

**Report of the Board of Auditors
on the Special audit requested by the ACABQ into
activities of UNDP, UNFPA, UNOPS and UNICEF
in the Democratic People's Republic of Korea
(DPRK)**

31 May 2007

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1. Background

1. On 9 February 2007, pursuant to Article VII of the Financial Regulations and Rules of the United Nations, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) requested the Board of Auditors (letter attached as annex I) to carry out a special audit of the operations of the United Nations organisations in the Democratic People's Republic of Korea (DPRK), including the United Nations funds and programmes which fall within the Board's mandate and to report its findings to the ACABQ.

2. In the ACABQ's request to the Board of Auditors, it drew the Board's attention to a letter dated 25 January 2007 (refer annex II) from the Controller of the United Nations, on behalf of the Secretary-General on the same topic, wherein the Controller indicated that the scope of the specific examination focus on past and current compliance with the applicable Financial Regulations and Rules, accountability frameworks and other directives as well as to ensure that money expended in DPRK went to intended recipients. The Controller's letter further explained that the three focus areas to be reviewed should include foreign currency transactions, staff hiring, access to reviewing local projects and their outputs, including direct payment for National Execution (NEX) projects.

3. In the confirmation of the Chairman of the Board of Auditors addressed to the ACABQ dated 22 February 2007 (English translation attached as Annex III), the Board wrote that the audit will include a preliminary review in New York of the operations of UNDP, UNFPA, UNOPS and UNICEF, and that the purpose of the preliminary review, the outcome of which will be addressed to the ACABQ for further consideration, will be the drafting of a detailed audit scope.

4. In further correspondence from the Audit Operations Committee (AOC) addressed to the ACABQ dated 2 March 2007 (Annex IV), the Chairman of the AOC stated that the scope of this audit covers the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Office for Project Services (UNOPS) and the United Nations Children's Fund (UNICEF), and the Board will report to the ACABQ and management any preliminary findings, the Board's detailed audit plan and any procedures for the on-site phase for ACABQ consideration. This letter further requested a note verbale to be issued to the DPRK authorities for assistance with travel arrangements.

5. This report constitutes the result of our work in terms of the above work-plan.

2. Scope of work

6. This review was conducted in terms of the common auditing standards of the Panel of External Auditors of the United Nations, the specialised agencies and the International Atomic Energy Agency and relevant International Standards of Auditing.

7. In accordance with the ACABQ's request, the scope of work for this preliminary phase was limited to these four entities, namely:

- (a) United Nations Development Programme (UNDP);
- (b) United Nations Population Fund (UNFPA);
- (c) United Nations Office for Project Services (UNOPS), and
- (d) United Nations Children's Fund (UNICEF).

8. The Board noted that in addition to these four entities, other UN entities and specialised agencies were also active in DPRK, which were not within the scope of this audit engagement.

9. The work focused on the five year period from 1 January 2002 to 31 December 2006.

10. The audit team was comprised with members representing the three members of the Board of Auditors, and was led by the Auditor General of South Africa, in his role as lead auditor of UNDP. After acceptance of the special audit engagement by the Chairman of the Board of Auditors dated 22 February 2007, the team was constituted, and the preliminary audit commenced in New York on 19 March 2007.

11. The scope of the work as contained in the ACABQ request (Annex I) focused on foreign currency transactions, staff hiring and access to reviewing local projects. The work undertaken by the team is described as:

- (a) Gathering and examining documents and reports;
- (b) Reviewing background papers;
- (c) Interviewing personnel; and
- (d) Verifying evidence of findings previously raised by the internal audit departments of the various entities.

12. This special audit in the three focus areas does not constitute a full-scope country office audit, which normally covers a number of other components, based on the Board's risk assessment in a financial statement audit. Because of the limited scope of this assignment, the Board does not express any opinion on the financial results of any of the DPRK activities of the four entities.

13. In complying with the mandate of the Board, the letter of request (Annex I), and the timing of the engagement, certain aspects were not covered as described below:

- (a) Any work undertaken by the Board is conducted in accordance with Article VII of the Financial Regulations and Rules of the United Nations, which limits the work of the external auditor to audit matters, and does not extend to investigation or evaluation;

- (b) No complete set of financial statements of the UN-related DPRK activities were submitted for audit as separate country office financial statements are not normally prepared;
- (c) The audit was limited to personnel and documents made available in New York;
- (d) No on-site validation of results was performed during this phase;
- (e) The audit work was based on sampling, which may not detect any and all misstatements in the accounting records;
- (f) The Board did not test the validity of payments to ultimate recipients as it does not have access to financial records outside the UN system;
- (g) While extensive documents were gathered and made available to the Board, only certain substantive audit procedures were focused on during this preliminary phase; and
- (h) The Board has no powers or mandate of inspection, discovery or subpoena, or specific responsibility to review implementation of Security Council resolution 1718.

14. The Board's work was limited to the scope of requests of the ACABQ. Consequently, certain other matters which have come to the Board's attention were not covered during this phase of the special audit. These are:

- (a) The evaluation of qualifications, skills, duties and performance of local staff;
- (b) The control and rules over the activities of local staff;
- (c) Application of the rules of DSA percentage for local staff;
- (d) The level of prices paid for procurement of goods and services and the rate of exchange applied;
- (e) The occurrence of alleged counterfeit currency in the UNDP country office (para. 72);
- (f) The assignment of responsibility for non-compliance (accountability); and
- (g) The consistency between country office targets and contribution estimates, and UNDP headquarters records.

15. All four entities cooperated with the Board, making documents, personnel and explanations available as requested.

4. Major findings of the review

16. The Board has reached the following conclusions in respect of the three focus areas vis-à-vis staff hiring, foreign currency transactions and access to local projects.

17. The Board's major findings are that:

- (a) In respect of local staff hiring, personnel were hired by UNDP, UNFPA and UNICEF through a government agency of DPRK, contrary to relevant instructions and procedures (paras. 22, 24, 27, 28, 35, 43, 45 and 47);

- (b) In respect of foreign currency transactions, local payments made in foreign currencies were without requisite authority in the case of UNDP, UNFPA and UNOPS (paras. 52, 58, 59, 60, 69 and 71); and
- (c) In respect of free access to local projects, the Board obtained evidence that project visits had taken place, but were done under the supervision of the DPRK authorities, except for one reported project in UNICEF.

18. The Board has during this preliminary phase satisfactorily concluded on the three focus areas. Accordingly, no further audit procedures have been suggested for the Board to perform.

19. The Board further noted that:

- (a) there were different procedures practiced among the four entities in respect of all three focus areas; and
- (b) there were differences in the treatment of payments throughout the period within each entity.

20. In common with UNDP's operations in many countries, UNDP provided administrative support, which include processing of payments and record-keeping on behalf of UNFPA and UNOPS in DPRK (as well as other entities). Accordingly, some of the Board's observations were common to UNDP, UNFPA and UNOPS.

4. Detailed findings

4.1 Staff hiring

21. The audit objective of this focus area is to determine whether the entities employed local personnel in accordance with the relevant United Nations Regulations, Rules and procedures.

22. Three of the entities (UNDP, UNFPA and UNICEF) employed local personnel who were selected, nominated and appointed by the Government of DPRK. UNOPS did not maintain a local office in DPRK and did not directly employ any local staff in DPRK. Table 2 shows the local personnel statistics by entity.

Table 1
Local staff personnel (and international staff summary)

Posts	UNDP * (28 February 2007)	UNFPA (23 March 2007)	UNICEF (23 March 2007)
Programme Professional Staff	4 National Programme Officers 1 Programme Support Unit	1 National Programme Officer	1 WES Professional ** 1 Health Professional 1 Education Professional 2 Nutrition Professionals
Secretary	1 Secretary	1 Secretary	1 Secretary
Administrative Staff	2 Administrative Officers 1 Administrative Assistant		1 Administrative Officer 1 Supply Assistant 1 Admin Clerk/ Receptionist
IT Staff	1 LAN Manager		1 IT Officer
Finance Staff	1 Finance Officer 1 Finance Assistant	1 Finance Assistant	
Driver	6 Drivers 2 Cleaners 1 Gardener 1 Cook	1 Driver	5 Drivers 2 Cleaners 1 Gardener 1 Cook 1 Truck Driver
Total (Local staff)	22	4	20
International Staff	9 <i>(including Resident Representative)</i>	***1	10

Source: supplied by the entities

* - before suspension of activities

** - WES – Water and Environmental Sanitation Programme

***- Excludes the non-resident Country Director

23. The Board's work in respect of staff hiring focused on:

- (a) Agreements with the government on employment of local staff;
- (b) Local staff recruitment procedures;
- (c) Process of payment of salaries;
- (d) Scale of salaries;
- (e) Meal allowances; and
- (f) Duration of contract and separation procedures.

24. The Board noted that in the Report of the Executive Board of UNDP and UNFPA on its work during 2001 (E/2001/35), the Executive Board took note of the Country Review Report for the Democratic People's Republic of Korea (DP/CRR/DRK/1) dated 13 July 2001. That country review report brought to light then some of the matters which were the subject of this audit, such as:

- (a) *"Country office and national project national staff cannot be hired on the open market but are allocated by the two national executing agencies, while retaining their affiliation with their respective line ministries. Hence, it is difficult to separate their roles and responsibilities" (paragraph 41);*

- (b) *"All national staff (both at the general service and professional level(s) are seconded from the Government. UNDP reimburses the Government for their salaries. Staff do not have UNDP contracts. Therefore, there are no UNDP staff performance reviews, and there is no salary component related to performance. UNDP has few options in its staff selection" (paragraph 59).*

Agreements with the Government on employment of local staff

UNDP

25. The Board noted that UNDP's Standard Basic Assistance Agreement with the Government of DPRK, dated 8 November 1979, has no specific provision for employment of local staff. However, local personnel assistance is mentioned in Article VI, (Assessed programme costs and other items payable in local currency): *"3. The Government shall also contribute towards the expenses of maintaining the UNDP mission in the country by paying annually to the UNDP a lump sum mutually agreed between the Parties to cover the following expenditures: [...] (b) Appropriate local secretariat and clerical help, interpreters, translators and related assistance"*.

26. This Article refers to the UNDP procedure of GLOC (Government local office costs), i.e. contributions made by the host Government towards the expenses of maintaining the UNDP country office. The Government of DPRK does pay GLOC in local currency to a non-convertible KPW¹ bank account held by the UNDP in Pyongyang. This is more fully discussed in the section on Foreign Currency Transactions.

27. The 1979 Basic Assistance Agreement with the Government of DPRK did not provide any detail of the practice and procedures for the employment of local staff and so ad-hoc practices developed. The formal practice and procedures for employing local staff were contained in a draft, unsigned and incomplete service agreement between UNDP and the Government, dated 10 February 1981. A copy of this document has been provided by UNDP to the Board. The draft document refers to an annex 1, which was to describe the scope of services, but was not provided to the Board. The Board's findings elsewhere in this report indicate where some of the clauses of this draft document may contravene UNDP staff rules. The document states *inter alia* that:

(a) The General Bureau for Affairs with the Diplomatic Corps (GBADC) of the Government of DPRK will provide services to the UNDP office (Article 1). However, *"UNDP remains free to meet its requirements from sources outside the Bureau [...]"* (Article 2);

(b) Local staff provided by the GBADC *"remain the employees of the Bureau; UNDP thus has no obligations towards those persons provided by the Bureau [...] under United Nations Staff Regulations and Rules"*. (Article 3);

¹ North Korean Won, DPRK local currency

(c) Monthly salaries for local staff due by UNDP are “*determined by mutual agreement between the Bureau and the Resident Representative*” (Article 4);

(d) Payments for overtime and travel costs “*will be made according to regulations issued by the Bureau*” (i.e. by GBADC) (Article 4);

(e) “*All payments will be made in local currency on the basis of monthly invoices submitted to the Resident Representative*” (Article 4);

(f) The GBADC “*will propose persons to provide the services*” and “*will submit to the Resident Representative the detailed Curriculum Vitae of such person*” (Article 7). No specification was made about providing one or several candidates for each post;

(g) “*The duration of service [...] will be determined on the basis of agreements between the Bureau and the Resident Representative*” (Article 9) and “*Removal of persons [...] will be effected only on the basis of mutual agreement*” and “*in such a manner as to avoid discontinuity of services*” (Article 8).

28. No signed copy of this agreement was provided to the Board. Copies of the correspondence between the Government of DPRK, the UNDP Resident Representative in DPRK, the Division of Personnel (UNDP) and the Office of Legal Affairs of the United Nations, spanning the period February to June 1981, indicated reluctance on behalf of the Government of DPRK to consider such a Service Agreement, and based on this assumption, the Director of the Office of the Legal Counsel suggested that “*the ad-hoc arrangements be continued until such time as the DPRK indicates a willingness to be more flexible*”.

UNFPA

29. UNFPA was part of UNDP when the original 1979 agreement was signed, and there is no evidence that UNFPA has subsequently, entered into a specific Standard Basic Agreement with the Government of DPRK. On 22 February 2006, the Government of DPRK in a letter stated that “*... the cooperation between the government of DPRK and UNFPA will be continued in accordance with the Standard Basic Assistance Agreement between the DPRK government and the UNDP signed on 8 November 1979, which is applicable mutatis mutandis to UNFPA.*”

UNOPS

30. UNOPS does not have any basic agreement entered with the Government of DPRK and has no local staff in DPRK. UNOPS also was part of UNDP until December 1994, and does not usually have Standard Basic Agreements in most countries that it operates in as it is a service provider to UN organizations and as such works under the specific agreement of the UN Resident Coordinator or other UN entity.

UNICEF

31. UNICEF's Standard Basic Cooperation Agreement with Government of DPRK dated 28 October 1996, states in Article XVII (Locally Recruited Personnel Assigned to Hourly rates) that: *"The terms and conditions of employment for persons recruited locally and assigned to hourly rates shall be in accordance with the relevant United Nations resolutions, decisions, regulations and rules and policies of the competent organs of the United Nations including UNICEF. Locally recruited personnel shall be accorded all facilities necessary for the independent exercise of their functions for UNICEF."*

Local staff recruitment procedures

32. The Board noted that all local staff in UNDP, UNFPA and UNICEF offices are seconded from the Government of DPRK. An exchange of letters is made with the Government to approve the recruitment of each staff member. Although these local personnel are called staff, (and were employed through the Government and do not have employment contracts), UNDP considered that its staff rules do not apply to such persons. The Board, in its view, considered that despite this interpretation, local personnel were dealt with and accorded some rights and privileges of UNDP personnel, and so the hiring practices were evaluated against the entities relevant policies and rules.

33. The UNDP Personnel Manual provides for secondment of government officials in national officer posts (OHRI, Chapter II, section 10204, § 4.0): *"Designated national officer posts in UNDP field offices may be filled, under certain conditions by government officials through a secondment arrangement. Seconded government officials can serve to strengthen these offices by providing them with a perspective of the recipient Government. At the same time, government officials who return to government service at the end of the secondment will have gained valuable experience through greater involvement in the programme itself."*

34. In addition, the UNDP Personnel Manual states that *"All UNDP requirements for the employment of national officers must be met in respect of the employment of the seconded government officials. The Government should be informed of these requirements and that UNDP reserves the right to reject candidates."*

35. The Board noted that certain local staff recruitment procedures were not compliant with the UNDP Personnel Manual referred to above. Evidence of this is described below:

(a) No Letters of Appointment were supplied to audit for all appointments as seconded government officials have no Appointment Letters from the UN Country Office;

(b) The practice applied in staff secondments is that the Government of DPRK, except in rare cases, provides only one candidate for each job, while the UNDP

rules for the recruitment of seconded government officials states that “the Government is required to submit a list of qualified candidates to the resident representative (cf. OHRI, Chapter II, section 10204, § 4.0, 5.);

(c) Secondment of government personnel to the UNDP country office is provided for in the Manual only for national officer posts, but not for general service staff posts;

(d) UN rules on recruitment and appointment require that the following information be provided: form “P11” biographical data, copy of university degrees, medical examination, and copy of birth certificate. Neither the Government nor the candidates provided the documentation required.

Process of payment of salaries

36. The salaries and meal allowances of local staff employed by the UN offices of UNDP, UNFPA and UNICEF were paid to the Government and to local staff respectively as summarised in the table below.

Table 2
Method of payment of personnel costs²

	UNDP/UNFPA	UNICEF	Comment
Salaries			
Level of salaries			Salaries are paid based on a salary scale communicated by the Government
Mode of payment	Manual cheque payments	Bank transfer and cheques	No monthly invoice by the Government
Currency of payment**	In convertible KPW prior to early 2004, then in Euro	In US\$ until 2004, then in Euro ³	
Meal allowances			
Mode of payment	By cheque made to one person in the office	By cheque made out to the UNICEF cashier who draws the money and disburses it to the individual staff against receipt	
Currency of payment**	In convertible KPW prior to 2001, then in US\$, switched to Euro in December 2002	In US\$, switched to Euro between 2002 and 2004	
DSA*			
Level of allowances			Rates unified in 2001 for all UN offices in DPRK: 100% of international DSA for National

² As indicated in the interviews and documents provided to audit ;

³ Cf. letter from the Government of DPRK to the UNICEF office dated 21 May 2004 requesting the payment of salaries in Euros.

			professional officers, 75% for General Service, 50% for drivers
Currency of payment **	In convertible KPW prior to 2001, then in US\$, switched to Euro in December 2002	In convertible KPW prior to 2001, then US\$, switched to Euro between 2002 and 2004	
Overtime and travel costs			
Mode of payment	Manual cheque payments	Same modality as meal allowance	
Currency of payment **	Local staff requested in 2001 that overtime (for eligible GS staff) and in-country travel costs be paid in US\$; switched to Euro in 2002		

*daily subsistence allowance for overnight travel

** currency of payment may have been non-convertible KPW prior to 1995-1997.

37. The Board was informed that all salaries were paid through the Government. During this preliminary phase, the Board did not perform alternative procedures to confirm whether all payments were released in full by the Government of DPRK to the staff members.

38. UNDP explained that arising from movements in exchange rates in February 2004⁴, the country office requested UNDP headquarters for approval to disburse the monthly payroll in Euro instead of KPW to the government.

39. This approval was obtained by the country office from UNDP Headquarters Treasury and Human Resources Department. As is shown in Table 2, meal allowances, DSA, overtime and travel costs were already made in Euro prior to February 2004. The Board noted the instruction of UNDP headquarters to abandon this practice early in 2007. The Board was informed that this instruction was also implemented by UNFPA.

40. A note signed by the then UNDP Resident Representative (RR), in May 2004, indicated that the monthly salary for local staff will be paid in Euro effective January 2004 to address fluctuations in the exchange rate. Attached to this note is correspondence between the country office and treasury requesting advice on how to proceed. Treasury advised the country office that it *"had no concerns if you issued payroll in Euro as opposed to won, unless you have a belief that you will have a buildup of local currency that cannot be expended."* Further correspondence from OHR indicated that *"staff in DPRK are not technically UN staff but on contract from the government. Therefore the common system rules on currency of payment do not strictly apply. I would suggest that certainly consultations among UN agencies take place to ensure alignment in practice."*

⁴ The note is dated 25 February 2003, but was received in 2004.

Scale of salaries

41. For all entities, the level of salaries is determined according to a salary scale communicated by the Government. No evidence was supplied to the Board that a salary survey has ever been conducted by the UN entities in DPRK.

42. UNDP and UNFPA personnel were paid in convertible KPW until early 2004.⁵ Since that date, payments have been made in Euro. The monthly salary is €358.50 for national officers and from €243 to €315 for drivers, cleaners and gardeners.

43. Table 3 illustrates the increase in the salary scale for national officers since 2002. These increases were requested by the DPRK authorities. The Board was not advised of the basis for the increases, and noted that these increases were not originally budgeted for.

Table 3
Level of salaries of locally recruited personnel (national officers)

Period	Monthly salary in US\$	Indicative Monthly salary in Euro	Indicative Monthly salary in KPW	Exchange rate
1/01/02-31/07/02	233.44		501.90	1 US\$=2.15 KPW
1/08/02-30/06/03	246.97		37,045.00	1 US\$=150 KPW
1/07/03-30/09/03		274.85	42,601.75	1 Euro=155 KPW
1/10/03-31/12/03		310.70	48,158.50	1 Euro=155 KPW
1/01/04-March 04		358.50	55,567.50	1 Euro=155 KPW
From March 2004		358.50		

Source: Status of salary tables for UNFPA (years 2002, 2003, 2004 and 2005) and UNDP (2003 and 2004) locally recruited personnel;

44. In a letter dated 21 May 2004, the Government of DPRK requested the UNICEF office to pay salaries of national professional officers in Euro in the amount of €375 per month. Until that date, UNICEF was paying for local staff in US dollars and the level of salary for national professional officers was US\$375. The Board noted that UNICEF switched to Euros but did not increase the level of salaries, since national professional officers' salaries are currently €358 per month.

Meal allowances

45. The Board was informed that UNDP, UNFPA and UNICEF pay local personnel a monthly "meal allowance"⁶ directly (i.e. not through the Government of DPRK). The "meal allowance" amounts to €100 per month per person. The Board is not aware of any enabling policy for these allowances.

⁵ Cf. UNDP Resident Representative Note for the file dated 26 April 2004

⁶ Cf. Letter from FDRC (Government), dated 9 March 2001; Minutes of the meeting of the Operations Chiefs of the three UN offices of WFP, UNDP and UNICEF in Pyongyang, on 6 April 2001; Minutes of UN Country Team meeting on 13 April 2006 obtained from the intranet.

Duration of contract and separation procedures

46. Duration of contracts varied between UN organizations and the staff seconded from the DPRK authorities. The UNDP Personnel Manual provides that government-seconded officials be appointed on a fixed-term basis of two years.

47. The Board noted instances when seconded personnel were recalled by the Government within two years. For example, a former national programme officer at UNFPA was recalled in June 2006 with a five day notice period after nine months in office. A letter dated June 2006 from the UNFPA China office to the Government of DPRK mentioned the various trainings that the staff member had been provided with and that the sudden replacement would compromise the capacity of UNFPA to deliver tangible results on its programmes in DPRK.

48. UNICEF had an exchange of letters with the Government of DPRK, dated 31 July 2001, confirming the Government's agreement to its request for the provision of national staff for a period of at least two years, with thirty days advance notice of proposed reassignments or separations. Contrary to this agreement, several staff were recalled before completion of their two years of assignment, as shown in Table 4 below:

Table 4
UNICEF local personnel – breach of expected term

Position	Date of entry	End of service	Duration of stay
Water and Environmental Sanitation Programme (WES), National Professional	15 Nov, 2004	6 Jan, 2006	13 months
Health, National Professional	17 Aug, 2004	30 Apr, 2005	8 months
Health, National Professional	2 May, 2005	2 Sep, 2005	4 months
Health, National Professional	18 Jul, 2005	31 Mar, 2007	20 months
Nutrition, National professional	1 Mar, 2005	30 Sep, 2006	19 months
National Secretary	18 Jul, 2005	22 May, 2006	10 months
Driver	22 Nov, 2004	3 Sep, 2005	9 months
Driver	22 Nov, 2004	9 May, 2005	5 months
Truck Drivers	3 Jan, 2003	15 Oct, 2004	20 months
	15 Oct, 2004	31 Dec, 2005	14 months
	15 Jan, 2006	1 Jul, 2006	5 months
	1 Jul, 2006	5 Feb, 2007	7 months

Source: UNICEF

49. The UNICEF 2006 DPRK country office report states that “ ... *there has also been a high rotation of national seconded staff: 3 out of 5 staffs in operations, 4 out of 5 in programme and 3 ancillary staffs. This high rotation of national staff required significant work for the international team, as the newly seconded officers who are not technical need to be trained in everything: understanding UNICEF programme and procedures and working with ProMS*”.

50. The Board's main conclusions in respect of local staff are:

- (a) All local staff hired by UNDP, UNFPA and UNICEF were seconded from the Government of DPRK;
- (b) Agreements entered into between UNDP and the Government of DPRK (Standard Basic Agreement) and UNICEF and the Government of DPRK (Standard Basic Assistance Agreement) did not fully address local staff hiring issues;
- (c) Local staff hiring practices adopted by UNDP were not supported by an agreement with the Government of DPRK;
- (d) Staff seconded from the Government of DPRK did not consistently adhere to the duration agreed upon with the Government (UNICEF) and/or stipulated by the UN agency HR Manual (UNDP);
- (e) Local staff salaries were paid to the Government of DPRK, and not to the local staff directly;
- (f) Payments to the government in respect of seconded staff have been made in convertible Won and Euros and previously in US dollars;
- (g) Clearance was provided by UNDP Headquarters personnel to make payroll payments in Euros;
- (h) Increases were made to the rate of pay for local staff for which the Board was not provided with the basis; and
- (i) Local staff have been recipients of regular 'meal allowance', for which no enabling policy was supplied to the Board.

4.2 Foreign currency transactions

51. This area of work focused on whether the entities made payments to local staff and suppliers in foreign currency, and whether such payments were in accordance with the entities' rules.

52. The Board found that payments were made by all entities at different times in foreign currency, as well as convertible and non-convertible local currency⁷. The Board sets out below the detailed findings.

⁷ For chronological record of developments regarding payments to local staff and suppliers in foreign currency refer to Annex V.

Bank accounts maintained

53. The bank accounts operated by UNDP locally in DPRK are set out in Table 5:

Table 5
UNDP, UNFPA, UNOPS



00136	Foreign Trade Bank	DPRK	1001	KPW	UNDP Representative in DPRK (non-convertible)
00136	Foreign Trade Bank	DPRK	1002	KPW	UNDP Representative in DPRK (convertible)
00136	Foreign Trade Bank	DPRK	1003	EUR	UNDP Representative in DPRK

Source: UNDP (adapted)

54. UNDP processes payments for its own operations and on behalf of UNFPA and UNOPS. Payments are further processed by UNDP on behalf of other UN entities.

55. UNDP processes payments from all three bank accounts for operations in DPRK. The accounts were generally used as follows:

(a) The non-convertible Won bank account was used for the receipt of Government Local Office Contributions (GLOC) from the Government. Payments made from this account relate mainly to rental and utility costs and were paid directly to the General Bureau for Diplomats (a department within the Government which provides the country office with administrative support).

(b) The convertible Won bank account was funded from the Euro account. Payments from this account included, *inter alia*, travel costs, salaries to local staff and sundry office costs. Payments made from this account could also be converted into cash Euros at the bank in DPRK.

(c) The Euro account was funded from UNDP headquarters. Payments from this account included, *inter alia*, salaries, DSA, allowances, rental, consultant costs, sundry office costs and directly attributable project costs.

56. The local bank accounts operated by UNICEF were as follows:

**Table 6 - Series of Bank Accounts for UNICEF DPRK
As of 26 April 2007**

Bank reference	Bank Name Account Number	Currency	Current balance	Current status
160-02	ING-NEAB DPRK A/C#05127	USD	0	Closed
955-01	Cash on Hand -- DPRK	KPW	0	Open -- technical problem to close (Inactive)
955-02	Cash on Hand -- DPRK	USD	0	Closed (Inactive)
955-03	Cash on Hand -- DPRK	Euro	0	Closed since 15/06/2004
163-02	Foreign Trade Bank A/C # 08831402	USD	0	Closed
163-01	Foreign Trade Bank A/C# 08831401	KPW	655,844.47	Open
163-04	Foreign Trade Bank A/C #08831412	Euro	58,964.38	Open

Source: UNICEF (adapted)

57. The Board's work in respect of foreign currency transactions focused on:

- (a) Banking arrangements;
- (b) Procedures for disbursements; and
- (c) Bank balance levels.

Banking arrangements

58. The UNDP manual on locally recruited staff in Chapter 111, Section 10300, indicates that *"Salaries and allowances of personnel recruited shall be paid in the currency of the duty station"* and *"Requests for payment or partial payment in convertible currency or access to purchases in hard currency may be approved exceptionally by the Headquarters Local Salary Steering Committee on a country-by-country basis."* The Board noted that the UNDP country office paid salaries and allowances for local staff from either the Euro account or the convertible Won account contrary to the above-mentioned instruction, although UNDP contended that such personnel were not UN employees.

59. The UNDP special treasury instruction on currency exchange rates issued in June 1992 includes the rule that: *"To the extent possible, all local expenditure of a field office must be paid in non-convertible local currency and Requests for payment or partial payment in convertible currency or access to purchases in hard currency may be approved exceptionally by the Headquarters Local Salary Steering Committee on a country-by-country basis."* The UNDP Finance Manual was updated in 2000 and does not any more contain this guidance. The Board noted that the rentals which should have been paid out of the non-convertible Won bank account, were paid from the Euro account and no evidence of approval by the Headquarters Steering Committee thereof was supplied.

60. UNDP's Standard Basic Agreement with the Government of DPRK in Article V, provides that *"Moneys payable to the UNDP ... shall be paid to the account designated for this purpose by the Secretary-General of the United Nations and shall be administered in accordance with the applicable Financial Regulations of the UNDP."* The Board noted that contrary to Article 6 of the Standard Basic Agreement, UNDP made local payments in foreign currencies.

61. Annex VI has been prepared by UNDP summarising the different types of payments made. The annex highlights that UNDP paid local staff costs, local allowances and other local costs in Euros and convertible Won.

62. The current Resident Representative (RR) in UNDP recently indicated to the Board that when he assumed his assignment in Pyongyang in July 2005, the payment of various costs in foreign currency was an established practice. He indicated that in his understanding the advantage for government counterparts was that if they got a cheque in Euro, they were more certain that they actually received Euro directly to their account. If they get a convertible Won cheque, they have to convert the Won into Euro in the Foreign Trade Bank which may take some time and they were not sure that they will always receive the Euro. He added that another consideration may be the lack of confidence in the Won. Especially after the economic adjustments in 2002, he understood that inflation was high, so foreign currency would have been more secure. This was his assumption as to why the government counterparts preferred Euro payments. The RR

indicated that international staff in DPRK do not have bank accounts and to his knowledge, neither did national staff. Accordingly, international staff were paid part of their salary in Euro cash directly by the country office, in order to pay their living expenses.

63. UNICEF Financial Regulations and Rules with respect to currency transactions are as follows:

Regulation 11.2: The Executive Director in accordance with the aims and objectives of UNICEF, shall take the required actions to make full and effective use of all currencies available to UNICEF.

Rule 111.12: The Comptroller may establish procedures for the acquisition and utilisation of currencies held by UNICEF.

64. The Board was not made aware of any specific currency rules for payments of local staff salaries at UNICEF.

Procedures for disbursements

65. Based on the detailed transaction schedules supplied for UNDP (including transactions conducted for UNFPA and UNOPS)⁸, the Board made some preliminary observations which are reflected below. The information supplied was not verified, and no source documents were examined for this phase of the audit.

Payments made from Euro and Convertible Won account

66. A review of the payments from the account indicated that, in certain instances overtime and meal allowances were paid directly to a local staff member who would cash the cheque and distribute the cash to local personnel. As the supporting documents for

⁸ The Board was supplied with detailed transaction schedules by UNDP headquarters treasury for the following categories.

- (a) Total disbursements from the Euro account;
- (b) Total disbursements from the KPW convertible account;
- (c) Total disbursements from the KPW non-convertible account;
- (d) Total disbursements made from UNDP accounts on behalf of other agencies for the period 2004-2006 (2002 to 2003 not supplied);
- (e) Total transaction payments to the following Government departments;
 - General Bureau for Diplomats
 - Ministry of Foreign Affairs
 - Ministry of Foreign Trade
- (f) Total transactions to vendors identified as 'National Staff';
- (g) Sample of transactions from the Euro account for 2002-2003 indicating that payments were made in foreign currency for local salary and allowances, rental costs, utility costs and other sundry office expenses (pre-Atlas);
- (h) Sample of transactions from the Euro account for 2004-2006 indicating that payments were made in foreign currency for local salary and allowances, rental costs, utility costs and other sundry office expenses.

these payments were not kept in the headquarters in New York, the Board was not able to verify any controls exercised over these payments.

Payments made to vendor 'National Staff' from the Euro account

67. A review of the payment schedules supplied from Atlas (ERP system of UNDP, UNFPA and UNOPS) indicated payments to a vendor 'National Staff' without identifying the name of the staff. These payments primarily related to meal allowances and overtime. It could not be determined to whom the actual payment was made without reference to supporting documents. The Board also noted a number of instances where there was no description of what the payment relates to on the Atlas system and it was merely marked as 'N/A' (not applicable).

Manual payments – ultimate beneficiaries

68. All payments made from the Euro, convertible Won, and non-convertible Won accounts for the period 2002-2006 have been recorded as manual cheque payments. No cheques were held in New York, therefore, in this phase, the Board did not have access to the paid cheques. The Board was thus unable to determine whether the cheques were made out in the name of the vendor or for cash and therefore unable to determine what actual cash payments may have been made to local suppliers or staff.

Payments to local suppliers

69. A review of the payments (as extracted from the Atlas system) made from the Euro account and the KPW convertible Won account, indicated that payments were made to vendors which were reflected as being local suppliers. This is contrary to the UNDP special treasury instruction of June 1992, which directs that non-convertible local currency be used for all local expenditure.

Rentals

70. UNICEF indicated that it did not pay any rent for the office space it occupies. At UNDP, the monthly rentals with effect from 1 January 2007 with the Government of DPRK was KPW 507,345 (US \$3,590.12), and previously KPW 468,100 (US \$3,312.41). The Board noted that UNDP paid local rentals in foreign currency.

Bank balance levels

71. A review was performed of the bank balances of the three UNDP accounts. The Board noted while non-convertible Won balances were maintained, disbursements for local costs were still being made out of the Euro and convertible Won accounts.

Counterfeit currency

72. In the course of the audit, UNDP staff alleged that the UNDP DPRK country office had in its possession \$3,500 of counterfeit United States currency. UNDP indicated to the Board that *"...in agreement with the US authorities, the suspected counterfeit dollars were handed over to the US authorities on 20 March 2007 in New York ..."* The Board did not investigate this matter further as it does not form part of the Board's mandate.

73. The Board's main conclusions in respect of foreign currency transactions are:

- (a) UNDP made some payments to local suppliers and local staff (including allowances) in foreign currency contrary to the Standard Basic Agreement and as detailed in paras. 58 and 59;
- (b) No formal authorisation was provided to exempt the UNDP country office from compliance with the relevant instructions (paras. 58, 59 and 60); and
- (c) The Regulations and Rules were not sufficiently comprehensive in dealing with DPRK country office payments in local and foreign currencies.

4.3 Access to projects

74. The Board found that for activities for all entities, project access to UN personnel only occurred in a coordinated way with the authorization and supervision of DPRK authorities.

75. In the interest of expediting assistance with travel arrangements, the Board requested for a *note verbale* (referred to in the letter in Annex 4 from the Chairman of the AOC). This *note verbale* was issued by the Chef de Cabinet of the Executive Office of the Secretary-General on 12 March 2007. In an e-mail dated 11 April 2007, the Board was informed that on 20 March 2007, the Deputy Permanent Representative of DPRK advised him that his government was not going to extend any cooperation to UNDP's audit.

Standard Basic Assistance Agreement (UNDP)

76. The Agreement provides for access to project sites as described in the following pertinent sections:

- a. Under Section 2, Article IV (Information concerning projects), it states that *"The UNDP undertakes that the Government shall be kept currently informed of the progress of its assistance activities under this Agreement. Either Party shall have the right, at any time, to observe the progress of operations on UNDP-assisted projects."*

b. In Section 3, *"The Government shall, subsequent to the completion of a UNDP-assisted project, make available to the UNDP at its request information as to benefits derived from and activities undertaken to further the purposes of that project, including information necessary or appropriate to its evaluation or to evaluation of UNDP assistance, and shall consult with and permit observation by the UNDP for this purpose."*

c. Under Section 1, Article X (Facilities for execution of UNDP assistance), it also states that " ... it shall, in particular, grant them (UNDP, its Executing Agencies, their experts and other services performing services on their behalf) the following rights and facilities:

c) access to site of work and all necessary rights of way"

77. UNOPS projects were wholly UNDP funded projects whereby UNOPS acts as the implementing agency for UNDP. UNOPS implements projects based on a signed project document and budget revisions received from the UNDP country office.

Standard Basic Cooperation Agreement (UNICEF)

78. This Agreement likewise presents specific provisions allowing project site visits as follows:

a. Under Item 3, Article III (Programmes of Co-operation and Master Plan of Operations), it states that *"The Government shall permit UNICEF officials, experts on mission and persons performing services for UNICEF to observe and monitor all phases and aspects of the programmes of co-operation."*

b. Under Item 1, Article XVI (Access Facilities), it further states that *"UNICEF officials, experts on mission and persons performing services for UNICEF shall be entitled to:*

a) *To prompt clearance and issuance, free of charge, of visas, licenses or permits, where required;*

b) *To unimpeded access to or from the country, and within the country, to all sites of co-operation activities, to the extent necessary for the implementation of programmes of co-operation."*

Background-project activity

79. One of the three focus areas of this phase of audit is whether the agencies had adequate access to the projects they funded, as this condition is entrenched in the entity's agreements with the host countries and is a critical control and monitoring consideration.

Programme Expenditures

80. Programme assistance covered all expenditures related to projects. These expenditures include travel, procurement of supplies, materials and equipment, monitoring activities, payment of salaries, and other expenses that are directly charged to the programme/projects. Table 7 shows the details of programme expenditures for each of the four entities for 2002 to 2006. UNOPS' expenditure is reflected on its own, but is also included with UNDP expenditure, as UNOPS implemented projects wholly on behalf of UNDP.

Table 7
Programme Expenditures (in US Dollars)

Agency	2002	2003	2004	2005	2006	Total
UNDP *	1,888,187	2,333,196	1,164,000	3,272,000	4,568,000	13,225,383
UNFPA	448,752	670,078	974,360	973,499	1,012,335	4,079,024
UNICEF	8,263,039	7,457,680	18,087,227	12,683,671	8,731,810	55,223,427
Total	10,559,978	10,460,954	20,225,587	16,929,170	14,312,145	72,527,834
UNOPS	731,019	261,610	(271,254)	1,341,663	2,266,597	4,329,635

Source: Agency supplied reports

** UNDP recorded programme expenditures include those that UNOPS incurred on its behalf.*

81. Table 8 details the number of projects at the four UN entities for the years 2002 to 2006. The project statistics for UNDP also include the projects reflected for UNOPS which is its implementing partner.

Table 8
Number of active projects per entity

Agency	2002	2003	2004	2005	2006
UNDP and UNOPS	31	41	28	33	39
UNFPA	2	3	4	3	2
UNICEF	9	9	9	9	10
Total	42	53	41	45	51

Source: Agency supplied data

82. Further classification of the project modalities for UNDP is shown in Table 9 below:

Table 9
Type of UNDP Projects

Type	2002	2003	2004	2005	2006
National Execution Project (NEX)	15	23	15	17	13
Direct Execution Project (DEX)	3	4	4	6	13
Other Agencies	13	14	9	10	13
Total	31	41	28	33	39

Source: Summary of UNDP's Programme Expenditure by Disbursing Source (For Table Nos. 8 and 9, insofar as UNDP is concerned)

83. The projects focused on the following key areas:

- (a) Economic management focusing on economic growth, foreign trade and investment increase and generating resources for social and economic development;
- (b) Improved sustainable energy sources;
- (c) Improved environmental management and contributing to sustainable use of environmental resources;
- (d) Increased food availability at the household and national levels; and
- (e) Improved basic social services focusing on public health, child and maternal health and nutrition, education, water and sanitation.

84. For UNDP, UNFPA, and UNOPS, most of the projects were implemented directly by the entity. UNICEF, oversees all its own programs using implementing partners.

85. Individual listings of projects as provided by UNDP, UNFPA and UNOPS are shown in Annex VII. UNICEF provided the Board ProMS listing of programmes, as shown in Annex VIII.

Procedures for project access

86. Through enquiry, the Board was advised by the entities that the procedure for project visits was to request clearance or authorization from the government through the Ministry of Foreign Affairs. Requests were made either in writing or orally. The Ministry of Foreign Affairs then coordinated such request with the concerned ministry (Ministry of Foreign Trade, Ministry of Land, Environment Liaison Office, other offices) involved in the implementation of the project. It usually took a week to process the request. Once the request for project visit was granted, an officer from the concerned Ministry and a translator from the country office accompanied the visiting team to the

project site. The Board was supplied with documents or reports (on a sample basis) which provided indications that access to projects was indeed given to entity personnel.

87. Based on the information gathered from the four entities, there were no written code of conduct between these entities and the government which indicated possible restrictions in terms of access to projects. As described above and based on interviews, the Board was informed that access to projects could only be conducted under the supervision and with the approval and escort of the representatives of the Government of DPRK.

88. The Board noted that the control over the project access exercised by the DPRK authorities, was not in line with Article X of the Standard Basic Agreement entered into between UNDP and the Government of DPRK which provided that *"the Government shall, in particular, grant them the following rights and facilities: ... (c) access to the site of work and all necessary rights of way; (d) free movement within or to or from the country, to the extent necessary for proper execution of UNDP assistance ..."*

Nature and frequency of project visits

89. Monitoring and evaluation of the implementation of projects is a critical control. For each entity, the Board sets out below the documents, explanations and evidence supporting the contention that monitoring/evaluation and access to projects did take place. However, the Board did not verify during this phase, the validity of payments and accuracy of the reports and explanations furnished as well as any comments contained in the reports on the project planning and implementation.

90. The Board noted that in the audit undertaken by OAPR KPMG of the UNDP office in May 1999, one of the findings was that in three out of five projects selected, there were no field visit reports from 1994 – 1998 (Project No. DRK/92/011/A/01/99), from 1996 – 1998 for Project No. DRK/95/001/B/01/99; and from 1997 – 1998 (Project No. DRK/97/001/A/01/99). This was not in adherence to the requirement of at least one project visit per year (in respect to all ongoing projects) and to document the visit on relevance, performance, progress and early signs of successes and difficulties.

91. For UNDP projects, monitoring and/or evaluation visits as applicable were undertaken *inter alia*, by the country office representative, programme managers, Regional Bureau, study tour groups or national and international consultants. Reports submitted in support of the project site visits and monitoring and evaluation work included:

- (a) Interim progress reports;
- (b) Assessment/mission reports;
- (c) Field visit reports;
- (d) Final reports on projects;
- (e) Annual project review report; and
- (f) Evaluation and project preparation mission.

92. For UNFPA projects, site visits by the Country Director in Beijing were done usually at least once in two months, the UNFPA country office at least once a month, and at times by the Technical Support Team (Country Support Team) in Bangkok⁹. There were also instances of evaluation visits done by national and international consultants. Among the reports submitted to cover these visits included the following:

- (a) Evaluation report of UNFPA's annual bridging programmes in DPRK for 2004-2006;
- (b) Field monitoring visit reports;
- (c) Field office trip reports; and
- (d) Mission reports on working visit to DPRK.

93. As per the project list supplied by UNOPS, all projects were visited in 2002, 2004, 2005 and 2006 and no visits occurred in 2003. These visits were undertaken by UNOPS Portfolio Managers and international consultants for supervision and monitoring of project activities. The Back to Office reports were with the UNDP Country Office, and were not reviewed by the Board.

94. In its 2006 DPRK country office annual report, UNICEF mentioned that, *"Restrictions on access to certain provinces and counties continued. UN staff need to obtain prior clearances from the government before undertaking field trips even to provinces and counties where we have access. Sometimes these are denied without assigning any reason. Combined with the barriers on communicating directly with communities and children these restrictions seriously handicap our ability to monitor the situation of women and children and the impact of our interventions on the ground."* Elsewhere in the same report, UNICEF stated that, *"Limited joint field visits with counterparts and limited access to families and caregivers does not allow for feedback from the end-users of the services and strategies implemented. This also leads to lack of opportunities to be in contact directly with the community to conduct operational research such as focus group discussion techniques."*

95. Despite these restrictions, project visits have been carried out on accessible projects as indicated in the total number of days these staff spent in the field per year from 2002 to 2006, based on Travel Authorisations (TA's): 2002 - 337 days (71 TAs); 2003 - 283 days (117 TAs); 2004 - 404 days (134 TAs); 2005 - 428 days (222 TAs); and 2006 - 271 days (179 TAs). Below is a list of evaluations/studies/assessments submitted by the country office to the UNICEF HQ Evaluation Office:

- (a) DPRK Nutrition Assessment 2002/002;
- (b) Analysing the Causes of Child Stunting in DPRK 2003/001;
- (c) Increasing Water Supply and Sanitation Coverage in Hyesan City, Ryanggang Province 2003/003;

⁹ Based on interview with Branch Manager, South and West Asia branch, Asian and the Pacific Division, UNFPA. He was a former Programme Officer, UNFPA Regional Office, China who had conducted several project site visits in DPRK.

- (d) Assessment of water supply and sanitation in Bukchong County 2004/002;
- (e) Assessment of water supply and sanitation in Rinsan County 2004/003; and
- (f) Assessment of water supply and sanitation in Unryul County 2004/004.

Field visits conducted by internal audit

96. During the year 2002 to 2006, there was no indication that field visits were undertaken by internal auditors of all entities, although, areas in programme management were part of the audit scope.

97. The Board's main conclusion in respect of project visits are:

- (a) Separate basic agreements existed between UNDP, UNICEF and the Government of DPRK to provide for access to project sites;
- (b) Project visits by UN personnel or their representatives took place only after arrangements were made through the Ministry of Foreign Affairs;
- (c) Monitoring and control visits were undertaken by personnel of all entities, resulting in the production of various site/project reports; and
- (d) Some UNICEF project visit requests were not approved by the DPRK authorities.

5. Review of internal audit reports

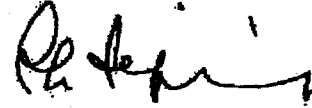
98. The Board performed a review of the internal audit reports issued at UNDP, UNFPA and UNICEF. No reports were issued for UNOPS. A summary of the findings as applicable to the areas noted above and the status of implementation as provided by management of the entities have been included in Annex IX.

99. The implementation reports furnished by management indicated that for all three entities, some findings remained under implementation or unimplemented. As previously reported by the Board, (A/61/5/Add.1, para. 431) in its long-form report for UNDP for the biennium 2004-2005, the Board was concerned about the low implementation rate of internal audit recommendations. UNICEF advised the Board two of the 15 recommendations issued by the Office of Internal Audit were not implemented as at 15 May 2007.

6. Conclusion

100. The Board has in this report dealt with the three focus areas contained in its scope, and provided findings and conclusions. Accordingly, in respect of the current scope, the Board has not suggested any further procedures for it to perform.

101. The findings contained in this report will be considered for inclusion in the Board's long-form report to the General Assembly in the current biennium. The Board also takes this opportunity to highlight that in its previous reports it raised related observations in respect of *inter alia* human resources management, cash management, procurement and project management.



(Signed) Philippe Séguin
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)



(Signed) Terence Nombembe
Auditor-General of the Republic of South Africa
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(Signed) Guillermo N. Carague
Chairman, Philippine Commission on Audit

31 May 2007