



AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

Report No. 1138

Issue Date: 17 October 2013

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Report on the audit of UNDP Democratic People's Republic of Korea Executive Summary

From 25 February to 8 March 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in the Democratic People's Republic of Korea (the Office). The audit covered the activities of the Office during the period from 1 April 2011 to 31 December 2012. The Office recorded programme and management expenditures totalling \$9.1 million in 2011-2012. The last audit of the Office was conducted by OAI in June 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office as **satisfactory**, which means "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity." Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure and delegations of authority	Partially Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Satisfactory			
1.4 Financial sustainability	Satisfactory			
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Not Applicable			
2.4 Harmonized Approach to Cash Transfers	Not Applicable			
3. Programme activities				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Satisfactory			
4. Operations				
4.1 Human resources	Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Satisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised 5 issues and resulted in 4 recommendations, of which 2 (50 percent) were ranked high (critical) priority, meaning “Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.”

The high priority recommendations are as follows:

Project management (Issue 2)	<u>Weaknesses in project monitoring.</u> The Office had not established a frequency for Project Steering Committee meetings to take place; the frequency established in the monitoring and evaluation plan was not consistent with that in the Project Document. The annual work plans did not contain annual targets for the attainment of project outcomes. Annual progress reports only contained activities that were completed. The issue and risk logs, and monitoring schedule plans for the five projects reviewed had not been set up or updated in Atlas. Further, the Programme Specialist had not undertaken regular quarterly project site visits to monitor project activities. OAI recommends that the Office strengthen its project monitoring by: (a) clearly establishing the number of times per year that the Programme Steering Committee should meet; (b) establishing annual targets in project annual work plans; (c) ensuring that the project monitoring schedule plan and evaluation logs are setup and updated in Atlas; and (d) ensuring that projects are adequately monitored by the Programme Specialist as required by the Office’s Internal Control Framework and the Office’s monitoring and evaluation plan.
Finance (Issue 4)	<u>Inadequate reporting on the use of cash cheques.</u> The Office’s Internal Control Framework states that UNDP issued cheques are non-negotiable and can only be settled by deposit into bank accounts. Furthermore, the Regional Bureau for Asia and the Pacific advised the Office not to issue cheques that can be exchanged for cash (i.e., cash cheques). During the audited period, the Office issued 780 cash cheques amounting to \$0.87 million. The cash cheques were mainly for payments to individual contract holders, for international staff member entitlements, for other United Nations agencies, pension payments to national staff members and to pay local consultants. The Office explained that the Country was a cash-based economy and that it was difficult to open bank accounts except for UNDP national staff. Subsequent to the audit fieldwork, the Office provided a copy of the Resident Representative’s report of August 2013 with a detailed report on cash-cheques issued. OAI recommends that the Office strengthen its reporting on the use of cash cheques by: (a) seeking guidance from the Regional Bureau for Asia and the Pacific and the Office of Financial Resources Management of the Bureau of Management for suitable ways to address the need to issue cash cheques in certain circumstances; and (b) exploring possibilities for reducing the number of cash cheques, which would include local payees of UNOPS and UNFPA being able to open local bank accounts.

The implementation status of previous OAI audit recommendations (OAI Report No. 836, November 2011) was also validated. While all seven recommendations were noted to be fully implemented in the CARDS system, one of the issues relating to Project Steering Committees continued to be of concern at the time of this audit (see Issue 2).

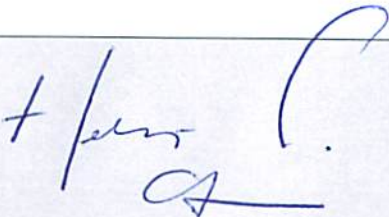
Cross-cutting themes

As part of the 2013 OAI Annual Work Plan, all Country Office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analysed at the corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management.** Satisfactory. Refer to Issue 5.
- **Leave management.** Satisfactory. No reportable issues noted.
- **Global Environment Facility.** No reportable issues noted.

Management comments and action plan

The Resident Representative accepted all four recommendations and is in the process of implementing them.

A handwritten signature in blue ink, appearing to read 'Helge S. Osttveiten', is written over a light blue rectangular background.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 25 February to 8 March 2013, OAI conducted an audit of UNDP Democratic People's Republic of Korea. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI audits assess the adequacy and effectiveness of the governance, risk management and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management and control processes.

Specifically, this audit reviewed the following areas of the Office: governance and strategic management, United Nations system coordination, programme activities and operations. The audit covered relevant activities during the period from 1 April 2011 to 31 December 2012. The Office recorded programme and management expenditures totalling \$9.1 million in 2011-2012. The last audit of the Office was conducted by OAI in 2011.

The implementation status of previous OAI audit recommendations (OAI Report No. 836, November 2011) was also validated. While all seven recommendations were noted to be fully implemented in the CARDS system, one of the issues relating to Project Steering Committees continued to be of concern at the time of this audit (see Issue 2).

II. About the Office

The Office, located in Pyongyang, the Democratic People's Republic of Korea (the Country) operates in a complex and unique environment. In 2007, the UNDP Executive Board mandated several changes to UNDP programmes and operations in the Country. These involved changes in the recruitment of local staff members, the use of local currency and the oversight of projects. However, as no agreement could be reached with the Government on the implementation of the mandated changes, operations were suspended and the Office personnel were withdrawn in March 2007.

Following recommendations from Member States, the Executive Board approved the resumption of operations in the Country in January 2009. The approval outlined the programme interventions as well as operational modalities. UNDP resumed its programme in the Country in October 2009.

The Country Programme Document (2011-2015) focused on three Millennium Development Goal priority areas, as follows: (a) nutrition and food security; (b) economic development; and (c) environment and climate change.

III. Detailed assessment

1. Governance and strategic management

Partially Satisfactory

1.1 Organizational structure and delegations of authority

Partially Satisfactory

OAI reviewed the Office's organizational structure, delegation of authority and Internal Control Framework. A Memorandum of Understanding was signed between the Government and UNDP in February 2009 covering financial, human resources and programme issues. As of January 2013, the Office had 26 personnel (7 international and 19 national) and 1 vacant national position.

As a result of the special circumstances under which the Office operates, an Internal Control Framework was established to complement the corporate Operational Guide of the Internal Control Framework for UNDP. Twice a year, the Office's Resident Representative is required to report to both the Director of the Regional Bureau for Asia and the Pacific and the Chief Finance Officer on the application of the Office's Internal Control Framework.

The Office was operating in a unique and challenging environment. There were difficulties in recruiting qualified staff members, limited procurement opportunities, relatively restrictive banking services and delays in obtaining necessary clearances from exporting countries for goods procured for projects in the Country. In view of the complex working environment, the Regional Bureau for Asia and the Pacific and the Office has taken a careful approach to managing the programme. The Regional Bureau mitigated the challenges by assigning a high number of international staff members. It also monitored the Office closely and engaged the Office's senior management in all crucial matters and provided valuable input for the audit process.

In January 2013, the Regional Bureau and the Office of Financial Resources Management revised the Office's Internal Control Framework mainly to address inconsistencies noted in the prior audit (OAI Report No. 836, November 2011) and to include the requirements of the International Public Sector Accounting Standards, which UNDP adopted in 2012.

OAI reviewed the compliance with the Office's Internal Control Framework, its consistency with the Corporate Internal Control Framework and the signed Memorandum of Understanding, and noted the following:

- The Office's Internal Control Framework provides that US dollars may only be used for settling obligations with international staff members of United Nations agencies, including UNDP. However, the Office entered into contracts to make US dollar payments to temporary international contractors. The Office explained that the Office of Financial Resources Management had exceptionally approved this in July 2012. At the end of the audit fieldwork, the Office informed OAI that it had successfully renegotiated with the contractors so that all future payments could be made in euros as provided for in the Office's Internal Control Framework. Copies of the amended contracts were also provided to OAI.
- The Office's Internal Control Framework and the Memorandum of Understanding contained different provisions regarding the use of the convertible and non-convertible Won,¹ an issue that was also raised in the prior audit. The Framework also required the Office to use the convertible Won only when the non-

¹ The Country's local currency is the Won. A convertible Won means it can be exchanged for foreign currencies while a non-convertible Won can only be used locally

convertible Won had been fully utilized. However, the Memorandum of Understanding required only using the convertible Won when making payments to the Government, national institutions and local vendors. The prior audit had recommended aligning the Internal Control Framework with the Memorandum of Understanding regarding the requirement to make all local payments in convertible Won. The Regional Bureau for Asia and the Pacific explained that this issue was discussed with the Office of Financial Resources Management of the Bureau of Management in January 2012. The Government had started making payments in the convertible Won for the balance of its contributions to local office costs in October 2011 and the non-convertible Won account was already being depleted without expectation of future replenishment. As such, the Regional Bureau and the Office of Financial Resources Management assessed that the different provisions on the use of convertible and non-convertible Won had already been addressed and no revision of the Office's Internal Control Framework to align with the Memorandum of Understanding was necessary.

As these two issues were already addressed, OAI has not made a recommendation. The other weaknesses noted requiring actions from the Office are presented below.

Issue 1 Inadequacies in the Office's Internal Control Framework implementation

(a) Conflicting approval authorities

The Corporate Internal Control Framework states that the Project Manager is the first level of authority and approves e-requisitions, while the Programme Officer holds the project assurance role and must be independent of the Project Manager. However, in the Office's Internal Control Framework, the Programme Specialist (or the Programme Officer) had been delegated the role of Project Manager for development projects.

The Office explained that the Programme Specialist had been delegated the authority when the projects did not have a Project Manager. However, even after the arrival of the Chief Technical Advisor (the Project Manager), the Office decided to continue the Programme Specialist's delegation as a backstop when the Chief Technical Advisor was on leave.

In OAI's opinion, maintaining the authority of Project Manager with the Programme Specialist leaves room for a potential conflict as to when this authority needs to be exercised. This arrangement could be avoided by, for example, having the Deputy Resident Representative instead of the Programme Specialist exercise this authority as and when the Chief Technical Advisor is not available.

(b) Inadequate review of petty cash requirements

The Office's Internal Control Framework states that the Office can maintain a euro petty cash fund, which will be utilized only as an exception in order to sustain the UNDP programme. Further, the Programme and Operations Policies and Procedures require the Office to assess the business needs while establishing the petty cash level. The Office doubled its euro petty cash (equivalent to \$1,000) in January 2012, due to a sudden increase in requirements. Since then, the Office maintained this higher petty cash level. OAI reviewed the petty cash replenishments in 2012 and noted that these were being done every two months. The inherent risk of managing petty cash could be mitigated by more frequent replenishment (e.g. every month) rather than doubling the petty cash level. As suggested by OAI, the Office Operations Manager agreed to conduct a needs assessment and to reduce the petty cash level accordingly.

Subsequent to the audit fieldwork, the Office provided OAI evidence that it had taken prompt action and reduced the petty cash level equivalent to \$500. Consequently, no recommendation has been made.

Priority	Medium (Important)
Recommendation 1:	
The Office should ensure proper internal controls are established and adequately followed by consulting with the Regional Bureau for Asia and the Pacific on appropriate actions to be taken in order to improve the assignment of alternate roles within the Office's Internal Control Framework.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The management indicated that they (a) issued alternate role assignments in August 2012 and will revise it in consultation with the Regional Bureau for Asia and the Pacific to reflect the audit recommendation, and (b) will also strengthen petty cash management by introducing a more stringent approval process and analysis of cash disbursements on a monthly basis.	

1.2 Leadership, ethics and values

Satisfactory

The Office had received high, favorable scores in all 16 dimensions in the 2011 Global Staff Survey results. The scores were considered one of the highest in the region. Specifically, the Office received at least 90 percent scores when staff members were asked questions related to: (a) openness, fairness and respect; (b) communications and knowledge sharing; (c) accountability and transparency; (d) management interaction with staff members; (e) human resource management; and (f) freedom from prejudice and harassment.

No reportable issues were identified.

1.3 Risk management, planning, monitoring and reporting

Satisfactory

OAI reviewed the Office's risk logs and discussed with management the procedure for identifying, assessing, managing and reporting risks. Additionally, OAI reviewed the Office's Results Oriented Annual Report for 2012. Generally, the Office had followed corporate requirements when it conducted the risk assessment and prepared the Results Oriented Annual Report.

No reportable issues were identified.

1.4 Financial sustainability

Satisfactory

OAI reviewed programme expenditures in 2011 and 2012 and interviewed Office management.

The Office was largely dependent on the UNDP target resource assignment from the core funds, with no extrabudgetary resources. The lack of extrabudgetary resources was due to internal and external factors beyond the control of the Office.

As mentioned earlier, the Office had been operating under a unique and challenging environment which had negatively impacted delivery. The two new development projects submitted to the Regional Bureau for Asia and the Pacific in March 2012 had yet to be approved for various reasons, such as the time required for close consultation with some Executive Board members.

The Office had seven international staff members, four of whom held positions at the senior level, namely, the Resident Representative (D1), Deputy Resident Representative (P5), Operations Manager (P4) and Senior Programme Monitoring and Evaluation Officer (P4). This resulted in a high management ratio (management expenditure over programme expenditure) of 50 percent in 2012, as compared to an average of 8 percent for Country Offices covered by the Regional Bureau for Asia and the Pacific.

The Regional Bureau explained that maintaining the number of international staff members was part of the conditions set forth by the Executive Board in reopening the Office in 2009. The Office and the Regional Bureau indicated that they were looking at options to fund these posts from other sources.

As the Office and the Regional Bureau for Asia and the Pacific are taking actions to address the issue, OAI has not made a recommendation.

2. United Nations system coordination

Satisfactory

There are six resident United Nations agencies in the Country (FAO, UNDP, UNFPA, UNICEF, WFP and WHO) and eight non-resident United Nations agencies (ESCAP, IFAD, UNEP, UNESCO, UNIDO, UNITAR, UNOCHA and UNOPS). The United Nations Country Team held several meetings in 2011-2012 to ensure inter-agency coordination and decision-making at the country level.

No reportable issues were identified.

2.1 Development activities

Satisfactory

In the 2009 Executive Board decision, UNDP was allowed to resume six projects that were suspended in March 2007. The UNDP Administrator was also allowed to approve additional projects in the Country on a project-by-project basis.

The United Nations Strategic Framework 2011-2015 was developed to serve as a planning framework for the programme and operational activities of the United Nations system in the Country. The United Nations Strategic Framework was signed by the Government and by all resident and non-resident United Nations agencies.

No reportable issues were identified.

2.2 Resident Coordinator Office

Satisfactory

UNOCHA was funding and supporting a Resident Coordinator Office. During the audit fieldwork, the Resident Coordinator's role was temporarily performed by the UNICEF Representative while awaiting the arrival of the new UNDP Resident Representative. OAI reviewed the Resident Coordinator Office Work Plan for 2011 and 2012, as well as the Resident Coordinator's 2012 Annual Report.

No reportable issues were identified.

2.3 Role of UNDP - "One UN"

Not Applicable

This area was not applicable to the audit because the Country was not among the pilot countries under the "One UN" initiative.

2.4 Harmonized Approach to Cash Transfers

Not Applicable

This area was not applicable to the audit because all of the Office's ongoing projects were directly implemented and no cash advances were transferred to government counterparts.

3. Programme activities

Satisfactory

3.1 Programme management

Satisfactory

In February 2011, the Executive Board approved the Office's Country Programme Document for the period 2011-2015. The programme focused on three Millennium Development Goal-based priority areas, as follows: (a) nutrition and food security; (b) sustainable development and improving people's living standards; and (c) environment and climate change, including disaster risk management.

According to the Regional Bureau for Asia and the Pacific, a Country Programme Action Plan is not required because projects are not approved locally and each project is reviewed and approved at the Headquarters level.

No reportable issues were identified.

3.2 Partnerships and resource mobilization

Satisfactory

OAI met with the representative from the Government Coordinating Authority who expressed his appreciation for the working relationship with the Office. The Office's budget was largely dependent on the UNDP target resource assignment from the core funds (TRAC). The Results and Resources Framework in the Country Programme Document had required resources totalling \$38 million for the period 2011-2015. As per the Executive Snapshot, the Office had a cumulative budget of \$11.8 million and had expended \$9.1 million in 2011-2012.

No reportable issues were identified.

3.3 Project management

Satisfactory

Of the six projects for which activities resumed after the reopening of the Office in 2009, one project (37766) ended in July 2012, two projects (43495 and 60635) had received a no-cost extension until December 2013, and the remaining three projects (61795, 61788 and 61796) were scheduled to end in February 2014. The Office increased its programme expenditure from \$1.9 million in 2011 to \$3.8 million in 2012.

OAI selected five of six projects and reviewed the Project Documents, monitoring and evaluation plans, quarterly and annual progress reports and issues and risk logs. The June 2012 Resident Representative's report on the implementation of the Office's Internal Control Framework indicated that 41 projects had been financially closed in Atlas. The financial closure of these projects had not been completed earlier due to the suspension of Office operations in 2007. The Office also prepared quarterly and annual project reports.

OAI noted project design weaknesses in the five projects. Specifically, the Results and Resources Framework in the Project Documents of the five ongoing projects included output baselines, indicators and targets that were not measurable, specific or attainable. For example, the target for Output 1 of Project 61795 was indicated as "high yielding and fast growing seed varieties," which did not specify the crops or how they would be measured. Also, the Project Manager said that the target "Green House Gas emission reduction by 100 kilotons by the end of project 60636" was not attainable given the time and resources for the project. The recent evaluation of this project also indicated that the targets for Green House Gas reductions were not realistic (for further details see Global Environment Facility section; the work done under that section was taken into account in the audit rating for this Project management section). As these projects are closing, OAI has not raised an issue.

The Project Documents for two of five projects (37766 and 61796) did not delineate a clear strategy to ensure sustainability of the initiatives. These projects included plans for procurement of computers to be used to maintain databases for collection and analysis of socio-economic data and for the establishment of a comprehensive food and agricultural information system.

The Office acknowledged the challenges brought about by the project design weaknesses, but indicated that it had enhanced its oversight of the projects by conducting regular meetings with programme and project staff members and government counterparts. The Regional Bureau for Asia and the Pacific noted the challenges in ensuring sustainability. The Office management stated that the sustainability of the project's initiatives had been taken into consideration when formulating new development projects. Given that there was evidence to support that the Office was making an effort to address the weaknesses noted, while operating within the complex environment, OAI has not raised an issue.

Issue 2 Weaknesses in project monitoring

According to the Handbook on Planning, Monitoring and Evaluating for Development Results, project management, through adequate monitoring of project activities, is critical to the successful achievement of objectives. Additionally, the Programme and Operations Policies and Procedures require the Project Manager to agree in advance with the Project Board on the exact progress reporting format and frequency.

The Office's overall monitoring and evaluation plan included preparing quarterly and annual reports, conducting field visits, recording issue and risk logs in Atlas and preparing a monitoring schedule. OAI noted the following weaknesses in project monitoring:

- (a) The project monitoring and evaluation plans required submission of quarterly reports to the Project Steering Committee for review and approval. This was not consistent with the Project Documents that only required Project Steering Committees to meet twice a year. However, even this latter schedule had not been followed, as the Project Steering Committee had only met once during the audit period for projects 61795 and 61788. Furthermore, the Project Steering Committee did not approve the Annual Work Plan for 2012 prior to implementation of planned activities. OAI had raised a similar issue regarding inadequate oversight by the Project Steering Committee in the prior audit.

The Office stated that the frequency of Project Steering Committee meetings (i.e. twice a year) was adequate as there had been other ongoing interactions among project personnel, government counterparts and executing agencies. The Office management also provided OAI with a schedule indicating that the Project Steering Committee would convene quarterly starting in April 2013. In OAI's view, there needs to be a consensus on the frequency of the Project Steering Committee meetings, as required in the Programme and Operations Policies and Procedures.

- (b) Annual progress reports only contained completed activities, making it difficult to assess whether projects were on track toward achieving intended outputs. This occurred because the project annual work plans did not contain annual targets, which would provide the basis for assessing and reporting on project progress.
- (c) The issue and risk logs were either not set up (projects 61788, 61795 and 61796) or not updated (projects 43495 and 60636) in Atlas. According to the Office's management, the turnover of national staff members resulted in a lack of capacity to complete these tasks. However, OAI is of the opinion that the Office had an adequate number of international staff members to supervise and, if warranted, manage the process. Subsequent to the audit fieldwork, the Office has updated the issue and risk logs for projects 43495 and 60636.
- (d) A monitoring schedule plan for 2011 and 2012 for projects 61796, 61788 and 61795 had not been setup in Atlas, making it difficult to ascertain if the Office had adequately monitored the projects. The Office management stated that projects were closely monitored by holding frequent meetings with project personnel, government counterparts and other stakeholders, as well as conducting project site visits.
- (e) The Office's Internal Control Framework requires the Senior Programme Advisor (Programme Specialist) to oversee and monitor all development projects. Furthermore, the Office's overall monitoring and evaluation plan requires the Programme Specialist to conduct project site visits every quarter. However, OAI noted that the Programme Specialist conducted sporadic project site visits that fell short in meeting the requirement of visiting the project sites every quarter during the audit period. For example, no site visits were conducted to any of the projects during the second or fourth quarter of 2011 and the first quarter of 2012. The Programme Specialist explained that the projects were just starting and had not reached activity levels that needed monitoring. However, there were ongoing activities in other projects, which the Programme Specialist also did not visit (for projects 43495, 61788, 61795 and 61796). The Programme Specialist was unable to provide documented justification for not conducting the site visits. While the Programme Specialist partly fulfilled the expected monitoring site visits, the Office provided evidence to support that other international staff had undertaken project site visits during the audit period (i.e. Resident Representative, Deputy Resident Representative, Operations Manager, and Project Manager). Subsequent to the audit fieldwork, the Office indicated that the Programme Specialist separated and it is in the process of hiring a replacement.

The weaknesses noted in the project monitoring, if not addressed, could affect the achievement of intended outputs.

Priority	High (Critical)
Recommendation 2:	
<p>The Office should strengthen its project monitoring by:</p> <ul style="list-style-type: none"> (a) clearly establishing the number of times per year that the Programme Steering Committee should meet; (b) establishing annual targets in project annual work plans; (c) ensuring that a project monitoring schedule plan and evaluation logs are setup and updated in Atlas; and (d) ensuring that projects are adequately monitored by the Programme Specialist as required by the Office's Internal Control Framework and the Office's monitoring and evaluation plan. 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

4. Operations **Satisfactory**

4.1 Human resources **Satisfactory**

At the time of the audit, the Office employed 20 staff members (8 international, 4 national and 8 General Service) and 7 service contract holders.

OAI reviewed the overall management of the human resources functions, specifically recruitment of four staff members and three service contract holders and the separation of three staff members during the audit period. OAI also reviewed benefits and entitlements of staff members, such as salary advances, to ensure compliance with relevant policies and procedures. OAI noted that the Office faced challenges in recruiting suitably qualified national staff members.

As of March 2012, 6 of 20 staff members had yet to complete mandatory training due to other competing demands. Nevertheless, the majority of these staff members had just one training session remaining and according to the Office's Operations Manager, the staff members were in the process of completing the training. Therefore, OAI has not raised an issue.

Issue 3 Challenges in recruiting national staff members

As per the Programme and Operations Policies and Procedures, recruitment and selection procedures require that only candidates meeting predefined requirements for a post can be selected.

The Memorandum of Understanding between UNDP and the Government outlines the procedure for hiring national staff members. Specifically, UNDP must submit the job description and required competencies to the Government, which then provides at least three candidates to UNDP for review and selection.

The Office faced challenges for three recruitments during the audit period, as outlined below:

- The Senior Programme Officer position (national officer) had remained vacant since December 2012, as the initial candidates recommended by the Government did not meet the minimum work experience requirements. The Office requested additional candidates, however, none were provided.
- Candidates recommended by the Government for a national position in 2012 did not have the qualifications for the post. Although the Office again made a request, no additional candidates were provided. Therefore, the Office selected a candidate who was evaluated as having only basic competencies.
- During the recruitment of the Administrative Assistant, only one of the three candidates recommended had the necessary work experience.

The Office informed OAI that there was a limited pool of qualified national candidates in the Country and there was no open market for recruitment. The signed Memorandum of Understanding stipulated that any request for candidates had to be completed through the Government. In July 2012, the Resident Representative had informed the Regional Bureau for Asia and the Pacific of the difficulties in recruiting qualified candidates and requested further guidance.

Staff members without the necessary experience or technical knowledge require additional supervision to ensure the functions are performed as required.

The Office had taken steps to request additional candidates from the Government when the recommended candidates did not meet the minimum standards and also kept the Regional Bureau for Asia and the Pacific informed of the progress. As the Office had taken appropriate action, no recommendation has been made.

4.2 Finance

Partially Satisfactory

OAI reviewed the Office's financial management processes and controls, including banking and management of petty cash. The Office processed 5,476 vouchers during the period under review with a value of \$2.3 million. OAI selected a sample of 20 payment vouchers, totalling \$0.9 million, for detailed review and testing.

OAI noted that one Finance Specialist who was a bank signatory from March to May 2012 was also responsible for the bank reconciliation as well as being the custodian of cheques. The Corporate Internal Control Framework requires that the bank reconciliation responsibility be segregated from staff members who are bank signatories.

The Office explained that according to the Office's Internal Control Framework, these responsibilities can only be entrusted to international staff members and, as such, there may be periods when there could be an insufficient number of international staff members in-country to adequately segregate the duties. The Office also indicated that from February 2013 the bank reconciliations were completed by the Asia-Pacific Regional Centre. As the Office has taken action to address the lack of segregation of duties, OAI has not raised an issue.

Issue 4 Inadequate reporting on the use of cash cheques²

The Office’s Internal Control Framework states that “The CO must ascertain national banking practices to ensure that UNDP issued cheques are non-negotiable and can only be settled by deposit into bank accounts.” Furthermore, in January 2013, during the review meeting of the Resident Representative’s biannual report on the implementation of the Office’s Internal Control Framework, the Regional Bureau for Asia and the Pacific advised the Office not to issue cheques that can be exchanged for cash (i.e., cash cheques).

During the audited period, 351 euro cash cheques amounting to €0.46 million (\$0.61 million) and 436 local currency cash cheques in the total amount of KPW 25,514,000 (\$0.26 million) were issued. OAI noted that the purpose and frequency of cash cheque transactions were not clearly described in the Resident Representative’s bi-annual reports. The euro cash cheques were mainly for payments to individual contract holders, payments of international staff member entitlements and payments of Daily Subsistence Allowance for staff members, including project counterparts, to attend overseas training. Local currency cash cheques were issued to make payments on behalf of other United Nations agencies, reimburse travel expenses of government staff members for overseas study tours, make pension payments to national staff members and pay local consultants. OAI noted that all cash cheques sampled were issued in the name of the payee. All national staff that received cash cheques in euro for official overseas travel were also required to sign an attestation confirming that the euros would not be converted within the Country for any other currency.

The Office explained that the Country was largely a cash-based economy, that opening a bank account required approval from government authorities and that approval was not granted in most cases except for UNDP national staff. Thus, when a payee indicated that they did not have a bank account, the Office had to issue cash cheques. The Office added they would continue to exercise rigor and monitor this regularly. The Office had also approached UNFPA and UNOPS to explore the possibility of opening local bank accounts for their local payees, which would lead to a reduction in the cash payments if implemented successfully.

Subsequent to the audit fieldwork, the Office provided a detailed report on cash cheques issued in its semi-annual Resident Representative report of August 2013. This semi-annual report showed improvement in the completeness and clarity of information on cash cheques.

By not clearly describing in the Resident Representative’s biannual report the purpose and frequency of cash cheque transactions, UNDP Headquarters may not be able to provide proper guidance to the Office regarding effective internal controls over disbursements.

Priority	High (Critical)
Recommendation 3:	
The Office should ensure adequate internal controls are established by: (a) seeking guidance from the Regional Bureau for Asia and the Pacific and the Office of Financial Resources Management of the Bureau of Management for suitable ways to address the need to issue cash cheques in certain circumstances; and (b) exploring possibilities for reducing the number of cash cheques, which would include local payees of UNOPS	

² A cash cheque is payable to a specific payee and allows the payee to take it to the bank upon which it was drawn and convert it to cash.

and UNFPA being able to open local bank accounts.

Management comments and action plan: Agreed Disagreed

Management indicated that aside from providing a detailed report of cash cheques issued in its semi-annual Resident Representative report, they will continue to pursue other actions to reduce local cash cheque payments, including those made on behalf of other United Nations agencies.

4.3 Procurement

Satisfactory

The Office processed 171 purchase orders valued at \$2.3 million from 1 April 2011 to 31 December 2012. OAI reviewed a sample of 18 purchase orders valued at \$0.9 million. The Office had established good controls within its Procurement Unit, including sending a staff member to attend training to ensure goods procured were not on the list of prohibited items for import into the Country.

OAI noted that the procurement process was protracted due to a number of reasons, such as: allowing suppliers 60 days to provide bids for international bidding (normal procedure allows 30 days); and obtaining United States export licenses (taking up to 12 weeks) and arranging shipments to the Country. Accordingly, the procurement lead-time (i.e. the time from requisition to delivery) for 10 procurements reviewed (totalling \$0.3 million) varied between 104 and 234 days. As the challenges mentioned were beyond the control of the Office, no recommendation has been made.

OAI also noted that three of seven members of the Contracts, Assets and Procurement Committee had not completed the procurement certification. Subsequent to the audit fieldwork, the Office provided evidence that the members had completed the certification.

No reportable issues were identified.

4.4 Information and communication technology

Satisfactory

The Office's Information and Communication Technology Unit was managed by an Information and Communication Technology Specialist (international contractor under individual contract) and one Information and Communication Technology Associate (national staff member).

OAI noted that the issues identified in the previous audit had been addressed, including the development of a data backup strategy and disaster recovery plan. The Office's Information and Systems and Technology Unit completed a remote assessment of the Office in March 2012 and all seven recommendations were either implemented or in progress.

No reportable issues were identified.

4.5 General administration

Satisfactory

OAI reviewed general administration activities, including the review of a sample of four travel claims processed by the Office. The supporting records showed evidence of proper approval and justification for the travel. The Office also ensured that proper controls were in place to maintain Office records.

No reportable issues were identified.

4.6 Safety and security

Satisfactory

The Resident Representative had been designated the United Nations Designated Official for Security in the Country and the Operations Manager had been designated the Deputy Country Security Focal Point.

The Minimum Operating Security Standards plan was endorsed in September 2012 by the UNDSS Regional Director and the Office provided evidence that regular security management team meetings were held in 2011-2012.

No reportable issues were identified.

4.7 Asset management

Satisfactory

As of 30 June 2012, the Office had 76 assets valued at about \$4.7 million. OAI reviewed the Office asset records, asset disposal processes and the 2012 mid-year certification relating to the physical verification exercise undertaken. During the audit fieldwork, OAI also conducted a physical verification of nine randomly selected assets valued at \$37,000. OAI noted that adequate controls were in place in relation to the management of fixed assets.

Issue 5 Lack of comprehensive standard procedures for asset disposal

The Office's revised Internal Control Framework (January 2013) includes a section on Property, Plant and Equipment, which was not in the prior version. Specifically, the Office is required to: (a) submit a declaration confirming that all sanction stipulations have been adhered to when disposing assets; and (b) comply with the export license of assets and other items, when determining the appropriate disposal or transfer process.

However, OAI noted the lack of a standard procedure for the actual destruction of assets by the Office. When the Office disposed of 38 items in February 2013, the Information and Communication Technology Specialist confirmed in writing that all these items were either obsolete or fully worn out, and the Office confirmed that none of the items were on the lists of items prohibited for export and import from the Country pursuant to Security Council Resolution 1718. Then, the Office indicated that it consulted the Government regarding the destruction of the items and was referred to a government entity. The Office explained that two staff members were present during the destruction process completed by the government entity. In OAI's view, the Office's action should be formalized, in consultation with the Regional Bureau for Asia and the Pacific, to ensure a standard approach in the destruction of assets. In response to the draft audit report, the Office indicated that it would revise its standard operating procedure, which was prepared in 2012, for the disposal of assets. The standard operating procedure was not presented to the audit team during the audit fieldwork.

In the absence of a standard procedure, gaps may occur in fulfilling established requirements for the disposal of assets.

Priority	Medium (Important)
Recommendation 4:	
The Office, in consultation with the Regional Bureau for Asia and the Pacific, should revise its existing standard operating procedure, taking into account the current procedures being followed when disposing of assets.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Management indicated that they are in the process of revising all standard operating procedures to be in line with the Office's new Internal Control Framework, including asset disposal, which will be finalized before year-end.	

4.8 Leave management

Satisfactory

OAI reviewed the leave management for personnel under fixed-term appointments and service contracts. The staff members with fixed-term appointments used Atlas to request and record leave, whereas service contract holders prepared manual timesheets, including the recording of both annual and sick leave approved by their supervisor. For the seven service contract holders reviewed, no issues were identified.

The Programme and Operations Policies and Procedures allow staff members to carry over a maximum of 60 days of leave to the succeeding year and any days of leave in excess of that will be forfeited. OAI noted that 7 of 12 national staff members had leave balances of more than 70 days, which would result in at least 10 days of leave being forfeited in April 2012. Management had recognized this issue and had developed a plan to encourage staff members to take leave on a regular basis.

No reportable issues were identified.

4.9 Global Environment Facility

Not Applicable

As part of the 2013 Annual Work Plan, OAI identified the Global Environment Facility as a cross-cutting theme to be reviewed in more depth.

The Global Environment Facility funded one project (60636) within the Office. This project started in September 2005 and its activities were halted in March 2007 due to the closure of the Office. When the project restarted its activities in 2009, the Project Document had been revised due to a change in implementation modality and executing agency. The revised Project Document had a total budget of \$0.9 million, of which \$0.7 million was funded by the Global Environment Facility and the remaining \$0.2 million was funded by UNDP.

The Office facilitated a terminal evaluation of the project in October 2012 and the report was issued in January 2013. However, at the time this audit report was being drafted, the report had not been uploaded on to the

UNDP Evaluation Resources Centre website. The Deputy Resident Representative informed OAI that they were waiting for the Government to provide comments on the report before uploading. There were delays in completing this process due to recent developments in the Country and the report was uploaded in June 2013. As the issue was beyond the control of the Office and since the report has been uploaded in UNDP Evaluation Resources Centre website, no recommendation was made.

The report indicated that the project objectives were overambitious considering the short timeframe and budget for the project (see also Project management section of this report). As the project is closing, OAI has not raised an issue.

Furthermore, the issues and risk logs of the project had not been updated in Atlas (see Issue 2). As recommendations have already been made in the evaluation report, OAI has not made a separate recommendation.

No other reportable issues were identified.

ANNEX. Definitions of audit terms - Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.