



Development Fund for Iraq
Management Letter arising from Audit
31 December 2009

Disclaimer

Messrs.
International Advisory and Monitoring Board
Committee of Financial Experts
Development Fund for Iraq
Baghdad – Republic of Iraq

Dear Sirs,

We have audited the financial statements of the DFI, which comprise of the statements of cash receipts and payments and the statements of proceeds of oil export sales of the DFI for the year ended 31 December 2009 and a summary of significant accounting policies and other explanatory notes. In planning and performing our audit of the financial statements of the Fund in accordance with international standards on auditing, we considered the internal control of the spending ministries as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the spending ministries internal controls. Accordingly, we do not express an opinion on the effectiveness of the spending ministries' internal control. Throughout our audit we have noted some observations and recommendations that we are reporting to you for your kind attention and follow up.

This work is not primarily directed towards the discovery of weakness or the detection of fraud or other irregularities (other than those which would influence us in forming our opinion) and should not therefore be relied upon to show that no other weaknesses exist.

Our report is intended solely for the information and use of the Government of Iraq, the International Advisory and Monitoring Board of the Development Fund for Iraq, and the Committee of Financial Experts and should not be used for any other purpose. We do not, in giving our report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come except where expressly agreed by our consent in writing.

We would like to take this opportunity to thank the management and staff of Iraqi Government entities for the assistance and co-operation during the course of our audit.

Yours faithfully,

30 October 2010

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Ministry of Finance



1. Ending Cash and Cash Equivalents and Treasury Bills Balances

Observation	We noted that the monthly reports of the DFI balances for the year 2008, contain errors relating to the ending balances of treasury bills and cash and cash equivalents.
Recommendation	We recommend that the accounting system used be revised and that all reports be reviewed.
Management's Response	No response
Risk Level	High
Status	Old
Follow up	This observation has not been resolved as the monthly reports related to the fiscal year ended 31 December 2009 still contain certain errors.

2. Policies and procedures manual

Observation	We noted that DFI does not have formal detailed policies and procedures to cover all areas of its operations. The MOF periodically issues accounting instructions to set out the procedures to be applied in performing certain tasks. However, these instructions are not comprehensive as they do not cover all the aspects of the DFI's operations. Furthermore, these instructions have not been formally codified in the form of a comprehensive policies and procedures manual, which is readily available for reference by the staff involved in the DFI activities.
Recommendation	We recommend that the DFI develops a comprehensive policies and procedures manual to cover all DFI operational, administrative, accounting and financial activities. The manual should also be reviewed on a periodic basis to ensure that it is updated and relevant for providing operational, administrative, accounting and financial guidance to the DFI's staff. In addition, detailed monitoring procedures should be developed and applied by the DFI to ensure proper and consistent implementation of the policies and procedures manual.
Management's Response	<p>The Ministry has pointed out in its memorandum number 29 dated 14 May 2008 that it will be adopting a comprehensive manual for policies and procedures for operations related to DFI noting that efforts are being exerted with the International Bank and British assistance to finalize the governmental accounting system.</p> <p>The Ministry has taken action by developing a comprehensive policies and procedures manual to cover all DFI operational, administrative, accounting and financial activities with the help of the British government personnel .</p>
Risk Level	High
Status	Old
Follow up	The above observation was still valid for the year ended 31 December 2009, and the Ministry has begun taking action to resolve the issue.

3. Budget Preparation

Observation	<p>During our review of the procedures followed by the budget section relating to the review of the departmental budgets, we noted that the budget section does not refer to the prior year budgets and actual expenditure in order to challenge the proper preparation of effective budgets prepared by the various Governmental entities. An effective evaluation of budgets prepared by the Governmental entities and determination of important control procedure to ensure that the needs of each department are consistent with the activities, past performance and plans for the forthcoming year. This includes assessing performance in prior year against budget to determine whether there were significant over or under spending.</p>
Recommendation	<p>The departmental budgets review process undertaken by the budget section is a significant part of the Finance Department's activities relating to the follow up and review of Government expenditures. Accordingly, it is our belief that DFI's key management should give special attention to the budget compilation and review process undertaken by the budget section to ensure that adequate control procedures are in place. A budget preparation and review environment would include, but it is not limited to:</p> <ul style="list-style-type: none"> •Review by the budget section of procedures undertaken by various entities to prepare their annual budgets. The budget section then ensures that adequate controls have been put in place by the various departments to facilitate an accurate budget preparation and, hence, reduce the time spent by the budget section in their review process of these budgets. •The budget section should establish a process to identify transfers between different expenditure categories. This information would enable the budget section to identify expenditure items that have been over budgeted by any particular department in prior years and which are being used to finance the expenditure of other unapproved spending, if any. •The budget section should establish a database of all departmental budgets and expenditures for each entity for the purpose of establishing a benchmark for each expenditure item in relation to the activities and size of the related entity. Such a database would enable the budget section to review entity's performance on a periodical basis (e.g. monthly) and investigate any significant variances compared to the benchmark. Such a database would also enable the budget section to identify areas of risk and opportunities for cost saving. •The review by the budget section of entity's budgets should include a comparison of prior year budgets and actual expenditure. Such review would highlight effectiveness of budget preparation process and in addition to any significant changes or developments compared to the prior year.
Management's Response	<p>The Ministry has pointed out in its above mentioned memorandum that the federal budget is prepared using a worksheet for setting next year's budget which contains the drawn up targets as set in coordination with the Ministry of Planning and CBI in addition to other ministries. The procedures followed are in line with provided forms, which include various indicators such as amounts spent during the previous year, appropriations for the current year on the basis of which the budget for the coming year is based so as approved and adjusted appropriations are included, in addition to what has been spent during the first half of the current year. All of the aforementioned are taken as indicators for the process of budget estimation.</p>
Risk Level	Medium
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

4. Accounting Systems

Observation	The current governmental accounting system relating to accounting procedures, including management information systems and internal control procedures, are no longer suitable for the current size and structure of the DFI, and have not been updated in line with the modern technologies and best practices available. The Iraqi Government is currently undertaking an overall change in the computerized accounting system of the Accounting Department.
Recommendation	<p>We recommend that the DFI undertakes a review of the accounting systems and processes and internal controls related to the DFI at MOF, CBI, SOMO and related ministries; with a view to improving efficiency of operations and effectiveness of controls. This should include, as a minimum:</p> <ul style="list-style-type: none"> •Policies and procedures manual. •Control procedures in connection with the other sections of the accounting department. •Review of the accounting department’s documentation and filing procedures. •Review of the operating departments’ system of internal controls. •Consider providing online access to automated system to the internal audit department. •Establishment of procedures for follow up of budget preparation and compliance. <p>Given the above, we recommend that the DFI consider developing or sourcing an integrated Accounting and Reporting Package together with Management Information Systems (MIS) and Financial Information Systems (FIS) which fully meet the requirements of the DFI operations at all locations.</p>
Management’s Response	The Ministry has replied per its memorandum number 29 of 14 May 2008 that in as much as it relates to the computerization of the accounts of DFI, various programs were set with a mechanism to enable the extraction of the needed statements for the preparation of the requested reports and information. As to the utilized accounting systems and internal audit and control system, in addition to the reactivation of the needed financial directives for the control over movements, bank accounts, advanced training programs for the technical staff and comprehensive computerized system for the preparation of the State’s general budget and overseeing its execution. Preparation of those systems was performed through the assistance of international financial institutions noting that this process is still going on under harsh security circumstances.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009. The accounting system mentioned in management’s response has not been put into effect.

5. DFI Accounting Records

Observation	We noted that the DFI's accounting records are based on information obtained from the CBI, and monthly statements sent by the CBI to the MOF. This information is limited to the transactions of the DFI's main account at the FRBNY. As a result, the DFI does not maintain a complete set of accounting records to support the financial statement and the related disclosure notes for the year ended 31 December 2007. The statement of cash receipts and payments is compiled from the monthly statements of cash receipts and payments of the DFI's main bank account managed by the CBI, the DFI's sub-account maintained by the U.S. Agencies, the FRBNY bank statements, other financial information maintained by the Ministry of Finance, and confirmations received from other parties. During 2007, the MOF has established a designated database for DFI to collect all transactions and accounting records in. MOF is working on reconciling DFI opening balances.
Recommendation	We recommend that the MOF keeps complete set of accounting records to account for all DFI approved transactions that are reconciled with bank statements obtained from the CBI. In addition, periodic reconciliations should be performed between the MOF and CBI. Differences should be investigated, reported and resolved on a timely manner. Also, we recommend that COFE follows up on development and enhancement of the DFI accounting records to be separately maintained from MOF records, which are maintained in accordance with the government accounting system. The DFI's accounting records should be maintained in accordance with the cash basis under International Public Sector Accounting Standards. At the same time, the MOF shall continue to develop the DFI's database to support all figures reported in the financial statements and related disclosures. Staff should also receive appropriate training to carry out the preparation of the DFI's financial statements in accordance with the cash basis under International Public Sector Accounting Standards.
Management's Response	The Ministry replied per its above memorandum that the adopted accounting records at the cash management unit of DFI are sufficient and meets the needs for preparation of its accounts. This was further confirmed by the audit firm in the last paragraph of its note raised in this respect. Mention should be made here to the fact that the Ministry of Finance has set a data-base for the statements related to the Fund as of July 2007.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

6. Reporting and Financial Statements Preparation

Observation	During the course of our audit, we noted that the MOF and the CBI do not prepare a complete set of DFI's statement of cash receipts and payments as part of the monthly management reporting process. The CBI currently prepares a monthly report including the cash receipts and cash payments of the main DFI account only, excluding the sub-account managed by the U.S. Agencies. In addition, we noted that there are no formally documented policies and procedures for the preparation of the DFI's financial statements and the related disclosures. Moreover, the MOF does not maintain records for all financial information that should be reported and disclosed in the DFI's statement of cash receipts and cash payments as required by the International Public Sector Accounting Standards /Financial Reporting on Cash basis. During 2007, The MOF has established a designated database for DFI to collect all transactions and accounting records in. MOF is working on reconciling DFI opening balances.
Recommendation	We recommend that the COFE shall follow up with both the CBI and the MOF to prepare a full set of the DFI's statement of cash receipt and cash payments in accordance with the cash basis under International Public Sector Accounting Standards. We further recommend that a formally documented policies and procedures to be developed for the preparation of the DFI's financial statement and its related disclosures.
Management's Response	The Ministry replied per its memorandum mentioned above that a cash flow statement as of July 2007 and until December 2007 has been prepared. The commission confirmed MOF's actual preparation of the monthly cash flow statement for DFI though this statement was not fully comprehensive nor in compliance with international accounting standards. The committee of the financial experts has been provided with copies of these monthly statements. The above note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	We noted that the Ministry of Finance, started as from July 2007, to issue monthly reports from the designated database. This monthly report does not comply with International Standards IPSAS. In addition, this report does not consolidate the main account with the transitory PCO account.

7. Cash Margin at Corresponding Banks

Observation	During our audit, we noted that the CBI and the MOF do not maintain any records of the outstanding cash margins paid from the DFI on behalf of the Iraqi ministries. According to the confirmations received from JP Morgan Chase and Citibank; the outstanding cash margin balances at these banks were U.S. \$ 2,474,616 thousand and Euro 140,883 thousand U.S. \$ 412,943 thousand and Euro 86,873 thousand respectively as of 31 December 2007. The letters of credit cash margins at the corresponding banks are not included as part of the DFI cash balances as they are not controlled by the DFI and restricted for the payment of the outstanding letters of credit to the suppliers. However, the cash margins are considered DFI assets and any extra cash at the end of the letter of credit is to be refunded to the DFI account.
Recommendation	We recommend that the DFI maintain complete records of the cash margin transfers to the TBI's corresponding banks and all related transactions, as these cash margins are considered as part of the DFI assets until being paid to suppliers.
Management's Response	The Ministry indicated in its reply that a committee will be formed to follow up with TBI for refunding of deposits on letters of credit.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

8. Letters of Credit Issued for Self-Financing Entities

<p>Observation</p>	<p>We noted that self-financing governmental entities reporting to some ministries are transferring funds to the MOF current account at the CBI, and the letters of credit (LCs) are then being opened from the DFI funds at the FRBNY. During the year ended 31 December 2007, payments were made from the DFI funds to cover letters of credit for certain self-financing government entities that are not covered by the federal state budget, which is financed by the DFI, amounting to U.S. \$ 890,824 thousand. Conversely, the MOF received advance payments from these ministries to fund the payments of their letters of credit amounting to U.S. \$ 1,169,524 thousand, which have not been deposited in the DFI accounts. These advances were deposited in the MOF account at the CBI account number (301116).The following are examples of these institutions:</p> <ul style="list-style-type: none"> • General Company for Irrigations/Ministry of Industry • General Company for Agricultural Supplies/ Ministry of Agriculture. • South Oil Company / Ministry of Oil
<p>Recommendation</p>	<p>We recommend that arrangements to be made for the self financing entities to open their letters of credit directly through the Trade Bank of Iraq or other banks and maintain its data related to receipts and payments in electronic form to facilitate controlling them. During 2008, MOF issued instructions to all self financing entities to open their letter of credit directly.</p>
<p>Management's Response</p>	<p>The Ministry explained in its above mentioned memorandum that a notification number 595 of 24 February 2008 was issued which stipulated that the self financing company is to communicate directly with TBI for opening the facilities for execution of contracts signed by it and financed from its own resources.</p>
<p>Risk Level</p>	<p>Medium</p>
<p>Status</p>	<p>Old</p>
<p>Follow up</p>	<p>The above mentioned observation was still valid for the year ended 31 December 2009.</p>

9. Reconciliation Between the MOF and Other Ministries

Observation	During the course of our audit, we noted that the MOF does not carry out monthly reconciliations of the payments transferred from the DFI to the ministries and government entities between the MOF records and the records of the other ministries and government entities records.
Recommendation	We recommend that the MOF carry out monthly reconciliations with the records of the ministries and other government entities for payments transferred to cover their operating and capital costs, according to the budget allocated to each Ministry. This will help the MOF ensure that all payments made to the ministries were properly recorded in the MOF records and would enhance the control over those payments. We also recommend the MOF to send confirmations to the respective ministries and other government entities on a periodic basis in order to ensure the receiving and proper recording of amounts that have been funded, as well as to identify and reconcile any differences arising.
Management's Response	The MOF in its above mentioned memorandum stated that the accounting department follows up on amounts that were provided from the account of DFI at the ministries in addition to following up on the recording of these amounts in the ministries' account. Differences, if found, between amounts transferred by the accounting department and those recorded in the records of those ministries, are treated through monthly trial balances.
Risk Level	Medium
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

10. Reconciliation of the MOF's Current Account at the CBI

Observation	The MOF's current account held at the CBI in Iraqi Dinar represents the main account of the MOF that is being used to finance the ministries and related entities and Kurdistan Region in accordance with the allocated budget for each Ministry to cover their operating and capital expenditures in Iraqi Dinars. During the course of our audit, we noted that the reconciliation carried out by the MOF for its current account No. (70009) held at the CBI is not being properly performed, as this reconciliation only compares the transactions per the CBI statement of account to the MOF statement of account and determines the outstanding amounts without reconciling the balances.
Recommendation	We recommend that the MOF prepares the reconciliation of the MOF current account in a proper manner which aimed to properly reconcile the outstanding amounts as recorded by the CBI and the MOF. We further recommend that the MOF's current account at the CBI reconciliation should be carried out on a periodic basis, e.g. monthly, and all reconciling items should be investigated, reported and resolved on a timely manner. In addition, the reconciliation should be reviewed and approved by independent personnel from the preparer of the reconciliation.
Management's Response	MOF stated in its above mentioned memorandum that it does prepare monthly reconciliations for current account number 70009 opened at CBI and differences and variances are treated and followed up on a regular basis.
Risk Level	Medium
Status	Old
Follow up	<p>We noted the following:</p> <ol style="list-style-type: none"> 1- The Monetary management division maintains a database for the amounts appropriated from account 70009 held at the CBI which is reconciled to CBI's statement of account; bearing in mind that the division performs the reconciliation for cash management purposes only. 2- The accounting division compares the book balance of account 70009 held at the CBI, to the bank balance, where by the division identifies the outstanding amounts that represent the difference between both account balances. The accounting division then records accounting entries to cancel these outstanding amounts.

11. CBI Transfers to the MOF's Current IQD Account

Observation	During the course of our audit, we noted that there is currently no written agreement between the MOF and the CBI of to the arrangements of financing the MOF's Iraqi Dinar current account at the CBI from the DFI. The CBI is financing the MOF's current account, held at the CBI, by withdrawing the amounts from the DFI account at the FRBNY in U.S. \$ and then transferring an equivalent amount in Iraqi Dinar to the MOF's current account at the CBI. The exchange rate used is the CBI formal exchange rate on the date of transfer minus IQD 15 for each U.S. \$ 1 as commission charged by the CBI.
Recommendation	We recommend the MOF and the CBI to reach an agreement setting out the arrangements to be followed to finance the MOF's current account in Iraqi Dinars. This agreement shall also include the date of exchange rate to be applied by the CBI to purchase the U.S. \$ from DFI and basis of commission to be charged to MOF.
Management's Response	The related commission confirmed the non-existence of a written agreement defining the mode for financing MOF's account since this is regulated by the needs of MOF for funding its governmental disbursements. Our commission has also confirmed what was mentioned in the Firm's report since the monitoring of these appropriations is made by the appropriation's department at CBI. This note was also mentioned in the Firm's report for the prior year, and no action was taken by the Ministry for its treatment.
Risk Level	High
Status	Old
Follow up	We noted that as per Central Bank letters 5/1/2705 dated 25/9/2007, 11/1/40119 dated 16/12/2007, 11/3/14 dated 4/1/2009 and 11/3/372 dated 12/2/2009, the issue was still valid for the year ended 31 December 2009.

12. Payments from DFI Sub-Account Managed By U.S. Agencies

<p>Observation</p>	<p>During the course of our audit, we noted that no party is responsible for monitoring the U.S. Agencies sub account for checking the accuracy of payments and tracing the amounts to the contract terms. Payment orders are issued from the U.S. Agencies and sent to the CBI for the contracts that are executed for the benefit of the Iraqi ministries and other U.S. Agencies after approval by the MOF. There is no evidence of a review being carried out on these contracts and the related supporting documentation. During 2007, the MOF has started sending statements with the payments carried out from DFI sub-account to the ministries and other governmental institutions in order to ensure the receipt of goods or services.</p>
<p>Recommendation</p>	<p>In addition to the above mentioned procedures, we recommend that the following procedures be performed by MOF:</p> <ul style="list-style-type: none"> •Follow up the receipt of the confirmations from the ministries and other governmental entities to check the receiving of goods by the respective ministries. •Ensure that all payments are in congruence with supporting documents. •Ensure that payments have been recorded properly by the respective ministries. •Reconcile amounts paid with the CBI and FRBNY records. •Ensure that all payments are in compliance with the contract terms. •Ensure that all contracts' invoices have been stamped as "PAID", in order to avoid any duplicate payments.
<p>Management's Response</p>	<p>The Ministry, per its above mentioned memorandum replied that the accounting department undertook the necessary measure to discuss this subject with the ministries and related parties for the purpose of confirmation of amounts paid by the Project and Contracting Office of the American Embassy in favor of the ministries. The follow up by the Ministry is still in process for this purpose.</p>
<p>Risk Level</p>	<p>High</p>
<p>Status</p>	<p>Old</p>
<p>Follow up</p>	<p>In 2009, the payments from the sub account of the DFI amounted to USD 852 thousand and it was authorized and approved by the Iraqi Minister of Finance</p>

13. United Nations' Compensation Fund

Observation	<p>According to UNSCR 1483 (2003), the proceeds of export sales of oil and oil products shall be deposited into the Oil Proceeds Receipts Account (OPRA) at FRBNY and immediately thereafter 95% is required to be deposited in the DFI account at the FRBNY and the remaining 5% is to be deposited in the United Nations' Compensation Fund that was established in accordance with UNSCR 687 (1991) and subsequent relevant resolutions as a result of the Iraqi invasion of Kuwait during 1990. We noted the MOF has no information about the following matters:</p> <ul style="list-style-type: none"> •Amount of disbursements made from the Compensation Fund to each beneficiaries and payments details and supporting documents. •The balance available at the Compensation Fund as of 31 December 2007. •The remaining outstanding amounts due to the United Nations Compensation Fund that should be deposited in the Compensation Fund subsequent to 31 December 2007. •The estimated date of the final payment to the Compensation Fund. <p>During 2007, MOF requested from Iraqi Council of Ministers to resolve this matter.</p>
Recommendation	<p>We recommend the MOF to follow up with the Government of Iraq in order to take necessary actions to address the above issues and maintain sufficient information about the United Nations Compensation Fund for the purpose of making suitable disclosure in the notes to the DFI's financial statements. Following the meeting with IAMB and COFE, we received a letter from the United Nations providing us with the following information:</p> <ul style="list-style-type: none"> •Balance available at the Compensation fund : U.S.\$ 360 million. •The remaining outstanding amounts due to United Nations Compensation Fund : U.S.\$ 28,950 million. •As of December 31, 2007 about U.S. \$ 23,430 million had been paid out to award recipients. •At the present rate of Iraqi oil sales, it would take approximately 17 years for the compensation award to be fully paid.
Management's Response	<p>The related commission confirmed the absence of this data at MOF and also stated that CBI is the responsible party for overseeing this account and the payment of the 5% remaining compensations. This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	<p>High</p>
Status	<p>Old</p>
Follow up	<p>The above mentioned observation was still valid for the year ended 31 December 2009.</p>

14. Collection of Amounts Restricted Abroad

Observation	During the course of our audit, we noted that an amount of U.S. \$ 10,886,400 of the petroleum export sales was seized based on a seizure order issued by Court of Roma – Italy on 23 March 2006 as a result of a lawsuit against the Iraqi Ministry of Planning. The Government of Iraq believes that the court order violates UNSCR 1483 (2003).
Recommendation	We recommend the MOF coordinate with the Ministry of Justice and the Ministry of Foreign Affairs to follow up on this matter and take whatever action required and justified to recover this seized amount.
Management's Response	The Ministry, per its above mentioned memorandum replied that the Iraqi Embassy in Italy has appointed an Italian lawyer to follow up on this subject. This note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009 knowing that the Iraqi embassy in Italy has appointed an Italian lawyer to follow up on this subject.

15. Password Security Not Implemented

Observation	We noted that there is no main menu to access the Accounting Database Application of the DFI at the Accounting Department of Ministry of Finance; moreover, the only way to access the Application is by running the source code through Microsoft Access 2003. Furthermore, anyone can access and run the Application because the password control has not been implemented, and all users have unrestricted access to application.
Recommendation	We recommend suitable security controls be implemented immediately to ensure access to data is restricted to authorized users only.
Management's Response	<p>The follow up of the Ministry has revealed the existence of a special program for DFI on the computer. The print outs from this program represent a trial balance that is to be combined with trial balances for the ending statements of MOF.</p> <p>This is a simple system prepared by the programmer at MOF who depends on data obtained from CBI for entering and uploaded on Flash ram. Accordingly, this system does not possess international specifications for the protection of the data, and its downloading, uploading and alteration aspects.</p>
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

16. Segregation Of Duties

Observation	We noted that the programmer has unrestricted access to Accounting Database Application, and therefore; the programmer is in a position to make unauthorized or erroneous changes to data files.
Recommendation	We recommend to constantly review the segregation of duties in IT department and separate incompatible duties where possible. In our view, the current lack of segregation arose as initially IT was the only department with skills and knowledge to operate the Application. However, Programmers access to update data should be restricted. In addition, any data files needed for program testing should be copied into the test area.
Management's Response	<p>The follow up of the Ministry has revealed the existence of a special program for DFI on the computer. The print outs from this program represent a trial balance that is to be combined with trial balances for the ending statements of MOF.</p> <p>This is a simple system prepared by the programmer at MOF who depends on data obtained from CBI for entering and uploaded on Flash ram. Accordingly, this system does not possess international specifications for the protection of the data, and its downloading, uploading and alteration aspects.</p>
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

17. Program Documentation Procedures

Observation	We noted that the Accounting Department at MOF does not document any changes made into their Application. Also, the process of locating information about the programmed code is not efficient. To find a certain change, the whole program must be reviewed, and finding details of the latest change is time consuming.
Recommendation	We recommend detailing of all changes made to the Application be recorded in a block of narrative at the top of the program code as well as in the relevant part of the code itself. This step will provide quick and easy reference to work previously carried out and its position in the program, which will increase the efficiency of the programming function. We suggest also using a control form, displaying the history of revisions made to Application's programs within the Application, and be maintained as part of the System documentation. This form should include the programmer name, the program number, the date and purpose of the modification, the user request number to which it relates, and a description of the modification.
Management's Response	<p>The follow up of the Ministry has revealed the existence of a special program for DFI on the computer. The print outs from this program represent a trial balance that is to be combined with trial balances for the ending statements of MOF.</p> <p>This is a simple system prepared by the programmer at MOF who depends on data obtained from CBI for entering and uploaded on Flash ram. Accordingly, this system does not possess international specifications for the protection of the data, and its downloading, uploading and alteration aspects.</p>
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

18. User Program Change Request Procedures

Observation	We noted no standard procedures for users to follow when initiating and controlling requests for Application development and maintenance; such requests are often verbally communicated. Without formal written Application development and maintenance procedures, there is a risk that, some program changes may not be valid, or some program changes may not be adequately tested before being implemented. To help ensuring these control objectives are met, documented evidence of users' requirements and written authority for program changes should be developed.
Recommendation	<p>We recommend designing forms to provide standard documentation for all user requests. These forms should be pre-numbered and include, at a minimum, the following details:</p> <ul style="list-style-type: none"> · Name of the user initiating the request. · Date of the request. · Specifications of changes required. · Required completion date for request. · Authorization of request by user department head. · Authorization of request by data processing management; the completed user request forms should be filed in numerical sequence. Periodic checks of the sequence would enable data processing management to identify any requests not completed for follow up by management. Management shall ensure that standard documentation is used across all changes in order to provide evidence for change requests with the required authorization, testing, and approvals.
Management's Response	<p>The follow up of the Ministry has revealed the existence of a special program for DFI on the computer. The print outs from this program represent a trial balance that is to be combined with trial balances for the ending statements of MOF.</p> <p>This is a simple system prepared by the programmer at MOF who depends on data obtained from CBI for entering and uploaded on Flash ram. Accordingly, this system does not possess international specifications for the protection of the data, and its downloading, uploading and alteration aspects.</p>
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

19. Access to Source Code

Observation	We noted that the programmer has access to an Application’s source code. Where administrative, development and support functions are not segregated; there is a risk that the programmer could make unauthorized changes to program parameters or process data without being detected.
Recommendation	We recommend prohibiting programmer access to source code to minimize the risk of unauthorized changes. Access to source code should be monitored under close supervision of Management.
Management’s Response	<p>The follow up of the Ministry has revealed the existence of a special program for DFI on the computer. The print outs from this program represent a trial balance that is to be combined with trial balances for the ending statements of MOF.</p> <p>This is a simple system prepared by the programmer at MOF who depends on data obtained from CBI for entering and uploaded on Flash ram. Accordingly, this system does not possess international specifications for the protection of the data, and its downloading, uploading and alteration aspects.</p>
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

20. Computer Security

Observation	<p>In reference to direct access devices on the end user computer, the following was noted:</p> <ul style="list-style-type: none">• Floppy drives are enabled.• CD-ROM drives are enabled.• USB ports are enabled.• End user has administrator privileges on his/her computer. <p>With the uncontrolled use of external media as well as administrative privileges, the Department risks increasing the potential for the spread of viruses. Furthermore, installation of unauthorized programs as well as the copying of sensitive and confidential information may occur.</p>
Recommendation	<p>We recommend considering disabling all direct access devices on user workstations. Moreover, user should not be given administrator privileges on computer. Additionally, should a solid business case exist based on a formal risk assessment, Management should consider enabling certain drives / ports and granting power user privileges on computers exclusively to those justified in the business case. In such a case, approvals and authorizations should be obtained from the appropriate level of Management.</p>
Management's Response	<p>The follow up of the Ministry has revealed the existence of a special program for DFI on the computer. The print outs from this program represent a trial balance that is to be combined with trial balances for the ending statements of MOF.</p> <p>This is a simple system prepared by the programmer at MOF who depends on data obtained from CBI for entering and uploaded on Flash ram. Accordingly, this system does not possess international specifications for the protection of the data, and its downloading, uploading and alteration aspects.</p>
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

21. Operating System Update

Observation	We noted that Application's computer operating system is not updated with the most recent operating system update patches. Therefore, it will lead to the risk of exploitation of known security vulnerabilities in systems which are not sufficiently protected by updated operating system patches.
Recommendation	We recommend following up, test, and deploy most recent operating system update patches in order to safeguard the Application's computer assets regularly.
Management's Response	<p>The follow up of the Ministry has revealed the existence of a special program for DFI on the computer. The print outs from this program represent a trial balance that is to be combined with trial balances for the ending statements of MOF.</p> <p>This is a simple system prepared by the programmer at MOF who depends on data obtained from CBI for entering and uploaded on Flash ram. Accordingly, this system does not possess international specifications for the protection of the data, and its downloading, uploading and alteration aspects.</p>
Risk Level	Medium
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

Central Bank of Iraq

1. Reporting the Recovered and Refunded Amounts

Observation	During our audit of the DFI's statements in the CBI's records, we noted that some of the deposited amounts in the DFI account at the FRBNY do not have sufficient supporting documents, except for the SWIFT confirmation from FRBNY. The deposited amounts mainly are recovered from letters of credit cancellation, interest on cash margins or excess of funding over the required amount. These recovered amounts were included in other receipts in the DFI statement of cash receipts and payments. As the recovered amounts include refundable cash margins, recording the recovered amounts in other receipts, rather than offsetting against related letter of credit payments in the same period, overstates the cash receipts and payments balances.
Recommendation	We recommend that all deposited amounts are adequately supported to assist in determining the nature of the receipts in order to properly classify these amounts in the financial statement.
Management's Response	CBI replied per its above mentioned memorandum that the correspondent bank was questioned as to amounts transferred to DFI's accounts and as to the lack of information at the correspondent bank for those amounts which were listed as other income.
Risk Level	Low
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

2. DFI Records at the Central Bank

Observation	The DFI's bank accounts at the FRBNY are managed by the CBI on behalf of the MOF and included as part of the CBI's accounting records. As of 31 December 2007, there is an un-reconciled difference of U.S. \$ 4.025 million between the balance recorded by the DFI and the related balance (maintained for control purposes) in the CBI records. This difference does not affect the DFI's statement of cash receipts and payments, as this statement was compiled directly from the Excel sheets database maintained by the CBI, the FRBNY statement and other external sources.
Recommendation	<p>We recommend that the CBI properly reconciles the remaining difference of U.S. \$ 4.025 million and arranges for the appropriate adjustments to be made to resolve this difference. We further recommend that the CBI maintains separate records for the DFI with complete and detailed documentation for each transaction.</p> <p>These records should then be reconciled with the FRBNY bank statement and the MOF records on a timely basis and any differences should be investigated, reported and resolved.</p> <p>Once this process is properly established, the DFI financial statement should be prepared directly from the DFI accounting records, rather than the current Excel sheets database maintained by the investment directorate at the CBI.</p>
Management's Response	CBI replied per its above referred to memorandum that an investigation will be performed and the resulting difference amounting to 4,025 million U.S. dollars will be reconciled and independent records for DFI's account will be maintained. We hereby point out that the General Directorate of the Accounts has taken all necessary measures to transfer all accounts of DFI (debit and credit) to off-balance sheet as at 31 December 2007.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

3. Classification of DFI's Cash Receipts and Cash Payments

Observation	<p>During the course of our audit, we noted that the CBI maintains an Excel database for all the DFI cash receipts and cash payments, where we noted the following:</p> <ul style="list-style-type: none"> • Cash payments are not classified in the CBI database in accordance with the presentation of each category of cash receipts and cash payments in the DFI financial statement. • The CBI database is missing clarification information such as the MOF's payment order number, letter of credit number, beneficiary's name, the destination account number where the money was transferred and the description of each transaction. • Some errors were encountered in the 'details' field of the database, e.g. the name of the Ministry. • Some receipts were misclassified, e.g. the interest received from JP Morgan Chase that was classified as other receipts instead of being classified as interest received.
Recommendation	<p>We recommend that the CBI develop procedures to ensure the DFI cash receipts and cash payments are properly recorded and classified in accordance with the presentation of the DFI annual financial statement, which has been prepared in accordance with International Public Sector Accounting Standards / Financial Reporting on Cash basis.</p>
Management's Response	<p>CBI per above referred to memorandum replied that the date and number of MOF's letter has been indicated and the number of the LC within the daily letter and the number of account from which the transfer and not in the monthly statement.</p> <p>We stress the need for documenting the monthly statement with daily exhibits for the purpose of improving the statistical data for the balance of payments, the general state budget and national accounts. This note was also mentioned in the Firm's report for prior year.</p>
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

4. Interest Paid On Cash Margins

Observation	<p>During our audit on cash receipts, we noted that interest payments received from JP Morgan Chase on funds deposited as cash margins against opened Letters of Credit amounted to U.S. \$ 128,379 thousand during 2007 and the cash margin balances were U.S. \$ 2,474,616 and Euro 140,883 as of 31 December 2007, as stated in the confirmation received from JP Morgan Chase.</p> <p>Interest payments are transferred to the DFI on a quarterly basis. However, there is no documented evidence that the interest received is recalculated to ensure the accuracy and reasonableness of the amount of interested received. These interest payments are recorded in the monthly statement of cash receipts and payments prepared by the CBI, although the source of these payments is not documented. In addition, we noted that no interest was recorded in the DFI cash receipts against the cash margins held at Citibank amounting to U.S. \$ 321,589,553 as of 31 December 2006.</p>
Recommendation	<p>We recommend that the CBI re-computes all interest received from the correspondent banks on timely basis to ensure the amount is fairly stated. Additionally, we recommend that CBI has to follow up with Citibank in order to clarify the reasons behind not booking interest on the cash margin held with.</p>
Management's Response	<p>CBI per its above mentioned memorandum replied that realized interest for the account of JP Morgan and Citibank is verified by TBI since these accounts are held by it. CBI does not assume the responsibility for reviewing other parties, interest amounts of other parties.</p>
Risk Level	Low
Status	Old
Follow up	<p>We noted that there is no documented evidence that the interest received is recalculated by the Central Bank and Ministry of Finance. We recommend that the MOF recalculates the interest received on cash margins against letters of guarantee.</p>

5. Payments From The DFI Sub-Account

Observation	During the course of our audit, we noted that a detailed monthly statement is not being prepared by the CBI to record the details of the cash payments from the DFI sub-account at the FRBNY managed by the U.S. Agencies. The CBI only prepares a summary letter on a daily basis showing the cash receipts and cash payments of the sub-account
Recommendation	We recommended that the CBI prepares a detailed monthly statement for all payments made from the DFI sub-account showing the amounts paid, payment order numbers and the beneficiary name, in addition to the description of the nature of the transaction.
Management's Response	CBI confirmed the Auditors' note and indicated per its above mentioned memorandum that a monthly schedule for PCO has been prepared as of 1 January 2008 detailing receipts and disbursements.
Risk Level	Low
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2009.

State Oil Marketing Organization (SOMO)

1. Immunity

Observation	In accordance with UNSCR 1483 (2003), certain Member States have taken legal steps, as considered necessary, to ensure immunity from legal proceedings for the purchase of petroleum and petroleum products originating in Iraq, until title passes to the initial purchaser, so as not to be subject to any form of prior judicial, administrative or arbitral lien or judgment. This immunity expires on 31 December 2008 unless the United Nations Security Council decides otherwise.
Recommendation	We recommend the Government of Iraq to consider what action is required to ensure the continuity of the immunity over the petroleum and petroleum products or to find out and assess any alternative procedures to protect the Member States.
Management's Response	The auditing Firm indicated that the Security Council issued resolution number 1790 for year 2007 extending the immunity on income from sale of Iraqi oil until 31 January 2008. The financial experts committee has already mentioned this subject in its minutes of meetings which were subsequently advised to the related parties within the Iraqi Government.
Risk Level	High
Status	Old
Follow up	The immunity has been extended until 31 December 2010 as per UNSCR 1905. We recommend that the Government of Iraq considers what action is required to ensure the continuity of the immunity over the petroleum and petroleum products.

2. Completeness of Petroleum and Petroleum Products Sales

Observation	<p>The IAMB recommended in March 2004 the expeditious installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices. Oil metering is a key factor to achieve financial transparency and accountability over oil resources in Iraq. While the Iraqi Government supports oil metering, progress has been slow. Some metering has been installed at oil terminals, but there continues to be no metering in the oil fields. Because of the absence of an overall comprehensive system of controls over oil, there are un-reconciled differences between oil extraction, production, export sales and internal usage. During January 2007, we noted that new metering systems were installed at the loading points only, but still no metering systems have been installed at the oil wells, storage facilities and refineries. These systems need to be calibrated in accordance with Committee of Calibration and measurement.</p>
Recommendation	<p>We recommend installation of Comprehensive metering systems for all oil industry related entities and expeditious installation and calibration processes for entities already received the metering systems.</p>
Management's Response	<p>in relation to measurement of oil quantities, we hereby note that meetings on high levels are still taking place between the Council and the Ministry of Petroleum for following up and expediting the finalization of above objective. The Ministry of Petroleum has also delivered its comprehensive plan for the installation of a complete system of meters at all levels of the oil industry, a major percentage of which has been done for the export phase. Contracts have been awarded in respect of major projects during year 2008 and the Ministry of Petroleum anticipates through its proposed plan to complete installation of the comprehensive system during 2009. This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	<p>High</p>
Status	<p>Old</p>
Follow up	<p>Our inquiries revealed that the overall metering system installation percentage was around 44.6% as at 31 December 2009. In the absence of an overall comprehensive system of controls over petroleum extraction, we were not able to reconcile extracted petroleum to SOMO's records of quantities received and quantities consumed internally, however we have reconciled the petroleum quantities received by SOMO to petroleum export sales.</p>

3. Petroleum Products Sales

Observation	During the course of our audit, we noted that the State Oil Marketing Company (SOMO) policy is to sell fuel oil through cash advances made by customers before shipping. Cash received from export sales of petroleum products during the year ended 31 December 2007 amounting to U.S. \$ 770,165,984 has been deposited in bank accounts controlled by SOMO. According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI account. Accordingly, the cash receipts in the DFI financial statement for the year ended 31 December 2007 and the cash balance as of 31 December 2007 are understated by U.S. \$ 731,657,685. Also, we noted that according to SOMO's records, the export sales of petroleum products excluding barter transactions during the year ended 31 December 2007 amounted to U. S. \$ 923,915,546, while the total proceeds deposited into local banks amounted to U.S. \$ 770,165,984. We were not provided with reconciliation for the difference of U.S. \$ 153,749,562 between the total sales and total collections.
Recommendation	We recommend, in order to comply with UNSCR 1483 (2003), SOMO should arrange to deposit the proceeds of export sales of petroleum products in the DFI account on a timely basis. We further recommend SOMO to reconcile all advances received with the related sales ledger and sales invoices on a monthly basis. Any reconciling differences should be investigated, reported and cleared on a timely basis.
Management's Response	SOMO per its letter No. H/236 of 8 April 2008 did not confirm the correctness of statements provided by the Firm, nor did its records disclose this data. The Firm's report for the prior year stated a similar note though with a different amount.
Risk Level	High
Status	Old
Follow up	Cash received from export sales of petroleum products during the year ended 31 December 2009 amounting to U.S. Dollars 250,960 thousand (since inception till 31 December 2008: U.S. Dollars 3,132,496 thousand) has been deposited in bank accounts controlled by the Oil Marketing Company (SOMO). The Iraqi Government considers that these sales fall outside the scope of UNSCR 1483(2003) and a letter was sent to the Controller of the United Nations explaining the Iraqi Government's position. No reply has been received to the date of our audit report and therefore we are unable to determine whether the sales of petroleum products should be included in the statements of cash and receipts and payments and statements of proceeds of oil export sales.

4. Barter Transactions

Observation	<p>During the course of our audit, we noted that SOMO engaged in barter transactions with the Syrian Government for exports of petroleum and petroleum products. Barter transactions consist mainly of exports of fuel oil in exchange for petroleum products, and exports of petroleum in exchange for electricity and petroleum products. The total barter transactions during 2007 amounted to U.S. \$ 217,391,457 According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI accounts. As these were non-cash transactions, these barter transactions are not recorded in the DFI's statement of cash receipts and payments. Also, according to the agreement between SOMO and the Syrian Government, when the amount due from the Syrian Government exceeds U.S. \$ 10,000,000 for more than three months, a cash payment covering 75% of the due amount should be transferred to the other party. However, during the year, we noted that the amount due from the Syrian Government exceeded U.S. \$ 10,000,000 for more than three months and no cash transfer was received during 2007. Total amount due from the Syrian Government as of 31 December 2007 according to SOMO's records amounted to U.S. \$ 302,390,176. This amount has not been confirmed by the Syrian Government.</p>						
Recommendation	<p>We recommend SOMO to send a statement of barter transactions on a monthly basis to the Syria Government, in order to minimize any disputes that may arise with respect to any amounts relating to exchanged products. In addition, we recommend SOMO to request a confirmation of the balance outstanding from the Syria Government on a monthly basis and reconcile this confirmation to SOMO's records. Any reconciling differences should be investigated, reported and cleared on a timely basis.</p>						
Management's Response	<p>SOMO has pointed out that sales of crude oil and fuel oil for year 2007 are correct and agree with audited statements, while the general statements in respect of exports of fuel oil and crude oil via barter deals with the Syrian Government vary from its own records as shown here below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Company's Name</th> <th style="text-align: left;">Total Amount (US dollar)</th> </tr> </thead> <tbody> <tr> <td>E&Y</td> <td>1,032,598,000</td> </tr> <tr> <td>SOMO</td> <td>750,864,575</td> </tr> </tbody> </table> <p>This note was also mentioned in the Firm's report for the prior year.</p>	Company's Name	Total Amount (US dollar)	E&Y	1,032,598,000	SOMO	750,864,575
Company's Name	Total Amount (US dollar)						
E&Y	1,032,598,000						
SOMO	750,864,575						
Risk Level	Medium						
Status	Old						
Follow up	<p>Barter sales with the Syrian government amounting to U.S. Dollars 750,865 thousand from inception till 31 December 2008 and with private companies amounting to U.S. Dollars 348,815 thousand from inception till 31 December 2008 were not recorded in the financial statements. These amounts were not confirmed by the barter partners. No barter transactions were done during the year ended 31 December 2009.</p>						

U.S. Agencies

1. Outstanding contractual commitments

Observation	<p>We noted that the U.S. Agencies did not maintain a complete database of outstanding contractual commitments for contracts signed by the former CPA. During our audit for the year ended 31 December 2006, we received Excel sheets extracted from the database showing detailed contracts information (i.e. contract number, contractor name, awarded date, date of completion, closeout date, contract value, amount paid, outstanding balance, contract status, related Ministry, etc). During or audit of these contracts, we noted the following:</p> <ul style="list-style-type: none"> ● Certain contracts closing dates are in 2007 but they are shown as completed contracts as of 31 December 2006 (i.e. DFIWAT-06-C-0021). ● U.S. Agencies did not furnish us with contracts database as at 31 December 2007. <p>Based on the above, the controls to ensure the completeness of the contract database and the commitments outstanding balance at 31 December 2007 need to be improved.</p>
Recommendation	<p>We recommend that the U.S. Agencies that are responsible for administering and closing DFI funded contracts should ensure that the database contains all DFI funded contracts signed by the former CPA, together with any other new contracts, and that the status of all contracts are fairly stated in the contracts database.</p>
Management's Response	<p>The Monitory Council issued a report in this respect confirming what was mentioned in this note and is presently finalizing its review of the other contracts. This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	<p>High</p>
Status	<p>Old</p>
Follow up	<p>We did not perform any audit procedures at the U.S. Agencies for the year ended 31 December 2009.</p> <p>During the audit for the year ended 31 December 2008 we received a letter dated 21 May 2009 in which the JCC-I gives their response to the observation.</p>

2. Contracts database

Observation	We noted that the contracts database being used by the contracting department is very simple and does not have any access privileges. Consequently, any of the contracting officers can access the contracts database to add, delete or change data without leaving an audit trail. In addition, the contracts database is not integrated with the disbursements database.
Recommendation	The U.S. Agencies should develop security procedures to properly control and monitor access to the database and ensure any additions, deletions or other changes are made only by authorized officers. We further recommend that the U.S. Agencies consider integrating the contracts and disbursements databases.
Management's Response	This note is directed at the American Agencies and as such the auditing firm should have issued a memorandum for questioning the reasons behind the continued usage of this system specifically that the Firm's report has contained similar note for the prior year also.
Risk Level	Medium
Status	Old
Follow up	We did not perform any audit procedures at the U.S. Agencies for the year ended 31 December 2009. During the audit for the year ended 31 December 2008 we received a letter dated 21 May 2009 in which the JCC-I gives their response to the observation.

3. Projects handover to the Government of Iraq

Observation	The U.S. Agencies have been performing an administrative function on behalf of the Government of Iraq or the beneficiary ministry and following up payments to contractors. For this purpose, the U.S. Agencies use the DD250 form as a control to ensure receiving and inspection of materials or services. However, we noted that this form is not being signed by the representative of the Government of Iraq or the beneficiary ministry. During the progress of the projects, U.S. Agencies issue letters to the Ministry of Finance to settle the due balance to each contractor. After the completion of the projects, the U.S. Agencies hand over the projects to the beneficiary ministry. We note that the beneficiary ministry does not sign any formal documents to confirm receiving the projects from the U.S. Agencies.
Recommendation	We recommend that the U.S. Agencies inform the Government of Iraq representatives of the progress of the contracts to ensure all contracts and services administered by the U.S. Agencies are appropriately handed over to the Government of Iraq. This will help the Government of Iraq to have more information about the status of the projects made for the benefit of the ministries. The DD250 form should be signed by the representative of the Government of Iraq or the beneficiary ministry to confirm this control is being carried out. Also, the beneficiary ministry should sign the project hand over letter from the U.S. Agencies to confirm receipt of the projects, thus increasing the documented controls over completed projects administered by the U.S. Agencies.
Management's Response	The Board of Supreme Audit report issued in this respect under number 6165 dated 5 August 2007 confirmed the above note and requested MOF to check the correctness of amounts paid to the Contracting Office in light of confirmations received by it from beneficiary ministries. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	We did not perform any audit procedures at the U.S. Agencies for the year ended 31 December 2009. During the audit for the year ended 31 December 2008 we received a letter dated 21 May 2009 in which the JCC-I gives their response to the observation.

4. Cash on hand and disbursements limits

Observation	We noted that the U.S. Agencies have no ceiling limits for either cash on hand and held in the U.S. Agencies vault or for cash payment transactions. During our audit, we noted certain high value cash payments transactions, e.g. payment of U.S. \$ 10 million on 1 January 2006 to one U.S. Agency in order for that U.S. Agency to pay its suppliers and contractors. We requested but did not receive the supporting documents for the amounts paid to the suppliers and contractors.
Recommendation	No payment transaction from was been performed out of cash on hand held with U. S. Agencies during 2007. However, during March 2008 the U. S. Agencies transferred all cash on hand to MOF's account at CBI.
Management's Response	No response
Risk Level	High
Status	Old
Follow up	We did not perform any audit procedures at the U.S. Agencies for the year ended 31 December 2009. During the audit for the year ended 31 December 2008 we received a letter dated 21 May 2009 in which the JCC-I gives their response to the observation.

5. Closed contracts with outstanding balances

Observation	We noted that the U.S. Agencies have no ceiling limits for either cash on hand and held in the U.S. Agencies vault or for cash payment transactions. During our audit, we noted certain high value cash payments transactions, e.g. payment of U.S. \$ 10 million on 1 January 2006 to one U.S. Agency in order for that U.S. Agency to pay its suppliers and contractors. We requested but did not receive the supporting documents for the amounts paid to the suppliers and contractors.
Recommendation	No payment transaction from was been performed out of cash on hand held with U. S. Agencies during 2007. However, during March 2008 the U. S. Agencies transferred all cash on hand to MOF's account at CBI.
Management's Response	No response
Risk Level	Medium
Status	Old
Follow up	We did not perform any audit procedures at the U.S. Agencies for the year ended 31 December 2009. During the audit for the year ended 31 December 2008 we received a letter dated 21 May 2009 in which the JCC-I gives their response to the observation.

6. U.S. Agencies new contracts

Observation	The DFI sub-account was established at the FRBNY during 2004 to be managed by the U.S. Agencies and monitored by the Iraqi MOF. The purpose of this sub-account is to facilitate disbursements for contracts signed by the former Coalition Provisional Authority (CPA), requiring payments subsequent to 28 June 2004. U.S. Agencies management of the DFI sub-account expired on 31 December 2006. However, U.S. Agencies have signed new contracts during 2006 and which are still in progress during 2006. The total number of these contracts is 26, which include 19 contracts that were still in progress as of 31 December 2006, and amount to a total of U.S. \$ 41,741,783.
Recommendation	We recommend that the U.S. Agencies develop a plan for the completion of all outstanding contracts and to hand over these contracts to the beneficiary Iraqi ministry on a timely basis.
Management's Response	The American Agencies are expected to finalize all non-completed contracts and its subsequent transfer to the respective Iraqi ministries and adhere to the specified target date for finalization of these contracts. It is to be noted that the exhibit attached to the Auditors' Report in this respect did not include the names of the beneficiary Iraqi ministries which are involved in this limitation for its proper receipt, follow up and recording. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	We did not perform any audit procedures at the U.S. Agencies for the year ended 31 December 2009. During the audit for the year ended 31 December 2008 we received a letter dated 21 May 2009 in which the JCC-I gives their response to the observation.

7. Hand over of U.S. Agencies documents to the BSA

Observation	During the course of our audit, we noted that on 11 December 2006, the U.S. Agencies submitted the contracts files and other supporting documents of the former CPA and the U.S. Agencies to the Iraqi Board of Supreme Audit (BSA). According to the BSA letter dated 25 February 2007 to the U.S. Agencies, the BSA informed the U.S. Agencies that they found financial and legislative violations, which lead the BSA to review all the submitted documents. As a result of these findings, and the Government of Iraq has retained its right to request compensation for any financial damage to the Iraqi budget due to any financial or administrative actions taken by the U.S. Agencies during the execution of the contracts.
Recommendation	We recommend the findings of the BSA are followed up to determine what action is required to be taken.
Management's Response	<p>Our follow up and review of the subject of handing-over and review of files revealed the following:</p> <p>First: The Contracting Office has executed 15,193 contracts out of which 7,845 contracts are actually paper documented and the rest on CDs, while lost contracts and its data amounted to 1,762 contracts. Other unknown and undelivered contracts to the Council amounted to 39 contracts.</p> <p>Second: Details for 462 contracts were listed under miscellaneous contracts and were not linked to any Iraqi Party. Similarly, there exist contracts that were linked to some specified parties while it actually relates to different parties. Other contracts lack the name of the beneficiary party.</p> <p>Third: Material handed-over represent sample contracts, invoices, request for supplies, receipts for supplies prepared by the office. No supporting independent documentation is available such as the price list, receipt for amounts received, testing reports and warehouse receipts.</p> <p>Fourth: Data received does not indicate the presence of any role for the Iraqi beneficiary parties such as: the request from said party for the project or specifications of the materials or services contracted upon average prices or it's testing and handover to the related office.</p> <p>Fifth: Most operations for construction and supplies were made through direct invitation and accordingly, many related files lack notices for bids publications, bidders offers, results of the bids, and the choice of the best bid as these files contain only, and in limited cases, the bid from the supplier or the contractor who signed the sample contract. This Council has advised the General Secretariat of the Council of Ministers/Office of the Secretary General as per its letter No. 1/1/3/6165 of 5 August 2007 which enumerated number of general and specific matters that were revealed during the audit of a sample of the contracts at the Contracting Office. This indicates that the said Contracting Office does not have a comprehensive detailed database in respect of these contracts. This note was also mentioned in the Firm's report for the prior year, noting that the Financial Monitoring Council has adopted the necessary measures for advising the Council of Ministries of results of its findings in respect of certain contracts.</p>
Risk Level	High
Status	Old
Follow up	<p>We did not perform any audit procedures at the U.S. Agencies for the year ended 31 December 2009.</p> <p>During the audit for the year ended 31 December 2008 we received a letter dated 21 May 2009 in which the JCC-I gives their response to the observation.</p>

8. Reconciliation of payments made from DFI sub-account

Observation	During the course of our audit, we noted that the CBI receives the MOF approval together with the U.S. Agencies statement that shows a summary of the payment order numbers requested by the CBI. The responsible person in the CBI then records this approval and supporting statement in a separate file. Subsequently, these orders are executed according to the payments orders issued by the U.S. Agencies. We noted that an official documented reconciliation is not being carried out periodically on a monthly basis by the CBI and MOF of the payments orders issued by the MOF and the payments made from the DFI sub - account at the FRBNY managed by the U.S. Agencies.
Recommendation	We recommend that the U.S. Agencies investigate the reasons for such a high number of retrieved amounts. We also recommend that the CBI carries out a periodic reconciliation on a monthly basis of the payment orders issued by the MOF and the payments made from the DFI sub-account at the FRBNY managed by the U.S. Agencies in order to ensure the accuracy of all payments from the account and to reconcile all outstanding amounts on a timely basis.
Management's Response	The related commission at CBI confirmed that no follow up on retrieved amounts is done periodically as of the opening date of the account. The receipt of the statement from FRBNY and its comparison with the schedule of payments receipt from CBI and the schedule from the U.S. Embassy for following up on contracts performed during the prior period. Interest accrued on this sub-account is transferred to DFI directly and recorded as income. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	We did not perform any audit procedures at the U.S. Agencies for the year ended 31 December 2009. During the audit for the year ended 31 December 2008 we received a letter dated 21 May 2009 in which the JCC-I gives their response to the observation.