

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA**

**Report No. 2007**  
**Issue Date: 28 November 2018**

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

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Democratic People's Republic of Korea (the Office) from 2 to 8 October 2018. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 November 2016 to 30 September 2018. The Office recorded programme and management expenses of approximately \$8.6 million. The last audit of the Office was conducted by OAI in 2016.

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

### Overall audit rating

OAI assessed the Office as **partially satisfactory/major improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to the absence of an approved Country Programme Document (CPD) and the ongoing procurement and financial constraints, which significantly affected the programme implementation and financial delivery. These were corporate issues and beyond the control of the Office.

### Key recommendations: Total = 4, high priority = 3

The four recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1, 2 and 3); and (b) safeguarding of assets (Recommendation 4).

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

Corporate Issue: Absence of approved Country Programme Document (Issue 1)	The 2011-2015 CPD was extended for one year to 2016, and a new CPD was developed and approved by the Headquarters programme appraisal committee on 2 May 2016. Due to lack of stakeholder consensus, the new CPD was not presented to the Executive Board for approval. The Office had therefore been operating on the basis of the existing Standard Basic Assistance Agreement for
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the remaining projects. Out of the 3 ongoing projects, 1 was scheduled to end by December 2018, while 2 were expected to end in December 2019.

Recommendation: The Regional Bureau for Asia and the Pacific, in coordination with the Executive Office, should develop a risk management plan to address the Office's operational constraints in the Country and include contingency measures that anticipate/mitigate potential continuity risks.

Corporate Issue:  
Programme delivery  
affected by  
procurement and  
banking challenges  
(Issue 2)

The delivery rate of the programme as at October 2018 was 38 percent. The Office's management indicated that the financial delivery by the end of 2018 would unlikely exceed \$2 million and therefore would remain under 48 percent. The United Nations and Member State sanctions reduced the Office's ability to increase the delivery rate. Procurement sanctions restricted the procurement of goods and hampered the implementation of project activities. In addition, banking restrictions affected the availability of local funds for United Nations agencies.

Recommendation: The Regional Bureau for Asia and the Pacific, in collaboration with the Office of Financial Resources Management and Treasury, should consider available options to replenish local cash needs.

Corporate Issue:  
Existing Office structure  
not sustainable (Issue 3)

In 2017, the Office charged \$710,446 against a projection of \$1.17 million as DPC to cover Office staff costs. At the time of the audit, the monthly DPC charges on average were \$76,400, and therefore the Office would have charged \$917,000 as DPC in Office staffing costs by December 2018. This represented 50 percent of the anticipated overall programme delivery of \$2 million for 2018. Management staffing costs were high, accounting for 50 percent of the overall programme delivery.

In addition, the General Operating Expenditures allocated in 2018 were almost half of the \$0.95 million in 2017 or \$0.5 million for 2018, and this resulted in a \$450,000 shortfall that was charged to projects. As a cost-saving measure, the Office froze five positions.

Recommendation: The Regional Bureau for Asia and the Pacific, in collaboration with the Office of Financial Resources Management, should review the Office's Internal Control Framework and the resulting staffing complement taking into consideration the realities of the operating environment.

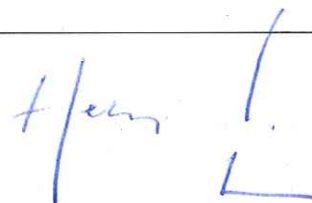
"Corporate issue" means action is required from a Headquarters bureau.

The previous audit (Report No. 1744), issued on 14 December 2016 did not result in any recommendations.

### Management comments and action plan

The Resident Representative and the Director of the Regional Bureau for Asia and the Pacific accepted all of the recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink, which appears to read 'Helge S. Osttveiten', is enclosed within a rectangular box.

Helge S. Osttveiten  
Director  
Office of Audit and Investigations

## I. About the Office

The Office, located in Pyongyang, Democratic People's Republic of Korea (the Country) operates in a complex and constrained environment governed by special arrangements after its reopening in 2010. The special Internal Control Framework outlines specific measures under which the Office operates, including its administration, finance, human resources, procurement and monitoring and evaluation. Between 2016 and 2017, additional sanctions were imposed by the United Nations and some Member States, limiting the programmatic space. The only banking channel was closed in 2017, and the Country Programme Document (CPD) for 2017-2021 had yet to be approved. Both the Office and the Regional Bureau for Asia and the Pacific had been working together to minimize the impact of these challenges. However, these challenges remained, curtailing UNDP's work in the Country.

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Financial resources management. The review included processes related to finance, which were found to be compliant with UNDP's financial policies and procedures. Adequate controls were established, and risks were regularly monitored.
- (b) Human resources management. The review of recruitment and separation processes, including Atlas (enterprise resource planning system of UNDP) profiles of staff did not identify any reportable issues. Adequate controls were established.
- (c) Information and communication technology. OAI reviewed the Office's management of information, communication and technology resources and processes. A physical review of the relevant facilities and equipment were also conducted. The systems managed by the Office, including hardware, software and systems security were operating effectively.
- (d) Staff and premises security. The Office was compliant with the security standards for UNDP. The review included the Office's business continuity and disaster recovery plan, which had been satisfactorily tested by the Office. No reportable issues were noted.
- (e) United Nations leadership and coordination. Adequate and effective controls were established.

OAI made three recommendations ranked high (critical) and one recommendation ranked medium (important) priority.

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

### High priority recommendations, arranged according to significance:

- (a) The Regional Bureau for Asia and the Pacific, in collaboration with the Office of Financial Resources Management and Treasury, should consider available options to replenish local cash needs (Recommendation 2).
- (b) The Regional Bureau for Asia and the Pacific, in coordination with the Executive Office, should develop a risk management plan (Recommendation 1).
- (a) The Regional Bureau for Asia and the Pacific, in collaboration with the Office of Financial Resources Management, should review the Office's Internal Control Framework (Recommendation 3).

### Medium priority recommendation:

- (a) The Office should expedite the disposal process of unused assets (Recommendation 4).

The detailed assessment is presented below, per audit area:

## A. Governance

### 1. Corporate oversight and assurance

#### Issue 1 Corporate Issue: Absence of approved Country Programme Document

The CPD for UNDP assistance is based on the United Nations Development Assistance Framework. It describes the national results from the Framework for which UNDP is responsible and relates these to the required resources. CPDs are approved by the UNDP Executive Board and give UNDP the mandate for development interventions in programme countries.

At the end of 2015, the existing CPD (2011-2015) was extended by one year. The Office developed a new CPD (2017-2021) which was approved by UNDP's programme appraisal committee on 2 May 2016. However, the new CPD was not presented to the Executive Board for approval due to lack of stakeholder consensus and a CPD extension request was not tabled after 2016. Therefore, the Office was operating under the existing Standard Basic Assistance Agreement that provided a legal basis for the Office to continue implementing existing projects.

Without the CPD approval, no new programmatic activities can be initiated and because of the life span of previously approved programmatic activities, the amount of overall active programmatic activities will decline.

At the end of 2015, when it was decided to continue with the ongoing projects through the extension of the CPD, the Office was implementing four projects (74802, 74805, 90996 and 91747). However, project 74802 was operationally closed in December 2017, project 74805 was expected to end in December 2018, and projects 90996 and 91747 were expected to end in December 2019.

Without projects to implement, the Office is at risk of losing its programmatic responsibilities by the end of 2019.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
The Regional Bureau for Asia and the Pacific, in coordination with the Executive Office, should develop a risk management plan to address the Office's operational constraints in the Country and include contingency measures that anticipate/mitigate potential continuity risks.	
<b>Management action plan:</b>	
The Regional Bureau for Asia and Pacific accepts the recommendation. The Bureau has been monitoring operational constraints for the Office and conducting consultations with internal and external stakeholders regularly. In addition to the Office's Risk Register, which is part of the Office's Integrated Work Plan, the Bureau will work further with the Executive Office and other concerned Headquarters units to articulate this into a consolidated risk management plan.	
<b>Estimated completion date:</b> April 2019	

## Issue 2 Corporate Issue: Programme delivery affected by procurement and banking challenges

The 'UNDP Programme and Operations Policies and Procedures' require that annual work plans articulate activities to be implemented in a given year, in line with the delivery targets set for the year.

The table below shows the Office's delivery trend:

Table 1: Office delivery trend 2015-2018

US \$ millions	2015	2016	2017	2018*
Programme budget	1.7	4.9	5.2	4.2
Programme expenditure	1.4	3.3	4.7	1.6
Delivery rate	82%	67%	90%	38%

Source: Executive Snapshot

\*As at 5 October 2018

The delivery rate of the programme as at October 2018 was 38 percent. The Office's management indicated that the financial delivery by the end of 2018 would unlikely exceed \$2 million and therefore would remain under 48 percent. The United Nations and Member State sanctions reduced the Office's ability to increase the delivery rate as follows:

### (a) Procurement sanctions

United Nations and Member State sanctions restricted the procurement of goods and hampered the implementation of project activities. Each procurement had to be approved on a case-by-case basis to receive a formal exemption from the Sanctions Committee. Total pending procurement was valued at \$1.6 million at the time of the audit. Consultations on the exemptions is conducted periodically.

### (b) Banking restrictions

The only functioning and approved banking channel closed in September 2017, affecting the availability of local funds for United Nations agencies. Two million euro were transferred to the Office in 2017, and part of these funds were for UNFPA's operational costs. As at October 2018, the Office's cash position and projection was as follows:

Table 2: Office cash position

Month/year	Total local Expenditures	Running Bank Balance
	(Euro)	711,591*
October 2018	143,738	567,853
November 2018	157,821	410,032
December 2018	155,747	254,285
<b>Total</b>	<b>457,306</b>	

Source: DPRK Country Office

\* As at 30 September 2018

Based on funding projections available at the time of audit, the Office may not have local funds to pay for national staff salaries, operating costs, and other programme activities in early 2019.



<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
The Regional Bureau for Asia and the Pacific, in collaboration with the Office of Financial Resources Management and Treasury, should consider available options to replenish local cash needs.	
<b>Management action plan:</b>	
The Regional Bureau for Asia and Pacific accepts the recommendation. The Bureau will continue to consult with the Office of Financial Resources Management, which leads on treasury and banking issues, on the options available.	
<b>Estimated completion date:</b> April 2019	

**Issue 3** Corporate Issue: Existing Office structure not sustainable

The Internal Control Framework requires the Office to maintain key international positions. At a minimum, the Office needs to maintain the following positions: Resident Representative, Deputy Resident Representative, Operations Manager, Monitoring and Evaluation Specialist and Project Manager(s). The staffing structure should be supported by the direct project costs (DPC) and as such sufficient project income is required to support the staffing structure.

The existing staffing structure comprised of six international staff: Resident Representative, Deputy Resident Representative, Operations Manager, Monitoring and Evaluation Specialist, Project Manager and an IT Analyst. The national staff comprised of 6 General Service staff and 7 service contract holders, 5 of whom were project staff.

In 2017, the Office charged \$710,446 against a projection of \$1.17 million as DPC to cover Office staff costs. At the time of the audit, the monthly DPC charges on average were \$76,400, and therefore the Office would have charged \$917,000 as DPC in Office staffing costs by December 2018. This represented 50 percent of the anticipated overall programme delivery of \$2 million for 2018. Management staffing costs were high, accounting for 50 percent of the overall programme delivery.

For 2019, the Office requested the Regional Bureau for Asia and Pacific to fund an additional 3.25 positions to the Bureau-proposed 5.5 positions as a response to the expected reduced delivery for 2019 and therefore the expected increase in DPC to support the staffing costs; the request was under consideration at the time of the audit.

In addition to the above, the General Operating Expenditures allocated in 2018 were almost half of the \$0.95 million in 2017 or \$0.5 million for 2018, and this resulted in a \$450,000 shortfall that was charged to projects. As a cost-saving measure, the Office froze five positions while both the Operations Manager and Deputy Resident Representative posts were filled on an interim basis through secondments. The Operations Manager position was filled but was downgraded as a cost-cutting measure. The Deputy Resident Representative post was filled on an interim basis, by a P4 Project Manager.

Given the reduced level of programme output and the Office's operating challenges, the Internal Control Framework and its staffing requirements may no longer be commensurate with the Office's project portfolio and the necessary management and oversight controls.

<b>Priority</b>	High Critical)
<b>Recommendation 3:</b>	
The Regional Bureau for Asia and the Pacific, in collaboration with the Office of Financial Resources Management, should review the Office's Internal Control Framework and the resulting staffing complement taking into consideration the realities of the operating environment.	
<b>Management action plan:</b>	
The Regional Bureau for Asia and Pacific accepts the recommendation. The Internal Control Framework in the Office is linked to confidence-building measures and due diligence expectations put in place when the Executive Board approved the reopening of the Office. Against this background, the Bureau will review the Internal Control Framework and the cost base of the Country Office in 2019, in consultation with central bureaux concerned.	
<b>Estimated completion date:</b> April 2019	

## B. Operations

### 1. General administrative management

#### **Issue 4** Weaknesses in recording and disposal of assets

The timely disposal of assets is required to ensure efficient maintenance of the assets at hand. The correct recording of assets is required to reflect the correct value of the assets at hand.

In the biannual Internal Control Framework Resident Representative report dated 31 July 2018, the Office confirmed that since 2016, 26 laptops and 1 printer were identified for disposal and reviewed various disposal options. However, at time of the audit, no progress had been made to dispose the goods due to a disagreement on the clearance method by the Country's Customs Department to take IT equipment out of the Country.

The audit team also noted that only 9 out of the 11 vehicles present were recorded in Atlas. The remaining two were transferred from UNOPS and FAO to UNDP in 2014, but were not recorded in the Atlas asset module.

The delay in asset disposal resulted in higher asset maintenance and repair costs and caused a decline in asset disposal value and disposal revenue for the Office, while the exclusion of two vehicles in the Office's assets understated the value of total assets.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>  The Office should improve the disposal process of unused assets by: <ul style="list-style-type: none"> <li>(a) expediting the disposal process; and</li> <li>(b) recording the two vehicles transferred from other United Nations agencies as assets in Atlas.</li> </ul>	
<b>Management action plan:</b>  The Office will expedite the disposal process of unused assets, ensuring due compliance with relevant export license requirements. It will seek clarifications on re-export requirements when required. The Office will also record the two vehicles transferred from other United Nations agencies as assets in Atlas.	
<b>Estimated completion date:</b> March 2019	

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

### 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. Failure to take action could result in 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 not included in this report.