

E X H I B I T L I S T

Hearing On

***UNITED NATIONS DEVELOPMENT PROGRAM:
A CASE STUDY OF NORTH KOREA***

January 24, 2008

1.
 - a. 2007 Report of the Board of Auditors.
 - b. 2004 UNDP Internal Audit.
2.
 - a. Letter from Robert Benson, Director of UN Ethics Office, dated August 17, 2007, to Kemal Dervis, UNDP Administrator, regarding Ethics Office jurisdiction.
 - b. Letter from Robert Benson, Director of UN Ethics Office, dated August 17, 2007, to Artjon Shkurtaaj, regarding June 5, 2007, request for protection from retaliation.
3.
 - a. *Secretary-General's bulletin – Ethics Office - establishment and terms of reference*, dated December 30, 2005, issued by Secretary-General Kofi Annan.
 - b. *Secretary-General's bulletin – United Nations system-wide application of ethics: separately administered organs and programmes*, dated November 30, 2007, issued by Secretary-General Ban Ki-moon.
4. *UNDP DPRK Organizational Chart*, based on chart from a 2004 UNDP audit report, redacted by Permanent Subcommittee on Investigations.
5. *Excerpt from 2004 UNDP Internal Audit Showing Breakdown of NEX/DEX Modalities*, chart from 2004 UNDP audit report.
6. USUN Letter to UNDP, dated January 16, 2007, regarding UNDP operations in North Korea.
7. State Department email to Senate Staff, dated June 2007, attaching *May 23 Briefing by Ambassador Wallace Regarding UNDP Activities in North Korea*.
8. *North Korea Transaction Using I.F.T.J.*, chart prepared by the Permanent Subcommittee on Investigations, based on excerpt of report prepared by Ernst & Young.
9. BDA Record of IFTJ Application for Wire Transfer to vendor on behalf of UNDP.
10. *Summary of Transactions from IFTJ to DPRK Embassy Accounts for Purchases of Buildings Purportedly Related to UNDP Activity*, chart prepared by the Permanent Subcommittee on Investigations.

11. BDA Record of Nine IFTJ Applications for Wire Transfers to DPRK Embassy Accounts.
12. USUN Letter to UNDP, dated June 7, 2007, regarding Zang Lok Trading Co.
13. Excerpts of BDA Records of Wire Transfers from UNDP to Zang Lok Trading Co., dated April 16, 2002, and May 28, 2004.
14. Business Cards of IFTJ and FTB employees, dated July 24, 2001.
15.
 - a. Letter Identifying Employee #2 as an Employee of International Trade & Finance Joint Co. (Dated July 31, 2003).
 - b. Excerpt of Fax Identifying Employee #2 as a Senior Member of a Delegation from FTB (Dated September 2003).
16. Letter from Kemal Dervis, UNDP Administrator, dated January 22, 2007, providing information to UNDP Executive Board regarding its operations in North Korea.
17. Letter from Ambassador Pak Gil Yon, DPRK Permanent Representative to the United Nations, dated February 13, 2007, to UN Secretary-General Ban Ki-moon, regarding the external audit of UNDP operations in North Korea.
18.
 - a. JPMorgan Chase wire transfer documents dated 8/21/02, 8/30/02, and 9/9/02.
 - b. Chart prepared by the Permanent Subcommittee on Investigations regarding Bank of America wire transfers.
19. Elsignor SA Packing List for 29 books procured by UNDP for DPRK, March 2007.

◇ ◇ ◇

**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

Permanent Subcommittee on Investigations

EXHIBIT #1a

Table of Contents

	<u>Page</u>
1. Background	3
2. Scope of work	3
3. Major findings of the review	6
4. Detailed findings	6
4.1 Staff hiring	6
4.2 Foreign currency transactions	16
4.3 Access to projects	22
5. Review of internal audit reports	27
6. Conclusion	28
Annexes:	
Annex I: ACABQ letter dated 9 February 2007	
Annex II: Letter from Controller dated 25 January 2007	
Annex III: Letter from Chairman of BoA dated 22 February 2007	
Annex IV: Letter from Chairman of AOC dated 2 March 2007	
Annex V: Chronological record of payments to local staff and suppliers in foreign currency	
Annex VI: Sample of payments from Euro account prepared by UNDP	
Annex VII: Project listing for UNDP, UNFPA and UNOPS	
Annex VIII: Project listing for UNICEF	
Annex IX: Internal audit reports status: UNDP, UNFPA, UNICEF	

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 FDRK (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

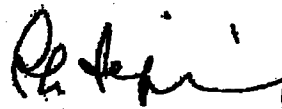
98. The Board performed a review of the internal audit reports issued at UNDP, UNFPA and UNICEF. No reports were issued for UNOPS. A summary of the findings as applicable to the areas noted above and the status of implementation as provided by management of the entities have been included in Annex IX.

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
(Lead Auditor)



(Signed) Guillermo N. Carague
Chairman, Philippine Commission on Audit

31 May 2007

LIMITED SCOPE AUDIT



UNDP OFFICE

IN

**Democratic People's Republic of
Korea (DPRK)**



Report No. RCMXXXX
Issue Date: did <Month> 2004

Regional Audit Services Centre - Malaysia

Permanent Subcommittee on Investigations
EXHIBIT #1b

Table of Contents

I. Executive Summary.....	3
II. Introduction.....	6
III. Operational Overview	7
IV. Detailed Assessment.....	12
1. Country Level Programme	12
2. Management.....	14
3. Knowledge-sharing and Implementation of Practices	20
4. Partnerships and Resource Mobilisation.....	21
5. Support to UN Coordination	23
6. Advocacy Services.....	24
7. Development Services	25
8. Human Resources Administration.....	31
9. Procurement, Inventory and Office Premises.....	34
10. Financial Resources	36
11. General Administration.....	40
12. IT and Communications	43
V. Summary of Recommendations	44
VI. Annexes	50

I. Executive Summary

Objectives and Scope

A limited scope audit of the UNDP Office in Democratic People's Republic of Korea (DPRK) was conducted in the field between 2 and 13 August 2004. Due to the absence of a programme specialist on the audit team and due to time constraints, the scope of the performance audit was reduced and limited to an assessment of the following areas:

- Management of People
- Development Services
- HR Administration
- Procurement
- Financial Resources

In OAPR's opinion, the overall performance of the UNDP Office in DPRK was **partially satisfactory** over the period 1 January to 31 December 2003.

Overall Opinion

Overall, the Office's operations are satisfactorily managed over the period of January to December 2003 in the areas of Finance, Procurement and Human Resources Administration.

The overall rating of **partially satisfactory** is based on the overriding concern over the long term sustainability of the Office in terms of office capacity.

The long term sustainability of the Office is critical given the need to increase capacity in terms of both international and national staff for satisfactory project delivery. However, this is constrained by the limited status of extra-budgetary resources as at the end of 2004 (sufficient for only 10 months operations) and lack of capacity and continuity of Government seconded national staff who are not competitively selected by the Office.

In an effort to increase capacity, the Office has addressed the issue using inappropriate and short term solutions such as use of TRAC and project resources to fund staff performing Office functions:

- The Office has requested RBAP approval to use TRAC funds to recruit three international and two national staff to effectively implement the proposed Global Fund for AIDS, Tuberculosis and Malaria (GFATM). The request is only for one year and there is no funding plan in place for these staff beyond the first year. This approach of funding Office capacity from TRAC is inappropriate as TRAC funds are not being used for development projects, but instead are being used for administrative support costs. Bearing in mind donors apparent concern on funds not being used for humanitarian and development interventions, in OAPR's opinion, expenditure incurred under this Project Unit would not conform to the purposes for which TRAC funds have been appropriated. Additionally, this will result in inaccurate financial reporting of donor funds as project delivery figures will be inflated and administrative support costs understated, giving misleading information that delivery has increased with no apparent increase in authorised posts or staffing costs. This short term solution is also not sustainable for a programme that is medium/long term in nature as the GMS earned from administering the fund in the first year is insufficient to cover the costs of the additional staff, beyond the first year.
- One international UNV, one national Programme Officer and one national Programme Assistant are performing both Office and project functions, but are being funded entirely from two projects, and not from the office administrative budget.

Key Office positions have been filled using contracts of limited duration, or are Government seconded staff who do not hold UNDP contracts:

- The Operations Manager post which is a core and critical function for the continued activities and long-term sustainability of the Office, has been held by staff on short term contract modalities such as SSA and ALD funded from extra-budgetary resources. This is not compatible with the long-term nature of the functions of Operations Manager and due to the limited status of extra-budgetary resources, this critical post cannot be funded in the long run; and
- All national staff are seconded from the Government and are not recruited with UNDP contracts. The Office has no control over recruitment of staff as the Government only provides one candidate for each post and does not provide detailed qualifications, work experience or personal details to the Office. The staff are recalled from UNDP at the entire discretion of the Government.

In OAPR's opinion, RBAP assistance is urgently needed in terms of a long-term strategy and action plan to increase the capacity of the DPRK Office.

The other areas that require the Office's attention are:

- a) Monitoring project outputs/objectives by consistent implementation of annual progress reports, especially for projects of significant value;
- b) Strengthening the transfer and monitoring process of project non-expendable inventory to the Government via evaluation by the Office's Contracts, Assets & Procurement (CAP) committee, ensuring inventory lists are complete and certified by the Office/executing agency and ensuring that project equipment is received by authorised Government personnel; and
- c) Implementing the recovery of support services provided by the Office to NEX/DEX projects.

Acknowledgement

The audit team wishes to extend its thanks and appreciation to the Country Director and the staff of the UNDP Office in DPRK for their availability and co-operation during the course of the audit.

Ratings Summary

Category	N/A	D	PS	S
1. Country level programme				
1.1. CCA and UNDAF	Not Assessed			
1.2. SRF and CCF/Country Programme	Not Assessed			
1.3. ROAR verification	Not Assessed			
1.4. Outcome monitoring and evaluations	Not Assessed			
2. Management				
2.1. Planning and monitoring	Not Assessed			
2.2. People	Deficient			
3. Knowledge-sharing and implementation of practices				
4. Partnerships and resource mobilisation				
4.1. Partnerships within the development community	Not Assessed			
4.2. Resource mobilisation	Not Assessed			
4.3. Government relations	Not Assessed			
5. Support to UN coordination				
5.1. Resident coordinator role	Not Assessed			
5.2. Common services provided by the office	Not Assessed			
6. Advocacy services				
7. Development services				
7.1. Project design, appraisal and approval	Partially Satisfactory			
7.2. Project monitoring	Partially Satisfactory			
7.3. NEX/NGO audit process	Satisfactory			
7.4. Country office support to project implementation	Partially Satisfactory			
7.5. Management of non-core contributions	Satisfactory			
8. HR administration				
8.1. Office staff	Satisfactory			
8.2. Project/other staff	Satisfactory			
8.3. Consultants and temporary assistance	Satisfactory			
9. Procurement, inventory and office premises				
10. Financial resources				
10.1. Commitments, disbursements and receipts	Satisfactory			
10.2. Banking operations and cash management	Satisfactory			
10.3. Monitoring financial resources	Satisfactory			
11. General administration				
11.1. Vehicles	Not Assessed			
11.2. Travel, shipping and hospitality	Not Assessed			
11.3. Security	Not Assessed			
11.4. Registry/records	Not Assessed			
11.5. Housing (where applicable)	Not Assessed			
12. IT and communications				
Note: N/A = Not Assessed, D = Deficient, PS = Partially Satisfactory, S = Satisfactory				

II. Introduction

Objectives

The audit was conducted according to the audit approach to CO audits which objectives are summarised as follows:

1. To provide senior management with a holistic assessment of CO performance that identifies significant constraints, if any, preventing COs from achieving fully satisfactory performance.
2. To provide Office management with feedback, both positive and negative, on the Office's performance and potential for improvement taking into account lessons from experience within the Office as well as from elsewhere.
3. To strengthen accountability for good and poor performance by documenting findings and reporting results for follow-up by senior managers.
4. To verify results reported by COs, such as those contained in the ROAR and MRF, which will enable bureaux to better target their monitoring and support activities, and glean lessons for improving performance across all COs.
5. To assess CO compliance with Executive Board decisions, UNDP Financial Rules and Regulations and UN Staff Rules and Regulations in order to protect the accountability of the Administrator to the Executive Board and the Secretary-General and report instances of non-compliance for information and consideration of performance measures.

Scope and Approach

The audit was conducted in accordance with the document - *OAPR Guide to Assessing and Improving CO Performance*, which is available on OAPR's Intranet site.

Period of Audit Mission

The audit covered the period of 1 January to 31 December 2003 and was conducted in the field between 2 and 13 August 2004.

Audit Team

The audit team included two OAPR staff and one auditor on loan from the international audit firm Ernst & Young in Malaysia:

- [REDACTED] OAPR/RASC-Malaysia
- [REDACTED] - OAPR/RASC-Malaysia
- [REDACTED] - Ernst & Young, Malaysia

The audit team did not include a programme specialist, which would have permitted coverage of programme areas.

Office Management

The Office's management team is comprised of:

- [REDACTED], RR/RC from August 2002 to July 2004;
- [REDACTED], Country Director since December 2001; and
- [REDACTED], Operations Manager since July 2003.

<p>— = Redacted by the Permanent Subcommittee on Investigations</p>

III. Operational Overview

Operating Environment

DPRK is a country in a special development situation. The population of DPRK has suffered from food shortages and a decline in general health and welfare standards due to changes in external circumstances, i.e. loss of traditional partnerships with socialist countries since the late 1980's, and a series of severe natural disasters throughout the second part of the 1990's. The country has also suffered from imposition of economic, diplomatic and other sanctions. The extent of the countries difficulties is indicated by a 50% drop in gross domestic product between 1992 and 1998 to just over \$10 billion.¹

Economic constraints and natural calamities have led to a rapid erosion in the quality of economic infrastructure. The energy sector has been severely disrupted, partly due to the flooding of coalmines and partly due to a lack of fuel supplies. This has led to a severe disruption of agricultural and industrial production. Although having recovered since 1997, agricultural production is around half what it was in the 1980s. The reduced capacity of the country to obtain commercial imports has led to a sharp decline in the availability of food, and to a great deal of food insecurity.²

DPRK receives extensive humanitarian support from a variety of bilateral and multilateral donors. Humanitarian assistance is largely in the form of food aid through the World Food Programme (WFP), which averaged over \$200 m annually over the last four years. The amount of food aid was estimated at approximately \$2 billion between 1995 and 2003. WFP and FAO estimates suggest that the country has a food deficit of 1 m tonnes of grain per year.³

The re-emergence of the nuclear issue in October 2002 has resulted in deterioration in the relations between DPRK, Republic of Korea, Japan and the United States. This has resulted in continued reluctance of some donors to provide humanitarian assistance. Most donors are reluctant to support rehabilitation and development activities until the nuclear issue has been resolved. The negative impact of the nuclear issue was compounded by the Severe Acute Respiratory Syndrome (SARS) epidemic in 2003, due to DPRK's proximity to China.⁴

UN Strategy

The first CCA for DPRK was finalised in March 2003 and was a collaborative product of the UNCT, Government, resident NGOs, non-resident agencies and other development partners. The joint UNCT/Government Steering Committee was co-chaired by the RC and the Secretary General of the National Coordinating Committee. Seven Joint Thematic Groups were established identifying the following priority areas:

- a) Food Security
- b) Health & Nutrition
- c) Water, Environment & Sanitation
- d) Education
- e) Gender
- f) Development Cooperation
- g) Energy & Environment

¹ Second CCF (2001-2004)

² 2003 CCA

³ Country Programme (2005-2006)

⁴ Resident Coordinator Annual Report for 2003

The UNDAF is planned for 2004/2005. Several short term formulation missions on the UNDAF have been undertaken.

The following UN Agencies are represented in DPRK:

	As of 30 Apr. 04	Personnel
1	WFP	40
2	UNICEF	10
3	UNDP	5
4	WHO	3
5	UNFPA	1
6	FAO	1
7	OCHA	1
	Total ⁵	61

IAEA had consultants in the country until late 2002. None of the UN Agencies share common premises with UNDP.

UNDP in DPRK

The CCF (2001-2004) identified three areas of concentration which were agriculture, energy and transport.

The draft country programme (CP) document (2005-2006) reflects the intention of the UNCT to harmonize programming periods and lay the foundation for a possible CCA and UNDAF. The funding of the CP amounts to \$22 m, of which \$16 m is regular resources and \$6 m is from other resources (GFATM of \$5 m and GEF of \$1 m). As at July 2004, the CP has been submitted to the Executive Board Secretariat for approval in September 2004.

A critical role of the proposed two-year programme is to build the human capacities and knowledge base needed for adjustments in three areas:

- a) Rural sector and natural resource management;
- b) Economic management; and
- c) Social sector management

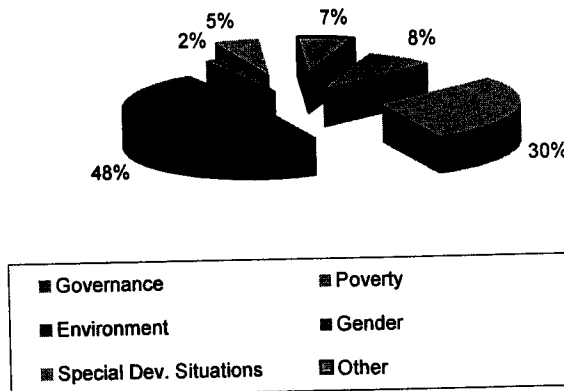
Due to the extensive humanitarian support and food aid, the former RR/RC was a WFP staff assuming the functions of WFP Representative and Humanitarian Coordinator.

Internet connectivity to the Office was only available to the Office in September 2003, with the VSAT installation.

⁵ UN Security Plan as of September 2003. Consists of international staff only, including UNVs.

Programme Resources

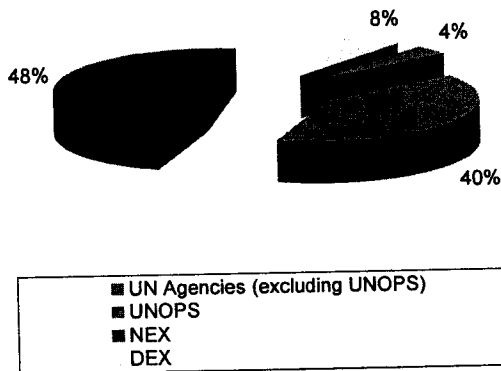
Areas of Activities for Ongoing Projects



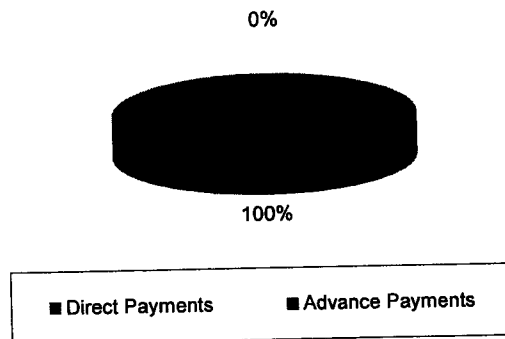
As at December 2003, there were 31 on-going projects with a total budget value of \$12 m. The largest share of programming resources is to Environment (48%) and Poverty (30%). This is in line with the CCF (2001 to 2004) where focus is on environmentally sustainable development towards reducing poverty and improving the well being and security of the poor.

NEX and Government Counterparts

Execution Modalities



Modality of NEX Delivery



Out of the total budget value of on-going projects of \$12 m, 48% is NEX, 40% is executed by UNOPS, 8% is DEX and the remaining 4% by other agencies. The Office is providing 100% support services to NEX projects in terms of direct payments.

The Office's main Government counterparts are the Ministry of Foreign Affairs and the General Bureau for Cooperation with International Organisations, Ministry of Foreign Trade.

Performance Indicators

Level of Programme Responsibilities

	RBAP Average	UNDP DPRK
Number of ongoing projects	49	31
Number of programme personnel	38	6
Number of Projects per programme personnel	1.3	5
Annual Project Expenditure per programme personnel (\$000s)	344	314
Average budget value per ongoing project (in \$000s)	1,342	390

The number of on-going projects in DPRK of 31 is significantly lower than the RBAP average of 49 projects. Due to the small number of programme staff, the Office handles a significantly higher number of projects per staff (5) compared to the RBAP average of 1.3. However, in spite of the higher number of projects, project expenditure per staff in DPRK of \$314 k, is less than the regional average of \$344 k.

Due to the lower number of projects and project expenditure in DPRK, the average budget value per on-going project of \$390 k is significantly lower than the regional average (30% of the regional average of \$1,342 k). Furthermore, 80% of project expenditure in 2003 relates to only 10 projects.

Local Office Costs

	RBAP Average	UNDP DPRK
Post adjustment index (for reference only)	25	38.6
Admin. Costs over Project Expenditure (excluding international staff)	8.7%	15.3%
Number of local personnel	33	22
Total Admin. Costs per Local Staff (\$000s)	34	13

The ratio of annual office costs to annual project expenditure of 15% in DPRK is much higher than the RBAP average (9%). The main reason for this higher ratio is because of a decrease in project expenditure in 2003 of almost 50% compared to 2000 levels, whereas, office expenditure has more or less remained constant at approximately \$289 k compared to 2000.

The number of local staff in DPRK (22) is much lower than the regional average (33). The office cost per local staff is low, at only \$13 k per staff as compared to \$34 k for the RBAP average. This is due to the fact that only 12 out of 22 local staff are funded from office administrative resources. (The other 10 staff are funded as follows - 7 from projects, 2 by the Government and 1 from the RC budget). Furthermore, local staff do not hold UNDP contracts and hence, the Office only bears the cost of the average monthly salary of \$285 and meal allowance of \$120 for the 12 staff. The Office pays no other benefits such as pension fund and MIP.

Support to the UN System

	RBAP Average	UNDP DPRK
Average monthly vouchers for UN agencies (number of vouchers)	556	74
Total average monthly vouchers (number of vouchers)	988	147
Admin. support to UN	56.3%	50.3%

Majority of administrative support services are for two resident UN Agencies (FAO and UNFPA) and also for UNOPS as an executing agency. The Office's level of administrative support to UN Agencies is slightly lower than the regional average, partly due to the fact that the two largest Agencies (WFP and UNICEF) have their own support staff.

Global Staff Survey

All national staff are seconded by the Government and do not hold UNDP contracts. National seconded staff have not been required to participate in the Global Staff Survey as this is a requirement only for 100, 200 and 300 series staff. As such, there have been no staff survey results for 2002 and 2003 as there were no such contract holders in UNDP DPRK, other than the Country Director who participated in the Survey.

IV. Detailed Assessment

1. Country Level Programme Not Assessed

1.1. CCA and UNDAF Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

1.2. Strategic Results Framework and CCF/Country Programme Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

1.3. ROAR Verification Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

1.4 Outcome Monitoring and Evaluations Not Assessed**Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

2. Management**Deficient****2.1. Planning and Monitoring****Not Assessed****Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

2.2. People**Deficient****Overview***Office Staffing*

As at 31 December 2003, the Office staffing consists of two international staff, 22 national staff (three National Officers and 19 General Services staff) and one SSA.

The international staff consisted of the RR/RC and the Country Director. There are no Deputy posts in the Office as the two deputy posts of DRR-Programme and DRR-Operations were combined during the downsizing exercise in 2001. The post of DRR-Programme was upgraded into a Senior Deputy Resident Representative and subsequently converted to a Country Director post. This was because the former RR/RC was a WFP staff assuming the functions of WFP Representative and Humanitarian Coordinator. As he was predominantly involved with WFP management and humanitarian assistance, the management of UNDP programme and operations was solely handled by the Country Director.

The Operations Manager post was held by a staff on a short-term contract (SSA). This post was converted to a one year ALD contract in March 2004 with Headquarters approval. In 2003, there was no ARR-Programme. However, Headquarters has since approved this post. The post description has been finalized at Headquarters in July 2004 and the post is expected to be advertised shortly.

The national staff are seconded by the Government and are not recruited with UNDP contracts. National staff can be recalled anytime at the discretion of the Government. The staffs are funded as follows:

Funding	No. of Staff
DPVC	10
PROJECT	6
DPXB	2
GOVT (1)	2
GCCC (2)	1
RC	1
Total	22

(1) The staff's salary is fully paid by the Government.

(2) The staff is a driver who is funded from a Government Cash Counterpart Contribution (GCCC) paid by the Government in 2002. The GCCC is now reflected as a project in Atlas.

Out of the 22 staff, there are 12 Office staff, five drivers and five cleaners/gardeners. Seconded staff are recalled entirely at the discretion of the Government. Hence, the Office has no control over the hiring of staff and length of service of staff. As at August 2004, eight staff have more than five years service with UNDP, with the two longest serving staff having almost nine years service. The remaining 14 staff have less than five years of service. The gender distribution of national staff is 60% male and 40% female. Refer also to Section 8.1 – Office Staff.

Re-profiling Mission

A re-profiling mission was undertaken in mid 2002, to validate the proposals from the 2002 Key Results Strategy Paper for UNDP DPRK prepared by the Office in June 2002. A Re-profiling Action Plan was submitted by the team leader to the Office in January 2003. However, no formal report was issued as per the BoM website.

Alignment of Job Functions with Office Requirements

Job descriptions have been created for all posts and job functions aligned with Office requirements:

- Finance – currently there is a Finance Officer, assisted by the Registry/Finance Assistant. The Office is considering moving the PSU staff to Finance, to increase the capacity from two to three.
- Registry/Reception – currently, there are two staff performing this function independently. These two roles will be combined when the current Receptionist is withdrawn and a replacement given by the Government.

Vacancies

As per the Organigramme, the positions of two Chief Technical Advisor posts (funded from projects) and a Programme Assistant-RC Coordination (funded from the RC budget) are vacant. The status of the recruitment of these posts is as follows:

- Chief Technical Advisor (Agriculture Rehabilitation and Environment Protection) & Chief Technical Advisor (Enhanced Capacity Development) – recruitment of these positions is on-going as there is difficulty in attracting qualified candidates on a long term basis due to living/working conditions in the country, and situations where selected candidates have not been given visa approval by the Government.
- Programme Assistant for RC Coordination – UNDGO has verbally indicated the possibility that a UNV position could be funded from the RC budget. The Office will include this post in the 2005 RC budget.

Learning Plan

The Operations Manager has been made the Learning Manager since July 2003. A Learning Plan was developed based on a training needs assessment of each staff. Scheduling of training however, is constrained by the requirement of the Government for all staff leaving the country for training to be accompanied by another staff of the same gender. This constraint of sending two staff at a time (for training that may not be relevant to the accompanying staff) also reduces the funds available for training.

Global Staff Survey

As all national staff are seconded from the Government and do not hold UNDP contracts, they have not been required to participate in the Global Staff Survey as this is a requirement only for 100, 200 and 300 series staff. As such, there have been no results for the staff survey of 2002 and 2003. The Country Director is the only such contract holder and has participated in the Survey.

RCA

The RCA process has not been implemented by the Office as the reaction from the Government in the past was negative. In the absence of the RCA, a training needs assessment was done for each staff and incorporated in the Learning Plan.

Corporate IssuesUse of ALD to Hire Operations Manager

Since 2002, there has been a lack of continuity in the post of Operations Manager as the position has been filled by staff on short-term contracts as follows:

Position	Staff	Period	Contract Type	Duration
DRR-O	Neil Reece-Evans	2000-2001	Fixed Term	12 months
Operations Manager	Jaginder Kanwar	Mar 01 to Aug 01	SSA	5 months
	Yolanda Dubois	Jan 02 to Jul 02	UNV	7 months
	Naomi Scott	Jul 02 to May 03	SSA	11 months
	Sara Adams	Jul 03 to present	SSA & ALD	13 months

In March 2004, the Office requested and obtained approval from Headquarters for the post to be converted to a one year ALD-4 contract modality which will result in the post being continuously filled by the same staff for approximately two years, from July 2003 to March 2005. The Office was able to fund the ALD post from extra budgetary resources for one year with the assistance of WFP, as 30% or \$45 k of the cost for the year was shared with WFP in line with the Inter-Agency Mobility Programme which allows staff from UN Agencies to switch from one agency to another (the current Operations Manager is a WFP staff on special leave without pay). This arrangement gives rise to the following concerns:

- a) The Operations Manager position is a core and critical function for the continued activities and long term sustainability of the Office. Short-term contract modalities such as SSA and ALDs are not compatible with the long-term nature of the functions of Operations Manager; and
- b) Taking into account projected income and expenditure in 2004, the estimated status of DPXB as at end 2004 is sufficient for only another 10 months of operations. Hence, the

Office is unlikely to be able to fund this post from extra budgetary resources on a long term basis, beyond the expiry of the current Operations Manager's contract in March 2005.

In OAPR's opinion, the critical position of an Operations Manager cannot be nationalized given that all national staff are seconded from the Government and hence, the selection process is not competitive or based on relevant qualifications for the post. Furthermore, the length of service of national staff is not fixed as staff can be recalled at the discretion of the Government. (Refer to Areas Requiring Action – Selection Process of Office Staff). Consequently, the post of an international Operations Manager is necessary for the continuity of the Office and funding to this effect needs to be secured by RBAP.

Good Practices

None.

Areas Requiring Action

TRAC Funds Used for Administrative Support to Projects

UNDP DPRK has been designated as a Principal Recipient of the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM), as required by the GFATM Board for countries where special conditions have been imposed. The Grant Agreement has yet to be signed. As at August 2004, the Office is preparing for the audit/evaluation by the Grant Fund auditors, as required by the Grant Agreement. As per the Country Programme (2005-2006), total funds of \$5.5 m are expected from GFATM.

The Office does not have the capacity to implement the Grant. To increase capacity, the Office is proposing to recruit three international staff and two national staff to be funded from TRAC. (The Office has submitted a project document to RBAP for approval to set-up a Technical Assistance Project Unit for these administrative support services to be funded from TRAC amounting to \$240k. The Project Unit is initially for one year and the Office has confirmed that it will subsequently ask for extension for another year).

In OAPR's opinion, using TRAC resources to fund additional Office capacity is not appropriate.

TRAC funds are specifically for development projects and not for funding administrative support costs. Bearing in mind donors apparent concern on funds not being used for humanitarian and development interventions, in OAPR's opinion, expenditure incurred under this Project Unit would not conform to the purposes for which TRAC funds have been appropriated.

Additionally, this approach of using TRAC funds results in inaccurate financial reporting of donor funds. Administrative support costs will be reported as project expenditure, i.e. project delivery figures will be inflated, whilst support costs figures will be understated. This inaccurate reporting would be misleading to donors, giving the wrong impression that delivery has increased while there has been no apparent increase in the authorized posts or staffing costs of the Office.

Furthermore, this approach is a short-term solution to a structural issue of a medium/long-term nature. The use of TRAC in the first year of the project is not sustainable to deliver the GFATM project, as the estimated GMS earned by the Office from administering the funds in the first year is \$71 k (2.67% of the estimated amount to be mobilized in the first year i.e \$3 m), which will be insufficient to cover the cost of these staff beyond the first year of the project.

Recommendation 1

The Office should not enter into the Grant Agreement if it is unable to secure long term funding to increase office capacity that would permit to satisfactorily deliver the requirements of the Programme. The Office should:

- a) Prepare a feasibility study of the resources needed to fund the additional office capacity to deliver the GFATM programme in the long run; and
- b) Seek advice/support from RBAP on options available (other than TRAC) to secure funding as per the feasibility study, for the entire life cycle of the programme and not just for the first year.

Staff Performing Office Functions Funded from Projects

As at December 2003, there are three international UNVs and seven national staff charged to projects. Out of these ten staff, three staff consisting of an international UNV Procurement Specialist, one national Programme Officer and one national Programme Assistant are performing both office and project functions, but are being charged entirely to two projects (12256-AREP and 12273-GIS/RS), instead of the Office Administrative Budget. The staff have been funded from projects due to the limited extra-budgetary resources available (as at end 2004, the status of extra budgetary resources is sufficient for only 10 months of operations).

To address the issue of limited extra-budgetary resources, the Office has previously explored the possibility of funding existing office posts through the following avenues:

- Expanded UNV Programme, incorporating a national UNV component in collaboration with UNV Bonn, to secure fully-funded UNVs by donors.
- Recruitment of a JPO (Programme Development & Evaluation Officer).

However, the Office lacked a senior programme staff (ARR-Programme level) to supervise an expanded UNV Unit (a prerequisite for fully funded UNVs) and the JPO post.

Recommendation 2

The Office should:

- a) Seek advice/support from RBAP on alternative options to increase extra-budgetary resources to fund these project staff performing office functions, until such time that the Office is able to generate it's own extra-budgetary resources;
- b) Ensure that staff performing Office functions are charged to a management project (extra budgetary resources) in Atlas instead of a development project; and that the costs of support services provided by these staff to projects is recovered in accordance with the Policy of Cost Recovery from Regular and Other Resources issued by BoM effective January 2004.
- c) Revisit its efforts to recruit JPOs and fully funded UNVs to expand the existing capacity, especially once the ARR-Programme post is filled and there is additional supervisory capacity in place.

Selection Process of Office Staff

The Office does not control the hiring of national staff and the length of their service of such staff. All national staff are seconded from the Government and are not recruited by UNDP. The Government only provides one candidate for each post and does not provide detailed qualifications, work experience or personal details to the Office. As such, there is no basis for the Office to align qualifications of staff with post descriptions. Additionally, seconded staff can be recalled at anytime at the discretion of the Government.

In 1998, the UNCT initiated discussions with the Government to introduce competitive recruitment of staff under UNDP contracts, to reduce turnover of seconded national staff and to build institutional memory and capacity. However, the reaction from the Government was negative. In mid 2004, the Office has initiated action with the Government to allow UNDP to interview staff who are to be seconded and to determine their level of proficiency in English. The Government has reluctantly allowed this, however, efforts by the Office to reject unsuitable staff have not been successful.

Recommendation 3

In line with current efforts to improve the selection process of Government seconded staff, the Office in collaboration with the UNCT, should initiate discussions with the Government to competitively recruit staff under UNDP contracts

Implementation of RCA process

The RCA process as a management tool for performance evaluation and vacancy management has not been implemented by the Office, as in the past, the reaction by the Government to this proposal was negative.

Recommendation 4

The Office should ensure that the 2004 RCA process is carried out in 2005 by the Operations Manager for operations posts, and the Country Director for programme posts, in line with current efforts to improve the selection process of Government seconded staff.

Other Issues

None.

3. Knowledge-sharing and Implementation of Practices Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

4. Partnerships and Resource Mobilisation Not Assessed**4.1 Partnerships within the Development Community Not Assessed****Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

4.2 Resource Mobilisation Not Assessed**Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

4.3 Government Relations Not Assessed**Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

5. Support to UN Coordination**Not Assessed****5.1. Resident Coordinator Role****Not Assessed****Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

5.2. Common Services provide by the Office**Not Assessed****Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

6. Advocacy Services

Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

7. Development Services

Partially Satisfactory

7.1 Project Design, Appraisal and Approval

Partially Satisfactory

Overview

There were a total of 11 projects approved in the year 2003 totaling \$3m with nine projects reviewed by the local Programme Appraisal Committee (LPAC) in 2003 and two in 2002.

A review of four projects totaling \$2.2m indicated that the logical framework linking the inputs, activities, outputs and outcomes of the SRF were prepared and supported by detailed budget of the inputs.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Broader Participation Required in the LPAC

In the year 2003, the Office LPAC functions can be further strengthened to be more effective in the project appraisal process. In the review of four (\$2.2m) out of eleven projects that were approved in the year 2003, it was noted that:

- The LPAC consists mainly of UNDP personnel with the exception of one instance where there is participation by a FAO representative (for project DRK/03/008 - Propagation of Grass-feeding Animals)
- Two projects, DRK/03/004 - Enhanced capacity for GIS/RS- Phase II and DRK/03/002 - Strengthening IT & EMC in DPRK, have no documented inputs from partners independent of the project preparation process such as the UN agencies, donors, technical specialist or civil societies. Inputs from RBAP were of an informal nature and were not documented
- The final project document for DRK/03/002 - Strengthening IT & EMC approved on 6 January 2003 was not reviewed by LPAC. The LPAC had reviewed an initial draft project document six months prior.

As of 1 January 2004, project approval is no longer carried out at the Office level. All project approvals are being done at the HQs level (refer to Executive Board decision ref: DP/2004/14 dated 9 March 2004), so as to strengthen monitoring of the projects and to ensure that the resources allocated are used for humanitarian and development interventions.

Recommendation 5

The Office should ensure that the composition of the LPAC includes representatives or development partners who are independent of the immediate project preparation process such as UN Agencies, donors, technical specialists, civil societies to appraise the quality of project design. When the approval authority resumes at the Office level, all project documents should be reviewed by the LPAC prior to final approval by the Country Director.

Other Issues

None.

7.2 Project Monitoring

Partially Satisfactory

Overview

As at 31 December 2003, the Office has a total of 31 ongoing projects representing a total budget value of \$12 m. The total expenditure for these ongoing projects in the year 2003 totalled \$2 m of which 81% were incurred by ten projects. For the remaining 21 projects, 15 projects are due for completion in the year 2004 and six in the years 2005 and 2006.

The majority of the above on-going projects are executed by the Government (NEX) and by UNOPS, which represents 48% and 40%, respectively, of the total on-going project budget. There are no advances for the NEX projects and the Office undertakes procurement of goods and services on behalf of the NEX projects (refer to section 9 – Procurement). DEX projects represent 8% of the total on-going project budget and other UN agencies execution for the remaining 4%.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

DRK/97/001 – Inadequate Monitoring on Project Equipment Transfer to Government

In OAPR's opinion, proper monitoring of project equipment by the Office in the DPRK is crucial so as to be in line with the Executive Board's request (ref: DP/2004/14 dated 9 March 2004) for UNDP to ensure that resources could not be utilised for purposes not envisaged under the projects.

In the review of eight ongoing projects, it was noted that for project, DRK/97/001/01/99 - Environment and Industrial Pollution (NEX), the total disbursements for non-expendable equipment since the start of the project in 1997 was \$660 k. Items procured for this project are transferred to the government on an annual basis.

A review of the documentation on the transfer of project equipment available in the Office indicates the following:

- The transfer of \$299 k of non-expendable equipment for the year 2002 and 2003 was authorised by the Programme Officer, without the review of the CAP and approval of the Country Director; and
- There was no documentation available in the Office to support the transfer of \$169 k (disbursed in the years 1997 and 1998) of non-expendable equipment.

Recommendation 6

The Office should ensure that disposal/transfer of project equipment to the government for items of asset value above \$1,500 per item is properly reviewed by the CAP and approved by the Country Director. All documentation should be maintained on file.

Non-submission of Project Inventory List and Incomplete Inventory List Submitted

In the review of eight on-going projects, the following was noted:

- DRK/99/001 (AREP Support Project executed by UNOPS) - There is no project inventory list available in the Office. A total of \$238 k was disbursed for non-expendable equipment.
- DRK/00/G35 (Biodiversity at Mount Myohyang executed by UNOPS) - A total of \$178 k was disbursed by the project for non-expendable equipment, however, the project inventory list certified by the government reflects only \$2 k of the project equipment. In the absence of the Programme Officer in charge of the project, the Office is unable to explain the difference of \$176 k.

Recommendation 7

The Office should ensure that the executing agency (UNOPS) submits on an annual basis at minimum, a certified and complete project inventory list.

List of Equipment Procured

A list of equipment procured for the projects from 2001 to 2003 was submitted to HQs in 2003. The list was requested because the donor countries wanted to be informed of the manner in which their funds were utilized. This list detailed the equipment purchased by projects, the projects' objectives, purpose of the equipment, their cost etc. However, this list has yet to be updated subsequent to its preparation.

Recommendation 8

The Office should ensure that project personnel update the equipment list to facilitate the monitoring of equipment purchased, i.e. to conduct physical stock check and site visits, to ensure that programme resources are utilized for their intended purpose and the donor funds are being utilized appropriately and accounted for. The practice would also reduce the time required to update ad hoc reports requested by the donors.

Annual Progress Reports (APRs)

The annual progress report for the following two projects that represent 20% of the total project delivery for the year 2003 were not prepared by the Office:

- DRK/02/002/01/34 - Capacity Building for Development Cooperation (DEX), total project expenditure for 2003 of \$281 k; and
- DRK/02/003/01/99 - Sweet Potato Cultivation and Processing (NEX), total project expenditure for 2003 of \$172 k

The 2003 APR for project DRK/97/001/01/99 - Environment and Industrial Pollution (NEX) that was prepared by the General Bureau for Cooperation with International Organisation (GBCIO) does not provide details on the project progress towards project outputs/objectives.

Recommendation 9

The Office should ensure that Annual Progress Reports are prepared by the executing agency. The APR should report on the results in achieving the project objectives and should include statements on the progress towards the project outputs/objectives.

Unexplained Over-Expenditure Totaling \$75k for Project DRK/02/004

Project DRK/02/004 - Cottage Industry PWTGC-Phase II is executed by UNIFEM and funded from TRAC (\$86 k), SPPD (\$75 k) and SDC (\$60 k). The total project expenditure for the project as at 31 December 2003 totals \$295 k against a total project budget of \$220 k resulting in an over-expenditure of \$75 k. Upon Office follow-up in March 2004, UNIFEM responded indicating that the over-expenditure will be further looked into. The last Office follow-up with UNIFEM was on 25 May 2004. Some two months after the last exchange of e-mails, the matter is still pending.

Recommendation 10

The Office need to further follow-up with UNIFEM to obtain clarifications on the over-expenditures totaling \$75 k for project DRK/02/004 – Cottage Industry PWTGC-PhaseII.

Other Issues

None.

7.3. NEX/NGO audit process **Satisfactory**

Overview

In December 2003, the Office submitted its NEX audit plan covering six projects with project expenditures totalling \$752 k for the year 2003. All the NEX audit reports were submitted to OAPR close to the deadline of 30 April 2004.

As per prior years, the NEX audits were carried out by the national audit authority, Audit Group of the Ministry of Finance, in April 2004. The scope of the audit included a review of the project progress, assessment of the project internal control system and certification of the project CDR.

The OAPR NEX Evaluation Letter of July 2004 covering the NEX audit exercise for the year 2004 (2003 expenditure) rated the NEX audit exercise as satisfactory with a rating of 5 (on a scale of 1 to 5, 5 being fully satisfactory). In addition, the Office action plan for 2003 NEX audit results (covering expenditure for 2002) was evaluated satisfactory.

As at the time of the audit, the action plan to address the issues highlighted in the 2004 NEX audit reports (2003 expenditure) was still outstanding and the Office had indicated that the action plan would be prepared and submitted by the deadline of 15 September 2004.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

7.4 Country Office Support to Project Implementation Partially Satisfactory

Overview

A total of \$12 k in support services was recovered from UN agencies (FAO, UNFPA, UNOPS, ESCAP, WHO and UNESCO) and \$9 k was recovered for GMS.

However, in the year 2003, there was no recovery for support services rendered for project implementation.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Recovery of Implementation Support Services

Based on estimates of support services provided to NEX/DEX projects in 2003, the approximate costs that could have been recovered by the Office for support services provided in the areas of Finance, Human Resources and Procurement are as follows:

Area	Level of Support Provided	Approximate Cost *
Finance	378 vouchers processed in 2003 for Government @ \$8	3,024
Human Resources	9 SSA contracts issued in 2003 for projects @ \$6.40	57
Procurement	10 purchase orders issued in 2003 for projects @ \$45.80	458
Total		3,539

* Based on established rates in the Universal Price List effective January 2003 for DPRK (low cost category)

Recommendation 11

The Office should ensure that costs of rendering support services to NEX/DEX projects is fully recovered on the basis of the Universal Price List as per Policy on Cost Recovery from Regular and Other Resources issued by BoM effective January 2004.

Other Issues

None.

7.5 Management of Non-Core Contributions Satisfactory

Overview

As at July 2004, there are nine trust fund and cost sharing agreements totaling \$2m signed by the Office with donors contributing to projects that were on-going as at 31 December 2003.

A review of four cost sharing and trust fund agreements totaling \$1.3m indicated that:

- A 3% COA for the administration of these funds (now called GMS) is built into the agreements;
- The terms and conditions of the agreements are consistent with UNDP practices; and
- The agreements were duly signed by authorised officials.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

8. Human Resources Administration**Satisfactory****8.1 Office Staff****Satisfactory****Overview**

The Operations Manager is responsible for Human Resources administration.

As at December 2003, there was a total of 22 local office staff. There are eleven staff in Programme and an equal number in Operations. There are 19 General Services staff and three National Officers. All three National Officers are in the Programme Section. The Office staff are funded as follows:

Funding	No. of Staff
DPVC	10
PROJECT	6
DPXB	2
GOVT (1)	2
GCCC (2)	1
RC	1
Total	22

- (1) The staff's salary is fully paid by the Government.
- (2) The staff is a driver who is funded from a Government Cash Counterpart Contribution (GCCC) paid by the Government in 2002. The GCCC is now reflected as a project in Atlas.

All national staff are seconded from the Government and are not recruited with UNDP contracts. Staff are seconded from three Government bodies, i.e. the Ministry of Foreign Trade, the Ministry of Foreign Affairs and the General Bureau for Affairs with Diplomatic Missions. Seconded staff are assigned and can be recalled entirely at the discretion of the Government. Hence, the Office has no control over the hiring of staff and the length of their service. As at August 2004, eight staff have more than five years service with UNDP, with the two longest serving staff having almost nine years service. The remaining 14 staff have less than five years service.

There is no UN salary scale in DPRK. The cost of the monthly national staff salaries is paid directly to the respective Government bodies based on the Government salary scale. In 2003, the Government had two salary increases in July 2003 and October 2003, amounting to a total increase of 30%, which was agreed by the RR/RC on behalf of all UN Agencies and international NGOs. The salary per month for local staff are as follows - \$310 for office staff, \$273 for drivers/gardeners and \$210 for cleaners. The average monthly salary for the 22 staff is approximately \$285 per staff.

Staff are also entitled to meal allowances of Euro100 per month (\$120 per month), which are paid directly to the staff, and not to the Government. Their annual leave entitlement is 14 days.

No APP has been formed given that local staff are not recruited or promoted by the Office.

Refer also to Section 2.2 – Management of People.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

8.2. Project / Other Staff

Satisfactory

Overview

As at December 2003, there were three international UNV project staff hired by the Office consisting of a Forestry Specialist, a Procurement Specialist and a Finance Specialist. In 2003, there was also a UNV IT Specialist hired by the project for a six-month period in 2003 (excludes local project staff seconded by the Government and covered under Section 8.1 – Office Staff). Terms of Reference of positions were sent to UNV Bonn for identification of candidates. Potential candidates were short-listed and selected by the Office and Government. All UNVs are holding contracts issued by UNV Bonn and are paid the Volunteer Living Allowance.

In 2003, 25 SSAs were issued to 17 individuals. 17 contracts related to International Consultants and eight contracts were issued for Temporary Assistants. Nine SSAs related to projects, 12 contracts were for the office and four contracts were for staffing of the UN Dispensary.

The recruitment process for international consultants was transparent and the Office used Headquarters, SURF and other UN Agencies to source for candidates. Selection was based on the qualifications and experience of the consultants.

Due to Government restrictions, no national staff can be recruited directly by the Office. Recruitment for temporary assistance positions are from qualified persons already located in DPRK, i.e. family members of the international community (UN Agencies, Embassies and NGOs). In 2001, the UNCT established a Local SSA Salary Scale, which was updated in 2004 based on the requisite qualifications and job functions. The scale is denominated in Euros and will be reviewed annually by the UNCT.

In 2003, no SCs or ALDs were issued during the year to project staff, international consultants or temporary assistance.

Refer also to Section 2.2 – Management of People.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Documentation and Contract Management

From a review of nine out of 17 contracts issued for consultants, the recruitment process was transparent. Even though the documentation to support the transparency of the recruitment process and awarding of contracts was available in the project files, the documentation was not complete in the Human Resources files maintained by the Operations Manager.

Recommendation 12

The Office should ensure that a snapshot of the recruitment process and employment history of the staff hired, are available in the Human Resources files. At a minimum, the Operations Manager in collaboration with the project staff should ensure that the following documentation of personnel records is available, before issuance of contracts:

- a) Correspondence/summary of the method of sourcing of candidates, the number of CVs obtained, the evaluation criteria for short-listing of candidates and the basis for selecting the successful candidate;
- b) A detailed Terms of Reference stating the required skills, qualifications, output and timeframes for delivery;
- c) The CVs of selected candidates to facilitate an independent check of the qualifications of staff with the agreed remuneration; and
- d) Documentation of reasons for waiver of competitive process, where required expertise is limited or where there are justifiable reasons to recruit a particular candidate.

Other Issues

None.

8.3 Consultants and Temporary Assistance **Satisfactory**

Overview

Refer to Section 8.2 – Project/Other Staff.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

9. Procurement, Inventory and Office Premises

Satisfactory

Overview

Procurement

The majority of procurement carried out by the Office is for Project procurement. In 2003, 11 Purchase Orders (POs) amounting to \$96 k were raised for the Office and 13 POs amounting to \$210 k were raised for Projects. UNDP entered into seven contracts amounting to \$132 k in 2003. The Office did not procure on behalf of any Agencies in 2003. The demographics of 2003 procurement are detailed below:

Purchases	No of POs
\$ 1 to \$9,999	13
\$ 10,000 to \$ 19,999	9
\$ 20,000 and 99,999	1
\$ 100,000 and above	1

The breakdown of the POs by their execution modality is detailed in the table below:

Execution Modality / Body	Amount	Percentage
UNDP	\$96 k	31%
NEX	\$180 k	59%
DEX	\$15 k	5%
UNOPS	\$15 k	5%
Total	\$306 k	100%

The CAP met six times in 2003 and the total value of procurement evaluated by the Committee amounted to \$240 k. Purchases above \$30 k were reviewed by CAP and those above \$100 k were sent to ACP/NY for review. Even though CAP is only required to look into procurement above \$30 k, there were instances where the Committee had reviewed certain procurement below \$30 k to enhance their transparency and accountability, particularly for technical procurement.

The CAP has three members from Programme and a member from Operations. The chairperson of the CAP informed that when necessary, technical experts and representation from the Agencies have been invited to participate in the CAP.

We have reviewed seven POs and three contracts for 2003, which encompassed 71% and 46% of the total value of POs and contracts respectively. From our review, the procurement process is satisfactory.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Use of IAPSO in Procurement

It is not the Office's practice to include the prices for goods such as vehicles, computers etc. from IAPSO in its competitive selection. This is due to the non-availability of internet access prior to September 2003 and based on experience, the prices of goods and delivery time, if they were to be purchased from IAPSO, were not as competitive and efficient as buying from Beijing. However, since the availability of internet access, the Office has made one purchase from IAPSO.

Recommendation 13

The Office should refer to IAPSO for purchases of goods such as vehicles, computers, etc. for competitive comparison of prices. Obtaining a price quotation from IAPSO will meet the requirement for international solicitation, which is appropriate for all contracts exceeding \$100 k. IAPSO also provides benchmark prices to compare with local prices before making any final procurement decision.

Other Issues

The performance of suppliers are reviewed informally when their bids are being evaluated and from the quality of goods and services received. No formal procedure is in place for the evaluation and blacklisting of suppliers that have consistently supplied goods of inferior quality and have not met delivery deadlines, etc.

The Office should establish a formal system for evaluating supplier performance to enhance its existing controls over the monitoring and evaluation of suppliers' performance. Performance measures should include amongst others, the quality of goods received, delivery time, customer service and accuracy of invoices issued. The results of the evaluation should be shared with suppliers so that goals can be set and underperformance improved.

10. Financial Resources**Satisfactory****10.1 Commitments, Disbursements and Receipts****Satisfactory****Overview**

In 2003, the Finance unit consisted of a Finance Officer who reported directly to the Operations Manager. In 2004, the Registry Assistant's job functions have been changed to be the Finance Assistant. Her role is to assist the Finance Officer in daily financial matters. In 2003, the unit processed 1,751 vouchers, which translates to an average of 5 vouchers processed per day. Out of the 1,751 vouchers processed, 28% were related to UNDP, 50% to UN Agencies and 22% to Government executed projects.

The controls in place for both the disbursement and receipt processes are satisfactory.

Corporate Issues

None.

Good Practices

None.

Areas Requiring ActionReceiving Records

Goods procured which are delivered to the project site, are received either by the Government for subsequent distribution to the various affected locations or by the appropriate Programme Officers before distributing to the Government. The relevant Programme Officers are required to be at the location where the receiving takes place and prepare a receiving report. Normally, the Government will acknowledge receipt in various forms such as by issuing formal acknowledgement on their official letterhead with official stamps, issuance of Goods Receipt Notes or signing on the Delivery Note, etc. These receiving documents from the Government are the key evidence that the goods procured have been satisfactorily received. Therefore it is important to ascertain that these acknowledgements are given by an authorized Government personnel.

Two Cash Disbursement Vouchers (CDVs) for procurement amounting to \$40 k from the 23 samples reviewed were not supported by documented acknowledgement of receipt by the Government when the CDVs were submitted for approval. Their details are as follows:

Date	CDV No	Description	Amount
5 January 2003	803010003	Computer Equipment	\$25,124
	0		
28 February 2003	803020003	Potato Processing & Packing Equipment	\$15,092
	9		

Additionally, where receiving records are available, it is not possible to verify the signatures/official stamps of the Government recipients as no authorised specimen signature list has been provided by the Government.

Without these receiving documents, the approvers are not able to determine if the goods/services procured have been satisfactorily received and in accordance to specification when approving these disbursements.

Recommendation 14

The Finance Officer should ensure that:

- a) Documented acknowledgement of receipt from the Government is consistently attached to all Vouchers for processing of payment; and
- b) The documented acknowledgement of receipt from the Government is verified against the authorised specimen signature list/official stamp list provided by the Government (which has been requested by the Office at the time of the audit).

Other Issues

None.

Overview

The Office maintains the following bank accounts:

— = Redacted by the Permanent
Subcommittee on Investigations

Account Type	Name / Location	Account No
Zero Balance Account (USD)	UBS AG, Geneva	
Korean Won Convertible	Foreign Trade Bank of DPRK, Pyongyang	008825101
Korean Won Non-Convertible	Foreign Trade Bank of DPRK, Pyongyang	076250
Euro	Foreign Trade Bank of DPRK, Pyongyang	08825112

No new bank account was opened or closed in 2003. The Euro account was the most active bank account in 2003. It is used for most of the Office's disbursements with the exception of communications fee, salaries, Koryo Airline tickets which are paid through the Korean Won Convertible Account. Rental, maintenance and electricity are paid through the Korean Won Non-Convertible GLOC Account. The UBS account is used for disbursement, which requires electronic transfer such as procurement, salaries of international personnel, foreign consultants etc.

In 2003, the Office had an imprest level of \$165 k. The imprest level was increased to \$250 k since 1st March 2004 based on the average amount replenished by Treasury in 2003. Cash balances are being monitored daily and cash is replenished based on expected cash requirements. Cash management is satisfactory. Cashbook balances were higher in December 2003 as a precautionary measure due to Atlas roll out in January 2004.

Bank reconciliations in 2003 were satisfactorily done. The designated safe custodian has been informed of her responsibilities in writing.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

10.3 Monitoring Financial Resources**Satisfactory****Overview****Programme Financial Resources**

For the year 2003, no advances were given for NEX projects. Request for payments are not initiated from FIM, payments are done directly through WinFOAS.

For the year 2004, the authorized spending limit (ASL) for the Office is \$2 m. As at July 2004, the total project expenditure totaled \$1 m, i.e. 50% of the ASL. A total of \$1.7 m was classified as hard pipeline and a review indicated that this classification was reasonable.

As at July 2004, the total amount that is receivable from donor amounted to \$207 k and represented contribution due from NEAFF (Northeast Asian Forest Forum) for project DRK/01/A05 – AREP NEAFF Support to Forestry Rehabilitation. This receivable amount is not yet due for payment.

Office Administrative Resources

The projected DPXB reserve as at December 2004 is estimated at \$128 k and is sufficient for 10 months operations based on the estimated DPXB expenditure for the year 2003.

For the year 2003, cost for services shared with UNFPA such as for the receptionist, registry, IT support are not recovered from UNFPA. In January 2004, the Office entered into an agreement for the recovery of common services from UNFPA. A review of the basis for recovery of costs related to common services indicated that it was satisfactory.

GLOC

As at May 2004, a total of \$105k of GLOC is outstanding. The Office had numerous exchange of correspondence with the Government and had made sufficient follow-up on the payment of the amount receivable.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

From a sample review of on-going projects it was noted that the CDR for the year 2003 is uncertified for the DEX project – DRK/02/002/ - Capacity Building for Development Cooperation. The Office should ensure that the CDR is certified.

As at 31 December 2003, there were two ARL accounts with outstanding balances. The total balance of \$9k in credit represents \$2k in debit for Petrol ARL and \$11k in credit for the UN Dispensary ARL. The Office explained that the credit balance in the UN Dispensary ARL pertains to surplus contributions for the UN Dispensary operations that will be refunded to the UN agencies.

11. General Administration**Not Assessed****11.1. Vehicles****Not Assessed****Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.2. Travel, Shipping and Hospitality**Not Assessed****Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.3. Security**Not Assessed****Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.4. Registry/Records Not Assessed**Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.5. Housing Not Assessed**Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

12. IT and Communications**Not Assessed****Overview**

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

V. Summary of Recommendations

No.	Recommendation	Management Comments
1	<p>The Office should not enter into the Grant Agreement if it is unable to secure long term funding to increase office capacity that would permit to satisfactorily deliver the requirements of the Programme. The Office should:</p> <ul style="list-style-type: none"> a) Prepare a feasibility study of the resources needed to fund the additional office capacity to deliver the GFATM programme in the long run; and b) Seek advice/support from RBAP on options available (other than TRAC) to secure funding as per the feasibility study, for the entire life cycle of the programme and not just for the first year. 	

No.	Recommendation	Management Comments
2	<p>The Office should:</p> <ul style="list-style-type: none"> a) Seek advice/support from RBAP on alternative options to increase extra-budgetary resources to fund these project staff performing office functions, until such time that the Office is able to generate it's own extra-budgetary resources; b) Ensure that staff performing Office functions are charged to a management project (extra budgetary resources) in Atlas instead of a development project; and that the costs of support services provided by these staff to projects is recovered in accordance with the Policy of Cost Recovery from Regular and Other Resources issued by BoM effective January 2004; c) Revisit its efforts to recruit JPOs and fully funded UNVs to expand the existing capacity, especially once the ARR-Programme post is filled and there is additional supervisory capacity in place. 	
3	<p>In line with current efforts to improve the selection process of Government seconded staff, the Office in collaboration with the UNCT, should initiate discussions with the Government to competitively recruit staff under UNDP contracts</p>	
4	<p>The Office should ensure that the 2004 RCA process is carried out in 2005 by the Operations Manager for operations posts, and the Country Director for programme posts, in line with current efforts to improve the selection process of Government seconded staff.</p>	

No.	Recommendation	Management Comments
5	<p>The Office should ensure that the composition of the LPAC includes representatives or development partners who are independent of the immediate project preparation process such as UN Agencies, donors, technical specialists, civil societies to appraise the quality of project design. When the approval authority resumes at the Office level, all project documents should be reviewed by the LPAC prior to final approval by the Country Director.</p>	
6	<p>The Office should ensure that disposal/transfer of project equipment to the government for items of asset value above \$1,500 per item is properly reviewed by the CAP and approved by the Country Director. All documentation should be maintained on file.</p>	
7	<p>The Office should ensure that the executing agency (UNOPS) submits on an annual basis at minimum, a certified and complete project inventory.</p>	
8	<p>The Office should ensure that project personnel update the equipment list to facilitate the monitoring of equipment purchased, i.e. to conduct physical stock check and site visits, to ensure that programme resources are utilized for their intended purpose and the donor funds are being utilized appropriately and accounted for. The practice would also reduce the time required to update ad hoc reports requested by the donors.</p>	
9	<p>The Office should ensure that Annual Progress Reports are prepared by the executing agency. The APR should report on the results in achieving the project objectives and should include statements on the progress towards the project outputs/objectives.</p>	

	Recommendation	Management Comments
<p>10</p>	<p>The Office need to further follow-up with UNIFEM to obtain clarifications on the over-expenditures totaling \$75 k for project DRK/02/004 – Cottage Industry PWTGC-Phasell.</p>	
<p>11</p>	<p>The Office should ensure that costs of rendering support services to NEX/DEX projects is fully recovered on the basis of the Universal Price List as per Policy on Cost Recovery from Regular and Other Resources issued by BoM effective January 2004.</p>	

No.	Recommendation	Management Comments
12	<p>The Office should ensure that a snapshot of the recruitment process and employment history of the staff hired, are available in the Human Resources files. At a minimum, the Operations Manager in collaboration with the project staff should ensure that the following documentation of personnel records is available, before issuance of contracts:</p> <ul style="list-style-type: none"> a) Correspondence/summary of the method of sourcing of candidates, the number of CVs obtained, the evaluation criteria for short-listing of candidates and the basis for selecting the successful candidate; b) A detailed Terms of Reference stating the required skills, qualifications, output and timeframes for delivery; c) The CVs of selected candidates to facilitate an independent check of the qualifications of staff with the agreed remuneration; and d) Documentation of reasons for waiver of competitive process, where required expertise is limited or where there are justifiable reasons to recruit a particular candidate. 	
13	<p>The Office should refer to IAPSO for purchases of goods such as vehicles, computers, etc. for competitive comparison of prices. Obtaining a price quotation from IAPSO will meet the requirement for international solicitation, which is appropriate for all contracts exceeding \$100 k. IAPSO also provides benchmark prices to compare with local prices before making any final procurement decision.</p>	

No.	Recommendation	Management Comments
14	<p>The Finance Officer should ensure that:</p> <ul style="list-style-type: none"> a) Documented acknowledgement of receipt from the Government is consistently attached to all Vouchers for processing of payment; and b) The documented acknowledgement of receipt from the Government is verified against the authorised specimen signature list/official stamp list provided by the Government (which has been requested by the Office at the time of the audit). 	

VI. Annexes

ANNEX I ORGANISATION CHART

ANNEX II PERFORMANCE DATA

ANNEX III DEFINITIONS OF STANDARD AUDIT RATINGS

THIS PAGE REDACTED BY THE
PERMANENT SUBCOMMITTEE ON
INVESTIGATIONS

***SEE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
EXHIBIT #4 (below)***

Performance Data

Page

1. PROGRAMME

- 1.1 Programme Resources
- 1.2. Allocation of Programme Resources By Year
- 1.3. Programme Delivery/Expenditure
- 1.4. Allocation of Programme Resources By Theme
- 1.5. On-Going Projects
- 1.6. Execution of On-Going Projects
- 1.7. Modality of NEX Delivery
- 1.8. Audit of NEX Projects

2. OPERATIONS

- 2.1 Personnel Status
- 2.2. Office Costs
- 2.3. Volume of Vouchers
- 2.4. Volume of Purchase Orders
- 2.5. Local Contracts Committee
- 2.6. Inventory of Equipment and Assets

PROGRAMME**1.1. PROGRAMME RESOURCES**

Programming Period From: 2001 To: 2004

	Amount in \$000s
TRAC	10,658*
Cost Sharing	854
Other (SPR)	3,568
Total	15,080

* Includes carry-over of \$2,823 k.

1.2. ALLOCATION OF PROGRAMME RESOURCES BY YEAR

	Amount in \$000s			
	Year 2000	Year 2001	Year 2002	Year 2003
IPF / TRAC	3,045	1,613	1,661	1,490
Cost Sharing	876	448	115	87
Other (SPR)	954	884	1,872	478
Total	4,875	2,945	3,648	2,055

1.3. PROGRAMME DELIVERY/EXPENDITURE

	Amount in \$000s		
	Year 2001	Year 2002	Year 2003
IPF / TRAC	666	686	1,587
Cost Sharing	328		89
Other (SPR)	564	1,149	582
Total	1,558	1,835	2,258

1.4. ALLOCATION OF PROGRAMME RESOURCES BY THEME

	Total Amount \$000s	% of total
Governance	1,003	8%
Poverty	3,574	30%
Environment	5,849	48%
Gender	220	2%
Special Dev. Situations	657	5%
Other	802	7%
Total	12,105	100%

1.5. ON-GOING PROJECTS
OF

As 31/12/2003

Total Number	Total Value \$000s	Average Size/ Project
31	12,105	390

1.6. EXECUTION OF ON-GOING PROJECTS
of

As 31/12/2003

	Total Amount \$000s	% of total
UN Agencies (excluding UNOPS)	467	4%
UNOPS	4,877	40%
NEX	5,788	48%
NGOs	0	0%
DEX	972	8%
Other	0	0%
Total	12,105	100%

1.7. MODALITY OF NEX DELIVERY
of

As 31/12/2003

	Total Value \$000s	Total Number of Vouchers
Direct Payments	668	210
Advance Payments	0	0
Total	668	210

1.8. AUDIT OF NEX PROJECTS
of

As 31/12/2003

	Total Number	Total Amount \$000s
NEX projects due for national audit	5	604
NEX projects audited and audit report received	5	604
Compliance with audit requirement (%)	100%	100%

2. OPERATIONS

2.1. PERSONNEL STATUS

As of 31/12/2003

	Authorized Posts			Staffed Posts		
	Program.	Admin. & Fin.	Total Personnel	Program	Admin. & Fin.	Total Personnel
International Staff	1	0	1	2	0	2
JPOs	1	0	1	0	0	0
Local Staff						
National Officers	1	0	1	3	0	3
General Services	1	11	12	2	17	19
Sub-total Local Staff	2	11	13	5	17	22
TOTAL STAFF	4	11	15	7	17	24
ALDs	0	0	0	0	0	0
SSAs (average during the audit period)	0	0	0	0	1	1
Service Contracts	0	0	0	0	0	0
Total Personnel	4	12	16	7	18	25

Note 1: Of the 22 local staff, 7 are funded by projects and 2 are by the Government.

2.2. OFFICE COSTS

	Year 2002 \$000s		Year 2003 \$000s		Variance In %	
	Allotment	Exp. as of 31/12/02	Allotment	Exp. as of 31/12/03	Allotment Incr./(decr.)	Expendit. Incr./(decr.)
Core Budget (DPVC)						
Personnel-related (code A)	25	25	30	30	20	20
Other	235	129	259	178	10	38
Sub-total Core (DPVC)	260	154	289	208	11	35
Extra-Budgetary (DPXB)						
Personnel-related (code A)	6	6	7	6	17	0
Other	80	12	37	36	(54)	200
Sub-total (DPXB)	86	18	44	43	(49)	139
Other	82	46	98	38	20	(17)
Total	428	218	431	289	1	33

2.3. VOLUME OF VOUCHERS
(monthly average over the past 12 months)

As of 31/12/2003

	Total Number	Total Amount \$000s
UNDP	41	32
UN Agencies	74	82
Government	32	82
Total	147	196

2.4. VOLUME OF PURCHASE ORDERS

In the 12 months from January 2003

	Total Number of Purchase Orders	Total Value of Purchase Orders \$000s
Purchase Orders	25	306

2.5. LOCAL CONTRACTS COMMITTEE (LCC)
(APPLIES TO PROCUREMENTS > US\$30,000)

In the 12 months from January 2003

	Total Number of Meetings	Total Value Processed \$000s
Activity in the last 12 months	6	240

2.6. INVENTORY OF EQUIPMENT AND ASSETS

As of 31/12/2003

	Amount in \$000s
Office Furniture & Equipment	8,802
Computer Equipment	171,461
Vehicles	106,484
Equipment in Custody	
Total	286,749

DEFINITIONS OF STANDARD AUDIT RATINGS

The following standard audit ratings have been defined so that management can place in context the opinions given in internal audit reports.

Definition of Performance:

Within the operational audit context, performance refers to the economy, efficiency, and effectiveness of operations under management's control. Operational audits assess the extent to which resources are acquired and utilized with due regard to economy and efficiency and whether management has put in place mechanisms to accurately monitor and assess whether programmes are meeting planned objectives. Operational audits do not report on the achievement of results.

Performance also refers to the manner in which activities are conducted – i.e. whether they are conducted in accordance with UNDP values. UNDP values encompass the notions of prudence and probity, as well as the necessity of taking acceptable risks.

Standard Rating

Definition

Satisfactory

In general, controls were in place to ensure that operations are economic, efficient, and effective; and that activities are conducted with due regard to UNDP values. Any weaknesses identified were not significant enough to compromise the overall performance and the control environment. The range of corrective actions required by management is moderate.

Partially Satisfactory

The majority of key controls were applied. However, some significant control weaknesses were identified. Timely corrective action by management is required to correct these weaknesses.

Deficient

Control weaknesses identified were widespread or were significant enough to have a negative impact on performance. Management needs to take immediate corrective action to improve the control environment.

Ethics Office / Bureau de la déontologie

CONFIDENTIAL

TO: Mr. Kemal Dervis
A: Administrator, UNDP

DATE: 17 August 2007

FROM: Robert Benson
DE: Director, Ethics Office



SUBJECT: **Re. Our File 2007/129**

OBJET:

I wish to thank UNDP for submitting such a detailed and thorough submission regarding the protection from retaliation case for which I have been conducting a review.

While, from a purely legal perspective, the Ethics Office does not have the jurisdiction to address a request for protection from retaliation in relation to cases arising from UNDP, as Director of the Ethics Office, I undertook the review of this case based upon the following:

- (i) I received what I considered to be sincere and deeply concerned representations from the President of UNDP's Staff Council, who are clearly interested in ensuring this matter be dealt with in the best interests of UNDP;
- (ii) an absence of an applicable protection from retaliation policy within UNDP;
- (iii) the direct and public intervention of one of the Executive Board members of the UNDP; and
- (iv) accountability in this matter is ultimately to the General Assembly.

On this latter point, that is accountability to the General Assembly, I note that UNDP has itself acknowledged its accountability to the General Assembly through its Executive Board and ECOSOC.

One has to appreciate that in addressing a protection from retaliation case, three significant steps are involved. The first involves a preliminary determination whether a prima facie case of retaliation has been made out; if so, then, during the second phase, the burden shifts to the Organization to establish that the 'prima facie' retaliation was not as a consequence of the individual's participation in a protected activity. During this second phase, a thorough and detailed investigation of the facts of the case is undertaken. The information UNDP has raised in its submission would be considered during this phase, and it would be considered in the context of the UN's Charter and accountability to the General Assembly. During the final phase, if in fact it is found that there was a retaliatory act, appropriate measures would be recommended in order to address the issues that have arisen as a consequence of the original complaint.

In the present case, we discussed the possibility of UNDP, without ceding jurisdiction in future cases, allowing this case to proceed within the parameters of ST/SGB/2005/21. However, you

Permanent Subcommittee on Investigations

EXHIBIT #2a

have indicated that after discussing this matter further, and in light of ongoing inquiry being undertaken by the Board of Auditors, UNDP wishes to conduct its own external review.

When I undertook my review of this case, it was done so within the parameters of ST/SGB/2005/21. Indeed, the Ethics Office received independent and corroborative information in relation to whether a prima facie case of retaliation has been established.

While it is now understood that the case will not proceed any further within the parameters of ST/SGB/2005/21, I must advise that had the jurisdiction of the protection from retaliation bulletin applied, the information received by the Ethics Office would have supported a determination that a prima facie case had been established in this case.

Should UNDP wish to reconsider pursuing this matter within ST/SGB/2005/21, I believe it would be in best interests of the United Nations and UNDP to do so.

cc: Mr. Secretary-General
Mr. Nambiar
Mr. Melkert
Mr. Shkurtaj
Mr. Samaras

UNITED NATIONS



NATIONS UNIES

Ethics Office

Bureau de la déontologie

Headquarters – Siège, S-3001, New York, NY 10017
Tel. 1 (917) 367-9859 Fax.1 (917) 367-9861

Reference: 2007/129

17 August 2007

Mr. Shkurtaj,

I have enclosed for your information a copy of the correspondence which I have today sent to UNDP in relation to your 5 June 2007 request for protection from retaliation.

I have indicated from the outset, that there was an issue regarding the application of ST/SGB/2005/21 to UNDP. In fact, from a purely legal perspective, the Ethics Office does not have jurisdiction to address a request for protection from retaliation arising from UNDP. However, as Director of the Ethics Office, I undertook to review your case, based upon the following:

- (i) I received what I considered to be sincere and deeply concerned representations from the President of UNDP's Staff Council, who are clearly interested in ensuring this matter be dealt with in the best interests of UNDP;
- (ii) an absence of an applicable protection from retaliation policy within UNDP;
- (iii) the direct and public intervention of one of the Executive Board members of the UNDP; and
- (iv) accountability in this matter is ultimately to the General Assembly.

As is evident from the attached memorandum, UNDP has decided that it does not wish to pursue this matter within the parameters of ST/SGB/2005/21; however, having undertaken to conduct a review of your case, had the jurisdiction of the protection from retaliation bulletin applied, in my view, a prima facie case of retaliation would have been established.

While it is unfortunate that this matter will not be considered independently and within the parameters of ST/SGB/2005/21, the Ethics Office hopes that UNDP will reconsider this matter, in the best interests of the United Nations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert Benson".

Robert Benson
Director, Ethics Office

cc: Mr. Samaras

Permanent Subcommittee on Investigations

EXHIBIT #2b



Secretary-General's bulletin**Ethics Office — establishment and terms of reference**

The Secretary-General, for the purpose of securing the highest standards of integrity of staff members in accordance with Article 101, paragraph 3, of the Charter of the United Nations, taking into consideration paragraph 161 of the 2005 World Summit Outcome¹ and pursuant to General Assembly resolution 60/248, hereby promulgates the following:

Section 1**Establishment of the Ethics Office**

1.1 The Ethics Office is established as a new office within the United Nations Secretariat reporting directly to the Secretary-General.

1.2 The objective of the Ethics Office is to assist the Secretary-General in ensuring that all staff members observe and perform their functions consistent with the highest standards of integrity required by the Charter of the United Nations through fostering a culture of ethics, transparency and accountability.

Section 2**Appointment of the head of the Ethics Office**

The head of the Ethics Office shall be appointed by the Secretary-General and will be accountable to the Secretary-General in the performance of his or her functions.

Section 3**Terms of reference of the Ethics Office**

3.1 The main responsibilities of the Ethics Office are as follows:

- (a) Administering the Organization's financial disclosure programme;
- (b) Undertaking the responsibilities assigned to it under the Organization's policy for the protection of staff against retaliation for reporting misconduct and for cooperating with duly authorized audits or investigations;

¹ See General Assembly resolution 60/1.

(c) Providing confidential advice and guidance to staff on ethical issues (e.g., conflict of interest), including administering an ethics helpline;

(d) Developing standards, training and education on ethics issues, in coordination with the Office of Human Resources Management and other offices as appropriate, including ensuring annual ethics training for all staff;

(e) Such other functions as the Secretary-General considers appropriate for the Office.

3.2 The Ethics Office will not replace any existing mechanisms available to staff for the reporting of misconduct or the resolution of grievances, with the exception of certain functions assigned to the Ethics Office under section 3.1 (b) above.

3.3 The Ethics Office shall maintain confidential records of advice given by and reports made to it.

3.4 In respect of its advisory functions as set out in section 3.1 (c) above, the Ethics Office shall not be compelled by any United Nations official or body to testify about concerns brought to its attention.

3.5 The Ethics Office shall provide annual reports to the Secretary-General and, through the Secretary-General, to the General Assembly. The reports shall include an overview of the activities of the Office and any evaluations and assessments relating to such activities. The Ethics Office may also comment on rules, regulations, policies, procedures and practices that have come to its attention, and may make recommendations as appropriate.

3.6 The Ethics Office may be consulted on policy issues where its expertise, views and experience may be useful.

Section 4

Access to the Ethics Office

4.1 All staff shall be informed of the manner in which they can bring matters of concern to the attention of the Ethics Office.

4.2 No person who brings a matter to the attention of the Ethics Office or provides information to it shall be subjected to reprisals because of such action.

Section 5

Duty to cooperate with the Ethics Office

All offices and staff members shall cooperate with the Ethics Office and provide access to all records and documents requested by it. The exceptions to this are medical records that are not available without the express consent of the staff member concerned and Office of Internal Oversight Services records that are subject to confidentiality requirements. Reports of the Joint Appeals Boards shall be routinely sent to the Ethics Office unless the appellant objects.

Section 6

Duty to report misconduct

Nothing in the present bulletin shall limit the duty of staff members to report misconduct.

Section 7
Access to internal recourse mechanisms

Nothing in the present bulletin shall limit the ability of staff members to seek redress through the internal recourse mechanisms.

Section 8
Entry into force

The present bulletin shall enter into force on 1 January 2006.

(Signed) Kofi A. Annan
Secretary-General



30 November 2007

Secretary-General's bulletin**United Nations system-wide application of ethics: separately administered organs and programmes**

The Secretary-General, for the purpose of securing the highest standards of ethics and integrity of United Nations staff members and ensuring the consistent application of such standards within the United Nations including its separately administered organs and programmes; in accordance with Article 101, paragraph 3, of the Charter of the United Nations, taking into consideration paragraph 161 of the 2005 World Summit Outcome,¹ pursuant to General Assembly resolution 60/248, and consistent with Secretary-General's bulletin ST/SGB/2005/22 of 30 December 2005, entitled "Ethics Office — establishment and terms of reference"; and in consultation with the executive heads of separately administered organs and programmes, the Secretary-General hereby promulgates the following:

Section 1**Principles**

1.1 The ultimate goal and principle of an Ethics Office of a separately administered organ or programme of the United Nations, established by the Executive Head of the organ or programme, pursuant to the present bulletin, shall be to cultivate and nurture a culture of ethics, integrity and accountability, and thereby enhance the trust in, and the credibility of, the United Nations, both internally and externally.

1.2 Independence, impartiality and confidentiality are vital prerequisites for the functioning and operation of an Ethics Office of a separately administered organ or programme of the United Nations, and they shall be fully respected.

1.3 In the performance of their responsibilities and duties, the Ethics Offices of a separately administered organ or programme of the United Nations shall not be compelled by any United Nations official or body to disclose issues brought to their attention. This is without prejudice to the role of the Ethics Office in the Secretariat as set out in section 4 below.

¹ See General Assembly resolution 60/1.

1.4 The present bulletin shall be read in conjunction with Secretary-General's bulletin ST/SGB/2005/22 of 30 December 2005, entitled "Ethics Office — establishment and terms of reference".

Section 2

The head of the Ethics Office of a separately administered organ or programme

2.1 Each Ethics Office of a separately administered organ or programme shall be headed by an Ethics Officer, who shall function independently and report directly to the Executive Head of the respective separately administered organ or programme. When appointed, these ethics officers assume the relevant functions of existing ethics focal points as described in section 3 below. The Chairperson of the United Nations Ethics Committee, whose role is set out in section 5 below, will provide input into the annual performance assessment of each of the Ethics Officers.

2.2 If a separately administered organ or programme has not designated an Ethics Officer by January 2008, the Ethics Office of the United Nations Secretariat shall discharge the duties and responsibilities of the Ethics Office, as set out in this bulletin, until the separately administered organ or programme designates an Ethics Officer.

2.3 The Chairperson of the Ethics Committee is responsible for providing functional leadership to all Ethics Officers of the funds and programmes, in order to promote the building and developing of capacity, including adequate levels of professionally qualified resources; and ensure adherence to consistent methodology in the delivery of ethics-related services.

2.4 The responsibilities of an Ethics Officer of a separately administered organ or programme's Ethics Office shall neither prejudice or replace existing investigative or other relevant mechanisms, nor replace procedures for the administration of justice of the separately administered organs or programmes or the Secretariat, established in accordance with the relevant staff regulations and rules.

Section 3

Terms of reference of the Ethics Office of a separately administered organ or programme

An Ethics Office of a separately administered organ or programme shall have the following responsibilities:

(a) Developing standards, training and education on ethics issues, in coordination with the relevant units of the separately administered organs and programmes such as Legal, Internal audit/Oversight, and Human resources, as appropriate, as well as the United Nations Ethics Committee, as set out in section 5 below, in order to ensure that there is a uniform and consistent application of ethics-related issues within the United Nations system;

(b) Providing guidance to management of the separately administered organ or programme concerned to ensure that the Organization's rules, policies, procedures and practices reinforce and promote the standards of integrity called for under the Charter of the United Nations;

(c) Providing confidential advice and guidance to staff of the separately administered organs or programmes on ethical issues;

(d) Serving as a focal point for raising staff awareness within the separately administered organ or programme on ethical standards and expected behaviour within the context of oversight of each separately administered organ or programme as well as human resources development policies, strategies and programmes and in close cooperation with its respective oversight and human resources organizational units;

(e) Undertaking the responsibilities assigned to the Ethics Office in accordance with the policy for the protection of staff against retaliation of the respective separately administered organ or programme;

(f) In the absence of a separately administered organ or programme having in place a policy for protection against retaliation, staff members of the separately administered organ or programme may request protection from retaliation under Secretary-General's bulletin ST/SGB/2005/21;

(g) Administering the financial disclosure programme of the respective separately administered organ or programme, except for those staff members at Assistant Secretary-General level and above, for whom the programme will continue to be administered by the Ethics Office of the United Nations Secretariat;

(h) Providing to the executive heads of separately administered organs or programmes an annual report on the activities of the Ethics Office.

Section 4

Independence of the Ethics Offices of separately administered organs and programmes and the rights of staff members

4.1 In order to safeguard and ensure that all matters associated with the discharge of duties and responsibilities of the Ethics Office of the separately administered organ or programme are independent and free from any undue pressure and influence, solely at the discretion of the head of a separately administered organ's or programme's Ethics Office, he or she may refer any matter within the Office's area of responsibility, at any time, to the Chairperson of the United Nations Ethics Committee for advice and guidance, and shall inform the Executive Head of the separately administered organ or programme of the referral made.

4.2 Staff members of the separately administered organ or programme shall seek recourse with the Ethics Office of the respective separately administered organ or programme, and use the existing policies, procedures and resources available within the separately administered organ or programme to address ethical issues. In principle, allegations of retaliation shall be handled by the respective competent and authorized units within each separately administered organ or programme.

4.3 If, following the receipt of a request for advice or complaint submitted by a staff member in accordance with subparagraph (c) or (e) of section 3 above, the respective Ethics Office does not, within forty-five days, formally consider the request, the staff member may then refer the matter in writing to the Chairperson of the United Nations Ethics Committee. Alternatively, if following a final determination by the respective Ethics Office of a matter referred to it by a staff member, the said staff member wishes to have the matter reviewed further, he or she may, in writing, refer the matter to the Chairperson of the Ethics Committee. In such an event, the Chairperson, after consultation with the Ethics Committee, may

undertake his or her own independent review of the matter and provide a written report to the Executive Head of the separately administered organ or programme. Independent review for the purposes of this provision shall include review of the actions already taken by the concerned Ethics Office, determination of what additional actions are required, including, in the case of matters falling under subparagraph (e) of section 3, whether referral for investigation is warranted based on the requirements of the policy for protection against retaliation of the concerned Ethics Office, and provision of recommendations to the Executive Head of the concerned separately administered organ or programme. The Chairperson will include a summary of all such cases in the annual report of the activities of the Ethics Office of the United Nations Secretariat.

4.4 Where a matter has been referred for advice and guidance by an Ethics Officer of a separately administered organ or programme to the Chairperson of the Ethics Committee pursuant to section 4.1 above, or where a staff member has referred a matter pursuant to section 4.3 above to the Chairperson of the Ethics Committee, the Executive Head of the separately administered organ or programme shall provide the Chairperson with the necessary support, including access to records, staff members and contractors, where feasible.

Section 5

United Nations Ethics Committee

5.1 The United Nations Ethics Committee shall be established consisting of the heads of the Ethics Offices of the separately administered organs and programmes of the United Nations and the Ethics Office of the United Nations Secretariat. The United Nations Ethics Committee shall be chaired by the head of the Ethics Office of the United Nations Secretariat.

5.2 The United Nations Ethics Committee shall establish a unified set of standards and policies of the United Nations Secretariat and of the separately administered organs and programmes, and consult on certain important and particularly complex cases and issues having United Nations-wide implications raised by any Ethics Office or the Chairperson of the Ethics Committee.

5.3 Meetings of the United Nations Ethics Committee shall be convened by the Chairperson.

5.4 The United Nations Ethics Committee shall review the annual reports of the Ethics Offices of the United Nations Secretariat and the separately administered organs and programmes and make recommendations for the future, as may be appropriate. The executive heads of the separately administered organs and programmes shall include, in their annual reports to their respective Executive Boards, the recommendations made by the United Nations Ethics Committee that specifically relate to them.

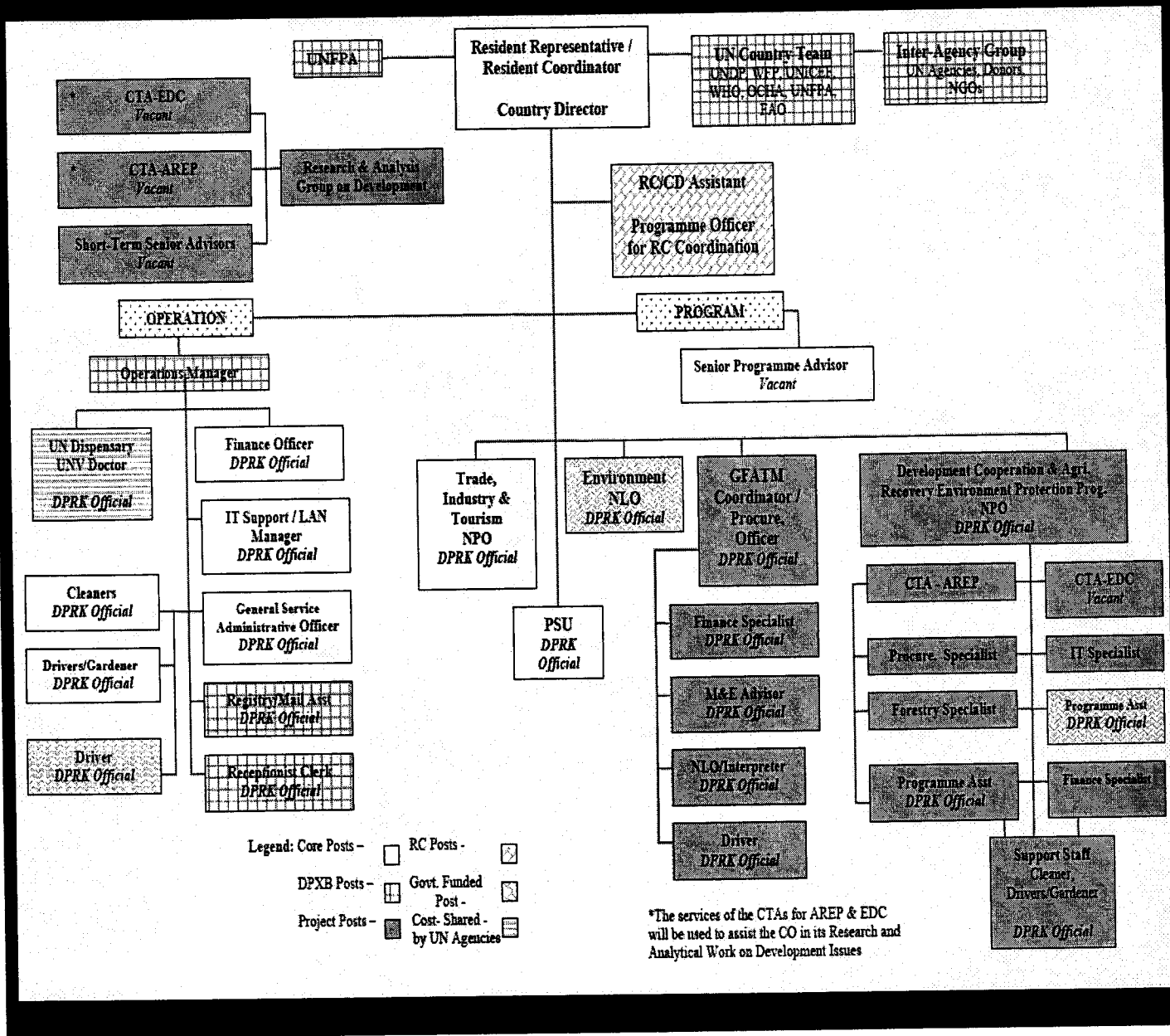
Section 6

Entry into force

The present bulletin shall enter into force on 1 December 2007.

(Signed) **Ban Ki-moon**
Secretary-General

UNDP DPRK Organizational Chart¹

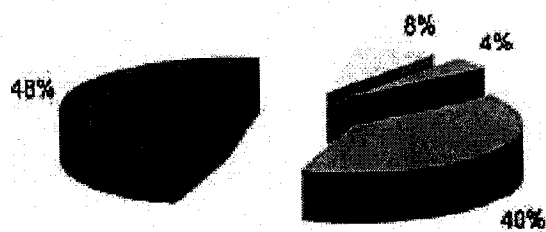


¹ This organizational chart is dated December 2003 and appears in an audit report issued in 2004. The Subcommittee redacted the names of individuals to protect their identity and inserted the term "DPRK Official" to indicate which positions were filled by local staff.

Excerpt from 2004 UNDP Internal Audit
Showing Breakdown of NEX/DEX Modalities

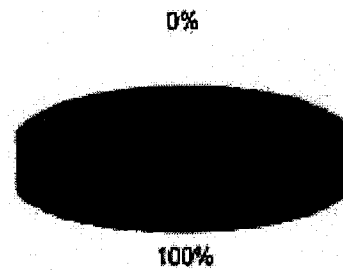
NEX and Government Counterparts

Execution Modalities



- UN Agencies (excluding UNOPS)
- UNOPS
- NEX
- DEX

Modality of NEX Delivery



- Direct Payments
- Advance Payments

Out of the total budget value of on-going projects of \$12 m, 48% is NEX, 40% is executed by UNOPS, 8% is DEX and the remaining 4% by other agencies. The Office is providing 100% support services to NEX projects in terms of direct payments.

The Office's main Government counterparts are the Ministry of Foreign Affairs and the General Bureau for Cooperation with International Organisations, Ministry of Foreign Trade.



UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

January 16, 2007

Dear Mr. Melkert,

I enjoyed our discussion over breakfast this morning and I understand that Mr. Dervis is currently on travel.

Thank you again for allowing me to lead a United States Mission to the United Nations Management Review Section (USUN MR) team on an in person review of certain UNDP DPRK internal audits on January 11, 2007. At the meeting UNDP made available three (3) Internal Audits (1999, 2001, 2004) for USUN's on site review (no photocopies permitted).

For your information the following specific points and conclusions were drawn directly from the Audits during the Six (6) hour in person review by USUN MR.¹ The Audits reveal that:

1. UNDP local staff is dominated by DPRK government employees;
2. UNDP DPRK government employees have performed financial and program managerial core functions in violation of UNDP rules;
3. The DPRK government insists upon and UNDP pays cash to local DPRK government suppliers in violation of UNDP rules;
4. UNDP funds DPRK controlled projects without the oversight required by UNDP rules;
5. There is no audit review of DPRK controlled programs in violation of UNDP rules;

Mr. Ad Melkert,
Associate Administrator,
United Nations Development Program,
One United Nations Plaza, Room DC1-2118,
New York, New York 10017.

¹ USUN relies solely on the accuracy of these KPMG and UNDP internal audits in determining the efficacy of the statements included in this letter.

6. The DPRK refuses to allow outside audits of any DPRK projects and instead either limits UNDP audits or utilizes "sham" DPRK audits in violation of UNDP rules;
7. UNDP officials are not permitted to perform site visits to many UNDP DPRK projects in violation of UNDP rules;

The UNDP program has laudable goals of providing assistance to the North Korean peoples. Unfortunately, because of the actions of the DPRK government and the complicity of UNDP, at least since 1998 the UNDP DPRK program has been systematically perverted for the benefit of the Kim Jong Il regime – rather than the people of North Korea. The UNDP DPRK program has for years operated in blatant violation of UN rules, served as a steady and large source of hard currency and other resources for the DPRK government with minimal or no assurance that UNDP funds and resources are utilized for legitimate development activities. Importantly, UNDP apparently has failed to bring the widespread violation of UNDP rules in the DPRK country program to the attention of the UNDP Executive Board.

Each Audit found that the UNDP DPRK program was only Marginally or Partially Sufficient indicating, "timely corrective action is required by management."

As of December 31, 1998, UNDP had three (3) international staff (Resident Representative "RR", Deputy "DRR" and Associate "ARR") and fourteen (14) local staff in the DPRK program. 1999 Audit pg. 22 of 50. As of 2001, UNDP had sixteen (16) total staff – two (2) International Staff, and fourteen (14) local staff in the DPRK. Of the 14 local staff, three (3) served in program functions and eleven (11) served in administration and finance functions. 2001 Audit, Annex pg. 4 of 5. As of 2004 the UNDP DPRK program consisted of two (2) International staff and twenty-two (22) local Staff and one SSA (consultant). Of the 22 local staff, nineteen (19) served as general services staff and three (3) served as national program officers. 2004 Audit pg. 14 of 57.

All UNDP local staff in the DPRK are seconded from and controlled by the DPRK government. Various Citations in all Audits. e.g. 2001 Audit pg. 22 of 50. In apparent violation of UNDP rules, UNDP pays all local staff salaries directly to the DPRK government, as dictated by the DPRK, which is to then "pass on" payment to the local seconded staff. UNDP pays \$120.00 per month in a meal allowance directly in cash to the local staff also in apparent violation of UNDP rules. 2004 Audit pg. 31 of 57.

Local DPRK (government) personnel perform most UNDP office functions as local staff or under SSA or SC's (consulting contracts) including "core" functions required to be performed by international staff in violation of UNDP rules. For example apparently a local DPRK national working under contract performed the following functions:

- Bank Signatory and certifying officer functions
- Personnel Actions
- Prepares Contracts and Travel Authorizations
- Manages Petty Cash and maintains financial records

- Acts as staff officer to dispose of equipment and supplies

According to UNDP management, “[i]n view of the fact that all National Staff are not UNDP staff as the DPRK government seconds them and thus they are (DPRK) government employees. Therefore in the absence of the regular international staff we had no choice but to assign the functions of certifying office and bank signatory to the (local staff) Special Services Agreement holder....” 2001 Audit pg. 26 of 50. UNDP management of petty cash is inadequate and without appropriate controls. The UNDP check book is not adequately controlled or kept in a secure location and no check register is kept reflecting checks written. e.g. 1999 Audit pg. 35-37 of 45.

As of 1999 there were twenty-nine (29) ongoing UNDP projects in the DPRK with a total budget of \$27.86 million. There are two general types of projects:

1. DPRK National Execution programs (NEX) which are “nationally executed” by the DPRK government with UNDP paid funds. Such programs constituted 66.7% of all DPRK programs;
2. UNDP directly executed programs which constituted 28.7% of all DPRK programs.

1999 Audit pg. 7 of 45. The Audits criticize UNDP for routinely making direct payments to the DPRK (supposedly for disbursement) for DPRK NEX Programs. UNDP pays directly in cash for all local expenditures for UNDP executed programs. 1999 Audit pg. 22 of 45.

UNDP does not use Local Purchase Order (PO's) forms and all local purchases are made with cash. 1999 Audit pg. 4 of 44. Even purchases over \$1,000.00 are made in cash. 1999 Audit pg 38 of 45. There are no local DPRK suppliers other than the DPRK government, the DPRK government fixes all prices, and the DPRK does not accept PO's. The DPRK government does not accept checks – only cash. There are no annual DPRK government contributions (in-kind or otherwise) towards local in-country UNDP office costs (“GLOC”) – meaning the DPRK charges and UNDP pays the DPRK for all local office costs including such as rent.² 1999 Audit pg 39 of 45. As a result all of UNDP's local expenditures and procurement are paid in cash directly to the DPRK government.

KPMG sampled certain program projects during the 1999 and 2001 Audits. In 2001 KPMG sampled twelve (12) DPRK projects and found that UNDP did not maintain financial reports or audits of seven (7) of the 12 sampled projects. 2001 Audit pgs. 12-15 of 50. “However it should be noted that the NEX audits (performed by the DPRK government) are generally defective and do not clearly identify and address issues which require follow-up.” 2001 Audit pg 17 of 50. There are “serious deficiencies in the NEX audits” and “it is not possible to ascertain who is actually responsible for carrying out the NEX audits... [in the DPRK government].” 2001 Audit pg 18 of 50. “There are no government (DPRK) auditors as such” and each NEX “audit” is carried out by the

² But see 1999 Audit pg 14 of 15, where UNDP comments that local contributions are generally office space and national staff time.

respective DPRK ministry designated as government executing agent. 2001 Audit pg. 21 of 50.

UNDP rules require at east one (1) project field visit per year. In 1999 KPMG analyzed a sample of five (5) selected projects and concluded that there were no project field visits to three (3) of the projects (for many years). UNDP cannot fulfill the one (1) project field visit per year rule because the DPRK prohibits foreign visitors (including UNDP international staff) from visiting various UNDP DPRK project sites. 1999 Audit pg. 14 of 50.

Simply put, in the absence of real audits and site visits it is impossible for UNDP to verify whether or not any of the funds paid to the DPRK for supposed use in UNDP programs have actually been used for bona fide development purposes or if the DPRK has converted such funds for its own illicit purposes.

Based on the above described, and disturbing findings as well as the information exchanged in our earlier correspondence, it is imperative that UNDP shine the bright light of real oversight on the DPRK program. Without real transparency and without truly understanding the nature of the UNDP program in DPRK, no Executive Board Member will be in a position to make an informed decision on the appropriate continuation or deferral of the DPRK program.

Accordingly, I urge you to immediately institute a full independent and outside forensic audit of the DPRK country program going back to at least 1998 with an emphasis on our concern that the DPRK regime has converted the development resources of the UN and UNDP to its own illicit purposes.

I appreciate all of your help.

Thank you for your attention to this matter.

Sincerely,



Mark D. Wallace
Ambassador

-----Original Message-----

From: [REDACTED] (Legislative Affairs) [REDACTED]
Sent: Tuesday, June 05, 2007 1:01 PM
To: [REDACTED] (HSGAC); [REDACTED] (HSGAC); [REDACTED] (Warner)
Subject: UNDP in DPRK paper and attachment

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

Hello -

As discussed, please find attached points from the recent briefing by Ambassador Wallace re: UNDP in DPRK, which Senator Coburn, Senator Coleman and Senator Warner expressed interest in receiving. Please let me know if I can be of further assistance. Thanks.

Sincerely,

[REDACTED]

U.S. Department of State
Bureau of Legislative Affairs
2201 C Street, NW
Washington, D.C. 20520

[REDACTED]

Permanent Subcommittee on Investigations
EXHIBIT #7

May 23 Briefing by Ambassador Wallace Regarding UNDP Activities in North Korea

The State Department has previously reported findings of irregularities about cash payments related to UN Development Program (UNDP) activities in North Korea, seconded DPRK government officials working in key UNDP positions, and the lack of monitoring and site visits in UN Development Program activities in North Korea. Information from UNDP eyewitness accounts and internal UNDP business records show that:

- During 2001 and 2005, UNDP, using electronic funds transfer (EFT), transferred over \$7 million of its funds to a DPRK government entity, National Coordination Committee for UNDP (NCC).
- During 2001-2002 UNDP transferred at least \$400,000 to DPRK through a Macau-based entity.
- UNDP also used EFT to transfer over \$8 million of other UN agencies' funds to the DPRK government during the same period.
- The DPRK government then transferred at least \$2.8 million of UNDP funds to DPRK missions in Europe and New York to "cover buildings and houses" including as payment for purchase of buildings in France, UK, and Canada.
- In January 2006, UNDP headquarters instructed UNDP's Pyongyang office to make no reference to North Korea in payment details when executing payments drawn from UNDP's overseas U.S. dollar account.
- UNDP paid nearly \$2.7 million for "goods and equipment," to an entity that has ties to a North Korean entity that has been designated under E.O. 13382 as the main North Korean financial agent for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons.
- UNDP procured for DPRK the following equipment with possible dual use: 1) global positioning system (GPS) equipment; 2) computers and computer accessories; and 3) a mass spectrometer.

- UNDP's locally hired employees (seconded from the DPRK government), on several occasions, "withdrew" from UNDP's account at the DPRK's Foreign Trade Bank (FTB) what UNDP officials reported were counterfeit U.S. currency, amounting to at least tens of thousands of dollars.
- UNDP also withdrew U.S. dollars from its euro account at the FTB, which charged an apparent conversion fee per transaction for converting euros into U.S. dollars.
- In March 2007, UNDP procured for the DPRK 29 books under a "capacity building for arms control and disarmament" project (see list of books attached).
- UNDP is alleged to have retaliated against an employee who revealed information relating to UNDP mismanagement and abuses and to have sought to intimidate other employees from providing such information.

NORTH KOREA TRANSACTION USING I.F.T.J.

Type 1

Foreign Trade Bank
(Ordering Party)

Banco
Delta
Asia

International
Finance & Trade
Joint Co.

Transaction Type

1

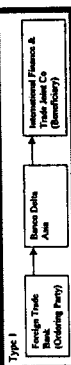
Level of Risk

Highest

Banco Delta Asia S.A.F.L.
Report in connection with certain
transactions involving North Korea
Strictly Private and Confidential

Type of Transactions and the Level of Risk

There were largely 3 types of transactions.



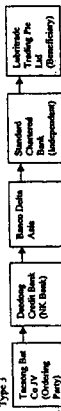
Both the ordering party and the beneficiary were NK Entities. No independent international banks were involved in the transactions since the money was transferred between accounts held at BDA. This type of transaction could also be seen in account with IFTJ sending money to its resident (transferee) in the NK Bank (e.g. Foreign Trade Bank).

Type 2



The ordering party was not an NK Entity but sent money through an NK Entity to a beneficiary who was an NK Entity. There were no independent banks involved because the NK Bank would transfer its money with the Bank from its account with BDA to the beneficiary's account with the Bank.

Type 3



The ordering party remained (or the beneficiary remained) though the money went from the NK Bank before (or after) going through the Bank. Therefore, there was no independent bank involved, although no record of the transaction was maintained in the NK Bank. The NK Bank would transfer its money with the BDA. BDA has only recently started to require the independent banks to provide BDA with detail of their own AML policies.

As such, below is a table setting forth the level of risk associated with each type of transaction:

Transaction Type	Level of Risk
1	Highest
2	High
3	Low-Medium

In the above transactions, both the beneficiary and ordering parties are NK Entities. As such they are all considered high risk transactions.

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 9th SEP 2002

I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Beneficiary SINDOK TRADING PTB LTD.	
Address: (if enquired)	
A/c No. of Beneficiary [REDACTED]	
Name of Receiving Bank UNITED OVERSEAS BANK LTD., SINGAPORE	
Address of Receiving Bank	
Message (if any) B/O UNDP PYONGYANG MSG: SUB-CONT. NO.563/2002/TSC REF.602 EMG 069	FOR OFFICE USE ONLY Draft / Ref. No.: BDA/RE/OTT/5513/02
Amount in words & figures (USD.229,997.00) U.S. DOLLARS TWO HUNDRED TWENTY NINE THOUSAND NINE HUNDRED NINETY SEVEN ONLY.	Paying Agent:
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.	Rate: HK Equivalent
ID / Passport No.: 09:46:06 2002/09/09 T/C: 013A A.F.T.C. [REDACTED] TRD 929 [REDACTED] TREDP \$229,997.00 USD [REDACTED] TRW [REDACTED] TRFWD \$229,997.00 USD	Cable / Postage
Tel No.: 373848	Commission: HKD200
	Total*

BDA/RE/OTT/5513/02
Payment of the above remittance shall be made
 By cash
 By cheque
 (subject to final clearance)
 Please debit my / our account
 no. [REDACTED]

I / We request you to make this transfer is made subject to the conditions printed on the reverse side herein.
 Signature of Applicant
 [REDACTED]
 [REDACTED]
 MACAU

Prepared [REDACTED] Checked [REDACTED] Approved [REDACTED]

OPE082(01/94)

BRANCH COPY

Summary of Transactions from IFTJ to DPRK Embassy Accounts for Purchases of Buildings Purportedly Related to UNDP Activity

DATE	ORIGINATOR OF FUNDS TRANSFER	NAMED RECIPIENT OF FUNDS TRANSFER	MESSAGE ATTACHED TO THE TRANSFER	AMOUNT
April 10, 2002	IFTJ (BDA Account)	Delegation Generale de la RPD de Coree de Paris	B/O NCC of the DPRK for UNDP Cover Building N Houses, Ref. TTB62-077	\$300,000
May 3, 2002	IFTJ (BDA Account)	Delegation Generale de la RPD de Coree de Paris	B/O NCC of the DPRK for UNDP Cover Building N Houses, Ref. TTB62087	\$300,000
May 10, 2002	IFTJ (BDA Account)	Delegation Generale de la RPD de Coree de Paris	B/O NCC for UNDP Cover Building N Houses, Ref. TTB62-090	\$220,000
July 17, 2002	IFTJ (BDA Account)	Embassy of DPR of Korea in Sweden	B/O NCC for UNDP, Ref. TTB62-127 Msg: Payment for Purchase of Building (UK)	\$300,000
August 14, 2002	IFTJ (BDA Account)	Embassy of DPR of Korea in Sweden	B/O NCC for UNDP, Ref. TTB62-139 Msg: Payment for Purchase of Building (UK)	\$300,000
August 21, 2002	IFTJ (BDA Account)	Permanent Mission of the DPR of Korea to New York USA	B/O NCC for UNDP, Ref. TTB62-144 Msg: Payment for Purchase of building (Canada)	\$300,000
August 30, 2002	IFTJ (BDA Account)	Permanent Mission of the DPR of Korea to New York, USA	B/O NCC for UNDP, Ref. TTB62-150 Msg: Payment for Purchase of building (Canada)	\$300,000
September 3, 2002	IFTJ (BDA Account)	Embassy of DPR of Korea in London	B/O NCC for UNDP Ref. TTB62-152 Msg: Payment for Purchase of Building	\$300,000
September 9, 2002	IFTJ (BDA Account)	Permanent Mission of the DPR of Korea to New York USA	B/O NCC for UNDP Ref. TTB62-155 Msg: Payment for Purchase of Building (Canada)	\$400,000
TOTAL				\$2,720,000

Prepared by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations

EXHIBIT #10

— = Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 10th APR 2002

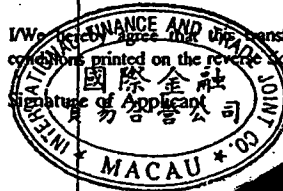
I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Beneficiary DELEGATION GENERALE DE LA R.P.D. DE COREE DE PARIS	
Address: (if enquired)	
A/c No. of Beneficiary [REDACTED]	
Name of Receiving Bank BANQUE COMMERCIALE POUR L'EUROPE DU NORD-EUROBANK, PARIS	
Address of Receiving Bank	
Message (if any) B/O NATIONAL COORDINATING COMMITTEE OF THE DPRK FOR UNDP COVER BUILDING N HOUSES, REF.TTB62-077	FOR OFFICE USE ONLY
Amount in words & figures (USD.300,000.00) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.	Draft / Ref. No.:
	Paying Agent: BDA/RE/OTT/2227/02
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.	Rate: HK Equivalent
	Cable / Postage
ID / Passport No.: 10:13:35 2002/04/10 T/C: 013A, INT'L F. & T. J. CO.	Commission: HKD 100
TRD 929 TRFDEP \$300,000.00 USD	
TRW TRFWDW \$300,000.00 USD	
Tel No.: 373848	Total*

BDA/RE/OTT/2227/02
Payment of the above remittance ~~US\$100000~~

- By cash
- By cheque (subject to final clearance)
- Please debit my / our account no. [REDACTED]
-

I/We agree that this transfer is made subject to the conditions printed on the reverse side herein.



Prepared [REDACTED] Checked [REDACTED] Approved [REDACTED]

OPE082 (01/94)

BRANCH COPY

Permanent Subcommittee on Investigations

EXHIBIT #11

— = Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 3rd MAY 2002

I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Beneficiary DELEGATION GENERALE DE LA RPD DE COREE DE PARIS	
Address: (if enquired)	
A/c No. of Beneficiary [REDACTED]	
Name of Receiving Bank BANQUE COMMERCIALE POUR L'EUROPE DU NORD-EUROBANK, PARIS,	
Address of Receiving Bank FRANCE	
Message (if any) B/O NATIONAL COORDINATING COMMITTEE OF THE UNDP COVER BUILDING N HOUSES, REF.TTB62-087	FOR OFFICE USE ONLY
Amount in words & figures (USD:300,000.00) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.	Draft / Ref. No.: BDA/RE/OTT/2618/02
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.	Paying Agent:
ID / Passport No.: 09:21:51 2002/05/03 T/C: 013A INT'L F. & T. J. CO.	Rate HK Equivalent
TRD 929	Cable / Postage
TRW [REDACTED]	Commission HKD 200-
TRFWDW \$300,000.00 USD	Total*
TRFWDW \$300,000.00 USD	
Tel No.: 373848	

BDA/RE/OTT/2618/02
Payment of the above remittance ~~XXXXXX~~

- By cash
- By cheque (subject to final clearance)
- Please debit my / our account no. [REDACTED]
- [REDACTED]

I/We hereby declare that the transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant

國際金融貿易合營公司
 INTERNATIONAL FINANCE AND TRADE JOINT CO. MACAU

Prepared [REDACTED]

Checked [REDACTED]

Approved [REDACTED]

OPE082 (01/94)

BRANCH COPY

— = Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 10th MAY 2002

I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Beneficiary DELEGATION GENERALE DE LA RPD DE COREE DE PARIS	
Address: (if enquired)	
A/c No. of Beneficiary [REDACTED]	
Name of Receiving Bank BANQUE COMMERCIALE POUR L'EUROPE DU NORD EUROBANK, PARIS.	
Address of Receiving Bank FRANCE	
Message (if any) B/O NATIONAL COORDINATION COMMITTEE FOR UNDP COVER BUILDING N HOUSES, REF TTB62-090	FOR OFFICE USE ONLY
Amount in words & figures (USD 220,000.00) U.S. DOLLARS TWO HUNDRED TWENTY THOUSAND ONLY.	Draft / Ref. No.: BDA / RE/OTT/2783/02
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.	Paying Agent:
ID / Passport No.: [REDACTED]	Rate HK Equivalent
09:58:44 2002/05/10 T/C: 013A INT'L F. & T. J. CO.	Cable / Postage
TRD 929 TRFDEP \$220,000.00 USD	Commission HKD200-
TRW TRFWDW \$220,000.00 USD	
Tel No.: 373848	Total*

*Payment of the above remittance plus charge
BDA/RE/OTT/2783/02 XXXXXX

- By cash
- By cheque (subject to final clearance)
- Please debit my / our account no. [REDACTED]
-

I/We hereby agree that this Payment Order is made subject to the conditions printed on the reverse side herein.

Signature of Applicant 公司
INTERNATIONAL FINANCE AND TRADE JOINT CO. MACAU

Prepared [REDACTED]

Checked [REDACTED]

Approved [REDACTED]

— = Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 17th JUL 2002

I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Beneficiary EMBASSY OF DPR OF KOREA IN SWEDEN	
Address: (if enquired)	
A/c No. of Beneficiary [REDACTED]	
Name of Receiving Bank BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, NEW YORK FOR CREDIT TO NORDEA BANK SWEDEN AB(PUBL), STOCKHOLM, SWEDEN	
Address of Receiving Bank	
Message (if any) B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-127 MSG: PAYMENT FOR PURCHASE OF BUILDING(UK)	FOR OFFICE USE ONLY
Amount in words & figures (USD.300,000.00) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.	Draft / Ref. No.: BDA/RT/107/4369/02
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.	Paying Agent:
	Rate HK Equivalent
ID / Passport No.: [REDACTED]	Cable / Postage
09:42:24 2002/07/17 T/C: 0130 I.F.I.C. TRD 929 TRFDEP \$300,000.00 USD TRW [REDACTED] TRFWDK \$300,000.00 USD	Commission HK 5208
Tel No.: 373848	Total*

BDA/RE/077/4369/02
Payment of the above remittance by ~~cash~~
 By cash
 By cheque (subject to final clearance)
 Please debit my / our account no. [REDACTED]

I/We hereby agree that this transfer is made subject to the conditions of the reverse side herein.



For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [REDACTED] Checked [REDACTED] Approved [REDACTED]

— = Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

A

Date: 14th AUG 2002

I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Beneficiary EMBASSY OF DPR OF KOREA IN SWEDEN	
Address: (if enquired)	
A/c No. of Beneficiary [REDACTED]	
Name of Receiving Bank BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, NEW	
Address of Receiving Bank YORK FOR CREDIT TO NORDEA BANK SWEDEN AB(PUBL), STOCKHOLM, SWEDEN	
Message (if any) B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-139	FOR OFFICE USE ONLY
MSG: PAYMENT FOR PURCHASE OF BUILDING (UK)	Draft / Ref. No.: BDA / RE/TT / 10027/02
Amount in words & figures (USD.300,000.00)	Paying Agent:
U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.	Rate HK Equivalent
Name of Applicant: INTERNATIONAL FINANCE AND TRADE	Cable / Postage
ID / Passport No.: JOINT CO.	Commission HKD 200/-
09:37:01 2002/08/14 T/C: 013A I.F.T.C.	[REDACTED]
[REDACTED] TRB 929 [REDACTED] TRFBEP \$300,000.00 USD	[REDACTED]
[REDACTED] TRW [REDACTED] TRFWDW \$300,000.00 USD	[REDACTED]
Tel No.: 373848	Total*

BDA/PSE/TTT/10027/02
 By cash
 By cheque (subject to final clearance)
 Please debit my / our account no. [REDACTED]
 [REDACTED]



This transfer is made subject to the conditions printed on the reverse side herein.

Prepared [REDACTED] Checked [REDACTED] Approved [REDACTED]

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

OPE082(01/94)

BRANCH COPY

Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L. Macau

Date: 21st AUG 2002

I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Form with fields: Beneficiary (PERMANENT MISSION OF THE DPR OF KOREA TO NEW YORK USA), Address, A/c No., Name of Receiving Bank (JPMORGAN CHASE BANK, NEW YORK), Address of Receiving Bank, Message (B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-144), Amount in words & figures (USD 300,000.00), Name of Applicant (INTERNATIONAL FINANCE AND TRADE JOINT CO.), ID / Passport No., Tel No. (373848), and a table for Draft / Ref. No., Paying Agent, Rate, Cable / Postage, Commission, and Total*.

09:35:44 2002/08/21 T/C: 013A I.F.T.C. TRB 727 TRF DEF \$300,000.00 USD TRW TRFWDW \$300,000.00 USD

- By cash
By cheque (subject to final clearance)
Please debit my / our account no.
[Redacted]

I/We hereby agree that this transfer is made subject to the conditions of the Agreement herein. Signature of Applicant: [Redacted] INTERNATIONAL FINANCE AND TRADE JOINT CO. MACAU

Prepared [Redacted] Checked [Redacted] Approved [Redacted] For and on behalf of BANCO DELTA ASIA S.A.R.L.

— = Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 30th AUG 2002

I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Beneficiary PERMANENT MISSION OF THE DPR OF KOREA TO NEW YORK, USA	
Address: (if enquired)	
A/c No. of Beneficiary [REDACTED]	
Name of Receiving Bank JPMORGAN CHASE BANK, NEW YORK	
Address of Receiving Bank	
Message (if any) B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-150 MSG: PAYMENT FOR PURCHASE OF BUILDING (CANADA)	FOR OFFICE USE ONLY
Amount in words & figures (USD.300,000.00) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.	Draft / Ref. No.: BDA/RU/DTT/8352/02
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.	Paying Agent:
ID / Passport No.: 09 58:00 2002/08/30 T/C: 013A I.F.T.C.	Rate HK Equivalent
TRD 929 TRFDEP \$300,000.00 USD	Cable / Postage
TRW [REDACTED] TRFWDW \$300,000.00 USD	Commission HK200-
Tel No.: 373848	Total*

BDA/RU/DTT/8352/02 Payment of the above remittance ~~XXXXXX~~

- By cash
- By cheque (subject to final clearance)
- Please debit my / our account no. [REDACTED]
- _____

I/We hereby certify that this transfer is made subject to the conditions printed on the reverse side herein.



For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [REDACTED] Checked [REDACTED] Approved [REDACTED]

OPE082(01/94)

BRANCH COPY

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 3rd SEP 2002

I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Beneficiary EMBASSY OF DPR OF KOREA IN LONDON	
Address: (if enquired)	
A/c No. of Beneficiary [REDACTED]	
Name of Receiving Bank HSBC BANK PLC., NORTH FINCHLEY, 789 HIGH ROAD LONDON N 128 IX UK	
Address of Receiving Bank	
Message (if any) B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF. TTB62-152 MSG: PAYMENT FOR PURCHASE OF BUILDING	FOR OFFICE USE ONLY
Amount in words & figures (USD.300,000.00) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.	Draft / Ref. No.: BDA/RE/OTT/5392/02
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.	Paying Agent:
ID / Passport No.: 09:53:41 2002/09/03 T/C: 013A I.F.T.C.	Rate: HK Equivalent
TRD 929 / TRFDEP \$300,000.00 USD	Cable / Postage:
TRW [REDACTED] TRFWDW \$300,000.00 USD	Commission: HKD 200
Tel No.: 373848	Total*

BDA/RE/OTT/5392/02
Payment of the above remittance ~~is made~~

By cash

By cheque

10:53:41 2002/09/03 T/C: 013A
02090301277930 TRD 915
(Subject to final clearance)

Please debit my/our account
no. [REDACTED]

TRFDEP \$300,000.00 USD
TRFWDW \$300,000.00 USD

I/We hereby request that the transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant

MACAU

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU.

BDA/RE/OTT/5392/02

Prepared [REDACTED]

Checked [REDACTED]

Approved [REDACTED]

OPE082(01/94)

BRANCH COPY

— = Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 9th SEP 2002

I / We request you to send by Demand Draft Telegraphic Transfer Mail Transfer

Beneficiary PERMANENT MISSION OF THE DPR OF KOREA TO NEW YORK USA	
Address: (if enquired)	
A/c No. of Beneficiary [REDACTED]	
Name of Receiving Bank JPMORGAN CHASE BANK, NEW YORK	
Address of Receiving Bank	
Message (if any) E/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-155	FOR OFFICE USE ONLY
MSG: PAYMENT FOR PURCHASE OF BUILDING (CANADA)	Draft / Ref. No.: RAA/K2/OCT/5514/02
Amount in words & figures (USD.400,000.00) U.S. DOLLARS FOUR HUNDRED THOUSAND ONLY.	Paying Agent:
	Rate HK Equivalent
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.	Cable / Postage
ID / Passport No.: [REDACTED]	Commission HKD200
09:47:49 2002/09/09 T/C: 013A I.F.T.C. [REDACTED] TRB 929 TRFDEP \$400,000.00 USD [REDACTED] TRW TRFWDW \$400,000.00 USD	
Tel No.: 373848	Total*

BDANCF/OCT/5514/02

- By cash
- By cheque (subject to final clearance)
- Please debit my / our account no. [REDACTED]
- [REDACTED]

I/We hereby request that the transfer is made subject to the conditions printed on the reverse side herein.



For and on behalf of
BANZO DELTA ASIA S.A.R.L.
MACAU

Prepared [REDACTED]

Checked [REDACTED]

Approved [REDACTED]

OPE082(01/94)

BRANCH COPY



UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

June 7, 2007

By Hand Delivery

Mr. Ad Melkert
Associate Administrator
United Nations Development Programme
One United Nations Plaza, Room 2118
New York, New York 10017

Dear Mr. Melkert:

Thank you for taking the time to meet with me today and for the meeting with Mr. Dervis yesterday. As promised we are providing specific information related to our concerns. Because of the detailed nature of our concerns, for your convenience I have outlined the points that we raised today in this letter.

As you know the United States is greatly concerned with the operations of UNDP in various country programs including in the DPRK.

The United States is concerned about UNDP transactions on its own behalf or on behalf of other UN organizations with two entities in particular. One is an entity known as Zang Lok Trading Co. (Zang Lok) and the other is International Finance and Trade Joint Co. (IFTJ). Both are based in Macau.

Zang Lok has ties to a North Korean entity that has been designated under United States laws (E.O. 13382) as the main North Korean financial agent for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons.

As to IFTJ, we have learned that the DPRK between April and September 2002 directed sizeable transfers of UNDP funds through Banco Delta Asia (BDA) bank accounts controlled by IFTJ in Macau. UNDP made certain direct Electronic Funds Transfer (EFT) payments to the DPRK's National Coordinating Committee for UNDP (NCC-UNDP) in 2001-2002 (and at other times) which then instructed IFTJ to forward these funds onward to various DPRK embassies outside of DPRK in order to purchase buildings and houses. As you may know, the U.S. Treasury Department in September 2005, designated BDA as a primary money laundering concern in part because of its role

Permanent Subcommittee on Investigations

EXHIBIT #12

over a number of years in facilitating illicit financial transactions on behalf of DPRK entities.

- Because of our concern, please provide information on all transactions including, the total number of transactions, the nature of each such transaction (including any items procured) and the amounts of all such transactions UNDP engaged in on its own or on behalf of other UN organizations with these entities from 1998 until the present.
- Please describe how such fund transfers were deemed to be consistent with the UNDP DPRK country program. Please provide this information for particularly the DPRK country program and for any and all other country programs as well.
- In addition, please provide a copy of the Memorandum of Understanding (MOU) and or any other contract(s) that govern the terms of such transactions with IFTJ or Zang Lok.
- Finally, we request that UNDP cease doing business with IFTJ and Zang Lok.

The United States is concerned with UNDP's purchase of equipment that has "dual use" capability (legitimate civilian use and military and weapons proliferation use) for the DPRK government purportedly under the stewardship of the UNDP DPRK country program. For example it appears that on May 13, 2006 UNDP procured and delivered a sophisticated Global Positioning Equipment (GPS) system, a portable high-end mass spectrometer, and a large quantity and variety of high specification computer equipment. UNDP purportedly acquired such equipment for an "Agricultural Assistance Project for Landscaping" (the "Landscaping Project"). The UNDP DPRK country program for 2005-2008 as approved in 2004 contains no mention of such a Landscaping Project¹ nor that UNDP would acquire such "dual use" equipment for the DPRK.

- Because of our concern, please provide information on all transactions including, the total number of transactions, the nature of each such transaction (including a description of any items procured) and the amounts of all such transactions in which UNDP acquired "dual use" equipment on behalf of the DPRK from 1998 until the present.
- As you are aware such "dual use" equipment is subject to U.S. export control laws. Accordingly, please provide copies of any and all U.S. export licenses that UNDP obtained for these transactions.
- As you are aware, the United States assumes that all UN organizations that are headquartered in the U.S., including UNDP, to comply with U.S. export control laws and regulations.

As you are aware the United States is deeply concerned with the illegal counterfeiting of United States currency. On February 15, 2007 you advised me that

¹ The country program does state generally UNDP's intention to "improve agricultural production for food safety and environmental sustainability."

UNDP was in possession of suspected counterfeit U.S. dollar bank notes that were subsequently delivered to the United States Secret Service.

- As part of our inquiry into this matter, please provide copies of any and all UNDP documents including but not limited to safe content records, letters, emails, memorandums, payment vouchers, in either paper or electronic form that arise out of or relate in any way to UNDP's receipt, retention, disclosure, and turnover of such suspected counterfeit bank notes to the United States.
- In addition please provide copies of any and all UNDP internal documents, in either paper or electronic form that arise out of or relate in any way to any UNDP transaction or activity involving actual or suspected counterfeit U.S. currency.

As you are further aware UNDP frequently sponsored international travel for DPRK officials. In a variety of instances UNDP's locally hired employees (seconded from the DPRK government), appears to have "withdrawn" counterfeit U.S. currency from UNDP's account at the DPRK's Foreign Trade Bank (FTB) for such travel even after UNDP purportedly stopped using U.S. dollars in the DPRK country program in 2002. After 2002, UNDP did not maintain a U.S. dollar account in the FTB, but rather solely maintained euro and won accounts. In instances wherein UNDP delivered U.S. dollars to DPRK officials, the FTB charged UNDP two (2) payment transaction charges rather than the typical single payment-handling fee. The two (2) payment transaction charges appear to reflect a payment-handling fee and a currency conversion fee to convert UNDP euros to dollars at the FTB in Pyongyang.

- Please provide the total number and total amount of individual UNDP payments wherein the DPRK FTB charged UNDP two (2) separate payment transaction charges.
- Please describe the reason for FTB's charge and UNDP's payment of two (2) separate payment charges for all such transactions.
- Please describe why UNDP provided U.S. dollars to DPRK officials in Pyongyang for travel (or for any other reason) after 2002 when euro currency is negotiable worldwide.
- Please provide any and all information as to UNDP's knowledge or suspicion of the use of counterfeit U.S. dollars in such transactions.

The United States is concerned that UNDP procured for the DPRK 29 arms control negotiation and other foreign policy related books for the DPRK as recently as March of this year purportedly for a "Capacity Building in Arms Control and Disarmament Project" (the "Project"). The UNDP DPRK country program's from 2001 to the present do not contemplate nor authorize such a Project.²

² The 1997-1999 UNDP DPRK country program does refer to a program entitled "Disarmament and Peace Institute Project," but it does not reference such book purchases.

- Because of our concern, please provide a description of the rationale and justification for the Project and for the book purchases.
- In addition please provide an explanation of how such a Project and book purchases fall under the scope of the UNDP DPRK country program. Finally, please provide a detailed description of all Project activities and the total amount expended under the "terms" of the Project since 1998.


In our meeting with Kemal Dervis yesterday, we also briefly discussed the audit. Mr. Dervis suggested that although the Board of Auditors (BOA) Preliminary Review found that UNDP in the DPRK country program did pay in hard foreign currency, staffed its office with DPRK government seconded officials and that DPRK restricted site visits to country projects, that the UNDP Executive Board approved each of the three aforementioned actions and deviations from such rules.

As I indicated, the United States, an Executive Board member, is unaware of any time when such activities were presented and or approved by the Executive Board. Moreover, we have reviewed past Executive Board documents and cannot find any such references. Mr. Dervis indicated that UNDP would provide us with the Executive Board documents that inform of and authorize each of the three aforementioned activities. Therefore, we look forward to receiving such past Executive Board documents from UNDP.

Finally, I look forward to your response to my letter to you of May 14, 2007.

We appreciate all of your help and thank you for your attention to this matter.

Sincerely,



Mark D. Wallace
Ambassador

Business Card of IFTJ Employee Dated July 24, 2001

Business Card of Employee #2, Reflecting Employment with FTB Dated July 24, 2001



INTERNATIONAL FINANCE AND TRADE JOINT CO.



24/7/01

Head Office:
Av. do Our. Arriaga 35,
Edif. Tat Fong 1-B Macau
Tel: (853) 363847
Fax: (853) 376849
Tlx: 88634 IFTC OM

Zhuhai Office:
7/F A,B, No. 16 Building,
Huating Garden, East Shihua Road,
Jida, Zhuhai, China.
Tel: 3355481, 3355295 Fax: 3355482
Tlx: 456317 IFTC CN

THE REPRESENTATIVE OFFICE OF THE
FOREIGN TRADE BANK OF DPR
OF KOREA, ZHUHAI, CHINA



Chief Representative

Zhuhai office: 7/F A, B, No. 16 Building, Huating Garden,
East Shihua Road, Jida, Zhuhai, China
Tel: 3355481, 3355295 Fax: 3355482
Mobile: 13802678062
Tlx: 456317 IFTC CN

24/7/01

Permanent Subcommittee on Investigations

EXHIBIT #14

Letter Identifying Employee 3 as an Employee of International Trade & Finance Joint Co.
(IFTC/IFTJ) (Dated July 2003)

FROM :

FRAX NO. :

Jul. 31 2003 12:22PM P1



INTERNATIONAL FINANCE AND TRADE JOINT CO.

Av. da Praia Grande No.405, China Law Building 20-andur-B, Macau

Tel: 88634 IFTC OM

Tel: 373847,373848 Fax: 373849

To : Delta Asia Financial Group – Delta Asia Credit Limited
C.C. : Banco Delta Asia S.A.R.L., Macau – Mr. Edward Ngou
IFTC, Zhuhai – [REDACTED]
Date : 31st July 2003

Re : New arrangement

Dear Sirs,

Regarding to our arrangement of the Foreign Exchange and Gold/Silver dealing, please kindly to adjust with the following details and effective from 1st August 2003:

The authority of [REDACTED] has been cancelled and Mr. Kim Tong Chol will instead of him. The dealers are [REDACTED] and Mr. Kim Tong Chol now.

Thanks for your kind attention in this matter.

Yours truly,



Authorized Signatures

Permanent Subcommittee on Investigations

EXHIBIT #15a

Excerpt of Fax Identifying Employee 3 as a Senior Member of a Delegation from FTB
(Dated September 2003)

00111 00111

19

EN

To: Mr. David Lam

Fr: Vivian Wong

[REDACTED]

Re: Name List of FTB Delegation to Macau

1. Mr. O Kwang Chol President
2. Ms. Pak Sun Ae General Director
3. Mr. Pae Je Gang Senior Manager
4. [REDACTED] [REDACTED]



22 January 2007

Dear Members of the Executive Board,

In view of the forthcoming Executive Board session on the DPRK country programme on Thursday 25 January 2007 I would like to provide you with some supplementary information to aid the discussion and to allay any concerns which may have emanated from the Wall Street Journal article on DPRK of 19 January 2007.

Please do not hesitate to let me know should you require further clarifications.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kemal Derviş', is written over the typed name.

Kemal Derviş

Members of the UNDP Executive Board



Note for the UNDP Executive Board
UNDP Position on the Democratic People's Republic of Korea (DPRK) Country Programme and Operations

1. UNDP operations in DPRK:

UNDP is implementing the DPRK programme in accordance with the decisions of the entire Executive Board and with the resolution passed recently by the UN Security Council. There are a number of formal safeguards in place to ensure that implementation is in compliance with existing rules and regulations, including the opportunity for the UN Member States to raise audit issues on country programme implementation on the basis of the annual report by the UN Board of Auditors. These procedures serve both as an oversight mechanism and as a safeguard for UN country staff, particularly staff that are performing duties in the most difficult of circumstances.

Circumstances in countries vary tremendously. Yet there is, and should continue to be, a single set of procedures that our operations adhere to. The Administrator and Associate Administrator do not tolerate exceptions to the standard norms in country programme implementation. Since the country programme is owned by the programme country this requires full compliance from the latter's side in order to enable agencies, funds and programmes to do their work. In the particular circumstances that define the options for implementation of the DPRK country programme by UNDP, the fundamental question is whether there is a role for UNDP at all, or for that matter other UN agencies. Whilst this is a decision for the Executive Board, we would like to emphasize that UNDP staff are in North Korea because, to date, the entire Executive Board has expressed the wish for us to be there.

2. Use of hard currency:

The financial management of our programmes is governed by the UNDP Financial Rules and Regulations. Financial Regulations were approved in the Executive Board decisions 2000/4 and 2005/17. These do not stipulate specific requirements with regard to the utilization of currencies. The decision regarding the choice of currencies utilized is made by the head of each Country Office. This is included in an internal instruction issued by the Director of the Bureau of Management (BOM). The Director of BOM has been delegated authority by the Administrator to issue instructions of this nature. As a result, written waivers regarding utilization of currencies are not required by the UNDP programme in DPRK. In the internal manual on administration and management Country Offices are encouraged to utilize local currencies as circumstances permit, thereby ensuring adequate use of accumulated local currencies and furthermore mitigating risks of devaluation. Parenthetically current payments in hard currency only refer to Euros.

The UNDP Executive Board at its regular session in 2005 on 28 January 2005 took note of the current DPRK Country Programme (2005-2006) in its decision 2004/41 without a specific reference to the utilization of hard currency, generally or by category.

There is not formal requirement to pay local expenditures exclusively in local currency, although Country Offices are encouraged to utilize local currencies as circumstances permit.



To further clarify the issue of the use of hard currency: either we pay our local staff and contractors in Euros or we exchange Euros for North Korean Won via the central bank. To mitigate possible misperceptions about paying euros directly to national staff, we decided to change our policies in mid-December and will no longer be making direct payments in hard currency to government, national partners, local staff and local vendors as of 1 March 2007. However, the fact remains that UNDP, and any other international entity working in DPRK, must purchase local currency from the DPRK Central Bank.

3. Recruitment of local staff:

The local situation in DPRK is the same for UNDP as for diplomatic missions, international organizations and NGOs in DPRK: we are subject to service agreements with the government on national staff provision. The pertinent point is whether we would want to continue this situation. It is clear that we do not want this practice to continue as of mid-December we have decided to discontinue sub-contracting of national staff via government recruitment and we have informed the DPRK government of this decision.

4. Content of the proposed country programme in DPRK:

The country programme for DPRK before you was based on the assumption of a transition to a stage of institutional development. However, in the given circumstances, we would be ready to further reconsider the content of the programme, and make necessary adjustments to the contents of the proposed programme, namely to confine our support to more narrowly circumscribed human development objectives and submit this for consultation with the DPRK government.

5. Oversight of the programme:

On the basis of the most recent audits conducted in 1999, 2001 and 2004 we have no reason to believe that our programmes were subverted to fund non-legitimate activities.

In terms of oversight of the programme in DPRK over the years, UNDP has put in place audits and has made continuous adjustments to tighten our systems and controls while working in difficult circumstances. In addition additional measures have been put in place to strengthen monitoring and evaluation of the DPRK country programme.

Out of eleven ongoing projects that are nationally executed, nine are, de facto, directly executed by UNDP in the form of country office support to NEX. Accordingly, UNDP financial, procurement and personnel policies have been applied to their implementation, including a review by the Local Contracts, Assets and Procurement Committee as necessary. For two NEX projects, advances have been given on a quarterly basis, and reporting has been received from project authorities on the amounts spent as per UNDP programme procedures. No advances have been made for any other ongoing NEX project. All advances to the government have been discontinued as of January 2007. Importantly the total of transfer payments for 2005/06 is, to be precise, US\$337,701.28.

Senior management recognize the need for increased caution in the post-sanctions environment and we therefore intend to seek confirmation that the future country programme would be in accordance with Security Council Resolution 1718.



There has been a noticeable improvement in the implementation of audit recommendations between 1999 and 2004. The internal auditors' count shows that meaningful follow-up was given to the many audit recommendations, with a remarkable decrease in the apparent need for recommendations in 2004 as opposed to the high numbers in 1999 and 2001

Status Summary	Implementation of Recommendations for Audit Report RCM0018* (issued Aug 1999) as at 30 June 2000	Implementation of Recommendations for Audit Report RCM0081* (issued Jul 2001) as at December 2006	Implementation of Recommendations for Audit Report RCM0148 (issued Sept 2004) as at December 2006
Implemented	17	27	8
In progress	11	7	4
Not implemented	3	3	1
Unclear	N/A	0	0
Not applicable	N/A	1	1
Total no. recommendations	31	38	14

* the audits conducted in 1999 and 2001 were carried out by the audit firm KPMG (based in Malaysia)

While this does not indicate that everything is perfect, it underscores the serious effort made to ensure effective oversight, despite a less than conducive environment. Moreover the recommendations have identified fundamental issues that needed to be addressed beyond the existing framework of cooperation with DPRK, i.e. direct payments in hard currency to government, national partners, local staff and local vendors and sub-contracting of national staff via government recruitment. As indicated above we have decided to discontinue both practices.

Consistent with UN system-wide policies and practices as articulated in May 2005 by the UN Chief Executives' Board's High Level Committee on Management, internal audit reports are important management tools for Executive Heads and therefore confidential. The United Nations Board of Auditors, has full access to all internal audit reports, and includes their findings as needed in its publicly-available annual report to the General Assembly. However, we are currently in discussion with the UNDG ExCom heads on the most appropriate way forward to ensure increased direct access to audits findings for Board Members.

6. UNDP programme and office disbursements in DPRK

Different media references have been made on the total size of UNDP's programme and office expenditure in DPRK, some widely exaggerated. On the basis of data that have been provided to date we can say that over the period of the past ten years the average of annual UNDP disbursement has been around \$3.6 million per year. This is, on average, approximately 50% less than the ceilings approved by the Board which further indicates the high complexity of operating in DPRK.



As of 21 January 2007 the following breakdown was available:

UNDP DPR KOREA Country Programmes

Programme Cycle	Approved Programme (in US\$000)	Actual Disbursements (in US\$000)
1997-2000	17.344	15.959
2001-2004	19.783	6.696
2005-2006	22.220	6.451*
	Total: \$59.347 m Board Approved Programmes	Total Amount delivered \$29.106 m

* Preliminary figures in 2006: budgets are not yet closed

UNDP DPRK Programme and Office Support Budget Disbursements*

	Total Programme	Office Support Budget	Total
1997	5,895,584		5,895,584
1998	6,374,049	773,042	7,147,091
1999	1,596,522	815,255	2,411,777
2000	2,093,103	500,339	2,593,442
2001	1,514,645	447,930	1,962,575
2002	1,829,752	667,170	2,496,922
2003	2,259,861	732,680	2,992,541
2004	1,092,000	903,000	1,995,000
2005	3,169,000	426,000	3,595,000
2006 EST	3,282,000	1,046,000	4,328,000
Total	29,106,516	6,311,416	35,417,932

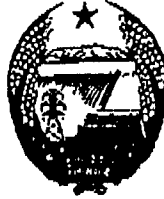
*includes disbursements outside of DPRK.

** full data still to be confirmed: assumed to be approximately the same magnitude as 1998

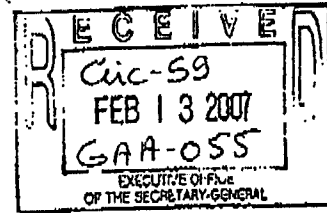
7. The way forward

In order to fully review our operations in DPRK we would welcome a full independent and external audit of the current programme in DPRK within the overall framework and possibly in addition to what will be outlined by Secretary-General Ban Ki-moon regarding the Funds and Programmes more generally. We would like to suggest that the Executive Board provides us with the necessary guidance on the modalities of such an audit at the most appropriate time.

22 January 2007



조선민주주의인민공화국
유엔주재 상임대표부



Democratic People's Republic of Korea
PERMANENT MISSION TO THE UNITED NATIONS
820 Second Avenue, 13th Floor, New York, NY 10017
Tel: (212) 972-3105/3108 Fax: (212) 972-3154

New York, February 13, Juche 96(2007)

Excellency,

I have the honour to refer to the external audit on the question of UN agencies' aid projects for the Democratic People's Republic of Korea (DPRK) and clarify the views on it.

The DPRK has maintained good relations of cooperation with different UN agencies for several decades.

It is well-known the aid projects of UN agencies including the United Nations Development Programme (UNDP) in the DPRK have been carried out in a fair and transparent way, in conformity with the UN regulations. Therefore, we do not mind whether the external audit is being done or not.

However, the audit was proposed at the time when the US alleged the misuse of UNDP aid funds in the DPRK and we can not but doubt that the motive and purpose of audit are strictly in line with the US hostile maneuvers against the DPRK.

Last January, from dirty political motives, the US fabricated lies that the DPRK might have used the UNDP aid funds for the development of nuclear weapons without foundation and demanded investigation on the UNDP aid activities in the DPRK.

As the UNDP has denied, the US allegations are sheer fiction aimed at politicizing international aid to the DPRK.

We have already made clear that it is the DPRK's consistent position to continue the cooperation with the UN agencies. But if the above mentioned external audit is to serve the US attempt to politicize international aid to the DPRK, we will not tolerate it and the consequences will be severe.

I should be grateful if you would have the present letter circulated as a document of the General Assembly under agenda item 53 "Sustainable development" and item 58 "Operational activities for development: operational activities for development of the United Nations System".

H.E. Mr. Ban Ki-moon
Secretary-General
United Nations

Office of the Administrator	
Correspondence	
Log no: 38514	Date: 15/2
To: GF/AV1	
<input type="checkbox"/> Draft reply for A/AA	
<input type="checkbox"/> Direct reply with copy to OA	
<input checked="" type="checkbox"/> Direct action	
Deadline:	
Or Local Point:	
cc: DK/WD TG/HA	

Pak Gil Yon
Ambassador
Permanent Representative

Redacted By
Permanent Subcommittee
on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #17

Transaction Details for TRN: 4039900233fc Region: US

Instruction Date: 8/21/2002
Payment Date: 8/21/2002
Transaction Amount: \$299,980.00
Transaction Type: CHC
Customer Swift ID:
Debit Fin Entity: 01
Credit Fin Entity: 01
Credit Reference: RE65138/02
Debit Reference: [REDACTED]
Sender's ID:
Bene Flag:

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Order Party: INTERNATIONAL FINANCE AND TRADE
JOINT CO.

Order Bank: BANCO DELTA ASIA S.A.R.L.
MACAU BRANCH
MACAU MACAU

Debit Party: [REDACTED]
WACHOVIA NY INTL
I.C.S. CLEARANCE ACCOUNT
180 MAIDEN LANE
NEW YORK NY 10038

Details of Payment: B O NATIONAL COORDINATING
COMMITTEEFOR UNDP,REF.TTB62-144
MSG:PAYMENT FOR PURCHASE OF
BUILDING (CANADA)

Credit Party: [REDACTED]
PERMANENT MISSION OF THE DPR OF KOR
TO THE UN
820 SECOND AVENUE 13TH FL
NEW YORK NY 10017

Transaction Details for TRN: 4862900242fc Region: US

Instruction Date: 8/30/2002
Payment Date: 8/30/2002
Transaction Amount: \$299,980.00
Transaction Type: CHC

Customer Swift ID:

Debit Fin Entity: 01

Credit Fin Entity: 01

Credit Reference: RE65352/02

Debit Reference: [REDACTED]

Sender's ID:

Bene Flag:

Order Party: INTERNATIONAL FINANCE N TRADE JOINT
CO.

Order Bank: BANCO DELTA ASIA S.A.R.L.
MACAU BRANCH
MACAU MACAU

Debit Party: [REDACTED]
WACHOVIA NY INTL
I.C.S. CLEARANCE ACCOUNT
180 MAIDEN LANE
NEW YORK NY 10038

Details of Payment: B O NATIONAL COORDINATING
COMMITTEEFOR UNDP, REF.TTB62-150
MSG:PAYMENTFOR PURCHASE OF
BUILDING(CANADA)

Credit Party: [REDACTED]
PERMANENT MISSION OF THE DPR OF KOR
TO THE UN
820 SECOND AVENUE 13TH FL
NEW YORK NY 10017

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

Transaction Details for TRN: 4289100252fc Region: US

Instruction Date: 9/9/2002
Payment Date: 9/9/2002
Transaction Amount: \$399,980.00
Transaction Type: CHC
Customer Swift ID:
Debit Fin Entity: 01
Credit Fin Entity: 01
Credit Reference: RE65514/02
Debit Reference: [REDACTED]

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

Sender's ID:
Bene Flag:
Order Party: INTERNATIONAL FINANCE N TRADE JOINT
CO.
Order Bank: BANCO DELTA ASIA S.A.R.L.
MACAU BRANCH
MACAU MACAU
Debit Party: [REDACTED]
WACHOVIA NY INTL
I.C.S. CLEARANCE ACCOUNT
180 MAIDEN LANE
NEW YORK NY 10038
Details of Payment: B O NATIONAL COORDINATING
COMMITTEEFOR UNDP, REF,TTB62-155
MSG:PAYMENTFOR PURCHASE OF
BUILDING(CANADA)
Credit Party: [REDACTED]
PERMANENT MISSION OF THE DPR OF KOR
TO THE UN
820 SECOND AVENUE 13TH FL
NEW YORK NY 10017

UNIVERSITY	FILE: PRK 41524
DATE: 13 MAR 2007	
ACTION	
RR	
DRR(P)	
DRR(O)	
ARR(P)	
ACTION COMPLETED	

ELSINGOR SA

TEL: 86 10 6504 4708 FAX: 86 10 6591 2102 E-MAIL: wjh@ivk@public.bta.net.cn

United Nations Development Programme
 UNDP DPRK
 Mr Tino Pakkala, Resident Representative,
 Mansudong, Pyongyang, PO BOX 27
 Democratic People's Rep of Korea
 Tel:+8502 381 7566, Fax:+8502 381 7587

Packing list

Date : 09th March 2007,

Ref: PO, PRK 10-000000748

Packing list number : B-0703013,

1 Page,

We have purchased and are delivering, as per your Purchase Order number PRK 10-000000748 received by e-mail dated 18/12/2006 the following publication items :

List of Publications order in your e-mail dated Monday 18 December 2006 :

- Alexander T.J.Lenhon & Camille Eix (ed), *Reshaping Rouge States*, 2004, MIT Press
- Alexander T.J.Lenhon (ed), *Contemporary Nuclear Debates*, 2002, MIT Press
- Joseph Cincione, Jon B.Wolfstiel, & Miriam Rajkumar, *Deadly Arsenal: Nuclear, Biological & Chemical Threats*, Carnegie Endowment for International Peace, 2005; David M.Malone, *The International Struggle over Iraq, Politics in the UN Security Council 1980-2005.06*
- Chao-Jin Lee, *The Troubled Peace: U.S. Policy and the Two Koreas*, Johns Hopkins U.Press, 05
- Morton Abramowitz & Stephen Dorworth, *Changjin Sun Rethinking East Asian Policy*, Century Foundation Press, 06.
- Edward Friedman & Bruce Gilley (eds.), *Asia's Giants: Comparing China & India*, Palgrave Macmillan, 06.
- The Center for Strategic & International Studies & the Institute for International Economics, *China: the balance sheet, What the World needs to know now about the emerging Superpower*, 2006 Public Affairs
- Peter W. Galbraith, *The End of Iraq: How American Incompetence Created a War Without End*, Simon & Schuster, 06
- Jacques E.C.Hymans, *The Psychology of Nuclear Proliferation: Identity, Emotions, and Foreign Policy*, Cambridge U.Press, 06
- Thomas E. Ricks, *Finco: The American Military Adventure in Iraq*, Penguin Press, 06.
- Francis Fukuyama (ed), *Nation-Building Beyond Afghanistan & Iraq*, Johns Hopkins U.Press, 05
- James Risen, *State of War: The Secret History of the CIA & the Bush Administration*, Free Press, 06
- Keith A. Houston, *The Outrageous Nuclear Test Ban Treaty: An Insider's Perspective*, Stanford U.Press, 06
- Eric Terzolis, *NATO & Weapons of Mass Destruction: Regional Alliances, Global Threats, Knowledge*, 05.
- Anne Westad, *The Global Cold War: Third World Interventions & the Making of Our Times*, Cambridge U.Press 05
- Sugol Bose, *A Hundred Horizons: The Indian Ocean in the Age of Global Empire*, Harvard U.Press, 06
- David Shambaugh (ed), *Power Shift: China & Asia's New Dynamics*, U California Press, 06.
- Stephen M. Walt, *Taming American Power: the Global Response to US Primacy*, Norton, 2005.
- Simon Chesterman, Michael Ignatieff, & Rakesh Thakur (ed), *Making States Work: State Failure & the Crisis of Governance*, United Nations U. Press
- Rafiah Rajagopalan, *Second Strike: Arguments About Nuclear War in South Asia*, Penguin Books India, 05
- Ho-Won Jeong, *Peace building in Post-conflict Societies: Strategy and Process*, Lynne Rienner, 2005
- Andra Kathryn Talonino, *Military Intervention After the Cold War: The Evolution of Theory & practice*, Ohio U Press, 05
- Jack Covey, Michael D'Ardeio and Leonard Howley (eds), *The Quest for Viable Peace: International Intervention and Strategies for Conflict Transformation*, U.S. Institute of Peace Press, 2005
- Avery Goldstein, *Rising to the Challenge: China's Grand Strategy & International Security*, Stanford U. Press
- Miroslav Nijacic, *Renegade Regimes: Contesting Deviant Behavior in World Politics*, Columbia U.Press 05
- Heyman, Philip B. and Juliette N. Kayyem, Cambridge, Mass: *The MIT Press*, Sept 05.
- Mansfield, Edward D. & Jack Snyder, *Electing to Fight: Why Democracies Go to war*, Cambridge, The MIT Press, Sept 05
- Thomas Graham, *Disarmament Sketches: Three Decades of Arms Control & International Law*
- Lawrence S. White, *Toward Nuclear Abolition: A History of the World Nuclear Disarmament Movement, 1971 to the present (Struggle against the bomb, Vol.3)*

For above list of publications packed in : 1 carton of Total Gross Weight : 17,80kg & volume 0,09m3

All publications to be delivered DES UNDP Pyongyang (or UNDP Beijing Office).

We thank you for your confidence & good cooperation.

Permanent Subcommittee on Investigations
EXHIBIT #19

May 30, 2007

List of Books UNDP Procured for the DPRK in March 2007

1. Reshaping Rogue States, Alexander T. J. Lennon, 2004
2. Contemporary Nuclear Disputes, Alexander T. J. Lennon, 2002
3. Deadly Arsenals: Nuclear, Biological & Chemical Threats, Carnegie Endowment for International Peace, Joseph Cirincione, 2005
4. The International Struggle over Iraq, Politics in the UN Security Council, David Malone, 2005
5. The Troubled Peace: US Policy and the Two Koreas, Chin-Jin Lee, 2006
6. Chasing the Sun: Rethinking East Asian Policy, Morton Abramowitz, 2006
7. Asia's Giant: Comparing China & India, Edward Friedman, 2006
8. China: The Balance Sheet; What the World Needs to Know about the Emerging Superpower, The Center for Strategic and International Studies and the Institute for International Economics, 2006
9. The End of Iraq: How American Incompetence Created a War without End, Peter W. Galbraith, 2006
10. The Psychology of Nuclear Proliferation: Identity, Emotions and Foreign Policy, Jacques Hymans, 2006
11. Fiasco: The American Military Adventure in Iraq, Thomas Ricks, 2006
12. Nation-Building: Beyond Afghanistan and Iraq, Francis Fukuyama, 2005
13. The Secret History of the CIA and the Bush Administration, James Risen, 2006
14. The Comprehensive Nuclear Test Ban Treaty: An Insiders Perspective, Keith Hansen, 2006
15. The Global Cold War: Third World Interventions and the Making of our Times, Anne Westad, 2005

May 30, 2007

List of Books UNDP Procured for the DPRK in March 2007

16. A Hundred Horizons: The Indian Ocean in the Age of Global Empire, Sugat Bose, 2006
17. Power Shift: China and Asia's New Dynamics, David Shambaugh, 2006
18. Taming American Power: the Global Response to US Primacy, Stephen Walt, 2005
19. Making States Work: State Failure and the Crisis of Governance, Simon Chesterman
20. Second Strike: Arguments about Nuclear War in South Asia, Rajesh Rajagopalan, 2005
21. Peace-building in Post Conflict Societies Strategy and Process, Hu-Won Jeong, 2005
22. Military Intervention after the Cold War: The Evolution of theory and Practice, Andra Kathryn Talentino, 2005
23. The quest for visible peace. International Intervention and Strategies for Conflict Transformation, Jock Covey, 2005
24. Rising to the Challenge: China's Grand Strategy and International Security, Avery Goldstein
25. Renegade regimes: Confronting Deviant Behavior in World Politics, Miroslav Nincic, 2005
26. [Article or Book] by Phillip B. Hoyman, the MIT Press, 2005
27. Electing to Fight: Why Emerging Democracies Go to War, Edward Mansfield, 2005
28. Three Decades of Arms Control and International Law, Thomas Graham
29. Toward Nuclear Abolition. A History of the World Nuclear Disarmament Movement, Lawrence Wittner, 1971