AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE DEMOCRATIC PEOPLE’S REPUBLIC OF KOREA

Report No. 2007
Issue Date: 28 November 2018
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
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.

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