

Internal Audit of the Democratic People's Republic of Korea (DPRK) Country Office

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Office of Internal Audit
and Investigations (OIAI)
Report 2014/12



Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Democratic People's Republic of Korea (DPRK) Country Office. The audit sought to assess the governance, programme management and operational support over the office's activities. The scope of the audit included a review of activities supported by the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM) in accordance with UNICEF and GFATM's agreement that these activities be subject to an annual audit. The audit team visited the DPRK during the period 7-18 October 2013. The audit covered the period from September 2012 to the dates of the audit in October 2013.

The UNICEF country office has 16 established international posts, of which one was vacant at the time of the audit. The current country programme cycle is for 2011-2015, with approved budget of US\$ 9.3 million in regular resources (RR) and a ceiling for other resources (OR) of US\$ 119 million. RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

The country programme has five main programme components: Health (including Tuberculosis and Malaria); Nutrition and Care; Water, Sanitation and Hygiene; Education; and Advocacy and Knowledge Management. The Tuberculosis and Malaria programme of the country office was entirely funded by GFATM; UNICEF has been acting as the Principal Recipient in DPRK since 2010. Its total approved funding from GFATM is US\$ 67.6 million (US\$ 20.5 million for Malaria and US\$ 47.1 million for TB), of which US\$ 51.2 million had been disbursed as of 15 October 2013. At the time of the audit, the implementation of the grant was rated A2 by GFATM, which indicates that the country office's performance met expectations.

Actions agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. One is being implemented as a high priority – that is to say, it concerns issues that warrant immediate management attention. This issue is summarized as follows:

- The office worked with 39 personnel that it considered to have been seconded by the Government of DPRK. However, the office did not have signed contracts with these personnel individually, and there was no formal agreement between the Government and UNICEF that specified their employment conditions. The office had not formally assessed the potential risks created by this lack of formalization. With support from the Regional Office for East Asia and the Pacific and relevant Headquarters divisions, the country office will assess these risks and identify ways to manage them, as appropriate.

Conclusion

The audit concluded that overall, subject to implementation of the agreed actions described, the controls and processes in the DPRK country office were generally established and functioning. The measures to address the issues raised are presented with each observation in the body of this

report.

The DPRK country office has prepared action plans to address the issues raised, and the measures that will be taken are presented with each observation in the body of this report. The country office, with support from the Regional Office for East Asia and the Pacific, and OIAI will work together to monitor implementation of the measures that have been agreed.

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Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk management and governance processes over a number of key areas in the office.

The audit observations are reported upon under three headings; governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them, define the scope of the audit.

Audit observations

1 Governance

Governance processes are established to support the country programme and operational activities. The scope of the audit in this area includes the following:

- **Supervisory** structures including advisory teams and statutory committees.
- **Definition** of the country office's priorities and clear communication to staff.
- **Staffing structure** and its alignment to the needs of the country programme.
- **Performance measurement** including standards and indicators relating to office priorities and objectives to which management and staff are held accountable by way of reporting mechanisms.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management** covering external and internal risks to the achievement of the office's objectives.
- **Ethics** including actions to promote ethical behavior and to ensure that staff are aware of UNICEF's ethics and zero tolerance fraud policies, and procedures for reporting and investigating actions that violate these policies.

The audit covered all of above areas except for definition of office priorities. In auditing the above governance areas, the audit also focused on the management of GFATM-funded activities, in accordance with UNICEF and GFATM's agreement that these activities be subject to annual audit.

Follow-up on previous audit

Offices are required to implement the agreed audit actions, and to report to OIAI on actions taken to implement them until they are all closed. These actions should be embedded in the systems, procedures and accountabilities of the office so that they are sustained, and the observations do not recur.

The DPRK country office was audited by OIAI in September 2012 and the audit report (2012/30)

contained seven actions, of which five were to be taken by the country office and two by UNICEF's Public-Sector Alliances and Resource Mobilization Office (PARMO). The office regularly reported to OIAI the actions taken to address the recommendations. By the end of July 2013, OIAI had closed them all, based on desk review of the reported actions and the supporting documents submitted by the office. The current audit verified the reported actions and, through a sample of 2013-related transactions, assessed whether they had been sustained.

The five recommendations that were addressed to the country office had been properly addressed and the actions taken had been sustained. In regard to the two recommendations addressed to PARMO, however, the audit noted the following.

Verification missions: Recommendation 2 in the 2012 audit report was that PARMO provide guidance to the country office on what verification missions undertaken by GFATM entail. PARMO was also to give the office a clear description of the financial and programme documents and official records and systems that the office can make available to the donor for verification purposes. The matter was discussed with GFATM and guidance was provided to the country office.

However, GFATM did not formally acknowledge the information included in the guidance note. Also, the audit noted that discussions were still on-going on the documents and information required to be made available to GFATM for verification purposes, particularly on the use of the UNICEF standard Fund Utilization Report (FUR) for reporting to GFATM.

Low-value items: Recommendation 7 in the 2012 report required PARMO, in consultation with the country office, to discuss with GFATM a limit on the unit value of vehicles and motorcycles that were issued on loan. Normally, when UNICEF supplies lower-value items to partners, it does not treat this as a loan; it simply expenses the items, and does not use staff time and resources following up on their use. However, GFATM wanted them to be monitored as loan items. The monitoring and recording as "Asset on loan" of low-value items is not in line with UNICEF policy on plant, property and equipment (PPE), which states that items with a value below US\$ 1,500 should be treated as expenses rather than as assets. Although PARMO had discussed this with GFATM, there were still a number of items on loan with no value (due to their depreciation) or with very low value that the country office still had to monitor.

OIAI will monitor progress on these two issues in the subsequent audit in 2014.

Management of Government personnel working with the office

Secondment means the reassignment of staff to/from UNICEF for an agreed period during which the staff will be under contract to, be paid by, and be subject to the United Nations (UN) Staff Rules and Regulations.

There were 39 personnel that were deemed to have been seconded by the DPRK Government to work in the UNICEF country office. The employment of these personnel, however, did not meet the criteria description of seconded staff as the country office did not have signed contracts with them individually. Furthermore, there was no formal agreement signed between the Government and UNICEF that clarified their salaries and benefits, responsibilities and accountabilities, access

rights to the UNICEF systems and records, and the length of their placement to the positions occupied (the office informed audit that the staff could be seconded to UNICEF up to three years). While the office indicated that terms of reference (TOR) existed that defined these personnel's responsibilities, the TORs did not constitute an agreement for their services that could be enforced. Also, as the 39 personnel were not UNICEF staff members or consultants, they were not bound by UN rules and regulations or UNICEF human resources policies and procedures. Without an agreement with the Government of DPRK and related individual contracts with the personnel deemed seconded to formalize these personnel's employment as secondment, the liabilities of UNICEF were not determined.

UNICEF paid a total of about US\$ 240,000 per year to the relevant Government Ministries for their services, but the basis for this payment was not clear. Without a formal agreement, the audit could not determine the relationship of the payment to the expected services and whether the amount was the full cost payable for these 39 staff. The Country Programme Management Plan (CPMP)¹ for 2011-2015 indicated that costs associated with these personnel would be funded through programme non-post funds. However, the CPMP did not provide details on the practical procedures to be followed for the management of these personnel.

The audit could not establish whether risks in working with these staff had been sufficiently assessed and managed.

Agreed action 1 (high priority): The country office should assess the risks and seek formal guidance from the Regional Office and/or the relevant Headquarters divisions for the management of personnel deemed to have been seconded by the Government of DPRK. Such risk assessment and guidance should cover the level of accessibility that these staff should have to UNICEF systems and records, and establishment of formal agreements that define the seconded staff's responsibilities and accountabilities.

Target date for completion: Mid 2015

Responsible staff members: Representative and Operations anager

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over Governance, as defined above, needed improvement to be adequately established and functioning.

¹ When preparing a new country programme, country offices prepare a CPMP to describe, and help budget for, the human and financial resources that they expect will be needed.

2 Programme management

The country programme is owned primarily by the host Government and UNICEF's role is to support the Government in managing the programme. The scope of the audit in this area includes the following:

- **Planning.** This includes the use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and time bound; and forming and managing partnerships with Government and other partners.
- **Resource mobilization and contribution management.** This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions received.
- **Support to programme implementation.** This covers planning and provision of the inputs needed to implement the programme activities such as supply, cash transfer and contracts for services. This also includes implementation of the harmonized approach to cash transfers (HACT) to implementing partners.
- **Monitoring.** This includes the periodic review of the implementation of an activity which seeks to establish the extent to which inputs, work schedules, other required actions and targeted outputs are proceeding according to plan, so that timely action can be taken to correct deficiencies detected.
- **Evaluation.** This is an exercise that attempts to determine as systematically and objectively as possible the worth or significance of an intervention, strategy or policy.
- **Reporting.** This covers the office's specific reporting obligations as well as annual and donor reporting on the use of resources and achievements against objectives or expected results.

All of the above areas were covered (except for resource mobilization). In reviewing the above programme areas, the audit focused on the management of GFATM-funded activities in accordance with UNICEF and GFATM's agreement that these activities be subject to annual audit.

Programme planning

UNICEF's role is partly that of a global knowledge leader on the situation of children and women, and on ways to improve it. UNICEF's presence and programme assistance should therefore always help to generate new or improved knowledge. This is also necessary to ensure the relevance of its interventions. As part of this, a new or updated Situation Analysis (SitAn) document should be prepared at least once in the course of a country programme. It should be synchronized with, and be substantially based on, major surveys such as the Multiple Indicator Cluster Surveys (MICS), as UNICEF places a high priority on the availability of recent and reliable information with which to monitor the situation of children and women.

A MICS had been conducted in 2009, as a significant source of data for the 2011-2015 programme. However, UNICEF did not have access to the data sets or to the data entry process, and could not independently validate the reliability of the data. At the time of the audit, discussions were on-going with Government partners on the principle of independent verification of data for a possible future similar survey.

The country office expressed the need for a robust SitAn to inform the planning of the next country programme, and it did use various sources of information for programme preparation. The audit noted efforts in gathering sufficient data on the situation of women and children. For instance, the 2012 National Survey on Nutrition led by the Government, and supported by UNICEF and other partners, had provided improved data on nutrition.

The office had communicated with the Regional Office (and in the case of the MICS, also with Headquarters) regarding the challenges of accessing verifiable population data. However, the office had not received concrete formal guidance from the Regional Office and/or Headquarters divisions on how best to mitigate the risk of not having verifiable data for programme planning purposes. According to the office, the support of the Regional Office and UNICEF Headquarters would not necessarily result in complete access to verifiable data. The office informed audit that this issue is common for all external agencies operating in the country. However, the audit reiterates the necessity for the office to obtain formal guidance from the Regional Office and/or Headquarters divisions on programme planning in the absence of verifiable population-level data.

Agreed action 2 (medium priority): The country office should obtain options and formal guidance from the Regional Office and/or relevant Headquarters Divisions on how best to address challenges of accessing verifiable data for programme planning.

Target date for completion: September 2014

Responsible staff members: Representative and Deputy Representative

Harmonized Approach to Cash Transfers (HACT)

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs.

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of the individual implementing partners that are either government entities or NGOs. There should also be audits of implementing partners expected to receive more than US\$ 500,000 during the programme cycle. There should also be a macro-assessment of the country's financial management system. As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and special audits.

HACT is also required for UNDP, UNFPA and WFP,² and the agencies are meant to work together to implement it (for example, in the micro-assessment of partners that are common to more than one agency). UNICEF offices have sometimes not been able to work effectively with the other UN agencies on HACT implementation. However, although UNICEF's management has acknowledged this, it has also noted that there are still many things country offices can and must do to improve

² UN Development Programme, UN Population Fund and World Food Programme.

management of HACT.³

Cash transfers to implementing partners amounted to US\$ 1,014,884 for both the years 2012 and 2013 (up to the date of the audit). The cash transfers were made mainly on a reimbursement basis, that is, after the implementation of agreed activities.

The audit observed that the United Nations agencies in the DPRK had decided not to apply HACT, because the DPRK Government did not accept it. In line with this decision, the Country Programme Action Plan (CPAP)⁴ signed between the country and the Government of DPRK acknowledged non-implementation of HACT. Accordingly, no macro- assessment or micro-assessment had been conducted. The office had also not developed an assurance plan.

Agreed action 3 (medium priority): The country office should, with consultation with the Regional Office, ensure the implementation of the Harmonized Approach to Cash Transfers.

Target date for completion: 31 July 2015

Responsible staff members: Representative, Deputy Representative and the Operations Manager

Programme monitoring and evaluation

The elements needed for a successful monitoring framework include detailed plans and schedules, field visits, analysis of information, progress reporting and action taken. Also, each programme component should be evaluated at least once during the country programme cycle.

The office prepared a weekly programme for monitoring visits that was submitted to the Government's National Coordination Council (NCC), and the monitoring visits were conducted following approval by the NCC. However, the audit noted that out of a total of 208 counties in the country, UNICEF international staff did not have access to 35 counties. Of these 35 counties, 18 were in a province that was not also accessible to the Government personnel of the UNICEF office. UNICEF was supporting specific nation-wide interventions in those 18 counties. These interventions were in the vaccination for under-ones and pregnant women, vitamin A supplementation for children between six and 59 months, and deworming for those between two and five. The office informed the audit that the risk of inaction in these specific areas of essential work by UNICEF is very high. In the 17 other counties, only the Government personnel of the office had access to UNICEF programme sites. The country office estimated that about 13 percent of the population lived in the areas to which international staff had no access. Due to these access restrictions, the office could not conduct spot checks in these counties.

According to the office, primary data collection in a verifiable manner was constrained by Government policies that affected planning and implementation of evaluations. Thus, no programme evaluations were planned to be completed for the 2011-2015 programme cycle. The country office explained that this was mostly due to lack of baseline data.

³ See memo of the Deputy Executive Director, 24 October 2012.

⁴ The CPAP is a formal agreement between a UNICEF office and the host Government on the Programme of Cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

The office had not fully recorded the challenges in programme monitoring and evaluation and communicated them to the Regional Office and relevant Headquarters divisions, so as to receive appropriate guidance.

Agreed action 4 (medium priority): The country office should, in consultation with the Regional Office, assess the level of assurance provided by the current arrangement for programme monitoring and evaluation and develop a strategy to fill the identified gaps.

Target date for completion: 30 September 2014

Responsible staff members: Representative and Deputy Representative

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over Programme Management, as defined above, were generally established and functioning during the period under audit

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3 Operations support

Operational processes are established to support the country programme. The scope of the audit of this area includes the following:

- **Financial management.** This covers overall maintenance of the budget and accounts, financial closing procedures and reporting including bank reconciliation process.
- **Input procurement and contracting.** This includes bidding and selection processes, contracting, transport and delivery, warehousing and the related payment processing of programme and operations inputs (supply, cash transfer, consultants, contractors, travel, payroll, etc.)
- **Asset management.** This area covers planning, procurement, maintenance, recording and use of Plant, Property and Equipment (PP&E) such as premises and equipment and low-value but attractive items such as laptops. This also includes the identification, security, control, maintenance and disposal of these assets.
- **Human-resources management.** This covers general human-resources issues including recruitment, training, performance assessment, payroll, and staff entitlement. Staffing structure is reviewed under the Governance area.
- **Information and communication technology (ICT).** This includes provision of facilities and support, appropriate access and use, and security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

The audit covered all of the above areas, except ICT. The audit's review of asset management was limited to issues pertaining to the Tuberculosis and Malaria programmes.

Satisfactory key controls

The audit noted that the bank reconciliations were timely and did not include significant unreconciled or unknown amounts. Off-shore procurement was coordinated with Supply Division and the China country office, so that essential programme supplies were being delivered into the country. No major issues were found in cash management, or in human resources management related to international staff members.

Office area of control

The office had limited control over some governance and programme areas. Evidence of this is found in the governance and programme sections of this report. These limitations also had an impact on the office's operations support. Examples included the following.

- In regard to payroll payments for the personnel deemed seconded by the Government to UNICEF, the payments were made to the Government rather than to these personnel. There was no agreement supporting the basis for these payments.
- The Government personnel working with the office were selected by the Government without full application of UNICEF's hiring procedures. Furthermore, the durations of the placements were at the discretion of the Government, which made it difficult to manage

- staff assignments and determine whether UNICEF could invest in building these personnel's skills/capacities.
- Due to some access restrictions the office could not conduct spot checks in 18 counties and therefore could not give assurance that programme inputs provided for activities in these counties were always used for intended purposes.

No recommendations are made in the operations support in regard to the above issues as they are addressed at system level in the governance and programme management sections of this report.

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over Operations Support, as defined above, were generally established and functioning during the period under audit.

Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over *[audit area]*, as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the controls and processes over *[audit area]*, as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over *[audit area]*, as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word “significant”.]

The audit team would normally issue an **unqualified** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a **qualified** conclusion will be issued for the audit area.

An **adverse** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes “significant” is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.