the UNHCR 3LoD model are currently performing their risk management and control responsibilities, and whether there are significant gaps and/or overlaps that need to be reviewed and clarified.

7. The advisory engagement was added to the 2017 internal audit work plan of OIOS following a request from UNHCR management. The review was done at the: (a) conceptual level against applicable accountabilities, responsibilities and authorities, and (b) practical level by using examples of selected UNHCR risk areas and key activities to show whether the risk management and control responsibilities and processes are discharged by the respective entities in accordance with the 3LoD model.

8. OIOS conducted this advisory engagement from August to November 2017. The terms of reference for the advisory were approved by the Deputy High Commissioner. The terms of reference identified the questions for each of the two parts referred to in paragraph 7. In order to answer the review questions, OIOS developed and implemented a data collection and analysis approach. For the high-level conceptual analysis, the review questions were:

- Are there gaps or duplications among the entities in the second line of defence as described in different formal documents that serve to define authorities, responsibilities and accountabilities at UNHCR in general and in particular Chapter 2 of the 2017 UNHCR Manual?
- Is there sufficient clarity in UNHCR's source guidance materials on how responsibilities are assigned to entities in the following categories of responsibilities: (i) policy design and development; (ii) performance monitoring; (iii) compliance monitoring; (iv) risk management support and oversight; (v) emerging issues monitoring; and (vi) guidance and training?

9. Seven risk areas/activities were selected for the detailed review, which were: implementing partnership management; fair protection process and documentation; resettlement; shelter and settlement; staff security and safety; procurement and vendor management; and leadership and management. The review questions covered in these seven risk areas/activities were:

- What are the underlying key sub-activities and related significant risks?
- What are the key controls in place, including existing organization-wide policies and procedures, for those sub-activities/risks?
- How are the responsibilities assigned among the different second line of defence entities in those specific policies and procedures?
- Is there a clear alignment and consistency or are there conflicts between different documents when it comes to assignment of responsibilities?
- Are there significant gaps and duplications in those responsibilities?

- Are the different entities fully aware of their respective responsibilities, and are they currently undertaking them?

10. The engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

III. RESULTS OF THE ADVISORY ENGAGEMENT

11. Although UNHCR has developed a 3LoD model, it was not yet widely communicated in the Organization to inform managers and staff of its purpose and usefulness and to provide clarity on the functions that own and manage risks, the functions that oversee risks, and those that provide independent assurance. In the view of OIOS, while rolling out the 3LoD model, there is a need for UNHCR to communicate to all personnel that it is an integrated model and, therefore, its effectiveness is dependent on clear delineation of responsibilities and the quality of coordination between the different lines of defence. It will also be important to emphasize that because of the nature of such a model, some overlap of the lines may be inevitable, but should be seen as complementary, and responsible managers - and all personnel for that matter - are required to have a clear understanding of their respective responsibilities and where these fit in the 3LoD model, as they will be held accountable for the implementation of their responsibilities.

12. UNHCR's conceptual framework (i.e. Chapter 2 of the UNHCR Manual containing UNHCR's Global Management Accountability Framework, Letters of Instruction, job descriptions and the results based management framework) for defining accountabilities, responsibilities and authorities in the Organization currently leaves considerable room for individual interpretation and implementation regarding the roles and responsibilities of the second line of defence entities. The linkages in the roles and responsibilities listed in the different documents in the conceptual framework are unclear and sometimes misaligned. This can lead to diffused management accountability, and difficulties in implementing an accountability mechanism. To address these issues, there is a need for UNHCR to consider revising Chapter 2 of the UNHCR Manual while using the six key responsibilities of entities considered part of the second line of defence in its 3LoD model as the basis for differentiating responsibilities between them, developing/updating job descriptions for all Directors, Service Chiefs and Heads of regional functions, and developing performance indicators for all second line of defence entities. This issue was previously reported in the OIOS Audit of the Delegation of Authority Framework in UNHCR (Report 2014/092) and the recommendation relating to misalignment between accountability, responsibility and authority remained outstanding at the time of this advisory engagement.

13. The forward-looking view on monitoring the implementation of policies (both for compliance and performance monitoring) was not adequately considered at the policy development phase. Therefore, adequate resources were not provided for and appropriate tools were not created to monitor and report on the effectiveness of implementation of policies. To address this, UNHCR should consider including as an integral part of its future policy design and development processes the identification of monitoring responsibilities for the respective entities in the second line of defence, assessment of resources required to monitor the implementation of each policy, and identification of the tools and data required to facilitate and support monitoring of policy implementation. The key to successful implementation of any corporate policy is the clear delineation of responsibilities for monitoring the implementation of the policy.

14. In Chapter 2 of the UNHCR Manual, monitoring has been assigned to all entities in the second line of defence; however, such a shared monitoring approach increases the risk of gaps and possible duplications. In practice, monitoring activities are not systematically planned and coordinated. The perception among the interviewees was that the Regional Bureaux should take the lead in monitoring the implementation of policies by field operations. UNHCR should consider making each Bureau responsible

for developing an annual, risk-based performance and compliance monitoring plan that they should consult on with the other entities in the second line of defence. A consultative approach with all relevant stakeholders, with the Bureaux taking the lead, would reduce duplication and gaps in the monitoring process.

15. It would also be beneficial for UNHCR to determine how to ensure an effective and transparent flow of advice, guidance and dialogue within functional networks, i.e. between Divisions and specialized regional functions, and provide clarity on the Divisions' input into work plans, performance evaluations and recruitment of new regional officers. Such a concept of functional reporting lines could then be formalized in the Organization.

16. In general, OIOS was of the view that UNHCR, as part of its ongoing Headquarters Review, has the opportunity to review and amend its structure and communication lines to more effectively implement the six key responsibilities of entities considered part of the second line of defence. OIOS proposes two alternative scenarios to implement this:

i) Horizontal model

17. In the horizontal model, Divisions play an important value-adding role in institutional risk management and performance and control monitoring and support, as well as development of corporate-level monitoring tools, exception reports and specialised training, while the Bureaux are at the driving seat of knowing what is happening at the operational level in their regions. Divisions would be assigned more responsibility for corporate level issues, without taking away any of the Bureaux' responsibilities over the regional or country offices and the fact that Bureau Directors have management authority over Representatives in the field. For their part, the Bureaux would make use of the support and information provided by the Divisions, but augment it further with their own, more specific and customised training and different forms of guidance, as well as risk, compliance and performance monitoring tools, techniques and procedures. The regional entities in the field (Regional Offices and Regional Service Centres) would be part of the Bureaux' wider network when it comes to second line of defence responsibilities.

ii) Vertical model

18. In the vertical model, the Divisions are responsible only for normative aspects of the Organization's work, i.e., policy design and development and (as part of policy communication and dissemination) the development of corporate-level training programmes for new policies, in close collaboration with the Bureaux and the field. The Bureaux would cover the full spectrum of monitoring of performance and compliance, identification and monitoring of emerging issues, risk management oversight, and detailed training, support and guidance, and develop their own monitoring tools and templates. In this model, the Divisions in their current staffing strength would be too big and many of their positions would need to become part of either the Bureaux' wider second line of responsibility structure (at headquarters or in regional entities) or moved to the field to become part of the first line of defence of the operations, or ideally a combination of both. This would strengthen not only the field operations in terms of availability of technical skills, but also the Bureaux who would have additional staff and skills at their disposal for various specialised areas including human resources management, financial management, programme, protection, security, supply, external relations, information technology, etc., to allow them to better discharge their second line of defence responsibilities.

19. If the vertical model is implemented, and in order to avoid having a silo approach to compliance and performance monitoring between different Bureaux, a small unit could be established in the Executive Office for ensuring that appropriate monitoring systems, tools and data exist in the Organization, and that

aggregated, corporate-level monitoring and exception reports are produced and provided to senior management.

20. In summary, OIOS identified the following six areas for improvement in this engagement:

- (1) UNHCR could widely communicate its Three Lines of Defence model, and in doing so make a clear statement that the model consists of: (i) functions that own and manage risks; (ii) functions that oversee risks; and (iii) functions that provide independent assurance. UNHCR could also emphasize that it is an integrated model and its success depends on clear delineation of responsibilities and effective coordination between the different lines of defence.**
- (2) UNHCR could: (a) revise Chapter 2 of the UNHCR Manual while using the six key responsibilities of the second line of defence as the guideline in differentiating responsibilities between the second line of defence entities; (b) develop/update job descriptions for all Directors, Service Chiefs and Heads of regional entities, aligned with Chapter 2; and (c) develop, as part of the ongoing revision of the results based management framework, performance indicators for all entities in the second line of defence.**
- (3) UNHCR could put in place arrangements to identify as an integral part of its policy design and development processes: (i) clear performance and compliance monitoring responsibilities for entities in the second line of defence; (ii) the resources required to monitor the implementation of each policy; and (iii) the tools and data required to facilitate and support effective monitoring of policy implementation.**
- (4) UNHCR could request the Bureaux to develop an annual, risk-based performance and compliance monitoring plan for their respective regions, which they are required to consult on with all entities in the second line of defence to avoid gaps and minimize overlaps.**
- (5) UNHCR could formalize the functional reporting line to more effectively implement second line of defence responsibilities which should: (i) ensure an effective flow of advice, guidance and dialogue within functional networks; (ii) be distinct of the direct management reporting line and not obstruct the direct line; and (iii) provide clarity on Divisions' input into work plans, staff performance evaluations and recruitment of new staff.**
- (6) UNHCR, in determining its future structure as part of the ongoing Headquarters Review, could take into consideration the allocation of the six key responsibilities of the second line of defence between Divisions, Bureaux and regional entities and, in doing so, adopt either the horizontal or the vertical model of second line of defence proposed by OIOS.**

IV. ACKNOWLEDGEMENT

21. OIOS wishes to express its appreciation to the management and staff of UNHCR for the assistance and cooperation extended to the auditors during this engagement.

(Signed) Eleanor T. Burns
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APPENDIX I

Management Response

Memorandum

UNHCR

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To: Mika Tapio, Chief, UNHCR Audit Service, Internal Audit Division, OIOS

From: Kelly T. Clements, Deputy High Commissioner 

Subject: **Response to the advisory review of the risk management and control responsibilities of functions considered part of the second line of defence at the Office of the United Nations High Commissioner for Refugees**

Date: 16 May 2018

1. Reference is made to the above-mentioned draft report on an advisory review of the risk management and control responsibilities of functions considered part of the second line of defence at the Office of the United Nations High Commissioner for Refugees.
2. UNHCR has recently initiated, as part of its ongoing change process, a second phase of analysis and reforms aimed at strengthening our country offices and other field presence. These reforms are expected to have a substantial impact on the configuration, roles and responsibilities within UNHCR's second line of defence, currently spread across various Headquarters entities and functions. The findings of OIOS' advisory review of the risk management and control responsibilities of functions considered part of the second line of defence, together with the six areas for improvement identified, will inform this process.
3. On behalf of the High Commissioner I would like to thank OIOS for the draft advisory which provides useful observations and suggestions to improve the risk management and control responsibilities of functions considered part of the second line of defence.
4. Thank you.

CC: **HC00:** Grandi, Okoth-Obbo, Türk, Lombardo, Madjora; **IG00:** Farkas; **CM00:** Baritt; **DH99:** Raatikainen; **SM00:** Dell

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