

# POLICY ON INTERNAL GOVERNANCE AND CONTROL

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## 1. OBJECTIVES FOR INTERNAL CONTROL

The aim of this policy is to outline the basic principles of internal control at the Palme Center.

The work of the Palme Center is funded by our member organisations, along with institutional and individual donors. The Palme Center's mandate of, and responsibility towards, the donors is to manage the money in such a way that the operational objectives are met without compromising the financial stability of the organisation. This requires an effective internal control system. To provide appropriate assurance that objectives regarding operations, reporting and regulatory compliance are met both board, management and staff all carry out internal control work. The system shall, as far as possible, guarantee that funds are managed transparently, consistently and in accordance with budgetary framework. The division of roles and responsibilities should be clearly defined. In addition, good internal control mechanisms should contribute to reduce risks and support sound decision making.

The COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework is a joint initiative to combat corporate fraud and forms the basis for the internal control system at the Palme Center. The framework consists of five interrelated components which should permeate the organisation and its processes; Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring Activities. The picture below illustrates the interrelated objectives, activities and components.



**Picture:** COSO framework of the Palme Center

## 2. OPERATIONS

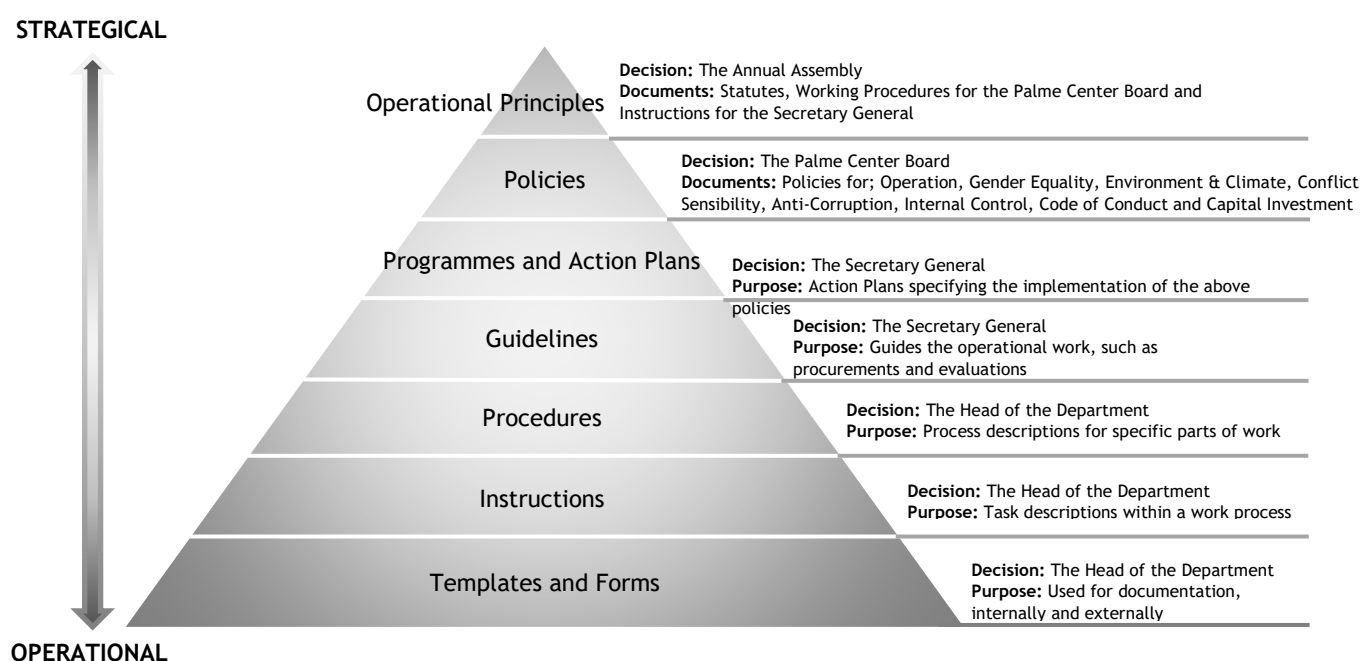
The Palme Center's office is divided into Secretary General's Office, the International Department, the Communication Department and the Financial Department. The division aims at creating clear roles and division of responsibilities. The work is led by the Secretary General who is appointed by board of the Palme Center. The board is in turn elected at the Annual Assembly.

The operations of the Palme Center is mainly conducted in project forms within several programmes. The different programmes are decided by the board and may be categorised in geographical or thematic areas. In the project cycle, there are a number of essential processes, such as application and reporting processes, where the three departments are responsible for different parts. These processes also include other actors such as member and partner organisations.

## 3. COMPONENTS FOR INTERNAL CONTROL

### 3.1. Control Environment

The Control Environment is the set of rules, standards, processes and structures that provide the basis for the implementation of internal control throughout the organisation. The internal control environment includes, among other things, the Palme Center's organisational structure and culture, ethical values, assignment of authority and responsibility of employees, as well as the organisation's steering documents (see image below). The Palme Center's external control environment consists, inter alia, of legislation, regulations and agreements with the donors.



**Picture:** Hierarchy of the Palme Center's governing/regulatory documents.

### **3.2. Risk Assessment**

Risk assessment is a dynamic process for identifying and evaluating the organisation's risks linked to the achievement of the objectives. The Palme Center's work on identifying and evaluating operational risks are based on ISO 31000 and describes the organisation's risk strategy. The Palme Center capture the identified risks in a risk register where the significant risks are defined and mitigated.

Prior to partner organisations proceed with projects, a risk assessment is conducted internally and included in the application process. Subsequently these are followed up in the annual reports.

### **3.3. Control Activities**

Control activities are actions guided by policies, guidelines and procedures aiming to ensure that the directives from the management are implemented to mitigate risks. Control activities are performed at all levels of the organisation and at different stages of the operational processes. The shared responsibility of the control activities is coordinated between the financial and the international department. This means that several people are involved, thus ensuring better control and increased quality of work. Examples of preventive control activities are guidelines and procedures for programme management and administration. Examples of detective control activities are regular financial monitoring and external auditing.

### **3.4. Information and Communication**

Information and Communication is the flow of information necessary to support the internal control functions. The Palme Center's information system generates information regarding both the operational and the financial management, as well as providing the employees with different means of internal communication. The internal communication paths should be concise and inclusive, which means that information is disseminated expeditiously and efficiently within the organisation. Departmental meetings, internal mail and intranets are some of the tools used for internal communication. Tools for external information and communication are, for example, the Palme Center website, social and traditional media as well as the Annual Activity Report. Communication with media is coordinated by the Head of the Communication Department, in consultation with the Secretary General.

### **3.5. Monitoring Activities**

Monitoring Activities are actions related to the ongoing evaluation of the control system's performance over time. The Palme Center's monitoring activities consist of regular and systematic revisions, aiming to improve and adapt processes as well as to evaluate the impact on operations and to assess achieved objectives.

## **4. OWNERSHIP AND COMPLIANCE**

The Secretary General is responsible for the compliance of the Policy for Internal Governance and Control and ensuring it is updated and relevant. The policy is reviewed annually by the board of the Palme Center.