

**XX INCOSAI  
South Africa 2010**

**Theme II:**

**Environmental Auditing and Sustainable Development**

**Country Paper of  
Supreme Audit Court,  
Islamic Republic of Iran**

## **1 - The origin of the legal competence of environmental auditing:**

The protection of environment has been considered as a public duty both in the Iranian Constitution and Iran's 20-year Perspective Document.

Accordingly any activity that coincides with the pollution of environment is prohibited and the proper use of environment has been stressed on.

According to law<sup>1</sup>, any area which is considered as public property such as natural resources and public wealth, infertile lands, mines, seas, lakes, rivers, mountains, valleys, forests, canebrakes and natural habitat are to be audited by the Supreme Audit Court of Iran (SAC). Therefore the SAC is entitled to address and safeguard such public properties.

In other words, according to the definition of public property, SAC's mission to safeguard public property covers a wide range of natural resources and public wealth which leads to the origin of the authority of SAC to conduct environmental auditing. Moreover, the Legislature has determined policies and assignments for environmental protection in the development plans as well as ordinary laws. The examination whether such policies and assignments have been complied with and how they should be implemented falls within the authority of SAC.

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<sup>1</sup>. Supreme Audit Court Act

## **1. The purpose of environmental auditing in Iran:**

The SAC like other SAIs in the world, follows the common goals of environmental audits as in the following:

1. To ensure the observance of legal requirements of environmental laws by both Parliament and government
2. To ensure the evaluation of environmental projects and public works
3. Performance Evaluation of environmental programs, such as pollution control, minimization of waste and programs to maintain natural resources (trees, plants, wildlife)
4. Examination of the conformity of government's environmental policies and practices with the international environmental obligations
5. Evaluation of the establishment of environmental management systems through auditing in institutions, organizations and state companies

### **The international environmental treaties:**

According to the Constitution, international treaties will get credit after the ratification by the Islamic Consultative assembly (Iranian Parliament)<sup>2</sup>. So far, eighteen environmental conventions and protocols have been ratified by Parliament and accordingly such conventions are considered as law. As an example we can name the Basel Convention. Based on "Law of Management of Solid Waste" approved by Parliament, transportation of special waste overseas follows the rule of the same Convention.

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<sup>2</sup>. Regarding international treaties, Iran's Civil Law has specified that " according to Constitution, treaties signed between the government and foreign countries will be considered as law"

According to Iran's legal system, even international treaties can be referred to in local courts. Some of the most important environmental conventions ratified by the Parliament include: the Convention on Biodiversity; International Convention for Readiness; Cooperation against Oil Pollution; Protocol for Intervention in the Free Seas in case of Pollution from Non-oil Materials; Vienna Convention for Protection of the Ozone Layer; United Nations Convention for Desertification; Convention on International Wetlands and Wetland Habitats of Birds

### **The situation of environmental auditing in Iran in support of sustainable development in the country**

Islamic Republic of Iran as an active member of the international community and the United Nations after the Rio Summit in 1992 and the Johannesburg World Summit in 2002, placed special attention to obligations and requirements of sustainable development and consequently conducted useful measures in this regard. The SAC believes that environmental auditing can follow up the environmental obligations and impact of this kind of audits in facilitating to design, implement and improve the effectiveness of strategies for sustainable development. In recent years, environmental audits have been conducted with the aim of facilitating sustainable development in Iran.

In the first step, a special working group was established which evaluated the impact of the environmental audits on sustainable development. It was decided by the same group to make environmental audits move towards providing effective recommendations focused on completing and updating national strategies for sustainable development.

#### **4-1 Auditing government's measures in developing and implementing strategies for sustainable development:**

The results of audit of devising the strategies for sustainable development shows that "Supreme Council of Environment", chaired by the President, assigned the " National Committee on Sustainable Development " to compile and organize a set of national strategies for sustainable development. Since 2005, the same Committee has developed and approved the national strategies for sustainable development in different sections based on the approach to sustainable development and Agenda<sup>r</sup> 21.

The same committee holds meeting with the representation of executive organizations concerned chaired by the Vice President and Head of Department of Environmental Protection. It is their mission to coordinate economic and social development programs with national strategies for sustainable development and the objectives of environmental protection and the achievements of the Earth Summit held in Rio in 1992.

1. Energy and Air Pollution
2. Water and Environmental Health
3. Poverty eradication and organizing urban and rural settlements
4. Agriculture and sustainable natural resources
5. Biodiversity and development of natural tourism
6. Industries and mines
7. Public education
8. Higher education and research
9. Management and risk reduction

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<sup>3</sup> . Global program for achievement of sustainable development in 21<sup>st</sup> century

This includes goals and economic, social, institutional and environmental strategies that are coordinated and systematic which tries to remove incompatibility, bridge the gaps and complete the existing strategies for sustainable development in the country.

National strategies of sustainable development follow the following objectives<sup>4</sup>:

- Participation in the global movement towards reducing environmental degradation through conservation of resources and the environment for future generations.
- Gathering a set of existing solutions for sustainable development
- Reorganizing the current strategies to eliminate contradictions and coordinate the above-mentioned solutions
- Providing practical guidelines for government organizations in order to achieve desirable situation of sustainable development

As it was mentioned before, about five years ago the national strategies for sustainable development were approved. The same strategies are followed up in the economic, social and cultural development plan. In other words, the government is required to follow the strategic direction of sustainable development project in the five-year development plan of the country. At the moment, the same perspective could be easily seen in the bill proposed for the fifth development plan.

In the near future, upon the approval of the Parliament, it will be obligatory to follow the national strategies for sustainable development in the fifth development plan. It is worth to mention that the experience of other countries have shown the difficulties of the implementation of comprehensive strategies for sustainable development and Iran is no exception.

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<sup>4</sup>. The approved document of national sustainable development strategies

It is also note worthy to mention that after approval of development plan, environmental audits focused on ensuring the effectiveness of operations, from the perspective of sustainable development goals and coordination of planning and implementation of programs. This was to ensure the success of sustainable development strategies. The Supreme Audit Court of Iran for the first time in 2009 started the performance audit of government operations in respect to the implementation of the fourth development plan. The results of this audit was submitted to government and Parliament in the form of recommendations which aimed at helping government in writing the bills for future development plans.

It should be mentioned that Islamic Republic of Iran since 1992 has been an active and permanent member of the United Nations Commission on Sustainable Development and the Iranian National Committee for Sustainable Development prepares reports requested by the same commission regarding the achievements of the goals of sustainable development<sup>°</sup>.

### **Environmental audit approach in the Supreme Audit Court of I. R. of Iran:**

Supreme Audit Court is in transition from traditional approaches such as compliance auditing and financial auditing to performance audit. In conducting performance audits, examinations have shifted towards environmental audits which are being institutionalized in Iran. The dominant approach in such examinations is performance auditing.

Environmental audits conducted by SAC are as follows:

- 1- Compliance audit of environmental rules and regulations
- 2 - Performance audit of environmental issues as well as performance audit of public works and projects with an emphasis with the " fourth E"

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<sup>°</sup> . It is worth noting the Chairman of the National Sustainable Development IRI is also Head of Environmental Protection Organization.

3 –Environmental auditing through both compliance audit and performance audit.

Although some scattered accounting requirements such as identification and classification of environmental costs of production units are considered as acceptable costs in the existing laws<sup>٦</sup>, lack of accounting standards specifically for environment and the absence of the established environmental accounting in the country, has seriously challenged the implementation of environmental examinations<sup>٧</sup>.

It is difficult to conduct the Audit of the implementation of sustainable development strategies and the effectiveness of government performance in achieving the goals of sustainable development. This task requires analytical techniques, appropriate accounting and auditing systems, comprehensive information arising from policies and programs and their impact on social, economic and environmental issues. The SAC is moving towards the effective implementation of this type of audit.

## **5. Selected issues of environmental auditing:**

Environmental issues and fundamental problems in this regard in Iran is very similar to many other countries. The above mentioned issues are explained briefly in order to make the audience familiar with the challenges the SAC is facing in the field of environmental auditing. This will enable us to illustrate the present situation in our country and illustrate and through using experiences and exchange of knowledge, find the right solutions for the same challenges. To ensure the establishment of appropriate processes and policies to achieve the goal of sustainable development without environmental degradation and without depriving future generations from their right in utilization of natural resources and environment, The SAC has prepared many environmental audit reports and has submit them to Parliament.

The conducted audits include:

- Tehran air pollution
- Creation of comprehensive environmental monitoring system

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<sup>6</sup> . part c of article 104 of the fourth development plan

<sup>7</sup> . Financial environmental auditing

- The audit of environmental projects without environmental evaluations all around Iran
- The audit of environmental policies mentioned in the five year development plans, etc. .

The following areas are to be audited in the future:

- Evaluation of hospital waste across the country
- Environmental auditing regarding the government's practice of international environmental commitments
- The audit of responsibilities of companies having industry and mining license (state-owned enterprises and private) regarding the consumption of two percent of their net profit on environmental research affairs such as waste minimization, waste reduction, pollution control, waste management regarding wastewater treatment and recyclable packaging

#### **5-1 Auditing projects and public works focusing on environmental considerations:**

Under the law<sup>8</sup>, if the implementation and utilization of public works identify be in contradiction with the laws and regulations approved by Environmental Protection Organization, cases will be referred to the ministry or institution concerned. This is to make the cooperation of relevant organizations possible so that the problem is solved. Legislative body has determined duties for the protection of environment which are effective to achieve sustainable development<sup>9</sup>. These duties include:

"All the large plans and projects related to manufacturing and services must be evaluated based on the proposed regulations by the Supreme Council for the Environmental Protection and the Council of Ministers preferably during the feasibility stage and site selection before such projects are performed. The observance of the implementation of this article is the Vice President's responsibility<sup>10</sup>. "

The main audit results show that:

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<sup>8</sup>. The law on protection and improvement of environment

<sup>9</sup>. Development plan laws including the fourth development plan for the years 2004-2008

<sup>10</sup>. Plan and Budget Organization (Vice President's Office for Planning and Strategic Supervision)

1 - Hundreds of government organizations have requested for authorization from Environmental Protection Organization and have received such authorization before the implementation of public works. Unfortunately, the legal duty for environmental assessment about 199 projects nationwide, primarily by government organizations such as Ministry of Energy, Roads and Transportation, Oil and Petrochemical industries has not been duly considered. On the other hand, the responsibility to supervise the implementation of this article has been neglected by the Vice President<sup>11</sup>.

2 – According to law<sup>12</sup>, funds related to new public works are solely approved in the annual budget bill based on technical, economic and environmental justification. The problem is that most of the projects evaluated by SAC show that such projects are submitted to the Environmental Protection Organization after they have been funded by the Parliament in the national budget of the country. Moreover, all the major plans and projects should be evaluated environmentally in the stage of the feasibility studies and site selection, There are cases where the legal requirements have not been observed.

3 - Long evaluation process of projects from the environment perspective by the Environmental Protection Organization is a major damage so that tens of projects currently are queuing to be assessed by the working group on the project environmental assessment. This might take several months and sometimes are several years.

## **5-2 Performance auditing of "Comprehensive Plan to Reduce Air Pollution in Tehran":**

Air pollution is one of the factors that affects all sectors of society, causes development instability and must therefore be controlled. According to sustainability principles of air quality and the defined strategies, the legal obligations of the Environmental Protection Organization is to reduce air pollution in the country. The most important measures is

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<sup>11</sup> . Vice President's Office for Planning and Strategic Supervision

<sup>12</sup> . Fourth Development Plan

"Comprehensive Plan to Reduce Air Pollution in Tehran". According to law<sup>13</sup>, this project aimed at reducing air pollutants caused by traffic vehicles in Tehran in 2002. Considering the importance of the subject, the performance audit of the same project was conducted in the environmental Protection Organization. The results of the audit showed that:

A – It was expected that through the implementation of the "Comprehensive Plan to Reduce Air Pollution in Tehran", the air pollutants in Tehran are reduced almost 200 thousand tons during the three years. The project aimed to replace, upgrade, re-construct and do technical examination of vehicles especially about mini buses and motorcycles. Unfortunately, after more than seven years since the project was implemented only 150 thousand tons of air pollutants decreased. Compared to the amount of pollutants entered into the air each year the amount of reduction is very low.

B – The government was required to reduce air pollution in Tehran and seven other metropolis according to the standard approved by the Supreme Council of Environmental Protection. The audit results showed that the government prepared the guidelines of creating the clean air standards with the delay.

C – In 2008, based on air standards, Tehran had only a total of 9 days of clean air, 283 days of healthy air and 62 days of unhealthy air and 2 days of very unhealthy air.

Audit results indicate that some of the main causes of problems in the proper and timely implementation of the project and the achievement of objectives is as follows:

1. Lack of timely implementation of commitments mentioned in contracts in such a way that in most contracts, commitments have not been fulfilled timely and consequently the concerned organization has extended the contract without acceptable justification.

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<sup>13</sup> . Annual budget law

2 –Lack of coordination between the objectives of the project with existing conditions air pollution in Tehran so that the annual amount of pollutants entering the air do not go with the quantitative objective determined in the project<sup>14</sup>.

3 – Frequent replacement of project managers that has caused interruption and disruption of the implementation of the project. .

4 - Lack of close supervision and the adequacy of internal controls caused limitations on the implementation of the project. .

### **5-3 Audit Plan "to create comprehensive system of monitoring the environment":**

The plan "to create comprehensive monitoring system of environment" in the Environmental Protection Organization is one of the environmental issues that was audited by SAC. The important points in same audit are as follows:

1- The performance of the Environmental Protection Organization was audited regarding the comprehensive and continuous monitoring of air pollution, water and soil. The result of the same audit showed that during the year 2008 the same organization, through sampling, has tested 603 samples of industrial, urban and agricultural effluents and has also tested 2198 pollutants from physical, chemical and biological aspects. Moreover, the audit result regarding the performance of monitoring systems and online systems in chimneys of industries and soil and waste sector showed that the performance has been weak but in the water sector the performance has been at optimal level.

2 – The performance of the project in construction and development of environmental pollution monitoring stations is desirable in Tehran especially in the areas without monitoring air pollution stations but no station has been built in other provinces.

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<sup>14</sup> . The objectives mentioned in the budget agreement of the plan

<sup>15</sup> . 15 Annually 2 million and 600 thousand tons of pollutants enter into the air in Tehran. Unfortunately this is inconsistent with the objective specified in the agreement to decrease 200 tons of pollutants within 7 years.

3 – The performance of the Environmental Protection Organization in improving facilities and laboratory equipments and enabling laboratories in some newly established provinces is poor. Therefore the weakness in equipping province's laboratories has made the authorities to send the samples for sampling in the central laboratory.

4 - Performance of the same organization in obtaining ISO 17025 certification<sup>16</sup> issued by international agencies was poor resulting in the achievement of no certificate.

5 – in 2008 , the laboratory staff in three cases attempted to prepare, edit and translate laboratory guidelines and the methods for monitoring pollutants.

#### **5-4 Joint environmental audits:**

The SAC is preparing to conduct joint audit tasks with some neighboring countries in the near future<sup>17</sup>: These will include:

Examination of the contamination of the Caspian Sea (including human wastewaters, industrial and land-based sources) and the Oman Sea and Persian Gulf (including oil pollution, pollution caused by Iran, Iraq and Kuwait wars, making the islands, the water balance of ships ), Hural Azim wetland and the wetland of both Iraq and Iran which has dried during war due to improper usage and currently creates a large regional dust.

In choosing topics, every efforts have been made to audit those issues that benefit the countries concerned and consequently promotes environmental health and stability in the exploitation of natural resources for future generations.

## **References**

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<sup>16</sup> . The certificate is a laboratory standard which specifies that condition in the laboratory must be in such a way that the results shall have the accuracy required.

<sup>17</sup> . The decision to conduct joint environmental audits with neighboring countries was approved by the Council of Deputies of SAC dated 17 April 2010. Furthermore, the suggested topics proposed auditor general of environmental audit was presented by the letter number 383 / 976 / M / 2 dated 2 June 2010.

This country paper has consulted the main articles issued by XX INOSAI as well as the following sources:

1. Constitution of the Islamic Republic of Iran
2. Iran's 20-year Perspective Document
3. Third Economic, Social and Cultural Plan of Islamic Republic of Iran
4. The Fourth Economic, Social and Cultural Plan of Islamic Republic of Iran
5. Supreme Audit Court Law Islamic Republic of Iran
6. Civil law, Islamic Republic of Iran
7. Site Environmental Protection Agency Islamic Republic of Iran
  
8. Islamic Republic of Iran Supreme Audit Court Site
9. Environmental Improvement and Protection Act Islamic Republic of Iran
10. Performance audit report "comprehensive plan to air pollution in Tehran
11. Project performance audit report "to create comprehensive system of environmental monitoring"
12. Pathology report, "Plans and projects without environmental assessment"
13. Part of the planning regulations to facilitate modernization of industry
14. Sustainable Development Committee Site
15. Official correspondence with the Environmental Protection Agency environmental audit conducted