UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

(REMOTE AUDIT)

Report No. 1421

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

The UNDP Office of Audit and Investigations (OAI) conducted a remote audit of the UNDP Country Office in the Democratic People's Republic of Korea (the Office) from 12 to 28 November 2014. The audit was conducted remotely from OAI's Regional Audit Centre in Kuala Lumpur, as the audit team was not able to travel to the Office due to travel restrictions in response to the Ebola outbreak. The audit was based on the review of supporting documentation of transactions performed, as well as emails and teleconferences with management and staff. OAI did not contact external parties such as government counterparts, donors or other United Nations agencies. OAI did not conduct a physical verification of assets, equipment or inventory, and did not physically observe day-to-day activities. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management).

The remote audit covered the activities of the Office from 1 January 2013 to 30 September 2014. The Office recorded programme and management expenditures totalling \$6.9 million (\$4.3 million in 2013 and \$2.6 million from January to September 2014). The last audit of the Office was conducted by OAI in 2013 (Report No. 1138).

The remote audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall 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."

The rating is the result of a remote audit that did not include work performed on location and did not include consultations with parties other than the management and staff of the Office. Due to these limitations, there may be risks and control weaknesses that have not been identified and which could have influenced the rating expressed in this report.

Key recommendations: Total = **4**, high priority = **0**

The four recommendations aim to ensure the following: (a) effectiveness and efficiency of operations (Recommendation 2); (b) safeguarding of assets (Recommendation 4); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 1 and 3).

The audit did not result in any high (critical) priority recommendations. There are four medium (important) priority recommendations, which means, "Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP." These recommendations include actions to address weaknesses in governance and strategic management, programme activities, and operations.

Implementation status of previous OAI audit recommendations: Report No. 1138, (17 October 2013).

Total recommendations: 4
Implementation rate: 75%[1]

The pending recommendation pertains to improvements in project monitoring and is in the process of being implemented.

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
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[1] This may differ from the implementation rate in the Comprehensive Audit and Recommendation Database System (CARDS), which includes extra points depending on how quickly the recommendations have been implemented.

I. About the Office

The Office, located in Pyongyang, the Democratic People's Republic of Korea (the Country) operates in a complex and unique environment. Following the discontinuation of UNDP's operations in the Country in March 2007, the Executive Board approved UNDP's resumption of operations in the Country in January 2009. The approval outlined the necessary programme interventions as well as operational modalities. UNDP resumed its programme in the Country in October 2009.

The Country Programme Document 2011-2015 (extended to 2016) focused on three Millennium Development Goal priority areas, as follows: (a) nutrition and food security; (b) socio-economic development; and (c) environment and climate change.

The Regional Bureau for Asia and the Pacific indicated that a Country Programme Action Plan was not required for the Country because this was operationalized through the project documents.

The initial estimated programme resources required for the programme cycle were $43.29 million. This amount was not reached due to many external factors that resulted in revisions of budgets in recent years. The total programme expenses decreased progressively, from $3.8 million in 2012 to $2.1 million in 2014. The decrease was due to various challenges, such as difficulties in transferring funds from headquarters to the Office. It was therefore suggested to implement a strict cash-conservation model, which impacted the Office's delivery. There were also imposed sanctions and a protracted process of procuring goods, which resulted in slow project progress.

II. Audit results

The fieldwork for this audit was scheduled from 3 to 10 November 2014. However, the audit had to be conducted remotely from OAI's Regional Audit Centre in Kuala Lumpur, as the audit team was not able to travel to the Office due to travel restrictions imposed in response to the Ebola outbreak. It was also decided in November 2014 that the remote audit would be followed by a mission to the field in February 2015. In case the mission did not materialize, then OAI was to conclude the audit and issue the report based on the remote audit of November 2014. As travel restrictions due to the Ebola outbreak did not change in January 2015, OAI concluded the audit based on the review of November 2014. The remote audit was based on the review of supporting documentation of transactions performed, as well as emails and teleconferences with management and staff.

Satisfactory performance was noted in the following areas:

(a) United Nations system coordination. A review of the United Nations Resident Coordinator Office, its coordination function, annual reports submitted to the United Nations Development Operations Coordination Office, minutes of the United Nations Country Team meetings, and joint initiatives, was undertaken. Regular United Nations Country Team meetings were held and thematic working groups were established. No exceptions were noted.

(b) Financial management. The review covered the Office's financial management processes and controls, including banking and management of petty cash. The Office processed 781 vouchers during the period under review with a value of $2.6 million, which included some transactions relating to other United Nations agencies that carry out activities in the Country. OAI selected a sample of 25 payment vouchers, totalling $1.2 million (equivalent to 46 percent of the total value of vouchers paid during the period), for detailed review and testing (the reviewed sample did not include transactions relating to other United Nations agencies). No reportable issues were noted.

(c) Procurement. A review of 40 purchase orders totalling $1 million (or 51 percent of the total value of purchase orders) found no reportable issues. In addition, the delegation of procurement authority, management of vendors, segregation of duties, and controls were found to be adequate. The various imposed sanctions on the Country had resulted in procurement delays. However, these delays were beyond the control of the Office. No other reportable issues were noted.

(d) Information and communication technology. A review of the Information and Communication Technology Unit included the Office's procedures relating to back-up and restoration arrangements, as well as the latest available Disaster Recovery Plan. The Office's back up procedures and Disaster Recovery Plan were updated in January and February 2014 and were found to adequately meet UNDP's requirements. No reportable issues were noted.

(e) Safety and security. A review of the Security Plan and the security risk assessment was carried out. The Security Plan endorsed by the Security Management Team on May 2014 and submitted to the United Nations Department of Safety and Security complied with the Field Security Handbook. No reportable issues were noted.

OAI made four recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:

(a) Strengthen project monitoring and evaluation processes (Recommendation 2).
(b) Explore the possibility of developing a new staffing structure that is more appropriate and relevant to the existing needs of the Office, giving due consideration to adequate controls, after discussing these changes with the Government and obtaining their agreement (Recommendation 1).
(c) Reduce the time required for asset disposal (Recommendation 4).
(d) Complete the performance management development assessments for 2013 as soon as possible and plan for the timely completion of future performance assessments (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegation of authority

OAI reviewed the Office's organizational structure, delegation of authority and Internal Control Framework.

As a result of increased international financial sanctions on the Country (starting in May 2013 and again starting in April 2014), there were challenges in transferring funds from headquarters to the Office. These constraints impacted the Office's programme and operations to the extent that project activities were not only delayed, but also reduced (to conserve cash as part of interim sustainability strategy in 2013 and 2014). In November 2014, the Country's mandatory quarantine measures in response to the Ebola outbreak further affected the Office's operations.

Management indicated that there were difficulties in recruiting qualified staff members (both national and international), limited procurement opportunities, relatively restrictive banking services, and delays in obtaining necessary clearances from countries exporting goods procured for projects. The Regional Bureau for Asia and the Pacific mitigated these challenges by assigning a high number of international staff to the Office. It also monitored the Office closely and engaged the Office's senior management in all critical matters.

Issue 1 Memorandum of Understanding provisions not fully implemented

Prior to reopening the Office in 2009, UNDP and the Government signed a Memorandum of Understanding in February 2009 which reinstated the commitments of both parties to work together. This Memorandum of Understanding covered financial, human resources and programme areas. The audit noted the following:

- International staff in the Office fewer than provided for in the Memorandum of Understanding

UNDP agreed that the Office, at a minimum, would have the following international staff: Resident Coordinator/Resident Representative, Country Director, Operations Manager, Senior Programme Adviser/Monitoring & Evaluation Specialist, Finance Officer, Procurement Specialist (UNV) and IT Specialist (UNV). However, during the audit period, some of these posts were either not established or remained vacant, such as the Country Director, Senior Programme Adviser/Monitoring & Evaluation Specialist, Procurement Specialist and Finance Officer. The vacancy of the Country Director position was compensated by the establishment of the Deputy Resident Representative position. The absence of a Senior Programme Adviser/Monitoring & Evaluation Specialist from April 2013 to the audit date (except for three months between February to May 2014 when a staff member from another office had been seconded to fill this position) contributed to some of the weaknesses noted in project monitoring. (refer to Issue 3). The Procurement Specialist position was vacant from March 2013 until February 2014, while in the interim, two staff members from other offices had filled the position from July to December 2013. The Office commented that the vacant Procurement Specialist position had contributed to challenges with procurement activities.

The Office explained that as part of their financial sustainability review in 2013, the funding for three international professional positions, i.e. Monitoring & Evaluation Specialist (P4), Procurement Specialist (P2) and Finance Specialist (P3) were discontinued. However, the Finance Specialist only left in March 2014. The Regional Bureau for Asia and the Pacific indicated that when the Memorandum of Understanding was negotiated with the Government, staffing arrangements outlined in the respective sections were kept as flexible as possible. Further, the Regional Bureau indicated that the volume of programmatic activities had significantly reduced over time, which made it difficult to justify the international staff arrangements initially envisaged. It also indicated that some of the Office's financial functions are being provided by UNDP's Bangkok Regional Centre, and remaining functions of the Finance Specialists had been taken over by the Operations Manager.

Priority	Medium (Important)
Recommendation 1: Explore the possibility of developing a new staffing structure that is more appropriate and relevant to the existing needs of the Office, giving due consideration to adequate controls, after discussing these changes with the Government and obtaining their agreement.	
Management action plan: The Office will undertake a strategic review from May to June 2015 to: (a) assess performance of the UNDP programme against planned results of projects and Country Programme Document 2011-2015; (b) assess existing structure and processes; and (c) recommend an effective and efficient business model for UNDP's presence and business continuity in the Country, keeping in mind the operational constraints that have impacted the Office and the programme in the recent past. **Estimated completion date:** August 2015	

Issue 2 Settlement of cheques issued to national payees that did not have bank accounts

In 2010, UNDP established a specific Internal Control Framework for the Office to further enhance the application and management of internal controls within the Office, and to complement the corporate UNDP Internal Control Framework. The Resident Representative was required to report to both the Director of the Regional Bureau for Asia and the Pacific and the Chief Finance Officer twice a year on the application of the Office's Internal Control Framework. The Internal Control Framework was revised three times (January 2013, February 2014, and June 2014). The January 2013 version of Internal Control Framework stipulated that bank cheques be issued to providers of goods and/or services only, and that these cheques only be settled through deposits in bank accounts.

The audit found that national payees were allowed to cash the cheques instead of depositing them in bank accounts. This was the case for cheques with a total aggregate value of $500,000 during the period from January 2013 to February 2014. This issue had also been raised in the previous audit. The Office explained that the concerned payees had to receive the cheques in cash as they did not have bank accounts. The Office further commented that subsequent to the 2013 audit, they raised this issue with the Office of Financial Resources Management, resulting in further revisions to the Office's Internal Control Framework in February 2014.

This issue is again being reported here as the current audit period covers 1 January 2013 to September 2014. The revision in the February 2014 Internal Control Framework provided for exceptions with the issuance of UNDP bank cheques to specific categories of national payees who are normally not permitted to open individual bank accounts in the Country. These included United Nations Joints Staff Pension Fund recipients, local individual contractors, part-time service contract holders, non-UNDP personnel attending workshops/trainings in the Country and national staff members up to 15 days from the date of recruitment. Any other exceptions should have been approved by headquarters.

Comment
OAI's review of samples subsequent to the implementation of the revised Internal Control Framework in February 2014 indicated that the Office complied with this revised provision. Therefore, OAI is not making a recommendation.

B. Programme activities

Issue 3 Insufficient project monitoring and evaluation processes

Out of a total of seven projects implemented by the Office, four were reviewed in detail. The following exceptions were noted:

(a) Missing parameters from the Monitoring and Evaluation Action Plan

The 'Programme and Operations Policies and Procedures' state that all outcomes to which UNDP is contributing must be monitored and evaluated regularly. This includes the development of a programme monitoring and evaluation framework to enable the monitoring and evaluation of UNDP's programmatic interventions.

The Office had developed a Monitoring and Evaluation Action Plan for 2013 and 2014 (updated in May 2014). This document outlined the monitoring schedule for each project managed by the Office. However, it did not include monitoring and evaluation details, such as what would be monitored and evaluated, the activities required to perform monitoring and evaluation, the individuals responsible, the timeframe and methods of carrying out monitoring and evaluation activities, the resources required and their allocation.

The Office commented that a standard comprehensive Monitoring and Evaluation Action Plan was difficult to implement given the contextual limitations, and given the lack of verifiable data. The Office felt that a detailed Monitoring and Evaluation Action Plan could have reduced flexibility that the Office's senior managers might have needed in order to adapt to changing circumstances.

Without a comprehensive Monitoring and Evaluation Action Plan, the Office may not be able to properly and timely monitor project progress or assess achievement of intended objectives as set out in the Country Programme Document.

Subsequent to the remote audit, the Office submitted the project monitoring plan for 2015 for all operationally active projects. The plan included indicators, frequency of monitoring, data collection methods, and means of verification.

(b) Project assurance activities needed strengthening

The 'Programme and Operations Policies and Procedures' provide various tools for monitoring projects, such as conducting project field visits, reviewing project progress and annual reports, reviewing the project risk logs and issue logs. Further, the Office provides project assurance by analysing progress towards achievement of project outcomes, monitoring the effectiveness of implementation strategies, and taking related actions.

In addition, the Office's Internal Control Framework states that "The Senior Programme Advisor, by virtue of his or her responsibility, will oversee and monitor all development projects, whether implemented by UNDP, national institutions, or UN agencies." Further, international staff are required to visit project sites and review project financial reports once every quarter and prepare a monitoring and oversight report to be submitted to the head of office, who will in turn share it with the Regional Bureau Director.

After the departure of the Senior Programme Advisor/Monitoring & Evaluation Specialist in March 2013 (refer to Issue 1), this responsibility remained mainly with the Deputy Resident Representative. International staff from the Office carried out limited project site visits during the audit period. The project site visits were undertaken mainly by the Project Managers accompanied by national programme staff. There was no evidence indicating that the Office's programme staff had reviewed project progress reports regularly. As an example, even though during the audit period a total of 79 monitoring and oversight reports had been prepared by project personnel, the Monitoring & Evaluation Specialist accompanied the Project Manager in only nine instances. The Deputy Resident Representative had accompanied the Project Manager for two visits and the Resident Representative for five visits, respectively.

The Office commented that the delay in filling the position of the Monitoring & Evaluation Specialist partly contributed to this. The Office further acknowledged that the level of project assurance may not have been in line with the requirement of the 'Programme and Operations Policies and Procedures', but that management had endeavoured to do its best given the prevailing operating context in the Country and the absence of a Monitoring & Evaluation Specialist. In order to enhance monitoring and evaluation, the Office initiated a recruitment exercise in June 2014 and the staff member recruited joined the Office in January 2015 (refer to Issue 1).

Failure to undertake adequate assurance activities may result in the Office not being able to manage and implement projects in line with project documents and requirements of UNDP's 'Programme and Operations Policies and Procedures'. This could also prevent management from taking timely corrective decisions or actions, when necessary.

(c) Lack of sufficiently specific project targets, baselines and indicators

The 'Programme and Operations Policies and Procedures' require that project outputs and indicators be specific, measurable, achievable, realistic and time-bound to enable appropriate monitoring. As highlighted in the previous audit report, the annual work plans of projects did not have specific targets against which the Office could measure and assess progress achieved.

The review of project annual work plans indicated that targets had been set in 2014, however, these were not sufficiently specific and measurable. As an example, regarding the 'Reduction of Post-Harvest Loss' project, the annual work plan had set broad targets, such as "locally suitable new technology introduced, tested, demonstrated and optimized", and "project management system established and fully functional." On the other hand, the respective baseline was "obsolete and wasteful post-harvest equipment used" and the indicator was "new technology introduced" and "work plans, staff and counterparts are in place." These statements would have been more specific and measurable if they mentioned what type of technology would be introduced and how it would be locally suitable, instead of merely stating "locally suitable new technology introduced."

The absence of proper project baselines, indicators and targets may prevent the Office from tracking and monitoring of project progress and achievements against intended project outputs and outcomes.

Priority	Medium (Important)
Recommendation 2: Strengthen project monitoring and evaluation processes by: (a) developing a more comprehensive programme monitoring and evaluation framework; (b) enhancing project assurance activities, such as having international staff undertake and document regular project site visits, reviewing relevant back to office reports and project progress reports; (c) preparing and submitting monitoring and oversight reports to the head of office who will share this with the Regional Bureau Director; and (d) ensuring all project targets, baselines and indicators are specific, measurable, achievable, realistic and time-bound.	
Management action plan: The Office will continue to improve and strengthen monitoring and evaluation planning and processes. Continued efforts will be made to ensure monitoring visits are undertaken as per the Monitoring and Evaluation Action Plan. All ongoing and new projects will have minimum targets, baselines and reliable indicators in the Country context to the extent possible. Given the lack of access to government data, all existing and future projects will have an assessment component to ensure relevant data is collected before project activities are launched. For the two ongoing projects, an assessment for data collection is already underway. **Estimated completion date:** 30 April 2015	

C. Operations

1. Human resources

Issue 4 Performance management development assessments not completed on time

The yearly performance management and development process for staff should be completed by 31 March of the subsequent year. A performance assessment not only measures a staff member's contributions towards corporate results, but is also a vital tool for career development. As of November 2014, the Office employed 19 staff (5 international, 3 national and 8 General Service) and 3 service contract holders.

Up to October 2014, only 8 out of 12 (67 percent) staff members in the Office had completed the performance management and development process. Further, these assessments were completed after the deadline of 31 March 2014, from April to October 2014.

Due to the fact that the performance management development assessment process had not been completed within the required timeframe, the Office's learning plan for 2014 did not incorporate the learning requirements from the performance assessment process and was mainly based on results of the Global Staff Survey and a staff retreat. The professional learning and development dimension had also been rated the lowest in the Global Staff Survey for the Office in 2013.

Capacity gaps may not be adequately identified and addressed in the absence of timely performance assessments.

Priority	Medium (Important)
Recommendation 3: Complete the performance management development assessments for 2013 as soon as possible and plan for the timely completion of future performance assessments.	
Management Comments All 2013 performance management development assessments have since been completed with the exception of one international staff member, who was reassigned to another office. The Office is following up with the staff member to complete the assessment by mid-April. All 2014 assessments are on track for completion by the end of March 2015. **Estimated completion date:** 31 March 2015	

2. Asset management

As per the 2014 midyear certification, the Office had 53 items recorded as capital assets valued at $426,736 and seven project assets procured prior to 2012 valued at $28,060. The audit reviewed physical verification reports prepared by the Office, conformity with policies on asset purchases and disposals, and the completeness of asset records. The Office was in discussions with the Bureau of Management and the Global Shared Services Centre on whether to capitalize project development assets from operationally closed projects, which had earlier been treated as project expenses when they were purchased.

Issue 5 Delay in disposal/ of assets

As of September 2014, the Office had 210 project assets valued at $1.95 million. Of these, five assets amounting to $50,000 related to two operationally closed projects, closed since December 2013. As of the audit date, these had not been disposed of because of restrictions in the disposal of one of the five assets. The remaining 205 assets valued at $1.9 million were to be either transferred to national counterparts or disposed of as of October 2014, however, the Office had not completed the transfers or disposals at the time this report was being drafted.

The Office indicated that they were expecting relevant guidance from the Procurement Support Office. The Office had indeed sought guidance from the Procurement Support Office through the Office's Resident Representative Reports issued in February and August 2014, but had not directly contacted the Procurement Support Office.

Priority	Medium (Important)

Recommendation 4:

Reduce the time required for asset disposal by:

(a) obtaining guidance on the transfer or disposal of assets from the relevant units and following up to ensure such guidance is promptly provided; and
(b) transferring or disposing the assets as soon as the required approvals have been obtained.

Management Comments:

(a) To ensure compliance with the Office's asset disposal policy as well as the various sanctions, the transfer of all assets for closed projects are being reviewed by headquarters.
(b) The asset review is expected to be completed by the second quarter 2015 and the Office will immediately proceed with the transfer and disposal of these assets as per headquarters guidance and advice. The intention is that all assets recommended by the headquarters review exercise will be transferred to the Government. Regarding the assets that may not be fully transferable to the Government, this would require further consultation with headquarters regarding their disposal and/or their recording in UNDP's books.

Estimated completion date: 31 December 2015

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **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.

- **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.

- **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.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **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.

- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.

- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.