

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

December 2018

Office of Internal Audit
and Investigations



Report 2018/15

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 office's governance, risk management and internal controls, with a focus on key risk and activity areas. The audit team conducted the audit remotely from 24 October to 26 November 2018. The audit covered the period from December 2017 to October 2018, and built on the results of previous audits of the DPRK Country Office.

The 2017-2021 country programme has four main programme components: *Health; Nutrition; Water, sanitation and hygiene; and Planning, monitoring and evaluation*. There is also a cross-sectoral component. The total approved budget for the country programme is US\$ 71.37 million, of which US\$ 12.74 million is regular resources (RR) and US\$ 58.63 million is Other Resources (OR). 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, 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 Other Resources), up to the approved ceiling.

Included in the *Health* component was US\$ 12.4 million that had been provided by the Global Fund¹ to address tuberculosis and malaria in 2017/18. The funding passed through UNICEF as the principal recipient and the World Health Organization as the subrecipient. The tuberculosis grant focused on expanding case management and strengthening health systems, whilst the malaria grant focused on diagnosis and treatment, targeted vector control and prevention measures. The Global Fund and UNICEF had established a Framework Agreement as the guiding document for the management and operations of the grant. The office had received an A1 performance rating from Global Fund for demonstrating excellent programmatic performance between January 2017 and February 2018.

The Global Fund grant was closed in June 2018 upon expiry of the agreement. For the closure of the grant, the office ensured that the verification and transfer of assets were based on an agreed handover protocol. The office had submitted all the required closure documents on time.

The country office is located in the capital, Pyongyang; there are no zone offices. As of November 2018, the country office had a total of 21 approved posts, of which 19 were for international professionals and two for general service staff. As of November 2018, nine of the 21 established posts were vacant. It had been decided that six of the vacant posts would be abolished at the end of 2018 and that the two general services posts would continue to be covered by seconded national staff. The office also had 28 staff seconded from the Government.

The audit noted a number of areas where controls were functioning well. The office had established clear Standard Operating Procedures (SOP) that reflected its distinct operating environment. The office worked in close collaboration with UNICEF HQ, including the Public Partnerships Division, and UNICEF's East Asia and Pacific Regional Office (EAPRO) to leverage resources by providing periodic updates on the funding situation, reaching out to donors and

¹ The Global Fund to Fight AIDS, Tuberculosis and Malaria (generally known just as the Global Fund) is an international public-private partnership that leverages and disburses funds to fight these diseases. See www.theglobalfund.org.

national committees and working with the other UN agencies in the country for joint funding.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the DPRK Country Office has agreed to take a number of measures. None are rated as High Priority (that is, requiring immediate management attention).

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions, the office's governance, risk management and internal controls were generally established and functioning during the period under audit.

The DPRK Country Office, the Regional Office for East Asia and the Pacific (EAPRO) and OIAI intend to 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. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

This report presents the more important risks and issues found by the audit, the measures agreed with the client to address them, and the timelines and accountabilities for their implementation. It does not include lower-level risks, which have been communicated to the client in the process of the audit.

Audit observations

Strategic Framework for Cooperation

The UN Strategic Framework for Cooperation 2017-2021 (UNSF) established between the Government of DPRK and the United Nations sets out the objective and priorities for the UN's engagement in the DPRK. The Framework identifies the mechanisms for the management and implementation UN activities, including monitoring and evaluation of programmes. It is stipulated in the UNSF that UN international staff will have physical access to all potential and actual beneficiaries of UN assistance and programmes to ensure that UN assistance is being used productively for the intended purposes. Under the 'no access, no assistance' operating principle, if the UN cannot conduct physical monitoring, it should not provide assistance – irrespective of funding source.

Since the last quarter of 2016, the office had implemented nutrition interventions in Jagang Province although it was not allowed full physical access to their potential and actual beneficiaries. The UN Resident Coordinator had been supportive of the interventions. As of October 2018, about US\$ 286,000 worth of supplies had been delivered to Jagang Province for the treatment of acute malnutrition through the *Community Management of Acute Malnutrition* programme. The 2018 *DPRK Needs and Priorities* document produced by the UNCT² showed that, other than national priorities such as immunization and drugs for communicable diseases, this was the only operation by a UN entity in this province; WFP, which was co-leading the Nutrition Sector, was not operating in Jagang.³

The office told the audit that the interventions were life-saving, and were intended to help address inequities and reach the most vulnerable children. The interventions had been required by the 2017 Country Programme Management Plan (CPMP). However, the CPMP had also stated that the office was expected to have access to at least five or six counties in the Jagang Province. In fact, the Representative, with her international and national staff, made only one visit to Jagang Province (in October 2018, at the invitation of the Government). At the time of the audit, the office was still in discussions with the Government regarding

² UNCT stands for UN Country Team, and is an internal UN term to refer to the joint meeting of all the UN agencies or bodies active in a given country. The UNCT is convened by the UN Resident Coordinator. Its terms of reference vary from country to country.

³ WFP had a Protracted Relief and Recovery Operation (PRRO) in DPRK (July 2016 – December 2018). A PRRO is a type of programme WFP runs in situations where an emergency intervention does not provide the longer-term assistance needed (see <https://www.wfp.org/operations-old/relief>).

unrestricted access to the province. Meanwhile the office had not taken supplementary measures to obtain reliable assurance that nutrition interventions in Jagang Province were reaching the intended beneficiaries.

In the audit's view, access for effective monitoring of operations is a prerequisite for effective humanitarian action.

Agreed action 1 (medium risk): The office agrees to:

- i. Jointly with the United Nations Resident Coordinator and other members of the United Nations Country Team, advocate to the Government that there be increased physical access in areas where life-saving and humanitarian interventions are being provided.
- ii. Implement its agreed activities at restricted locations, after carrying out an extensive risk assessment, and putting in place appropriate mitigating measures to obtain adequate and reliable assurance that its interventions are reaching the targeted groups.

Responsible staff members: Representative, Country Management Team

Date by which action will be taken: December 2019

Risk management

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library. Offices periodically monitor the efficiency and effectiveness of its risk mitigation measures.

As of February 2018, the office had two RCSAs, one for the office as a whole and the other specifically for the Global Fund-related programmes. The RCSA for the Global Fund-related programmes had identified five high risks, with a detailed action plan on the implementation of the mitigation measures.

The organizational RCSA, which was updated in February 2018, had one very high risk (liquidity constraints) and two high risks (delayed supplies to beneficiaries and insufficient donor funds to deliver on the programme). The office also updated its RCSA in October 2018 while the audit was in progress. However, the updated RCSA had not yet been endorsed by the CMT.⁴

The audit found that seven of 10 risks were identical to risks that had been identified in the risk assessment for the Global Fund-related programmes, and were not common to other activities, although those related to the Global Fund had ceased in July 2018. This indicated that the office had yet to conduct adequate review of its RCSA to reflect significant changes in its operating environment and/or circumstances, such as the closure of Global Fund grant, and update its action plans for mitigation measures.

⁴ An office's Country Management Team (CMT) advises a Representative on the management of the country programme and on strategic programme and operations matters. It consists of senior staff from Programme and Operations sections, and staff representatives.

Agreed action 2 (medium risk): The office agrees to systematically review and amend its risk assessment, and make sure its mitigating measures are aligned with new and emerging risks identified.

Responsible staff members: Country Management Team, Representative, Deputy Representative, Chief of Operations, Chief of sections

Date by which action will be taken: June 2019

Programme monitoring

As stipulated in UNICEF's *Programme Policy and Procedure Manual* (Chapter 5, *Monitoring and Evaluation*), monitoring is key to determining how programme interventions are progressing.

In 2018, the office completed and reported the results of a MICS,⁵ which provided a baseline for monitoring of UN activities in DPRK. Further, the UNICEF office had established *Guidance on Field Monitoring Visits*, which expanded the 2017 minimum standards used for monitoring activities funded by the Global Fund and updated the 2015 Monitoring and Evaluation Strategy. The new guidance included office-wide Minimum Monitoring Standards (MMS), with detailed steps for their application and a template for field-trip reporting.

The office stated that it had performed visits in 58 of 70 target counties, and carried out 98 of the planned 150 field trips as at October 2018; the required 'Independent Intensive Monitoring', a part of the office's MMS, had been completed for 2017, and 'Independent Intensive Monitoring' for 2018 was in progress at the time of audit.

The audit noted the following.

Minimum monitoring standards (MMS): The audit noted that, as of 30 October 2018, 18 international professional staff (excluding the Representative) who had been in the office since January 2018 had travelled on average nine days during the first 10 months of the year, compared to the requirement of about 17 days stipulated in the MMS. Further, while the office had visited 130 counties as at October 2018, only 32 of the 50 priority counties⁶ (64 percent) were visited. The office confirmed that the MMS focused on the number and duration of visits and did not contain specific requirements for priority counties. In the view of the audit, this meant that monitoring activities were not sufficiently targeted on areas where the office had made significant investments and was expected to maximize its impact.

Planning and monitoring of field trips: The office planned and monitored its field trips at the county level on a quarterly basis. The plans did not identify the specific destinations or the programme activities to be covered during trips. Instead, such details were determined at the time the office was preparing its weekly field-trip requests for approval of the Government. A review of the trip requests provided insufficient evidence that the office was scrupulously prioritizing the monitoring of counties based on a formal risk assessment.

⁵ The Multiple Indicator Cluster Survey (MICS) is a survey technique developed by UNICEF to provide rigorous data across a range of fields from households, from women, from men and concerning under-fives. MICS is designed to provide internationally comparable data on the situation of children and women.

⁶ The DPRK Country Office, in consultation with the Government, had identified 50 counties for priority programming.

Mid-year review: In July 2018, the office conducted mid-year programme reviews jointly with its government counterparts. These reviews were useful for assessment of progress achieved, and identification of constraints and lessons learned. They made certain recommendations to address the challenges identified. However, audit noted that lack of systematic follow-up of recommendations. It also noted that some of them were stated in broad terms, making them less effective, and also making it harder for the office to ensure their implementation.

Agreed action 3 (medium risk): The office agrees to:

- i. Strengthen its minimum monitoring standards to make sure monitoring activities not only focus on the number and duration of visits, but also give priority to interventions with elevated risks and significant amounts invested.
- ii. Review recommendations from mid-year reviews, and monitor their implementation, and use them as lessons learned to inform future programming.

Responsible staff members: Deputy Representative, Monitoring and Evaluation Specialist, Country Management Team

Date by which action will be taken: June 2019

Supply management

Programme supplies were a significant component of UNICEF DPRK's life-saving interventions. In 2017, the office raised US\$ 25.64 million for supply procurement, representing 91 percent of country programme throughput for that year. The majority (81 percent) of the procurements were made by the Supply Division in Copenhagen, followed by UNICEF China (16 percent); local procurement amounted to only 3 percent.

Since 1993, the UN Security Council has adopted several resolutions imposing sanctions on the DPRK. The latest sanctions were adopted in December 2017.

The audit noted the following.

Procurement of sanctioned items: The audit noted that, between March and July 2018, the office ordered and procured (through the China Country Office and Supply Division) WASH,⁷ immunization, tuberculosis, and malaria supplies at the cost of US\$ 323,718 without prior approval from the Sanctions Committee. The China Country Office procured US\$ 205,740 of these items and the Supply Division procured the remaining items worth US\$ 117,978.

UNICEF had adopted new procedures on compliance with sanctions in June 2018. The office stated that prior to that month, it was clear that the sanctions did not prohibit procurement of humanitarian supplies. It was not therefore considered necessary to request clearance for their procurement. However, since June 2018, current and prior year requests for clearance have had to be submitted on a case by case basis to the Sanctions Committee by UNICEF HQ. Of the requests for items worth US\$ 2.9 million submitted for clearance, only US\$ 424,467-worth were pending approval.

Logistics: Nearly all supplies procured by the office were handed over to the Government upon arrival at the border or at the Government Central Medical Warehouse in Pyongyang.

⁷ WASH: Water, sanitation and hygiene.

(The only exceptions were construction supplies for WASH, some of which were delivered directly to the relevant sites.) The office assisted the Government with transport of supplies to their final destinations in two ways: hiring independent freight forwarder companies, and providing fuel to the government counterparts. As of October 2018, the office had provided US\$ 245,788 worth of fuel for the year.

The audit noted that, for deliveries made by independent freight forwarding companies, the office was obtaining Goods Receipt Notes. However, for fuel, the office was not obtaining adequate assurance that the supplies were reaching the target groups, as it was relying on fuel logs prepared by government counterparts, drivers' records and physical verification of odometers of vehicles. In the view of the audit, the office needed to determine the most efficient and economical way of helping the government make sure that the supplies were within easy reach of the intended beneficiaries.

Warehousing: The audit noted that delivery of stocks to the Government Central Medical Warehouse was not always well coordinated. As a result, large quantities of medicine (more than 1,000 cartons) were left outdoors, exposing them to weather elements – direct sunlight, rain, etc. Also, at times, the thermostat was not fully functioning, exposing the supplies to higher temperature and moisture.

The office said that the thermostat issue was being addressed, and that the coordination of stocks needed to be addressed at the UNCT level since other UN agencies were also delivering supplies to the Government Central Medical Warehouse. The office also stated that the Supply Division had hired a consultant in November 2018 to streamline the procurement and delivery of supplies in the DPRK. This consultancy would include developing a database to periodically verify UNICEF stocks at the Government Central Medical Warehouse.

End-user monitoring: UNICEF's *Programme Policy and Procedure Manual* (Chapter 5, on Monitoring and Evaluation) states that offices should conduct implementation monitoring, which is a systematic, ongoing oversight of the implementation of an intervention to establish progress towards the achievement of desired outputs and outcomes. The UNICEF Supply Manual states that offices should arrange the end-user monitoring of supplies and verify that the supplies and equipment meet the needs of the targeted populations.

As most supplies were delivered to the Government Central Medical Warehouse and distributed throughout the country by Government implementing partners, the office relied on end-user monitoring, as well as alternative measures such as visiting hospitals to review the beneficiaries' records, to confirm whether supplies were benefiting the intended target groups.

The audit reviewed the end-user monitoring conducted by the office on a sample of supplies. It noted that, for some supplies, implementation of recommendations resulting from end-user monitoring was not always systematically monitored. It also noted a case in which the samples of supplies inspected during end-user monitoring visits were very small (e.g. one out of 100 laptops), though full quantities had been delivered; and the required trip reports were not finalized or available. Further, as noted previously, the office did not have access to Jagang Province, where the supplies that they were providing included specialized therapeutic nutrition items and pediatric medicines through the Community Management of Acute Malnutrition (CMAM) programme.

The offices stated that the weaknesses identified were due to limited resources. However, the audit also noted that methodical prioritization was absent in planning the end-user

monitoring.

Agreed action 4 (medium risk): The office agrees to:

- i. In coordination with the East Asia and Pacific Regional Office, Supply Division, and China Country Office, put in place appropriate mechanisms to ensure relevant clearance is obtained prior to the procurement of supplies.
- ii. Conduct an analysis (cost-benefit or scenario analysis as appropriate) to determine most efficient and economical way of helping the Government make sure that the supplies are within easy reach of the intended beneficiaries.
- iii. In conjunction with the United Nations Country Team, assess the conditions of the warehouses and take concrete action accordingly to make sure the delivery of supplies and medicines is well coordinated, and that they are stored in line with manufacturers' recommendations.
- iv. Implement systematic and adequate end-user monitoring to obtain assurance that supplies are reaching the intended beneficiaries.

Responsible staff members: Representative, Deputy Representative, Chief of Operations, Section Chiefs, Supply Specialist, Monitoring and Evaluation Specialist, Country Management Team, Operations Management Team

Date by which action will be taken: June 2019

Eligible expenses

The UNICEF Directive on Contributions and Management of Other Resources states that contributions not used for the purpose intended by the donor cannot be recognized as revenue.

The audit found that the salary of one staff member, paid over a period of 11 months (July 2017 to June 2018), was charged to a grant, even though the staff member was no longer working on a project funded by that grant. This portion of the grant had been recognized as revenue and reported as human-resource expense.

Agreed action 5 (medium risk): The office agrees to, in coordination with the Regional Office and the Public Partnership Division, assess the eligibility of the expense with respect to a staff member and act accordingly, for example by making appropriate adjustments in relevant accounting and reporting.

Responsible staff members: Representative, Chief of Operations with Regional Office, Public Partnerships Division and Division of Human Resources

Date by which action will be taken: June 2019

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 auditing 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 in the report summary fall into four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the office's

governance, risk management and internal controls 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, the office's governance, risk management and internal controls were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the office' governance, risk management and internal controls needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the office's governance, risk management and internal controls needed **significant** improvement to be adequately established and functioning.