



AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE ISLAMIC REPUBLIC OF IRAN

Report No. 2403
Issue Date: 12 August 2021

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.

A handwritten signature in blue ink, appearing to read 'H. Ostveiten', is located inside a rectangular box. The signature is written in a cursive style.

Helge
Ostveiten
2021.08.12
09:49:44 -04'00'

Helge S. Ostveiten
Director
Office of Audit and Investigations