UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE ISLAMIC REPUBLIC OF IRAN

Report No. 2403
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Report on the Audit of UNDP in the Islamic Republic of Iran
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP in the Islamic Republic of Iran (the Office) from 7 to 28 June 2021. 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
(b) Development activities
(c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

OAI designed three performance audit questions to guide the review of the following areas:

(a) Development Activities

  i) Was the monitoring of project implementation adequately established and functioning?

(b) Finance

  i) Were voucher and payment processing efficiently undertaken?

(c) Procurement

  i) Were procurement transactions completed in a timely manner?

The audit covered the activities of the Office from 1 January 2020 to 30 April 2021. The Office recorded programme and management expenses of approximately $16.7 million. The last audit of the Office was conducted by OAI in 2018.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
(c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
(d) A physical verification of assets was not performed.
(e) Safe and petty cash contents were not verified.
(f) The information communication and technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance as **satisfactory/some improvement needed**, which means "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." This rating was mainly due to challenges relating to government contributions.

Key recommendations: Total = **3**, high priority = **1**

The three recommendations aim to ensure the following:

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

For high (critical) priority recommendations, 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:

Challenges with government contributions (Issue 1)	The Office had 11 active government co-financing agreements with a total value of $12.6 million. Out of these, 10 of the agreements had contributions in arrears totalling $8 million, resulting in a significant impact on projects. There was an additional government financing agreement signed in May 2020 for $70 million; the funds were yet to be transferred due to challenges related to the transfer of funds that had to go through a third-party country due to the Country's sanctions. Out of the $124.2 million to be mobilized for the current Country Programme Document, government cost-sharing accounted for 59 percent. The Government faced funding challenges that were exacerbated by the impact of the COVID-19 pandemic, including significant devaluation of the local currency. Recommendation: In coordination with the Regional Bureau for Asia and the Pacific, the Office should ensure risks related to government funding are managed and mitigating measures, including alternative funding mechanisms, are identified where feasible in order to minimize implementation delays.

Implementation status of previous OAI audit recommendations: Report No. 1991, 6 September 2018.

Total recommendations: 4
Implemented: 3
Withdrawn: 1

Management comments and action plan

The Resident Representative accepted all three recommendations and is 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.

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Helge S. Osttveiten
Director
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I. About the Office

The Office is located in Tehran, Islamic Republic of Iran (the Country). The Country was facing international sanctions due to geopolitical issues and severe devaluation of the local currency. The Country Programme covered the period 2017–2021 but was extended to 2022 in line with the one-year extension of the UN Development Assistance Framework. The Country Programme had the following development priorities:

(a) Support responsible government agencies to formulate, implement and monitor integrated natural resource management, low carbon economy, and climate change policies and programmes more effectively.
(b) Support the health sector in the Islamic Republic of Iran to formulate, implement and monitor policies and programmes on HIV/AIDS, other communicable diseases and non-communicable disease more effectively.
(c) Support relevant government agencies to formulate, implement and monitor their social welfare, poverty eradication and sustainable employment policies and programmes more effectively.
(d) Support relevant government agencies to formulate, implement and monitor natural disaster management policies and programmes more effectively.

During the period from January 2020 to April 2021, the Office spent $15.1 million on development activities, an increase by 91 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure Jan-Dec 2020 $million	Expenditure Jan-April 2021 $million
Prevention and Control of HIV/Aids, Malaria, TB in Iran	5.7	1.0
HCFC Stage II Implementation	1.6	0.01
Energy Efficiency Policy Reforms and Market Transformation	1.7	0.2
Conservation of Iranian Wetlands[1]	0.8	0.01
Multi-Country South Asia TB/MDR	0.5	0.04
Total	**10.3**	**1.3**

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period $million
Global Fund to Fight AIDS, TB and Malaria	12.3
Government of Japan	5.9
Montreal Protocol	3.4
Total	**21.6**

[1] A new phase of this project was initiated in 2021.

Other critical information

The Country's sanctions and geopolitical and financial challenges impacted the Office's programme delivery and operating costs, including restricted procurement opportunities, and difficulty in accessing banking services. These challenges were further exacerbated by the COVID-19 pandemic in 2020 and 2021, as the Country was one of the hardest hit countries globally.

The Office was undergoing a structural re-alignment process in 2021 to align its organizational structure with the next 2023–2027 programme cycle. At the time of audit, the Office was in the process of concluding the job fair related to the re-alignment.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance. A review of the Office's governance, including the organizational structure, governance processes and planning and engagement with staff, indicated that adequate controls were established and working effectively.

(b) Procurement. The audit team reviewed the procurement processes and noted that adequate controls were established and working relatively well.

(c) Human resources. The audit team reviewed various processes relating to recruitments and separations of personnel and it was noted that adequate controls were established and working effectively.

(d) Administrative services. The audit disclosed that adequate controls were in place in asset management and travel management. No reportable audit issues were noted during the audit.

(e) Information and communication technology. The Office's business continuity and disaster recovery plan had been tested and implemented satisfactorily during the audit period. No reportable audit issues were noted.

The assessment of performance audit questions was as follows:

(a) Development activities

i) Was the monitoring of project implementation adequately established and functioning?

The audit reviewed 9 out of 20 projects with total expenditures of $10.2 million in 2020 and $1.4 million in 2021, representing 80 percent and 58 percent of total expenditures for 2020 and 2021 (up to 30 April 2021), respectively. One of the sampled projects was funded by the Global Environment Facility (GEF). The review included the monitoring and oversight arrangements in place for project implementation and closure. The audit team concluded that there were weaknesses in the monitoring arrangements as the outcome-level monitoring framework that monitors progress at the outcome level was absent. Further, planned field visits and spot checks were not undertaken for six out of the nine sampled projects due to COVID-19 pandemic restrictions (see Issue 2).

(b) Finance

i) Were voucher and payment processing efficiently undertaken?

The audit team assessed whether payments were made in a timely manner and completed within 30 days of receipt of invoices. Out of a total of 4,152 payment vouchers with a value of $18.5 million processed during the audit period, a sample of 22 vouchers with a total value of $0.8 million showing potential delays during a preliminary review were selected for further analysis. Delays noted had justifiable causes such as early invoicing against the receipt of international shipments, and long-term service contracts, etc. In addition, medicines ordered through Global Fund portfolios typically would have a longer payment timeframe as there is a lengthy lead time between shipment, custom clearance, distribution, inspection and receipt of the medicines. Therefore, no reportable audit issues were noted.

(c) Procurement

i) Were procurement transactions completed in a timely manner?

The audit team concluded that the procurement transactions were processed in a timely manner and were completed on average within 71 days from the start of the requisition to receipt of goods and services. This was deemed an acceptable timeframe when compared with two other offices of similar size and that the procurement transactions were undertaken during the period of the COVID-19 pandemic.

OAI made one recommendation ranked high (critical) and two 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) Ensure risks related to government funding are managed and mitigating measures, including alternative funding mechanisms, are identified where feasible, in order to minimize implementation delays (Recommendation 1).

Medium priority recommendations, arranged according to significance:
(a) Enhance project management (Recommendation 2).
(b) Take steps to resolve the GLOC collection and rental subsidy agreement issues (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Development Activities

1. Projects Administration

Issue 1 Challenges with government contributions

The 'UNDP Partnership Guidelines' require offices to mobilize resources for the effective implementation of programme objectives, with the expectation that the funding agreements will be honored by all parties.

The Office had 11 active government financing agreements with a total sum of $12.6 million. There was an additional agreement signed in May 2020 for $70 million to support government health services. This agreement was inactive due to challenges in the transfer of funds that had to go through a third-party country due to the Country's sanctions.

Out of the 11 active agreements with government financing agreements with a total sum of $12.6 million, 10 had contributions in arrears totalling $8 million, which significantly impacted the implementation of six projects.

Out of the $124.2 million to be mobilized for the current programme cycle 2017–2021, government cost-sharing accounted for 59 percent.

The Office explained that the Government faced funding challenges that were further exacerbated by the impact of the COVID-19 pandemic on overall government resources, including significant devaluation of the local currency. The Office stated that some of the impact was mitigated with funding from other sources, such as the European Union, Japan and Montreal Protocol.

Without adequate funding to implement its programme, the Office may not be able to meet its development objectives.

Priority	High (Critical)
Recommendation 1: In coordination with the Regional Bureau for Asia and the Pacific, the Office should ensure risks related to government funding are managed and mitigating measures, including alternative funding mechanisms, are identified where feasible in order to minimize implementation delays.	
Management action plan: With the support of the Bangkok Regional Hub, the Office will update its resource mobilization strategy and action plan, reflecting challenges and risks associated with government funding, mitigation measures as well as new emerging opportunities. Such a strategy will also contribute to inform the new Country Programme Document. **Estimated completion date:** 31 December 2021	

Issue 2 Gaps in project management processes

A development project is a time-bound instrument to deliver outputs that contribute to outcome-level development change reflected in the programme, along with the results delivered by other projects and instruments. A project document that meets UNDP's quality standards must be developed for all projects and contain a clear linkage to the programmes theory of change, outlining the causal relationship between the developmental challenge, activities undertaken, assumptions made and the overall output result.

The audit team reviewed a sample of nine projects and identified the following weaknesses:

(a) The Office's project portfolio comprised a number of long-running projects over a period of 17 to 20 years. Three projects (13110, 119264 and 38436) had various phases developed and implemented, but these were not evaluated regularly to ensure that lessons learned were incorporated into the next phases.

The projects displayed results frameworks and theories of change that were confusing and disjointed. For instance, the terminology used between outcomes and outputs was mixed up (project 13110); baselines were absent; and project outputs were stated as indicators (project 119264). Where the results framework is not adequately articulated and indicators are not measurable, the reporting may be impacted.

(b) In 2020, field visits were not undertaken for six out of the nine projects reviewed. Due to the COVID-19 pandemic, programme staff were unable to undertake field visits. While some virtual meetings were held, there was no evidence of alternative measures, including remote monitoring.

(c) The Office signed an $11 million cost-sharing agreement with the European Union to fund a nationally implemented project, with a budget of $1.1 million for 2020. The budget for 2020 was later revised to $0.5 million due to delays in the project implementation caused by COVID-19..

If internal project reviews and evaluations are not conducted, there is a risk that the Office will not benefit from lessons learned. Additionally, weaknesses in project management processes may have a negative impact on programme results and objectives.

Priority	Medium (Important)

Recommendation 2:

The Office should enhance project management by:

(a) reviewing long-standing projects with the objective of ensuring the theories of change and results frameworks are relevant, ensuring evaluations are undertaken in a timely manner in line with evaluation plans, and closing non-performing projects;

(b) fully implementing the monitoring and evaluation plans to ensure periodic reassessment and validation of the related theory of change, and regularly undertaking field visits and/or identifying alternative monitoring practices; and

(c) considering support to nationally implemented projects facing high risks to ensure timely implementation.

Management action plan:

(a) The Office has already included its long-standing projects in the evaluation plan for 2021–2022. The theories of change and results frameworks will be reviewed to ensure their continued relevance and non-performing projects will be closed.

(b) The Office will prepare an Office-wide monitoring and evaluation plan.

(c) The Office will continue to explore additional Country Office support to nationally implemented projects, where feasible.

Estimated completion date: End June 2022

B. Operations-Finance

1. Office budget and cost recoveries

Issue 3 Rental subsidy agreement and Government Contributions towards Local Office Costs (GLOC) arrears collection issues not resolved

The legal annex that governs UNDP's operations stipulates that governments are expected to contribute towards UNDP Country Office local costs. In addition, UNDP Executive Board (EB decision 2020/14) emphasizes the importance of Country Offices actively engaging with host governments with regard to the host government's obligations towards local office costs.

In April 2016, the UNDP Resident Representative/UN Resident Coordinator entered into an agreement with the Government to subsidize the rent of the UN common premises in the Country for the period 2016–2026. In this agreement, the Government agreed to deposit IRR 30 billion (approximately $991,670) in a local bank and the interest earned was to be used as a subsidy for the rent of the occupying UN agencies, including UNDP, whose share of the interest was to settle future GLOC dues. In exchange for this agreement, the Office had written off $6.5 million GLOC in arrears accrued before 2012 and deferred the settlement of the 2012–2015 GLOC balances ($3.2 million), to be agreed to before 2026 without establishing any specific terms and timeline.

As of the date of the audit, there was an outstanding GLOC amount of $747,865, accumulated from balances between 2016 and 2020, indicating that the share of the interest collected by UNDP as per the agreement was insufficient to meet the yearly GLOC targets. In addition, the settlement of the 2012–2015 GLOC arrears was yet to be agreed, which increased the risk of non-collection of the $3.2 million balance.

While this issue was noted in OAI's 2018 audit report, the recommendation was withdrawn in May 2019. Following the delinking process of the UN Resident Coordinator in 2018, it became more evident that there was confusion created by conflating the rental subsidy of the UN common premises and the UNDP GLOC contribution, and the need to revisit the terms of the agreement.

The Office did not timely prepare the required annual financial report of the income generated and distribution of the rental subsidy among the UN agencies. The reports for 2019 and 2020 together with the GLOC collection target letter for 2021 were shared with the Government only in June 2021.

Delayed reporting and communicating on rental subsidy interest distribution and UNDP's annual GLOC target may adversely affect transparency within the UNCT and further delay payments from the Government.

Priority Medium (Important)

Recommendation 3:

In collaboration with the Regional Bureau for Asia and the Pacific, the Office should take steps to resolve the GLOC collection and rental subsidy agreement issues by:

(a) liaising with the Resident Coordinator Office to revisit the UN common premises rental subsidy arrangement and start the dialogue with all involved parties;
(b) timely communicating the annual financial report as required by the agreement and the GLOC annual target letters; and

(c)	actively pursuing a settlement for the collection of the 2012–2015 GLOC arrears to ensure this issue is dealt with before the 2026 time limit.

Management action plan:

(a) The Office will communicate with the incoming Resident Coordinator to explore the viability of revisiting the rental subsidy arrangements and/or initiate a dialogue with all involved parties.

(b) The Office will institute an SOP to ensure timely preparation and submission of the interest distribution report and GLOC target communication letters, including deadlines, to be closely monitored by the Operations Manager.

(c) The Office will follow-up with the relevant ministry to obtain the settlement and/or collection of the 2012–2015 arrears, in line with the stipulations of the 2016 agreement, and will do so well in advance of the 2026-time limit.

Estimated completion date: December 2022

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.
- **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.