

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN THE**

**ISLAMIC REPUBLIC OF IRAN**

**Report No. 1991**  
**Issue Date: 6 September 2018**

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## Report on the Audit of UNDP Islamic Republic of Iran Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Islamic Republic of Iran (the Office) from 19 June to 2 July 2018. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) governance (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2017 to 31 May 2018. The Office recorded programme and management expenses of approximately \$15 million. The last audit of the Office was conducted by OAI in 2015.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed the Office as **partially satisfactory/major improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to the Country Programme Document not aligned with the prevailing resources framework and the funding environment outlook, the programme delivery notably behind target at 18% of the RBAP internal delivery target as of mid-year.

**Key recommendation:** Total = 4, high priority = 1

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	High
Reliability and integrity of financial and operational information	2	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 4	Medium

For high (critical) priority recommendation, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Country Programme Document results not aligned with current resources framework (Issue 1)

According to the 2017-2021 Country Programme Document (CPD), the total budget is \$126.7 million, of which 98 percent is to be mobilized externally. Government cost-sharing accounts for 59 percent of this, GEF 19 percent and Government of Japan 9 percent. The Office as of June 2018, the Office had mobilized \$27 million (21 percent) of the CPD target, mainly from vertical funds (other than GEF). It is unlikely to mobilize the GEF funding (\$24 million) due to upcoming sanctions, and access to Government Cost-Shared (GCS) funding (\$75 million) has been curtailed due to government reticence currently blocking already committed GCS and withholding new agreements. This created high uncertainty on the funding outlook of the programme portfolio which may result in the Office not being able to meet up to 78 percent (GCS and GEF) of the current CPD resource target. Taking into account the prevailing funding constraints and the funding environment outlook, the Country Programme Document's budgeted delivery appears to be unrealistic and the programme results targets may not be achievable.

Recommendation: The office, in collaboration with RBAP should (a) expedite consultations with relevant national partners to urgently resolve the issue of access to government cost sharing funds; (b) speed up implementation for the remainder of the year; and (c) align the CPD with a more realistic resources availability and result targets during the mid-term review of the Country Programming Document expected to take place mid-2019.

**Implementation status of previous OAI audit recommendations:** Report No. 1538 – country office audit, (issued on 24 November 2015) and Report No. 1539 – Global fund audit (issued on 6 November 2015) had 12 and 3 audit recommendations, respectively which have been implemented.

### Management comments and action plan

The Resident Representative and Deputy Director of Regional Bureau for Asia and the Pacific accepted all four recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten  
Director  
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## I. About the Office

The Office, located in Tehran, Islamic Republic of Iran, operates in a complex and challenging environment and has been subjected to sanctions imposed by a UN member state. All these factors have indirectly impacted the Office's programme delivery and operating costs. The Office indicated that these factors restricted procurement opportunities, made it more difficult to access banking services, limited the amount of resource mobilization opportunities and funding, and caused delays in obtaining necessary clearances from countries exporting goods procured for projects. The current country programme cycle runs from 2017 to 2021.

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Human resource Management: Adequate controls were established based on the review of a sample of recruitments, separations of various contract modalities.
- (b) General Administration: Adequate controls have been established which are functioning effectively.
- (c) Safety and security: No reportable issues were found in the review of the Office's security plan and security risk assessment.
- (d) Information and communication technology: The audit reviewed software and hardware management, the disaster recovery plan, and included a visual inspection of the Office's servers. No reportable issues were identified.
- (e) Financial management: Adequate controls were established except for management of the GLOC as per issue 2 below.

OAI made one recommendation ranked high (critical) and three recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

### High priority recommendation:

- (a) Resolve Government cost sharing concerns, revise resource mobilization plan and review country programme document to revise resource framework (Recommendation 1).

### Medium priority recommendations, arranged according to significance:

- (a) Seek guidance from the Legal Office and Office of Financial Resources Management as well as engage with the Government to revise terms of the agreement which has been signed on Government's Contribution to Local Office Costs (GLOC) and recover outstanding GLOC for 2012 to 2015 (recommendation 2)
- (b) Pursue the implementation of harmonized Approach to Cash Transfer and ensure all its requirements are met (Recommendation 4)
- (c) Adhere to UNDP guidelines when using individual contract modality to ensure compliance to requirements for competitive selection (Recommendation 3)

The detailed assessment is presented below, per audit area:

## A. Programme

### Issue 1 Country Programme Document results not aligned with current resources

The UNDP Partnership Guidelines require offices to mobilize resources for the effective implementation of programme objectives.

The Office resources and programme delivery decreased from 2015 to 2018, as follows:

**Table 2: Programme financial resources and expenditure (\$ millions)**

Details	2015	2016	2017	2018 (to June 2018)
Programme Resources	17.7	13	12	9.7
Programme Budget	15.9	11.4	10.1	10.8
Internal programme delivery target	Not available	Not available	9.6	16.9
Programme Delivery	13.4	8.8	9.6	3.1

Source: Executive Snapshot and Country Office

The Office continued to face challenges in implementing its resource mobilization strategy and marshalling adequate levels of funding to support its interventions. According to the 2017-2021 Country Programme Document (CPD), the total budget was \$126.7 million, of which \$124.2 million or 98 percent was to be mobilized.

Of the \$124.2 million to be mobilized, Government Cost-Charging (GCS) accounted for 59 percent, Global Environmental Finance (GEF) 19 percent and Government of Japan 9 percent. Contrary to expectations at the time the CPD was agreed, the Office was unlikely to mobilize the GEF funding (\$24 million), due to upcoming sanctions not known when the Office included the GEF funding into the budget. Access to GCS funding (\$75 million) has been curtailed due to government reticence currently blocking already committed GCS and withholding new agreements. This created high uncertainty on the funding outlook of the programme portfolio which may result in the Office not being able to meet up to 78 percent (GCS and GEF) of the current CPD resource target.

For June 2018, the programme delivery at \$3.1 million was notably behind the target of \$16.9 million (i.e. at 18 percent of the RBAP internal delivery target) as of mid-year.

The Office's management stated that a meeting would be held with RBAP to undertake a mid-term review of the Office business plan which would also discuss financial sustainability, given the challenges outlined above.

In light of the above analysis and taking into account the prevailing funding constraints and the funding environment outlook, the Country Programme Document's budgeted delivery appears to be unrealistic and the programme results targets may not be achievable.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
The Office, in collaboration with the Regional Bureau for Asia and the Pacific, should:	
<ul style="list-style-type: none"> <li>(a) expedite consultations with relevant national partners to urgently resolve the issue of access to government cost sharing funds;</li> <li>(b) speed up implementation for the remainder of the year in line with corporate targets; and</li> <li>(c) align the CPD with a more realistic resources availability and result targets during the mid-term review of the Country Programming Document expected to take place mid-2019.</li> </ul>	
<b>Management action plan:</b>	
The following actions will be implemented by the Office to address the concerns:	
<ul style="list-style-type: none"> <li>a) The Office initiated discussions with the Government of Iran in late 2017 on identified issues that inhibits Government Financing and is now awaiting the outcomes of internal consultations. The Office has also recently signed two agreements with the Ministry of Health for about \$ 1.2 million and will meet the annual Government Financing target set by the Regional Bureau (15% of yearly programme delivery).</li> <li>b) The office is speeding up implementation for the remainder of 2018 as recommended.</li> <li>c) The Office will consult with the Regional Bureau on possible options in this regard should action under Recommendation 1 (a) not lead to desired outcomes.</li> </ul>	
<b>Estimated completion date:</b> August 2019	

## B. Operations

### 1. Finance

#### **Issue 2**      Inadequate Government Contributions to Local Office Costs

The legal Annex that governs UNDP's operations in the Country states that the Government is expected to contribute toward the local cost of Country Offices.

OAI's 2015 audit raised the issue of long-outstanding GLOC. In April 2016, UNDP signed an agreement with the Government to subsidize the rent of common premises. The Government has deposited the amount of IRR 30,000,000,000 (approximately \$991,670) in a fixed deposit account in the local bank for the interest to be used by UNDP as a subsidy for the rent of the UN common premises. In the agreement, UNDP agreed to write off all outstanding dues prior to 2012 amounting to \$6.5 million and for the interest income to settle future GLOC dues. The settlement of the arrears from 2012 to 2015 (\$3.2 million) was to be mutually agreed by the signatories before the year 2026 without any specific payment terms and timeline stipulated in the agreement before that date. The terms of the agreement are seemingly conflating the subsidy towards the rental of the UN premises and the payment of the UNDP GLOC which has fuelled contention within the UNCT

The Office provided communications with the Office of Financial Resources Management (OFRM) on the agreement including emails suggesting an endorsement by OFRM. Before signing the agreement, the Office sought advice from the Legal Office (LO), but we found no evidence of a clearance from LO. The Office shared that resolving these issues is basically out of the hands of the Office.

Failure to collect GLOC contributions from the government may adversely impact the financial resources available to support local office costs and undermine the financial sustainability of the office.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>  RBAP should coordinate the effort to collect Government Contributions to Local Office Costs, through the following actions: <ul style="list-style-type: none"> <li>(a) RBAP in coordination with the Resident Coordinator should advise urgently on the distribution scheme among UN agencies so as to provide final certainty on this lingering issue; and</li> <li>(b) RBAP in coordination with the Office of Finance and Resource Management should determine how to implement the GLOC agreement with the government, relative to future years once the allocation/ sharing issue among UN agencies has been settled.</li> </ul>	
<b>Management action plan:</b>  RBAP agreed with the recommendations and would ensure the implementation.	
<b>Estimated completion date: July 2019</b>	

## 2. Procurement

### Issue 3 Weaknesses in procurement management

There were 52 individual contractors (IC) under management during the audit period with an aggregate contract value amounting to \$0.7 million. Of these, 21 ICs, amounting to \$171,000, were directly contracted without a competitive process. Directly contracted IC's need to be justified and should not pass a total threshold of \$5,000.

The audit revealed the following:

- In four cases the justification for waiving a competitive process was not in line with the 'UNDP Programme and Operations Policies and Procedures'. The justifications generally stated that direct contracting was due to exigency or limited time available to undertake a competitive process.
- In two cases, the initial contract was under \$5,000 each, which enabled the Office to waive the competitive process. However, these contracts were subsequently amended, extending their duration and the contract value which exceeded the \$5,000 threshold.



The Office stated that waiver to competitive process was undertaken mainly due to the need to procure IC services quickly.

Failure to undertake a competitive process may result in the Office procuring IC services without due regard to obtaining the best value for money.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should enhance controls in procurement management by using the individual contract modality as per the guidelines stated in 'UNDP Programme and Operations Policies and Procedures' and strictly adhering to the requirements for competitive selection.	
<b>Management action plan:</b>	
The Office will, with immediate effect, use the correct individual contract modality for new contracts	
<b>Estimated completion date:</b> September 2018	

## C. United Nations Leadership and Coordination

### Issue 4 Delays in implementing the Harmonized Approach to Cash Transfers

The Harmonized Approach to Cash Transfers (HACT) framework aims to standardize the way UN agencies work with implementation partners (IPs) to reduce the transaction costs while ensuring joint operationalization with respect to country macro-assessments as well as assessments and audits of shared partners.

In OAI's 2015 audit, OAI raised the issue that HACT was not implemented. During the joint Regional Bureau for Asia and the Pacific/Bureau of Management Services Comprehensive Risk Assessment Mission to the country from in May 2017, the Office agreed to proceed with the implementation of HACT framework.

The Office conducted the micro-assessment of two implementing partners in September 2017. The micro assessment of the third implementing partner was delayed until June 2018 due to several management changes and the draft micro-assessment report has not been completed. The macro-assessment was still outstanding as of the Office fieldwork as the Office indicated that it would take a longer time to resume dialogue with the Government on conducting a macro assessment of the public financial system. Therefore, the Office has not met the timelines in the HACT roadmap and the implementation of the HACT has been delayed.

If HACT requirements are not implemented, the objective of standardizing cash transfer practices among United Nations agencies will not be achieved.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
The Office should pursue the implementation of HACT by ensuring all its requirements are met including finalizing the three micro-assessment reports in an expeditious manner.	
<b>Management action plan:</b>	
The Office will meet all requirements of HACT including completing the remaining micro assessments of IPs as well as has escalated the issue on conducting macro assessment to BMS and RBAP.	
<b>Estimated completion date: December 2018</b>	

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.