

**Audit of the Management of Global Fund Grant  
to support reduction, treatment and prevention of  
Tuberculosis, Malaria and COVID-19 in the Democratic  
People's Republic of Korea**

**MARCH 2023**

Report 2023/01

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# EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the grant provided to UNICEF by The Global Fund to support reduction, treatment and prevention of Tuberculosis, Malaria and COVID-19 in The Democratic Republic of Korea (DPRK). The audit was conducted remotely in accordance with the International Standards for the Professional Practice of Internal Auditing. The overarching objective of the audit was to assess the adequacy and effectiveness of the controls warranted by the unique operating environment of UNICEF in the DPRK, including the COVID-19 Pandemic. The audit did not involve interaction with partners, vendors, beneficiaries or consultants, or physical inspection of warehouses and inventory.

As of 30 September 2022, UNICEF had used approximately US\$11.9 million of the US\$14.1 million received from The Global Fund, mainly for the procurement of supplies. Due to the COVID-19 restrictions, UNICEF's international staff were not able to visit sites where the grant-funded activities were implemented. Therefore, from January 2020 to September 2022, UNICEF DPRK relied entirely on four staff seconded to UNICEF from the Government's Programme Monitoring Unit (PMU) and four consultants hired by the Ministry of Public Health (MoPH) to obtain assurance on the management and distribution of supplies and to implement technical capacity development activities required by the grant. The seconded staff and consultants were physically located within the MoPH.

## Overall Conclusion

Based on the audit work performed, OIAI concluded that the assessed governance, risk management or control processes warranted by the unique operating environment of UNICEF in the DPRK were **Unsatisfactory**, meaning that assessed governance, risk management or control processes were not adequate to manage significant risks to grant activities and were not functioning well. (See the Appendix for [definitions of the conclusion ratings](#).)

	Satisfactory
	Partially Satisfactory, Improvement Needed
	Partially Satisfactory, Major Improvement Needed
	Unsatisfactory

## Summary of Observations and Agreed Actions

OIAI noted the following areas where grant-related controls were adequate and functioned well:

- UNICEF DPRK submitted the required reports to The Global Fund in a timely manner during the period under review. This helped to enhance positive donor relations.
- UNICEF international staff had weekly meetings with seconded staff and consultants to discuss and assess implementation of activities assigned to them.

The audit team also made the following [Observations](#) related to the adequacy and effectiveness of controls evaluated:

- Approximately US\$3.7 million (49 per cent) of the supplies procured offshore between 2020 and July 2022 were in transit at various locations for prolonged periods due to the COVID-19 restrictions, new government regulations that restricted importation of certain items, and delays in receiving the required clearance for the distribution of the supplies. As a result, those items had not been delivered and used for the intended purposes. Due to the delays in bringing supplies to DPRK, finding alternative beneficiaries or disposal methods, significant additional expenses were incurred. For example, UNICEF DPRK incurred and paid more than

US\$607,000 in demurrage charges. Additional demurrage charges were likely to be incurred since the supplies were still in storage outside DPRK at the time the audit was completed.

- UNICEF DPRK relied on Government-seconded staff and consultants hired by the Government to monitor and report on stock management, distribution of supplies and implementation of activities, as well as to undertake supervisory field visits, provide technical support to the Government and implement capacity building-related activities. Under these arrangements, UNICEF played a limited role in the selection of Government personnel and had limited ability to closely supervise and objectively evaluate the quality of their work. OIAI noted several issues related to quality of monitoring reports and field visits of the seconded personnel and consultants. Given the gaps in the quality of the stock and monitoring reports, and UNICEF’s limited role in the selection of Government personnel and limited ability to closely supervise and objectively evaluate the quality of their work, OIAI is unable to offer any assurance on the adequacy and effectiveness of stock management, receipt of relevant quality of supplies and distribution of the supplies to designated areas.

The table below summarizes the key actions management has agreed to take to address the residual risks identified and the ratings of those risks and observations with respect to the assessed control processes. (See the [definitions of the observation ratings](#) in the Appendix.)

OBSERVATION RATING		
Category of Process	Area or Operation and Key Recommended Actions	Rating
Control processes	Delivery of offshore supplies (Observation 1): Expediently identify and take appropriate actions to avoid further financial losses with respect to supplies in transit; Based on lessons from the grant management, in collaboration with the grantor, include appropriate provisions in future grant agreements to minimize financial losses	Medium
	Programme monitoring (Observation 2): In collaboration with the grantor, include appropriate provisions in future grant agreements that acknowledge the limitations of operating in the DPRK, such as the need to use Government-seconded personnel and Government-hired consultants	High

Management is responsible for establishing and maintaining appropriate governance, risk management and control processes and implementing the actions agreed following this audit. The role of the OIAI is to provide an independent assessment of those governance, risk management and control processes.

## Context of key areas covered during the audit

In 2020, UNICEF and the Global Fund signed a grant agreement for US\$41.7 million to support the implementation of a National Tuberculosis (TB) Control Programme and for target elimination of Malaria in the Democratic People's Republic of Korea (DPRK). A grant amendment provided US\$1.67 million for COVID-19 response, limited to the context of implementation of TB and Malaria programmes. The grant activities were to be implemented between 1 October 2019 and 30 September 2022.

UNICEF's commitments under the grant included: procurement, delivery and distribution of grant supplies, including diagnostic kits, treatment and prevention supplies; provision of technical assistance for capacity building and strategy development; and monitoring of grant activities. Due to COVID-19 travel restrictions in the country, UNICEF staff could not physically monitor the progress of the grant activities in the agreed 182 counties in the DPRK. UNICEF DPRK used the DPRK's national seconded staff and the consultants of the MoPH to manage and monitor grant implementation activities. The national seconded staff roles were to facilitate receipt, storage, distribution, monitoring and reporting of the grant-funded activities. They also acted as the liaison between UNICEF and MoPH. The consultants were hired by the DPRK Government to monitor grant implementation activities through supervisory field visits, provide technical support, and conduct capacity building-related activities.

UNICEF DPRK received a total of US\$14.1 million for the grant-funded programmes. A total of US\$11.9 million was spent throughout the grant implementation period, with a balance of unspent cash of US\$2.2 million. UNICEF DPRK has agreed with the donor on the grant closure process, which covers expenditure to the end of 2023.

## Operating environment context

Since January 2020, UNICEF has not been able to deploy international staff inside the DPRK to undertake oversight of grant implementation and monitoring. Since December 2020, there also has been a lack of direct access to implementing partners inside DPRK, which has affected regular dialogue on programme implementation. A complete border closure from August 2020 to August 2021, when a partial reopening occurred, has, to date, prevented importation of some supplies funded by the grant.

# AUDIT OBJECTIVES AND SCOPE

The Office of Internal Audit and Investigation (OIAI) conducted an audit of the Global Fund grant implemented in the DPRK to support the DPRK's programme activities for the prevention and treatment of Tuberculosis and Malaria and COVID-19 disease. The overarching objective of the audit was to assess the adequacy and effectiveness of the controls warranted by the unique operating environment of UNICEF in the DPRK as described in the context section of this report. The audit covered the period from October 2019 to September 2022.

The audit covered key areas as set out in the following table:

KEY AREA	RISK DESCRIPTION
Financial and operational reporting	Misreporting, inaccurate reporting and delays in reporting to the donor could impair the relationship with donor and negatively impact future funding
Monitoring of the distribution of supplies	Untimely distribution of grant supplies may result in delays in the implementation of planned activities and non-achievement of planned results
Monitoring of supplies in warehousing	Poor warehousing of supplies may lead to their loss and/or damage and result in reputational damage to UNICEF
Monitoring of the implementation activities funded by the grant	Inadequate monitoring over the distribution and use of programme supplies may result in incorrect reporting on the status of project implementation and reputational damage to UNICEF

The audit was conducted remotely between 26 October 2022 and mid-December 2022 in accordance with the International Standards for the Professional Practice of Internal Auditing. For the purpose of audit testing, the audit covered the period from 1 January 2020 to 30 September 2022. It involved a combination of methods, tools and techniques, including interviews, data analytics and document review.

The audit team assessed UNICEF DPRK's controls in place to manage and monitor grant implementation activities during the grant period from October 2019 to September 2022. OIAI also conducted interviews with DPRK's national seconded staff during the assessment of the remote management and monitoring of implementation of the Global Fund grant.

The audit team did not review the procedures followed for offshore procurement of supplies on behalf of UNICEF DPRK undertaken by the UNICEF Supply Division in Copenhagen and UNICEF China. The governance, risks and controls at those procurement centres are assessed and audited as part of the audits implemented for them. This audit did not involve interaction with partners, vendors or beneficiaries, or physical inspection of warehouses and inventory.

# OBSERVATIONS AND MANAGEMENT ACTION PLAN

The key areas where actions are needed are summarized below.

## 1. Receipt of supplies procured offshore into DPRK

Medium

Supply procurement under the grant totalled US\$8.1 million, of which US\$7.6 million (94 per cent) was procured offshore through UNICEF Supply Division in Copenhagen, Denmark, and UNICEF China. The supplies procured offshore were mainly TB and malaria drugs, insecticides, diagnostic kits, and treatment and prevention supplies. The remaining funding was used to procure consumables such as office supplies and fuel, procured locally in DPRK.

Approximately US\$3.7 million (47 per cent) of the supplies procured offshore in 2020 and 2022 were in transit at various locations, some since June 2022. Those include supplies worth US\$2.2 million at locations in China, US\$0.82 million in DPRK, and US\$0.6 million with manufacturers in China, India and the Netherlands. As a result, those items had not been delivered and used for the intended purposes. Due to the delays in bringing supplies into the DPRK and in finding alternative beneficiaries or disposal methods, significant additional expenses were incurred. For example, UNICEF DPRK incurred and paid demurrage charges of more than US\$607,000. Additional demurrage charges were likely to be incurred since the supplies were still in Dalian, China, at the time the audit was completed.

UNICEF DPRK informed OIAI that although it is responsible for bringing supplies to the DPRK's central medical warehouse, the supplies could only be moved to the DPRK when the Government allocated shipping space, including railway carriages, for the transportation of supplies from Dalian to Pyongyang. While UNICEF DPRK had notified the DPRK Government through the Government-seconded staff of the arrival of the US\$2.2 million in supplies in Dalian, China between July and August 2022, the Government had not allocated the shipping space/carriages for the transportation of the programme supplies to DPRK as of 18 November 2022 (at completion of the audit). Other supplies worth US\$828,000 were held at Nampo Port in the DRPK, apparently awaiting clearance by the DPRK Government.

COVID-19 restrictions were responsible for US\$0.6 million worth of supplies being with manufacturers for a protracted period, and for restriction of shipment into DPRK of some supply items by the DPRK Government. UNICEF DPRK agreed to pay US\$12,416 in warehousing charges to the end of January 2023 for supplies worth US\$157,000. Additional storage charges were likely to be incurred should further delays in delivery occur. UNICEF DPRK informed OIAI that following agreement with the Global Fund, potential recipients for those supplies were being sought. At the time of the audit, only one potential recipient had been identified, for supplies that were procured at a cost of US\$267,000. UNICEF DPRK had agreed to pay for freight and insurance costs totalling US\$13,059. There are risks that the other supplies worth US\$336,000 may eventually become obsolete, or prohibitive storage costs may be incurred if a solution for their distribution and use is not found and implemented in a timely manner.

The audit team also noted that as a result of the delays in shipping the supplies, there was a risk that the country would be faced with a stockout of key supplies, which could negatively impact the achievement of grant objectives. For example, a monitoring report in quarter four of 2020 reported stockouts of Malaria kits and insecticides. UNICEF DPRK informed the audit team that cancelling or reallocating supplies to avoid incurring high demurrage and storage costs could lead to stockout of key supplies and negatively impact the achievement of the grant objectives when the border reopened. While this is correct, without information on whether and when the borders

will reopen, it would not be prudent to continue to incur demurrage charges for supplies that may never be allowed in the country, and which could become obsolete.

## Agreed Action 1

UNICEF DPRK, in collaboration with the grantor, should expeditiously identify and take appropriate actions to avoid further financial losses related to demurrages, obsolescence or other issues with respect to supplies in transit at various locations in China, India, Netherlands and the DPRK.

**Staff Responsible:** Deputy Representative Operations, Supply and Logistics Specialist and Programme Manager

**Implementation Date:** March 2023

## Agreed Action 2

Based on the lessons from the management of this grant, UNICEF, in collaboration with the grantor, should include appropriate provisions in future grant agreements to minimize financial losses if similar situations occur.

**Staff Responsible:** Representative and Chief of Health

**Implementation Date:** December 2023

## 2. Monitoring of supplies distribution, warehousing and implementation of activities

High

Due to the COVID-19 restrictions, UNICEF's international staff were not able to visit sites where the grant-funded activities were implemented. Therefore, from January 2020 to September 2022, UNICEF relied entirely on seconded staff of the Programme Monitoring Unit (PMU) of the Ministry of Public Health (MoPH) and consultants hired by the Ministry to undertake field visits, monitor and obtain assurance on the management and distribution of supplies and the implementation of technical capacity development activities. The consultants were physically located within the MoPH.

**Selection and management of personnel used:** UNICEF's role in the selection of the consultants was limited to the review of the consultants' terms of reference provided by the Government. The process for their selection and their experience could not be validated. There was no clear evidence the grantor was apprised of the consequential limitations of relying solely on Government staff in monitoring and reporting on the distribution and use of programme supplies. Given UNICEF's limited role in the selection of these personnel, OIAI is unable to offer any assurance on the adequacy and effectiveness of the selection process. OIAI also is unable to offer any assurance on the quality of the work of the personnel, primarily because UNICEF had limited ability to closely supervise them and objectively evaluate the quality of their work.

**Supplies monitoring and distribution reporting:** UNICEF DPRK relied on monthly stock reports provided by seconded staff to confirm the receipt and distribution and of physical inventory at the Central Medical Warehouse. The status of supplies distributed to the provinces and counties was provided in quarterly stock reports prepared by the seconded staff. These monthly and quarterly reports were the primary source of assurance for the receipt and distribution of supplies procured under the grant. The audit team noted that the stock reports were of poor



quality, which precluded OIAI from offering any assurance on the adequacy and effectiveness of stock management, receipt of relevant supplies and their quality, and distribution of the supplies to designated areas. For example, six stock reports reviewed did not contain the required information on condition of supplies, including temperature and humidity controls at the Central Medical Warehouse and other storage facilities. Therefore, the reports did not provide assurance that the supplies were kept in the conditions that sustained their usefulness. In addition, all required reports were not submitted to UNICEF and were not available for the review by the audit team. For example, the stock reports for the month of February 2021 and county quarterly stock reports for Quarter 4 of 2020, Quarter 3 of 2021, Quarters 2 and 3 of 2022 were not available for audit review. Missing reports represent a gap in programme monitoring, especially in an environment where UNICEF is not able to confirm programme activities on the ground.

While UNICEF DPRK informed the audit team that the risk was managed through the work of the consultants, the audit team noted that the consultants only made monitoring/supervisory visits on a quarterly basis to a sample of provinces and counties. Therefore, their work and reports could not substitute for the information that was required in the monthly and quarterly reports that were expected from the Government through the seconded staff.

**Monitoring visits:** Regarding the physical monitoring of activities of consultants, UNICEF DPRK told OIAI that it did not receive the monitoring reports for 2021 and Quarter 1 of 2022 due to the unfulfilled request of the consultants for daily subsistence allowance (DSA) above UNICEF's rates. This was resolved in consultation with the grantor. The required supervisory visits for Quarter 2 of 2022 were not conducted by the consultants due to COVID-19 travel restrictions. Therefore, progress of implementation of grant activities could not be reasonably established.

The programme activities were to be implemented in 182 counties. However, monitoring was not always implemented as planned. For example, the total number of counties planned for monitoring in the initial proposal from the Ministry of Public Health for Q3 2022 was 68 counties over a three-month period from July to September 2022. However, UNICEF DPRK requested the Ministry to revise the monitoring plan to include only two months (July and August) and to cover 53 counties. UNICEF DPRK stated that the number of counties was reduced to allow for the completion of administrative processes before the grant expired. However, it was not clear what alternative risk management controls were established to assure implementation of the grant activities in the other 15 counties. There was a risk of limited assurance on the implementation of planned activities in the counties that were not covered by the monitoring activities.

A review of quarterly monitoring reports found that follow-up of previous recommendations for implementation was not documented in three of the four reports reviewed (Q3-2022, Q3-2020 and Q4-2020). The time within which corrective action was to be taken was not documented in the monitoring reports. The personnel/section responsible for implementation of recommended actions was not indicated in two of the four reports reviewed. There was thus limited assurance on implementation of corrective actions, which could impact achievement of planned results.

Overall, the monitoring information was inadequate to support that programme activities were implemented as planned.

The grant implementation period expired on 30 September 2022 and additional activities are only to be implemented in accordance with a grant closure plan that was approved by the donor on 16 September 2022. The plan identifies programme activities and the financial budget for the closure of the grant by the end of 2023. UNICEF DPRK confirmed to OIAI that the financial commitments that are approved in the closure plan are adequate to meet programme and operational costs necessary to close the programme and therefore it does not need to plan for additional financial resources to meet its obligations under the grant agreement.

The audit team noted that although UNICEF DPRK indicated that it had kept the donor aware of limitations in supporting effective monitoring of programme activities in the DPRK, these discussions and the donor's accepted proposals were not always properly documented. This created a risk that UNICEF may not be seen to fulfil the commitments under the grant agreement, even where the contextual situation may make it impossible for UNICEF to meet those commitments.

### **Agreed Action 3**

Based on the lessons from the management of this grant, UNICEF, in collaboration with the grantor, should include appropriate provisions in future grant agreements that acknowledge the limitations of operating in the DPRK, such as the need to use Government-seconded personnel and Government-hired consultants.

**Staff Responsible:** Representative, Deputy Representative Operations, and Chief of Health

**Implementation Date:** December 2023

# APPENDIX





## Definitions of Audit Observation Ratings

To assist management in prioritizing the actions arising from the audit, OIAI ascribes a rating to each audit observation based on the potential consequence or residual risks to the audited entity, area, activity or process, or to UNICEF as a whole. Individual observations are rated as follows:

<b>Low</b>	The observation concerns a potential opportunity for improvement in the assessed governance, risk management or control processes. Low-priority observations are reported to management during the audit but are not included in the audit report. Action in response to the observation is desirable.
<b>Medium</b>	The observation relates to a weakness or deficiency in the assessed governance, risk management or control processes that requires resolution within a reasonable period of time to avoid adverse consequences for the audited entity, area, activity or process.
<b>High</b>	The observation concerns a fundamental weakness or deficiency in the assessed governance, risk management or control processes that requires prompt/immediate resolution to avoid severe/major adverse consequences for the audited entity, area, activity or process, or for UNICEF as a whole.

## Definitions of Overall Audit Conclusions

The above ratings of audit observations are then used to support an overall audit conclusion for the area under review, as follows:

<b>Satisfactory</b>		The assessed governance, risk management or control processes were adequate and functioning well.
<b>Partially Satisfactory, Improvement Needed</b>		The assessed governance, risk management or control processes were generally adequate and functioning but needed improvement. The weaknesses or deficiencies identified were unlikely to have a materially negative impact on the performance of the audited entity, area, activity or process.
<b>Partially Satisfactory, Major Improvement Needed</b>		The assessed governance, risk management or control processes needed major improvement. The weaknesses or deficiencies identified could have a materially negative impact on the performance of the audited entity, area, activity or process.
<b>Unsatisfactory</b>		The assessed governance, risk management or control processes were not adequately established or not functioning well. The weaknesses or deficiencies identified could have a severely negative impact on the performance of the audited entity, area, activity or process.

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