



AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

Report No. 1138

Issue Date: 17 October 2013

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).

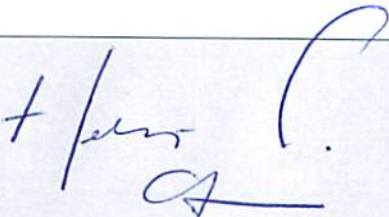
Cross-cutting themes

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