



Development Fund for Iraq

Management Letter on
Spending Ministries
31 December 2007



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30 April 2008

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

Dear Sirs,

In relation to our review of Development Fund for Iraq (the Fund) of 2007, we are now reporting to you certain matters which came to our attention during the course of the audit.

For the purposes of determining the timing and extent of our audit procedures required by International Standards on Auditing, we have conducted a review and evaluation of Internal Controls systems of the spending ministries. Throughout this review 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 that opinion) and should not therefore be relied upon to show that no other weakness 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 save where expressly agreed by our consent in writing.

We take this opportunity to thank the management and staff of all Iraqi Governmental entities for their co-operation during the course of the audit.

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'Bishr Baker', followed by a horizontal line.

Ernst & Young

Bishr Baker





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Symbols Legend


The following symbols are used through the report:


Symbol Name	Symbol	Description
High Risk		A serious weakness which exposes the DFI to a material extent in terms of achievement of corporate objectives, financial results or otherwise impairs reputation. Immediate corrective action is recommended.
Medium Risk		A weakness which can undermine the system of internal control and/or operational efficiency and should therefore, be addressed. Corrective action is recommended generally within a short period of time.
Low Risk		A weakness which does not seriously detract from the system of internal control and/or operational effectiveness/efficiency but which should nevertheless be addressed by Management. Corrective action is recommended generally within a reasonable time.
Current Year Observation	NEW	Observation noted during current year review
Prior Year(s) Observation Has Been Resolved		In our opinion, satisfactory actions were taken to resolve prior year(s) observation
Repeated/updated Observation	OLD	In our opinion, observation from prior year(s) was not properly resolved.

Common Observations

Common Observations			
1. Contracts' Supporting Documents			
Observation	Recommendation	Risk Level	Status
We noted that the ministries do not keep copies of contract files for its related companies and directorates, as the contract files are kept with related companies and directorates only.	We recommend keeping a copy of the original documents of the contracts related to companies and directorates of Ministries at the Ministries Headquarter for better control procedures.		NEW


Common Observations			
2. Financial and Internal Controls – Policies and Procedures			
Observation	Recommendation	Risk Level	Status
During our visit to the Iraqi ministries, we noted that there are no policies and procedures manuals to set out comprehensive financial and internal controls for ministries. Some ministries have certain instructions in the form of various internal memorandums.	<p>We recommend the ministries to prepare and maintain written standard policies and procedures for internal controls, that should cover all ministries financial and operating activities.</p> <p>The manual should be reviewed on a periodic basis to ensure that it is updated and relevant to providing accounting and operational guidance to staff.</p> <p>In addition, detailed monitoring procedures should be followed by key management to ensure proper and consistent implementation of the policies and procedures manual.</p>		OLD

Common Observations			
3. Organization Structure and Job Descriptions			
Observation	Recommendation	Risk Level	Status
We noted that there are no formal organization structure and job descriptions to clarify levels of responsibility and accountability.	<p>We recommend the ministries to develop a formally approved organization structure and job description for all levels at Ministries, this organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> – Hierarchy of the Ministry. – Executive responsibility, immediate assistants and approval authorities. – Operational responsibilities of employees, and specific duties to be performed. – Required administrative responsibilities related to the job performance. – Any other duties that the minister deems as necessary to be performed at any given circumstance. – Type of reports that must be issued and the timetable for preparing and issuing these reports. 		OLD

Common Observation			
4. Lack of Centralized Procurement Policies and Procedures			
Observation	Recommendation	Risk Level	Status
<p>During our visits to the ministries, we noted that there are no unified procurement policies and procedures manual. In addition, the Iraqi government procurement function is not centralized as each ministry and governmental entity executes its own procurements.</p> <p>Lack of centralized procurement policies and procedures manual is considered a material weakness in the overall control over procurement process at the ministries.</p>	<p>We recommend the Ministry of Finance to develop a written uniform procurement policies and procedures manual to be implemented by all ministries and governmental entities.</p> <p>In addition, detailed monitoring procedures should be carried out by key management to ensure effective and consistent implementation of the procurement procedures manual.</p> <p>Finally, the Ministry of Finance should make a study to consider centralization of the procurement function of all ministries and governmental entities that are financed by the DFI and to be controlled by the Ministry of Finance.</p>		OLD


Common Observation

5. Project Management and Monitoring System

Observation	Recommendation	Risk Level	Status
<p>During our visit to the Ministries, we noted the following in respect to project management and monitoring systems:</p> <ul style="list-style-type: none"> – The ministries do not have proper project management system and there are no written project management policies and procedures manual. – Most of the ministries do not maintain projects' register or adequate records to report the transactions of each project to monitor the progress of the projects in progress. These registers would assist the ministries in controlling the liabilities due to contractors and suppliers, and would serve as an input for cash planning process in forecasting and determining amounts to be paid to contractors and suppliers of the ministries in the short and the long runs. – The ministries do not prepare a checklist for the contractual conditions and provisions for each contract and supplier to make sure full compliance with the terms and conditions of the contract by both the ministry and the contractor. <p>Lack of adequate project management and monitoring system is considered a material weakness over the ministries project implementation, especially that the capital expenditure budget represents the significant part of the Government of Iraq budget.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> – The Ministry of Finance or the Council of Ministries to develop written unified project management policies and procedures manual to be implemented by all ministries, considering the specialty of contracts for each ministry. – All ministries should maintain a register or adequate records to report all the transactions of each project and to monitor the progress of the projects in progress. – The ministries should prepare a checklist for the contractual conditions and provisions with each contractor to make sure full compliance with the conditions and provisions of each contract by both the ministry and the contractor. – Adequate monitoring procedures should be carried out by key management to ensure effective and consistent implementation of the projects procedures manual. 		OLD


Common Observation

6. Information Technology – Policies and Procedures

Observation	Recommendation	Risk Level	Status
<p>We noted that there are no formally documented Information Technology (IT) policies and procedures.</p> <p>The absence of such policies and procedures could lead to misalignment of IT developments compared to the ministries overall strategic plan. Furthermore, it could lead to short-term solutions being adopted that could be expensive and ineffective in the long run.</p>	<p>We recommend the ministries to formulate an IT Strategy plan that sets out how the IT resources will be utilized to accomplish the ministries aims and objectives; The IT Plan should at least include the following:</p> <ul style="list-style-type: none"> – IT Policies and Procedures. – Assessment of the current IT environment to determine whether current requirements and objectives are being met. – Identification of both short-term and long-term objectives and the IT resources necessary to meet those objectives. – Determination of whether short-term objectives are consistent with long-term objectives. – Periodic review and update of the plan to ensure that it addresses the changing needs of each ministry. 		OLD


Common Observation


7. Internal Audit


Observation	Recommendation	Risk Level	Status
<p>We noted that the internal audit departments of the ministries lack the following:</p> <ul style="list-style-type: none"> – Formal policies and procedures. – Standard internal audit programs. – Clear lines of responsibilities and authority within department. – Policies for independence e.g. members of the department are participating in the purchasing committees. <p>Internal audit department is to assist management in controlling the Ministry departments and activities and help in identification of matters that requiring attention especially in large ministries.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> – Adopting Policies and procedures in accordance with the Institute of Internal Audit standards. – Developing formal internal audit charter. – Forming a formal internal audit plan and work program should be drawn up and agreed upon by the Ministry. – The Ministry shall develop clear organizational structure and procedures clarifying authority and responsibility to carry out its duties effectively. – The staff shall be suitably trained and qualified with appropriate levels of experience. – No members of staff from the Internal Audit should be serving on any management committee. – Sufficient financial and operational resources should be allocated to the internal audit department to gain maximum benefit from its operation. 		OLD


Common Observation

8. Human Resources Department

Observation	Recommendation	Risk Level	Status
<p>We noted that the performance of the Human Resource Department has the following limitations:</p> <ul style="list-style-type: none"> – Some employees' documents were missing such as CVs and certificates. – Certain personnel records are not regularly updated or maintained adequately, accordingly, we were unable to trace paid salaries in the salary sheets to approved salaries per personnel file. – The staff files do not include table of content. – Some employees' files were missing. -- All records are kept manually. 	<p>We recommend to maintain complete employees personnel files and to update these files regularly to ensure that all changes in the employees' status are captured and to ensure completeness of employees' data.</p>		OLD


Common Observation			
9. Delegation and Authority Manual			
Observation	Recommendation	Risk Level	Status
<p>The ministries do not have an authorized signatories list, signature format, and a formal authority matrix to specify the role of each of the ministries' authorized employees neither their approved limits to authorize and process banking transactions and payments from the ministries banks' accounts nor the authority limits of each function at the ministries.</p>	<p>We recommend the ministries to develop an authorization matrix to govern all their transactions to ensure that an adequate and appropriate controls have been put in place.</p> <p>The authorization matrix should specify the authorized positions, authorized activities and the authorization limit for each type of ministries activities and transactions, including cash transfers and payments.</p> <p>The types of authorities to be covered are as follows:</p> <ul style="list-style-type: none"> • Initiate • Review • Approve <p>The authorization matrix of the ministries should be reviewed and approved by the appropriate managerial level of the Government of Iraq.</p>		<p>OLD</p>


Common Observations			
10. Reconciliation with Ministry of Finance Records			
Observation	Recommendation	Risk Level	Status
<p>We noted that most of the ministries do not prepare monthly reconciliation between the amounts paid by the Ministry of Finance and the amounts received by each Ministry to reconcile the Ministry of Finance records with each Ministry records.</p> <p>The main purpose of such reconciliation is to confirm that the Ministry promptly and properly records all amounts received from Ministry of Finance.</p>	<p>We recommend each Ministry to prepare reconciliations with the Ministry of Finance records on a monthly basis to ensure proper recording of all transactions in each Ministry's records, any differences should be followed up and cleared on a timely basis.</p> <p>The reconciliation should be properly prepared and approved by the appropriate levels at the Ministry.</p>		OLD


Common Observations			
11. Authorized Signatory Matrix			
Observation	Recommendation	Risk Level	Status
We noted that the ministries did not have an authorized signatory matrix. Since several managers in certain ministries, have the authority of signing checks with no limits or ceiling for the check amount taking into consideration the frequent rotation of managers between departments.	<p>We recommend each Ministry to set a signature matrix to determine ceiling and limits for authorized personnel in each Ministry to authorize checks.</p> <p>In addition, the matrix should specify the additional higher levels required to approve and authorize checks above certain amounts as determined by each Ministry taking into consideration the amount and volume of payment transactions.</p> <p>In all cases, at least dual signatories should be required for each check .</p>		OLD


Common Observations

12. Segregation of Duties over Payroll Process

Observation	Recommendation	Risk Level	Status
<p>We noted that there was inadequate segregation of duties in the payroll system. The employee responsible for maintaining the payroll and preparing the payroll sheets is also responsible for posting payroll sheets to the system. The accounting records are therefore more vulnerable to errors and fraud as the work of one employee is not being independently reviewed.</p>	<p>We recommend that segregation of duties to be introduced, as follows:</p> <ul style="list-style-type: none"> – Payroll sheets should be prepared by an accountant, reviewed by another independent accountant, reviewed and authorized by the Finance Manager. – The employee responsible for preparing the payroll sheets should be independent from the employee who will be responsible for posting the sheets to the payroll system. – Reconciliation between the payroll records and the accounting records should be prepared on a monthly basis. 		<p>OLD</p>


Common Observations			
13. Cash Payment of Salaries			
Observation	Recommendation	Risk Level	Status
We noted that most of the ministries pay salaries in cash. Cash payment of salaries directly or through salary disbursement committees increase the risk of misappropriation of cash, theft and risk of loss while handling and processing salaries payments.	We recommend the Directorates to pay salaries through bank transfers to each employee's personal bank account, in order to avoid risks associated with the cash payment process.		OLD

Common Observations			
14. Manual Preparation of Payroll			
Observation	Recommendation	Risk Level	Status
During our review of the ministries payroll process, we noted that ministries were preparing the payroll manually. This is a laborious and time-consuming process. In addition, manual processing of payroll increases the risk of human errors.	<p>We recommend that a unified computerized payroll system shall be implemented for all ministries. Using computerized software for processing payroll saves time and minimizes the risk of human errors. In addition, the ministries can benefit from the computerized system in the following areas:</p> <ul style="list-style-type: none"> • Processing payroll sheets. • Working hours' integration with payroll processing. • Incorporating employees' files data. • Automatic update of payroll for employees' salary increments, resignation, newly hired employees, etc. • Ability to use the software for employees' appraisals. 		OLD

Common Observations			
15. Issued Checks			
Observation	Recommendation	Risk Level	Status
<p>We noted that copies of the issued checks are not maintained by the accounting department, nor a copy of the receiving payee identification document (ID) attached.</p> <p>Obtaining a copy of the check, copy of the payee ID and having the signature of the receiving payee on the copy of the check serves as the most powerful evidence of receiving the check and accordingly avoiding possible risks of fraud, errors and litigations.</p>	<p>We recommend the accounting department at each ministry to obtain a copy of the check for each payment transaction processed through checks, a copy of the payee ID, and the signature of the receiver on the check copy. These documents should be filed and documented using a special code, or by means of a filing system within the accounting department, which ensures rapid recovery of the required data when required. We also recommend stamping all checks by “first beneficiary only” for better control procedures.</p>		OLD


Common observations

16. Supporting documents attached to Payment vouchers

Observation	Recommendation	Risk Level	Status
During our review of the ministries payment process we noted that the supporting documents attached to the payment vouchers were not stamped as 'PAID' or otherwise defaced after the payment has been made, this increases the risk of duplicate payments of the same invoice.	All payment vouchers and their supporting documents should be stamped as "PAID" immediately after payment in order to prevent duplicate payments being made for the same invoice.		OLD


Common Observations

17. Contract Standard Form

Observation	Recommendation	Risk Level	Status
We noted that there is no standard contract form for procurement of goods or services; each ministry prepares contract terms and provisions of procurements and services internally including financial and legal terms and conditions	We recommend that ministries shall review the existing standard contracts form in consultation with independent legal and financial experts. In addition, a standard form of contract shall be used in each ministry to cover the general terms.		OLD


Common Observations

18. Fixed Assets Identification Numbers

Observation	Recommendation	Risk Level	Status
<p>We noted that the fixed asset register does not include individual asset identification numbers.</p> <p>Assigning an identification number to each individual asset would enable the ministries to trace each particular item to the fixed asset register and improve accountability. Furthermore, this will facilitate the physical verification of fixed assets of the ministries.</p>	<p>We recommend that ministries to consider developing identification numbers to be attached to all items of fixed assets that should be recorded in the fixed asset register. We further recommend performing independent and periodic physical count to ensure safeguarding of fixed assets.</p>		OLD


Common Observations


19. Budget Preparation Manual

Observation	Recommendation	Risk Level	Status
<p>We noted that the budget departments at the ministries have standard forms for budget preparation, but did not have a budget preparation manual.</p> <p>The manual would serve as guidance during the budget preparation process and provides basis for preparation of the operating and capital budgets. In addition, the budget preparation manual should be used as guidance for budget implementation and monitoring.</p> <p>The manual would also assist in meeting objectives when preparing ministries budgets and help in minimizing inconsistent practices while preparing annual budgets.</p>	<p>We recommend the Ministry of Finance to develop a budget preparation manual and hold training sessions for budget departments' employees to become more familiar with the methods, needs, and objectives of annual governmental budgets.</p> <p>In addition, ministries should document the basis and assumptions used in the preparation of the annual budget.</p>		OLD

Common Observations

20. Control Over Ministries' Related Companies and Directorates


Observation	Recommendation	Risk Level	Status
<p>We noted that the ministries internal audit departments do not cover the operations of the companies and directorates related to the ministries. In addition, there are no proper monitoring procedures over the operations of the related companies and directorates.</p> <p>Also the ministries did not prepare monthly reconciliations between its related companies and directorates to reconcile Letters of Credit that were financed by the Ministry of finance.</p> <p>Lack of monthly reconciliation between ministries and their related companies and directorates increases the risk of non-reconciled items and records between the Ministry and the related company or directorate. Reconciliation by the Ministry with its related company or directorate increases the control over the activities of the companies or directorates and minimizes the risk of irregularities.</p>	<p>We recommend the ministries to expand the scope of the internal audit departments to include all operations of the related companies and directorates.</p> <p>We also recommend all ministries to prepare reconciliations with all related companies and directorates records; Reconciliations should be performed on a monthly basis, properly approved by appropriate levels at the ministry and the related companies or directorates. All outstanding items should be cleared on a timely basis.</p>		OLD


Common Observations			
21. Follow up of Previous Management Letter Recommendations			
Observation	Recommendation	Risk Level	Status
<p>During our visit and understanding of the Iraqi Ministries internal control system, we noted that the Board of Supreme Audit followed up and requested the concerned ministries to improve the weaknesses reported in the previous audit management letters.</p> <p>However, there is no action plan followed by the ministries for timely follow up and implementation of all recommendations of prior period management letters.</p>	<p>As all previously reported management letters and recommendations were made to enhance the internal control structure and to ensure proper accounting and reporting issues are taken into consideration by the Iraqi Ministries we believe that the timely follow up and complete implementation of management letter recommendations is essential to develop the accounting and internal control systems of Iraqi Ministries.</p>		OLD


Ministry Of Oil

Ministry of Oil

1. Awarding of Contracts Authority


Observation	Recommendation	Risk Level	Status
During our review of a contract related to supply oil pipes for the benefit of South Oil Company amounting to U.S. \$ 15,847,800 which was executed by a company in United Arab of Emirates, we noted that the contract was awarded in May 23, 2007 and approved by the Minister in spite that the contract amount exceeds the ceiling of authority limits granted to the Minister to approve contracts at that date. However, the contract is categorized under the authorized limits of the Economic Committee of the Ministers Counsel.	We recommend the ministry to comply with budget execution instructions issued by Ministry of Finance for 2007 for better control procedures.		NEW


Ministry of Oil			
2. Cash Margins			
Observation	Recommendation	Risk Level	Status
During our review of the contract No.NR-150 amounting to U.S. \$85,700,100 executed by an American company, we noted that the company submitted cash margins of 2% out of the contract's value. This represents a non compliance with governmental contracts execution requirements No. (1) of 2007 which requires obliging all contractors and suppliers to provide 3% of total contract's value as cash margin.	We recommend complying with government contracts execution requirements No. (1) of 2007 for better control procedures.		NEW

Ministry of Oil			
3. Tender Opening Committees			
Observation	Recommendation	Risk Level	Status
We noted that the members of the Tender Opening and Analyzing Committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committee members every six months.	We recommend complying with the budget instructions issued by the MOF which require rotating the Committee members every six months for better control procedures and adherence to budget instructions.		NEW

Ministry of Oil


4. Bid Bonds

Observation			Recommendation	Risk Level	Status
During our visit, we noted that the Ministry had collected the bid bonds valued at 3% of the tender amount in a form of a bank guarantee as required by the Supreme Contracting Committee instructions, however, these bonds have been issued by foreign banks outside Iraq. This matter contradicts with the Supreme Contracting Committee instructions which require that the bid bonds to be issued by Iraqi banks, for example:			We recommend complying with the Supreme Contracting Committee instructions related to bid bonds for better and control procedures.		NEW
Project	Contractor	Bank Guarantee Issuer			
Al Najaf Refinery Project	GEA Energy System Limited	Standard Chartered			
Supplementary Works Project for Water Supply Unit	ICCS	National Bank of Jordan			

Ministry of Oil			
5. Changing Company Name			
Observation	Recommendation	Risk Level	Status
During our review of contact number QR-01/5294 related to Najaf Oil and Oil Products storage depot for an amount of U.S. \$ 8,877,745, we noted that the company' name has changed from GEA to BRG, while name on the contract and the performance bond has not been adjusted.	We recommend adjusting all the contracts and the performance bonds for companies changing their names during the contract period, in order to preserve the Ministry's rights in case of any breaches of contracts signed.		NEW


Ministry of Oil

6. Contracting Procedures

Observation	Recommendation	Risk Level	Status
<p>During our review for contract No.CGS7/CGS8 related to the rehabilitation of West Al Qurna for an amount of EUR 59,788,000 we noted the following:</p> <ul style="list-style-type: none"> The contract had been awarded through direct invitation and the tender was not published in three newspapers as required by the Supreme Contracting Committee of the Council of Ministers. The contract has been exempted from taxes and fees. <p>The performance bond has not been obtained before issuing the LC. The contract stated that the performance bond will be submitted after receiving the advance payment by the contractor, which contradicts contracting instructions.</p>	<p>We recommend complying with the Supreme Contracting Committee instructions and applicable laws for control procedures and to preserve the public resources.</p>		<p>NEW</p>

Ministry of Oil


7. Contracts' Supporting Documents


Observation	Recommendation	Risk Level	Status																											
<p>We noted that the Ministry does not maintain a copy of the contract files related to the Ministry’s directorates, while the contract files are being maintained only in Ministry’s Directorate, for example:</p> <table><tr><th>Project Name</th><th>LC Number</th><th>Amount In U.S. \$</th></tr><tr><td>Excavation Operations Project/Completing of (150) Wells in North Remaila Field.</td><td>04903/2007</td><td>85,700,100</td></tr><tr><td>Reconstruction of Pumping station and Treatment of Water Project in Karmat Ali.</td><td>Not Available</td><td>49,900,000</td></tr><tr><td>Replacement of Water Injection Pipes Project.</td><td>04521/2007</td><td>35,668,080</td></tr><tr><td>Connecting Wells to Stations Project\ South Oil Company.</td><td>Not Available</td><td>33,092,478</td></tr><tr><td>Completing Excavation of (30) Wells in West Al Qurna / eighth Station.</td><td>02184/2007</td><td>23,611,000</td></tr><tr><td>Establishment of the Third Exporting Line Project to Al Fao.</td><td>04522/2007</td><td>21,534,142</td></tr><tr><td>Reconstruction of Exports Plants in the Southern Area.</td><td>Not Available</td><td>16,821,100</td></tr><tr><td>Connecting Wells to Stations Project\South Oil Company.</td><td>02187/2007</td><td>15,847,800</td></tr></table>	Project Name	LC Number	Amount In U.S. \$	Excavation Operations Project/Completing of (150) Wells in North Remaila Field.	04903/2007	85,700,100	Reconstruction of Pumping station and Treatment of Water Project in Karmat Ali.	Not Available	49,900,000	Replacement of Water Injection Pipes Project.	04521/2007	35,668,080	Connecting Wells to Stations Project\ South Oil Company.	Not Available	33,092,478	Completing Excavation of (30) Wells in West Al Qurna / eighth Station.	02184/2007	23,611,000	Establishment of the Third Exporting Line Project to Al Fao.	04522/2007	21,534,142	Reconstruction of Exports Plants in the Southern Area.	Not Available	16,821,100	Connecting Wells to Stations Project\South Oil Company.	02187/2007	15,847,800	<p>We recommend that copies of the contracts’ original documents related to the Ministry’s Directorates should be kept within Ministry’s Headquarter for better control procedures.</p>		<p>NEW</p>
Project Name	LC Number	Amount In U.S. \$																												
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Connecting Wells to Stations Project\South Oil Company.	02187/2007	15,847,800																												


Ministry of Oil

7. Contracts' Supporting Documents

Observation				Recommendation	Risk Level	Status
	Installation of Production Sensors into the Oil and Injection Wells Project.	Not Available	14,783,750			
	Excavation Operations Project\Providing of Submersible Pumps.	04874/2007	14,366,868			
	Connecting Wells to Stations Project\ South Oil Company.	02186/2007	12,721,240			
	Reconstruction of Production Facilities Project in Missan.	02142/2007	12,645,320			
	Excavation and Completion of Operations Project	Not Available	8,786,000			
	Valves for Wells connecting Project\ Providing Different Valves for Wells connection.	02275/2007	3,668,415			
	Reconstruction of Export Plants in the Southern Area.	02032/2007	2,260,067			



Ministry of Oil			
8. Operational Loading System at Loading Points			
Observation	Recommendation	Risk Level	Status
<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.</p> <p>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.</p> <p>In the absence of a comprehensive control system over oil, differences will occur between oil quantities extracted, produced, exported and locally consumed.</p>	<p>We recommend installing a comprehensive system to measure the oil quantities in all of the oil facilities, and to accelerate installing and calibrating processes in the plants where these systems were received</p>		<p>OLD</p>



Ministry of Oil			
9. Reconciliation with Records of Related Companies			
Observation	Recommendation	Risk Level	Status
<p>We noted that the Ministry of Oil does not perform reconciliation between its records and the Oil Production Refining, and Distribution companies' records.</p> <p>The Technical Department at the Ministry obtains monthly reports from the related companies, and summarizes, and issue reports to the minister without verifying the accuracy of the data or reconciling the quantities with the records maintained by the companies. We noted differences between the Ministry of Oil's records and monthly reports of the companies.</p>	<p>We recommend installing oil metering system as mentioned in the previously mentioned point related to the Operational Loading System, and to prepare monthly reconciliations for the oil quantities including all the directorates and companies related to the oil industry in Iraq including:</p> <ul style="list-style-type: none"> • Oil Companies • Loading Points • Refineries Companies • Oil Pipelines Companies • Electricity Companies • Distribution Companies • State Oil Marketing Organization (SOMO) <p>The preparation of reconciliations between those parties shall include analysis of differences, and investigating of differences for all parties involved for better control procedures.</p>		OLD

Ministry of Oil																															
10. Long Outstanding Cash Margins																															
Observation				Recommendation		Risk Level	Status																								
<p>We noted a number of long outstanding cash margin balances with JP Morgan Chase for letters of credit.</p> <p>The following are examples of these outstanding balances as of 31 December 2007 according to the confirmation received from JP Morgan Chase.</p> <table><tr><th>L/C #</th><th>Ministry</th><th>L/C Amount (USD)</th><th>Outstanding Amount (USD)</th><th>L/C Opening Date</th><th>L/C Validation Date</th></tr><tr><td>2005/1596</td><td>Oil</td><td>958,870</td><td>11,638</td><td>12-2-2005</td><td>1-7-2005</td></tr><tr><td>2005/1589</td><td>Oil</td><td>395,490</td><td>72,598</td><td>15-2-2005</td><td>15-8-2005</td></tr><tr><td>2004/1512</td><td>Oil</td><td>1,252,850</td><td>124,850</td><td>27-1-2005</td><td>31-12-2005</td></tr></table>				L/C #	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date	2005/1596	Oil	958,870	11,638	12-2-2005	1-7-2005	2005/1589	Oil	395,490	72,598	15-2-2005	15-8-2005	2004/1512	Oil	1,252,850	124,850	27-1-2005	31-12-2005	<p>We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the status of each outstanding letters of credit cash margin and follow up and resolve all long outstanding balances.</p> <p>Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure letters of credit are executed on a timely basis.</p>			OLD
L/C #	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date																										
2005/1596	Oil	958,870	11,638	12-2-2005	1-7-2005																										
2005/1589	Oil	395,490	72,598	15-2-2005	15-8-2005																										
2004/1512	Oil	1,252,850	124,850	27-1-2005	31-12-2005																										


Ministry of Oil


11. Tracking Budget Allocations for the Ministry


Observation					Treatment method	Risk Level	Status										
<p>Ministry of Finance approves the budget allocation of the letters of credit for each ministry and sends a copy of this approval to the respective ministries and to the CBI. Based on this approval, the ministries then open their letters of credit at Trade Bank of Iraq.</p> <p>We noted that the Ministry of Oil had issued request for payments exceeding their allocated budget that was approved by the Ministry of Finance. This indicates that the Ministry did not maintain sufficient records of the budget amounts approved by the Ministry of Finance nor the amounts paid and the remaining balance.</p> <p>The following is an example of a payment transfer order issued by the Ministry of Oil that exceeded its allocated budget:</p> <table><tr><th>CBI Letter No.</th><th>LC No.</th><th>Governmental Entity</th><th>Request for transfer U.S. \$</th><th>Budget Allocation U.S. \$</th></tr><tr><td>655/5 on 6/4/2006</td><td>2832/2005</td><td>North Oil Company</td><td>637,705</td><td>24,728</td></tr></table>					CBI Letter No.	LC No.	Governmental Entity	Request for transfer U.S. \$	Budget Allocation U.S. \$	655/5 on 6/4/2006	2832/2005	North Oil Company	637,705	24,728	<p>The Ministry has monitored budget amounts approved by the Ministry of Finance and the amounts paid and the remaining balance, in order to prevent and detect payment requests that exceed budget allocations</p>		
CBI Letter No.	LC No.	Governmental Entity	Request for transfer U.S. \$	Budget Allocation U.S. \$													
655/5 on 6/4/2006	2832/2005	North Oil Company	637,705	24,728													

Ministry of Oil			
12. Recording Letters of Credits			
Observation	Treatment method	Risk Level	Status
<p>We noted that the Finance department at the Ministry of Oil does not maintain records of Letters of Credit transactions as well as not performing periodic reconciliations with Ministry of Finance.</p> <p>This may lead to inadequate and unreliable records.</p>	<p>The Finance department is now tracking all Letters of Credit related transactions within Ministry of Oil's records.</p>		

Ministry of Oil
Oil Marketing Company (SOMO)
Oil Products Imports


Ministry of Oil –Oil Marketing Company (SOMO) Oil products Imports			
1. Quantities of Oil Products Received			
Observation	Recommendation	Risk Level	Status
<p>During 2007, the task of controlling and reporting the entrance and completeness of oil products imported was assigned to the technical department at the Ministry of Oil instead of Sabra and Khilani companies in accordance with minister of oil instructions.</p> <p>During our review, we noted that the Technical Department did not prepare technical reports to confirm the received quantities of petroleum products, whereas it approved the certificate of quantity issued by the Shipping Department at SOMO for the eastern boarder only.</p>	<p>We recommend that the Technical Department shall report the quantities of oil products received for all the borderline outlets, and provide SOMO with reports on a regular basis for better control procedures.</p>		<p>NEW</p>

Ministry of Oil - Oil Marketing Company (SOMO) Oil products Imports			
2. Monitoring Fees of Oil Products Quantities			
Observation	Recommendation	Risk Level	Status
During 2007 SOMO cancelled the contract of controlling and reporting received quantities of oil products with Sabra and Khilani. Technical Department at the Ministry was assigned to perform the tasks according to the Ministry's resolution, which also instruct to transfer a portion of the amounts withheld from suppliers to the benefit of Technical Department to cover its expenses relating to the task. These instructions did not specify the amounts to be transferred or method of transfer.	We recommend that an agreement shall be signed or instructions be issued to determine the fees to be paid by SOMO to the Technical Department in the Ministry for better control procedures.		NEW

Ministry of Oil - Oil Marketing Company (SOMO) Oil products Imports			
3. Internal Control Procedures over Oil Imports			
Observation	Recommendation	Risk Level	Status
<p>During our review, we noted that SOMO does not have documented internal control procedure manual over the import of petroleum products. Senior management instructions on such procedures are documented in the form of various internal memoranda.</p> <p>In this case, the risk exists that procedures may be applied in an inconsistent manner and new staff may not be aware of the approved policies and procedures.</p>	<p>We recommend developing and maintaining written standard internal control procedures over the import of petroleum products.</p> <p>In addition, detailed monitoring procedures should be followed by key management to ensure effective and consistent implementation of the internal control procedures.</p>		OLD


Ministry of Oil - Oil Marketing Company (SOMO) Oil products Imports


4. Measuring Metering System for Imported Petroleum Products

Observation	Recommendation	Risk Level	Status
<p>During our review, we noted that the quantities of the imported petroleum products delivered by suppliers to SOMO storage tanks have been determined by reference to a dipstick carried for each storage tank. SOMO's shipping division management are satisfied that the dipstick measurements of imported petroleum products correspond with that of the invoiced quantity.</p>	<p>We recommend implementing accurate metering systems to be in line with the best practices and to ensure effectiveness of control over misappropriation of quantities of imported petroleum products.</p> <p>Upon receiving of each petroleum product shipment, the quantity received per bill of lading should be compared with the readings of SOMO metering system by independent authorized personnel.</p> <p>We also recommend that appropriate safeguarding policy of the metering devices should be implemented, such as installing the meters in a secure area, where only authorized personnel are granted the access.</p>		<p>OLD</p>

Ministry of Oil - Oil Marketing Company (SOMO) Oil products Imports


5. Monthly Reconciliation with Suppliers of Petroleum Products

Observation	Recommendation	Risk Level	Status
<p>During our review, we noted that the Finance Department at SOMO neither obtain confirmations nor carry out reconciliations between suppliers of petroleum products statements and the underlying accounting records on a monthly basis.</p> <p>Consequently, accounting errors may not be identified on a timely basis such as missing or duplicate invoicing, goods being received by SOMO in one period but not accounted for until the next, etc.</p>	<p>We recommend requesting confirmation or statements of account from all suppliers of imported petroleum products on a monthly basis. The suppliers' balances should then be reconciled to SOMO records with any differences being investigated and resolved on a timely basis.</p>		<p>OLD</p>

Ministry of Oil - Oil Marketing Company (SOMO) Oil products Imports			
6. Pending Reconciliation Items			
Observation	Recommendation	Risk Level	Status
<p>During our review of the reconciliation between SOMO and the TBI Account No. 1029, we noted that there are many long outstanding items with very high balances relating to 2005, 2006 and 2007, whereas the payments which appeared in company's record and did not appear in TBI records amounted as following</p> <ul style="list-style-type: none"> • Payments for an amount of U.S. \$ 71,519,015 during 2005. • Payments for an amount of U.S. \$ 2,123,980,327 during 2006. • Payments for an amount of U.S. \$ 493,405,927 during 2007. <p>During 2007 SOMO has opened a new account at TBI (Account No. 1151) instead of that account, in order to avoid more pending items being carried forward; however, the reconciliation of the old account is still in process.</p>	<p>We recommend that pending items shall be resolved and a reconciliation with TBI to be performed for better control procedures and better safeguarding of the company's assets.</p>		<p>OLD</p>



Ministry of Oil - Oil Marketing Company (SOMO) Oil products Imports

7. Filing System

Observation	Recommendation	Risk Level	Status
<p>During our review, we noted that documents supporting petroleum products import transactions are distributed within SOMO's Marketing, Shipping, and Finance Departments. All documents relating to each import transaction such as contracts with suppliers, price calculations, PLATTS Market quotations that are used to calculate imported petroleum products prices, Bill of Lading, Certificate of Imports, Credit Notes, and Bank Transfer Order are not stored in one file or location.</p> <p>Management and auditors might require retrieving data related to imports transactions, and accordingly, supporting documents should be gathered in one location and kept with a proper coding and referencing system at a safe place to facilitate the retrieval of the documents as and when required.</p>	<p>We recommend SOMO to consider developing proper filing system to keep copies of vouchers and other supporting documents related to petroleum products imports to facilitate data retrieval when required.</p>		OLD


Ministry of Oil - Oil Marketing Company (SOMO) Oil products Imports


8. Contracts and Supporting Documents

Observation	Treatment method	Risk Level	Status
<p>During our review of imported petroleum products, we noted that contracting division did not provide the Shipping and Finance Departments with a full copy of contracts; instead, only a summary of contracts are provided.</p> <p>Moreover, the Shipping Department does not provide the Finance Department with copies of the Bill of Lading or Khilani or Sabro reports; instead, the Shipping Department summarizes the quantities as stated in the Certificate of Import, and sends this report to the Finance Department to calculate the prices and prepare invoices and Credit Notes.</p> <p>We also noted that for 2007 transactions, prices were not calculated by Finance Department as previously mentioned; but rather, prices are calculated by the contracting division. Such procedures prevent the Finance Department from double-checking and independently matching quantities invoiced with contracted quantities and quantities reported in Bill of Lading.</p>	<p>During 2007, the Contracts Department and Shipping Department both have provided the Finance Department with a copy of contracts and shipping documents, while the Finance Department did not recalculate the prices as an additional control procedure.</p>		

Ministry of Oil - Oil Marketing Company (SOMO) Oil products Imports


9. Suppliers Invoices

Observation	Recommendation	Risk Level	Status									
<p>We noted that SOMO did not obtain invoices from most of the suppliers of imported petroleum products. In order to reduce the risk of misstatements, it is essential to obtain invoice from all suppliers of imported petroleum products as a formal record of the transaction and accordingly avoiding possible risks of fraud, errors or litigations.</p> <p>Examples where SOMO did not have invoices from suppliers:</p> <table><tr><th>Type Oil Product</th><th>Date</th><th>Amount U.S. \$</th></tr><tr><td>KEROSENE</td><td>Oct. 29, 2007</td><td>15,185,653</td></tr><tr><td>KEROSENE</td><td>Mar. 24, 2007</td><td>11,658,573</td></tr></table>	Type Oil Product	Date	Amount U.S. \$	KEROSENE	Oct. 29, 2007	15,185,653	KEROSENE	Mar. 24, 2007	11,658,573	<p>We recommend obtaining invoices from all suppliers of petroleum products imports for verification of quantity and price as stated in the contract.</p>		OLD
Type Oil Product	Date	Amount U.S. \$										
KEROSENE	Oct. 29, 2007	15,185,653										
KEROSENE	Mar. 24, 2007	11,658,573										

Ministry of Oil- Oil Marketing Company (SOMO) Oil products Imports			
10. Control over Invoices and Certificates of Imports			
Observation	Recommendation	Risk Level	Status
We noted that all manual documents such as credit notes, invoices, and the Shipping Department's certificates of import were manually numbered.	We recommend that the Finance and the Shipping departments should use serially pre-numbered documents for invoices, certificates of imports and all other used forms.		OLD


Ministry of Oil- Marketing Company (SOMO) Oil products Imports

11. Supporting Documents for Payments

Observation	Recommendation	Risk Level	Status
We noted that SOMO did not attach the bank slip for payments of invoices related to the suppliers of imported petroleum products nor obtained the signature and acknowledgment of receipt of payment from the supplier. Accordingly, payments settled and paid to suppliers cannot be traced to evidence of payment and could be claimed once again by the supplier.	We recommend SOMO to obtain and attach the bank slip for each transfer of payments to suppliers of imported petroleum products; and obtain confirmation from suppliers upon settlement of any invoice.		OLD



Ministry of Oil- Oil Marketing Company (SOMO) Oil products Imports

12. Payment Vouchers and Supporting Documents

Observation	Recommendation	Risk Level	Status
We noted that SOMO did not cancel payment vouchers and their supporting documents after payment has been made with “PAID” stamp, which increases the risk of duplicate payments being made for the same invoice.	All payment vouchers and their supporting documents should be stamped “PAID” immediately after payment to prevent duplicate payments being made for the same invoice.		OLD



Ministry of Oil- Marketing Company (SOMO) Oil products Imports

13. Bank Reconciliations

Observation	Treatment method	Risk Level	Status
<p>During our review, we noted that SOMO does not properly prepare and document monthly reconciliations for SOMO's bank accounts. The bank reconciliations only being prepared at the end of the year only.</p> <p>As a result, there is reduced control over the accuracy of the accounting for bank transactions, as any errors would not be promptly detected.</p>	<p>During 2007, SOMO has prepared bank reconciliations on a monthly basis which have been reviewed by an independent person.</p>		


Ministry of Oil- Oil Marketing Company (SOMO) Oil products Imports


14. Reconciliation between Departments



Observation	Recommendation	Risk Level	Status
<p>During our review, we noted that SOMO did not perform periodic reconciliations between its departments, such as reconciliations between the Shipment department and the Finance department.</p> <p>In the absence of such reconciliations, the risk exists that the finance records may not be complete and accurate, and errors may occur and not be discovered on a timely basis.</p>	<p>During 2007, SOMO has prepared periodic reconciliation between its departments for the import and export of oil products quantities, and such reconciliations were reviewed by the authorized management levels at departments.</p>		

Ministry of Oil- Oil Marketing Company (SOMO) Oil products Imports


15. Exchange Rate


Observation	Recommendation	Risk Level	Status
We noted that the accounting records/ trial balance of SOMO stated the U.S. \$ exchange rate to be one Iraqi Dinar (IQD) as of 31 December 2007, while the market rate as per CBI was IQD 1225 for each U.S. \$ 1.	We recommend SOMO to translate the oil export sales in its accounting records based on the denominated exchange rate of the U.S. \$ against Iraqi at the date of the transaction.		OLD


Ministry of Oil- Oil Marketing Company (SOMO) Oil products Imports			
16. Back up Policy or Recovery Plan			
Observation	Recommendation	Risk Level	Status
<p>During our review, we noted that SOMO does not have a formal policy for obtaining back up for SOMO's data. Back up policy should be organized in a way to ensure a back up of SOMO's data is performed regularly and preferably on a daily basis.</p> <p>In the absence of a back up system, SOMO's records could be lost in the case of a disaster, such as fire, sabotage, etc.</p>	<p>We recommend that SOMO management has to develop and approve a policy for contingencies and a recovery plan to ensure continuity of operations, and to ensure that SOMO maintains a back up for its hard and soft copy records in order to reduce the risk of lost data.</p>		<p>OLD</p>

Ministry of Oil- Oil Marketing Company (SOMO) Oil products Imports			
17. Reconciliation with Import Ledger for Petroleum Products			
Observation	Treatment method	Risk Level	Status
<p>During our review, we noted that there are no monthly reconciliations between SOMO's petroleum products imports ledger and the reported quantities of imports per Sabbro or Khilani Companies (a certified services company that controls the entrance and confirms completeness of delivery of the imported petroleum products in terminals).</p> <p>Monthly reconciliations between imports ledger and Sabbro or Khilani Company reports provide a key control over the completeness of the monthly quantities of all types of petroleum products received and provide a mechanism to identify any missing quantities on a timely basis</p>	<p>SOMO prepares monthly reconciliation between import ledger of petroleum products and certificates of quantity issued by the Shipping Department upon measurement of Technical Department in the Ministry, which replaced Sabra and Kilani companies during 2007.</p>		

Ministry of Oil
Oil Marketing Company (SOMO)
Export Sales

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
1. Approved Policies and Procedures			
Observation	Recommendation	Risk Level	Status
<p>During our work, we noted that SOMO does not have documented and approved policies and procedures for the preparation, review and approval of export sales invoices.</p> <p>In this case, the risk exists that procedures may be applied in an inconsistent manner and new staff may not be aware of the approved policies and procedures.</p>	<p>We recommend that SOMO should consider the preparation and maintenance of written standard controls and procedures manual for the preparation, review and approval of export sales and other finance department activities. When these have been prepared, they should be approved by higher management, then staff should be trained to the extent necessary to understand and apply them.</p>		<p>OLD</p>


Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
2. Supporting Document			
Observation	Recommendation	Risk Level	Status
<p>As per our review, we noted that documents supporting fuel oil sales transactions were not gathered and filed in one location and with one department, such as Khilani report for invoice number F106/112, F106/080 and F106/002.</p> <p>Management and auditors might require retrieving data for sales of oil and oil products, and accordingly, documents supporting sales should be gathered in one location and kept with a proper coding and referencing system at a safe place to facilitate the retrieval of the documents as required.</p>	<p>We recommend SOMO to improve the filing system to keep all supporting documents for petroleum products sales in one location, e.g. petroleum invoices, to facilitate data retrieval when required.</p>		<p>OLD</p>

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
3. Management Reporting			
Observation	Recommendation	Risk Level	Status
<p>We noted that the oil export sales reports prepared by SOMO are insufficient given the nature and complexity of SOMO operations and number of transactions.</p> <p>Also, SOMO does not have a formal management reporting system to determine all the regular reports that should be prepared by each department and the parties that should review and analyze each report.</p>	<p>We recommend that a regular and timely management reporting system should be introduced covering all SOMO's activities and operations. All reports should be prepared for management review shortly after the end of each month.</p>		<p>OLD</p>

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
4. Bidding Procedures for Oil Contracts			
Observation	Recommendation	Risk Level	Status
Based on our review, we noted that sales contracts are mainly awarded to existing customers. No bidding procedures are initiated, as management evaluates past performance for existing customers as a base for awarding contracts. However, there were no proper documented performance analysis and due diligence to ensure the competence of the selected companies.	We recommend SOMO to initiate a bidding process for sales contracts awarding. Bidding procedures minimize the risk of unauthorized transactions, transactions not in the ordinary course of business and give equal chances for bidders to be selected in a transparent manner.		OLD


Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales


5. Export Sales Contracts.


Observation	Recommendation	Risk Level	Status
<p>Based on our review, we noted that two export sales of petroleum contracts were not signed by the buyers. In addition, we noted some delay in signing the export sales contracts by certain buyers for the first half of 2006, such as contract numbers M/06/18 and M/06/06, which were signed on April 4, 2006 and March 1, 2006 respectively, while the shipments to the buyers commenced during February 2006.</p> <p>This may increase occurrence of errors in respect of terms and enforceability of the contracts.</p>	<p>We recommend that SOMO should not commence the shipping process to any buyer before receiving the approved export sales contract signed by the buyer.</p>		<p>OLD</p>


Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales

6. Shipment Destinations

Observation	Recommendation	Risk Level	Status
<p>According to SOMO standard export sales of petroleum contracts, the shipments destinations of each buyer are predetermined in the contract and any change to the destination should be subject to SOMO prior approval. However, we noted that there were 13 petroleum export sales contracts that provide the customers to freely determine the destination. This procedure subsequently affects the Oil Selling Price (OSP), which is calculated based on the shipment destination determined by the customer, and directly has effect on the amount of the export sales revenues.</p>	<p>We recommend SOMO to reconsider these contracts and control the shipments destinations to maximize export sales revenue.</p>		<p>OLD</p>


Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
7. Certificate of Discharge at Destination Port			
Observation	Recommendation	Risk Level	Status
<p>Based on our review, we noted that SOMO does not obtain the certificate of discharge at port of destination. Considering that SOMO's contractual provisions do not permit the change of the destination or reselling without the prior consent of SOMO, the shipping department should obtain the discharge certificate at destination port to ensure customer compliance with SOMO's contractual provisions.</p> <p>Also, per the signed agreement with KARTET KARADENIZ TOPTAN ELEKTRIC COMPANY, SOMO should be provided with certificate of discharge on a monthly basis from this company to confirm the received quantities; however such certificate were not obtained.</p>	<p>We recommend SOMO's shipping department to obtain certificate of discharge at the destination port for each shipment, to ensure the proper execution and compliance with the signed contracts and ensure receipt of certificate of discharge from KARTET KARADENIZ TOPTAN ELEKTRIC COMPANY on a monthly basis.</p>		<p>OLD</p>

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
8. Approval of OSP Calculation Formula			
Observation	Recommendation	Risk Level	Status
During our review, we noted that the formula applied to reach SOMO's OSP is not incorporated in formal approved policy. The formula includes price differentials, freight escalation and API escalation; those differentials affect OSP and the amount of petroleum revenues.	We recommend that management documents OSP calculation formula in a formal policy to be approved by the general manager and the Minister of Oil, to serve as guidance for all parties.		OLD

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
9. Sequential Numbering for Standard Forms and Vouchers			
Observation	Recommendation	Risk Level	Status
<p>We noted that most of the standard forms and vouchers used by SOMO for export sales transactions do not have a pre-numbered serial number. The following forms are example of forms without a pre-numbered serial number:</p> <ul style="list-style-type: none"> - Loading cards. - Bills of lading. - Certificate of quantity and quality. - Ullage reports. - Export cargo manifest. 	<p>We recommend that all forms used by SOMO should be pre-numbered in order to improve the control over export sales and to keep proper audit trail.</p>		<p>OLD</p>


Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales


10. Opening of Export Crude Oil Sales LCs


Observation	Recommendation	Risk Level	Status
<p>During our review, we noted that contract terms with customers require that the letters of credit (LCs) should be opened at least seven days before the loading date. In certain cases, we noted that the LCs were not opened during the determined period.</p> <p>No shipment should be authorized to be loaded without the existence of a confirmed opened LC, and accordingly, delays in opening the LCs might result in delays in loading shipments and in changes of the scheduled plan for shipments.</p> <p>All subsequent operational cycles depends on the issuance of the LC and accordingly, compliance with the seven days period is necessary in order not to disrupt other cycles of SOMO's operations.</p>	<p>We recommend the Finance Department to follow up and ensure timely opening of export sales LCs, and to adhere with the provision of seven days period for opening the LCs before loading date</p>		<p>OLD</p>



Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales

11. Authorization Matrix and Delegation of Authority

Observation	Recommendation	Risk Level	Status
<p>At present, SOMO does not have a formal responsibilities and authorization matrix for its departments. Also, SOMO does not have a formal approved policy and standard for delegation of authority.</p> <p>An authorization matrix specifies the role of SOMO's authorized employees and their limits to authorize and execute transactions.</p> <p>The absence of an authorization matrix and proper delegation of authority can lead to confusion and uncertainty over individual authorities and responsibilities within SOMO.</p>	<p>We recommend SOMO to develop an authorization matrix to govern all of its transactions to ensure that adequate controls have been put in place.</p> <p>The authorization matrix should specify the authorized positions, authorized activities and authorization limit for each type of SOMO's activities. The types of authorities are to initiate, review and approve.</p>		OLD



Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
12. Reconciliations with Syrian Government			
Observation	Recommendation	Risk Level	Status
<p>According to the barter agreement between SOMO and the Syrian Government which is renewed on January 20, 2007, the two parties should meet on a monthly basis to settle the outstanding amounts due to each other. However, no final reconciliation has been prepared for 2006 and 2007 transactions. Moreover, according to the agreement, when the due amount exceeds USD 10 million for more than three months, 75% cash payment of the due balance should be transferred to the other party. However, the due amount from the Syrian Government exceeded USD 10 million from the last year, but no cash transfer has been made to SOMO from the last year until the end of 2007. The due amount to Iraqi side was increased during the year of 2007 which amounted to USD 302 million.</p>	<p>We recommend SOMO to prepare monthly reconciliations with the Syrian Government records; this will minimize any disputes that may arise with respect to pending quantities. In addition, we recommend SOMO to follow up collection of the due amount and to control these transactions in accordance with the agreement.</p>		<p>OLD</p>

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
13. Reconciliation with Oil Production Companies			
Observation	Recommendation	Risk Level	Status
<p>Based on our review, we noted that SOMO does not perform documented reconciliations with Oil Production Companies, despite the fact that SOMO obtains monthly export sales reports from South and North Oil Companies. We also noted that SOMO does not keep copies of these reports.</p> <p>Reconciliations between SOMO and Oil Production Companies is important for monitoring export sales by matching the records between the two companies and in absence of such reconciliation, errors could occur and not be detected on a timely basis, which reduces the control over the exported quantities.</p>	<p>We recommend SOMO to prepare monthly documented reconciliations with Oil Production Companies as soon as possible after the month end; in order to monitor and match exported sales records with confirmations from production companies.</p> <p>Also, we recommend the head of the shipping department to review and approve the monthly reconciliations and follow up all reconciling items.</p>		<p>OLD</p>

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
14. Detailed Documentation of Contracts Award Committee Meetings			
Observation	Treatment method	Risk Level	Status
We noted that the minutes of meetings of the petroleum export sales contracts awarding committee are not documented in detail. Instead a memo for contracts awarded signed by SOMO's General Manager is sent to the Minister of Oil for approval.	SOMO documents the minutes of meetings of contract awarding committee to illustrate the available options, satisfying and unsatisfying offers, in addition to committee recommendations.		



Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales

15. Segregation of Duties

Observation	Treatment methods	Risk Level	Status
<p>During our work, we noted that H. E. Minister of Oil rejected the proposed quantity for export sales of petroleum for contract number M/06/03, and only approved 50% of the proposed quantity for petroleum export sales contract number M/06/26. However, the proposed quantities for the two contracts were subsequently approved by the consultant of the Minister of Oil who was the head of the awarding committee.</p> <p>Such lack of segregation of duties can lead to circumvention of internal controls and increase the possibility for errors and fraud.</p>	<p>During 2007, No contracts came to out attention that lacks minister's approval.</p>		



Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales



16. Reconciliation with Sales Proceeds

Observation	Treatment methods	Risk Level	Status
Based on our review, we noted that SOMO does not properly prepare and document monthly reconciliations between the sales proceeds from petroleum deposited into OPRA according to CBI statement of account with its export sales records.	During 2007 SOMO prepared monthly documented reconciliations between export sales of petroleum with sales records to monitor and match export sales records with proceeds and ensure that all export sales are collected.		

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales



17. Proceeds of Fuel Oil Sales

Observation	Treatment methods	Risk Level	Status
During our review, we noted that SOMO policy to sell fuel oil is through cash advances made by customers before shipment. We noted that cash advances are deposited at bank accounts managed by SOMO. The advances received are not reconciled with the sales ledger.	SOMO has reconciled cash advances received with the related sales ledger and sales invoices.		

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales			
18. Reconciliation of SOMO's Invoices with Export Cargo Manifest			
Observation	Treatment methods	Risk Level	Status
Based on our review, we noted that the exported quantity per SOMO's export sales invoice of petroleum number B/2006/258 does not match the Export Cargo Manifest quantity, as there is a difference of 194 Barrel. This difference was not reconciled by SOMO.	During 2007, the company has developed a practise of tracing supporting documents to the invoices prior to issuance and posting of these invoices. Additionally, the difference noticed above was resolved.		

Ministry of Oil- Oil Marketing Company (SOMO) Exports Sales


19. Control over Data Entry

Observation	Treatment method	Risk Level	Status
<p>During our review, we noted some errors in the process of data entry at the recording and bookkeeping division, which resulted in the inaccuracy of the reporting process.</p> <p>We found some errors in recording date in sales invoice, also we note that the number of petroleum sales invoice No. B/2006/204 was given to two different invoices.</p> <p>In addition, for fuel oil sales invoices, we noted a number of duplication in invoice numbers such as F/06/010, F/06/009, F/06/008, and F/06/007.</p>	During 2007, nothing came to our attention in relation to the above mentioned observation.		

Ministry of Communication


Ministry of Communications


1. Contracting Procedures


Observation	Recommendation	Risk Level	Status												
<p>During our visit to the Ministry of Communication, we noted certain non-compliance with contracting procedures as follows:</p> <p>A. Some contracts were awarded without obtaining competitive offers and without documenting proper justification. For example:</p> <table><tr><th>Contract No.</th><th>Contract Amount (U.S. \$)</th><th>Contract Type</th></tr><tr><td>35</td><td>2,587,400</td><td>External Purchases Contract</td></tr><tr><td>44</td><td>1,012,442</td><td>External Purchases Contract</td></tr><tr><td>10/2006</td><td>11,050,000</td><td>External Purchases Contract</td></tr></table> <p>B. We noted the following related reconstruction of the Ministry’s building contract of amount U.S. \$ 2,860,000:</p> <ul style="list-style-type: none">Financial offers were obtained through direct invitation and the awarded offer was directly approved by the Minister.The contract was awarded without obtaining an approval from the Legal Committee or Legal Department and the respective Commercial Committee in the ministry.There is a delay in executing the contract since the contract was signed on 21 December 2005 with an execution period of 10 months. To the date of our visit the contract has not been fully executed due to disputes between the Ministry and contractor.	Contract No.	Contract Amount (U.S. \$)	Contract Type	35	2,587,400	External Purchases Contract	44	1,012,442	External Purchases Contract	10/2006	11,050,000	External Purchases Contract	<p>We recommend the Ministry to comply with the purchase procedures agreed upon in the annual budget issued by the Ministry of Finance.</p>		OLD
Contract No.	Contract Amount (U.S. \$)	Contract Type													
35	2,587,400	External Purchases Contract													
44	1,012,442	External Purchases Contract													
10/2006	11,050,000	External Purchases Contract													



Ministry of Communications

2. Old Outstanding Cash Margins

Observation						Recommendation	Risk Level	Status																								
<p>We noted a number of old outstanding cash margin balances with JP Morgan Chase for letters of credit.</p> <p>The following are examples of these outstanding balances as of 31 December 2006 according to the confirmation received from JP Morgan Chase.</p> <table><tr><th>L/C #</th><th>Ministry</th><th>L/C Amount (U.S. \$)</th><th>Outstanding Amount (U.S. \$)</th><th>L/C Opening Date</th><th>L/C Validation Date</th></tr><tr><td>225/2004</td><td>Communication</td><td>300,000</td><td>48,900</td><td>19 March 2004</td><td>9 August 2004</td></tr><tr><td>235/2004</td><td>Communication</td><td>4,970,286</td><td>980,561</td><td>18 March 2004</td><td>15 July 2005</td></tr><tr><td>1877/2005</td><td>Communication</td><td>500,000</td><td>26,000</td><td>27 June 2005</td><td>4 October 2005</td></tr></table>						L/C #	Ministry	L/C Amount (U.S. \$)	Outstanding Amount (U.S. \$)	L/C Opening Date	L/C Validation Date	225/2004	Communication	300,000	48,900	19 March 2004	9 August 2004	235/2004	Communication	4,970,286	980,561	18 March 2004	15 July 2005	1877/2005	Communication	500,000	26,000	27 June 2005	4 October 2005	<p>We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the status of each outstanding letter of credit’s cash margin and follow up and resolve all old outstanding balances.</p> <p>Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure Letters of Credit are executed on a timely basis and as per contract terms.</p>		OLD
L/C #	Ministry	L/C Amount (U.S. \$)	Outstanding Amount (U.S. \$)	L/C Opening Date	L/C Validation Date																											
225/2004	Communication	300,000	48,900	19 March 2004	9 August 2004																											
235/2004	Communication	4,970,286	980,561	18 March 2004	15 July 2005																											
1877/2005	Communication	500,000	26,000	27 June 2005	4 October 2005																											


Ministry of Communications			
3. Contract Supporting Documents			
Observation	Recommendation	Risk Level	Status
<p>During our visit to the Ministry, we noted that contracts' supporting documents are not properly organized which make it difficult to obtain these documents.</p> <p>The documents are distributed across the Accounting Department, Legal Department, Importing Department, and Planning Department. This leads to difficulties in obtaining and follow up of some contracts and their related supporting documents.</p>	<p>We recommend developing a proper archiving system to keep each contract together with its related supporting documents separately, and to properly organize these contracts in order to facilitate the retrieval and review process.</p>		<p>OLD</p>

Ministry of Communications			
4. Tenders Opening and Analyzing Committees			
Observation	Recommendation	Risk Level	Status
We noted that members of the open and analysis tenders committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires replacing the committee members every six months.	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months for additional accuracy and control procedures and to adhere to budget instructions		OLD

Ministry of Communications			
5. Tender Announcements			
Observation	Treatment method	Risk Level	Status
During our visit, we noted that some tenders were not published in the public newspapers, which contradicts the instructions issued by the Supreme Contracting Committee. For example, contract No. 20/2006 that was entered for the purpose of providing communications materials.	No unpublished tenders came to our attention during year 2007.		


Ministry of Communications

6. Payroll Approvals

Observation	Recommendation	Risk Level	Status
During our visit, we noted that the payroll is prepared by the salaries accountant and is compared to the budget by the internal audit department, but it is not being approved by the General Manager of the Finance Department, but it is approved by the internal audit department.	We recommend segregating executive duties and control duties, since the internal audit department is considered a monitoring body and it is not appropriate for controlling body to approve the payroll sheets which is considered as executive duty. The finance department shall be considered as the department responsible for disbursements for better control procedures.		OLD


Ministry of Communications

7. Fixed Assets Register

Observation	Recommendation	Risk Level	Status
<p>During our visit, we noted that the Ministry maintains an old fixed assets register that has not been up-dated since 2004. By the end of 2006 a new fixed assets register was developed by the Ministry based on the physical count carried at the end of the year without any reference to the old register.</p> <p>Developing the new fixed assets register without referring to the old fixed assets register prevents the discovery of any shortages or discrepancies that should be reported and investigated by the Ministry.</p>	<p>We recommend the Ministry to revise the new fixed assets register and perform reconciliation to the old register and the physical count results, in order to implement proper control over the fixed assets of the Ministry.</p>		OLD



Ministry of Communications

8. Inventory Register

Observation	Recommendation	Risk Level	Status
<p>During our visit, we noted that the Ministry does not maintain inventory movements register. This would enable more effective control over inventory movement as well as preparing the related reconciliations during the year.</p> <p>Moreover, performing inventory count without the availability of inventory register would decrease the reliability of the inventory count results.</p>	<p>We recommend the Ministry to develop and maintain inventory register for inventory movements to properly implement inventory control procedures over inventory movement.</p>		OLD

Ministry of Communications



9. Recording U.S. Agencies Contracts

Observation	Recommendation	Risk Level	Status								
<p>During our visits to the Ministry of Interior, we noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. As a result, the Ministry does not have any information related to such contracts and the contracts costs are not yet being recorded in the Ministry’s accounting records.</p> <p>The following are examples of contracts managed by the U. S Agencies and not yet recorded by the Ministry.</p> <table><tr><th>Contract Number</th><th>Contract Value (U.S. \$)</th><th>Award Date</th><th>Completion Date</th></tr><tr><td>DABV01-04-C-3565</td><td>999,650</td><td>28 June 2004</td><td>31 Dec 2005</td></tr></table>	Contract Number	Contract Value (U.S. \$)	Award Date	Completion Date	DABV01-04-C-3565	999,650	28 June 2004	31 Dec 2005	<p>No contract related to the Ministry which is managed by the U.S. Agencies had been executed during this year.</p>		
Contract Number	Contract Value (U.S. \$)	Award Date	Completion Date								
DABV01-04-C-3565	999,650	28 June 2004	31 Dec 2005								


Ministry of Housing & Construction

Ministry of Housing and Construction

- Letters of Credit (LCs) Disbursements**


Observation	Treatment method	Risk Level	Status
We noted no accounting records to trace LC transactions are maintained by the Import Department, which is responsible for opening LCs at the Trade Bank of Iraq as well as approval of the disbursement of LC payments to contractors and suppliers. The Import Department also does not record these transactions in the accounting records nor inform the Accounting Department about such transactions.	The Import Department sent a copy of correspondences to the Accounting Department during 2007. Accounting Department is recording the LCs transaction regularly. We did not note any observations regarding this issue during 2007.		

Ministry of Youth & Sports

Ministry of Youth & Sports			
1. Payroll Committees			
Observation	Recommendation	Risk Level	Status
We noted that the payroll committee members responsible for receiving the salaries from Finance Department are not being periodically rotated in accordance with the annual budget instructions issued by the Ministry of Finance, which requires rotating committee members every six months.	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months for better control procedures and to adhere to budget instructions.		NEW


Ministry of Youth & Sports

2. Recording Daily Transactions

Observation	Recommendation	Risk Level	Status
We noted that some accounting transactions were not signed in accordance with the implemented procedures in the Ministry. For example, journal voucher No. 4/62 dated 7 October 2007 related to receipt of IQD 11,250 million from Ministry of Finance to finance capital expenditures. The voucher was not signed by the preparer and the Internal Audit Department.	We recommend segregating executive duties and control duties, since the internal audit department is considered a monitoring body and it is not appropriate for controlling body to approve the payroll sheets which is considered as executive duty. The finance department shall be considered as the department responsible for disbursements for better control procedures.		NEW



Ministry of Youth & Sports

3. Engineering Department Contracts

Observation	Recommendation	Risk Level	Status									
<p>We noted that the supporting documents of the Engineering Department contracts are not properly organized, which led to difficulties in reviewing information relating to these contracts.</p> <p>For example:</p> <table><tr><th>Contract Number</th><th>Contract Amount (IQD)</th><th>Supplier Name</th></tr><tr><td>39</td><td>193,185,000</td><td>Al Nabeel Engineering Company</td></tr><tr><td>63</td><td>313,607,500</td><td>Al Shams Contracting Company</td></tr></table>	Contract Number	Contract Amount (IQD)	Supplier Name	39	193,185,000	Al Nabeel Engineering Company	63	313,607,500	Al Shams Contracting Company	<p>We recommend developing a proper archiving system to keep each contract together with its related supporting documents separately, and to properly organize these contracts in order to facilitate the retrieval and review process.</p>		OLD
Contract Number	Contract Amount (IQD)	Supplier Name										
39	193,185,000	Al Nabeel Engineering Company										
63	313,607,500	Al Shams Contracting Company										



Ministry of Youth & Sports



4. Budget Allocation Endorsement

Observation	Treatment method	Risk Level	Status
We noted that the finance department does not check and approve the availability of sufficient budget allocation as a primary procedure before approving purchases in order to avoid any contract awarding without sufficient budget.	As a preliminary procedure, the finance department is ensuring and approving the availability of sufficient budget allocation to avoid any awarding without sufficient budget. No contract was awarded without sufficient budget came to our attention during our review of the ministry's contracts during 2007.		

Ministry of Youth & Sports

5. Payment of Employees Salaries


Observation	Treatment method	Risk Level	Status
We noted that certain representatives of Youth Clubs and the Ministry's related organizations are assigned to receive salaries payments on behalf of their employees. However, no formal delegation or any supporting documents are available at the Ministry to ensure that those representatives are authorized to collect the salaries payments on behalf of the respective employees.	<p>The representatives has been assigned formally by the Youth Clubs and the Ministry's related organizations to receive the salaries payments on behalf of the employees.</p> <p>We still recommend the Ministry to pay salaries through bank transfers to each employee's personal bank account.</p>		

Ministry of Youth & Sports			
6. Recording of Donated Fixed Assets			
Observation	Treatment method	Risk Level	Status
During our review, we noted that the Ministry received donations from an external organization, but these donations were not recorded in the fixed assets register.	During year 2007, we did not notice any donations that were not recorded in the Ministry's records.		

Ministry of Municipalities & Public Works


Ministry of Municipalities and Public Works


1. Activity of Directorates Related to Ministry


Observation	Recommendation	Risk Level	Status
<p>We noted the absence of a copy of the approved annual budgets by Ministry of Finance and related to the ministry's entities and directorates at the Ministry's Headquarter. Also we noted the absence of copies of expenses and revenues statements, contract register, and letters of credit registers. Total contracts and letters of credit issued by the Ministry amounted to U.S. \$ 339,772,676 during 2007.</p> <p>This makes it difficult to the Ministry's Headquarter to monitor the performance and decrease control over related entities and directorates, and therefore leads to difficulty in assessing the level of utilization at the Ministry level.</p>	<p>We recommend that the ministry shall monitor the activities of its related entities and directorates, in order to enhance control and ability to compare the annual budget with actual expenditure. This assists in determining the required budget and to monitor the performance of the related entities and directorates during the year.</p>		NEW


Ministry of Municipalities and Public Works


2. Recording Assets in the Fixed Assets Register

Observation	Recommendation	Risk Level	Status
<p>During our review of fixed assets management, we noted the following:</p> <ul style="list-style-type: none"> Absence of a unified register to record the Ministry's fixed assets. Registers in use do not keep the book value of the assets, but only the quantities. The value of gifts and donations is not recorded, but they are recorded by their type and quantity. Fixed assets registers are not updated according to inventory inputs and outputs, this leads to inability to trace fixed assets movements based on inventory records. Fixed assets register was not signed by the preparer or the head of department also the register was not signed by the Internal Audit Department. We noted that the fixed assets register do not include identification numbers for fixed assets. 	<p>We recommend the following:</p> <ul style="list-style-type: none"> Unifying fixed assets registers to include all departments in order to enhance control over fixed assets recording and to follow up the continuous updates. Development of a fixed assets recording system to include quantities, costs, in addition to recording gifts and donations at fair value, and to update these records according to inventory receiving and issuance vouchers. Approving and signing the fixed assets register by preparer and the head of department, and to audit and sign the register by the Internal Audit Department. Development of identification numbers allocated to all items of fixed assets that should be recorded in the fixed asset register. We further recommend performing independent and periodic physical count to ensure safeguarding of fixed assets 		NEW

Ministry of Municipalities and Public Works			
3. Contracts Supporting Documents			
Observation	Recommendation	Risk Level	Status
We noted that the contracts supporting document at the General Directorate of Municipalities are not properly organized. The documents are distributed across the Accounting Department, Legal Department, Transportation Department, and Planning Department. This leads to difficulties in obtaining and follow up of some contracts and their related supporting documents.	We recommend developing a proper archiving system to keep each contract together with its related supporting documents separately, and to properly organize these contracts in order to facilitate the retrieval and review processes.		NEW


Ministry of Municipalities and Public Works			
4. Tenders Opening Committees			
Observation	Recommendation	Risk Level	Status
We noted that the members of the Tender Opening and Analyzing Committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the Committee members every six months.	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months.		NEW



Ministry of Municipalities and Public Works			
5. Contracting Procedures Related to Supplying Litter disposal Vehicles			
Observation	Recommendation	Risk Level	Status
We noted that the General Directorate Municipalities contracted with a Foreign Company to import 114 litter disposal vehicles and spare parts (contract number 8 amounted to U.S. \$ 4,902,000 dated December 27, 2006). Members of the Tender Open Committee did not sign the minute of their recommendations.	We recommend that no contract shall be executed prior to completeness of all contracting procedures derived from applicable laws and regulations for better control procedures and better protection of contracting parties' rights.		NEW

Ministry of Municipalities and Public Works			
6. Payroll Committees			
Observation	Recommendation	Risk Level	Status
We noted that the payroll committee members responsible for receiving the salaries are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the Committee members every six months.	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the committee members every.		OLD


Ministry of Municipalities and Public Works



7. Recording U.S. Agencies Contracts



Observation	Recommendation	Risk Level	Status									
<p>We noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. As a result, the contracts costs are not yet being recorded in the Ministry’s accounting records knowing that these contracts are included in the Ministry’s expenses according to DFI records, for example:</p> <table><tr><th>Contract Number</th><th>Contract Value U.S. \$</th><th>Award Date</th></tr><tr><td>W91GY1-06-M-0004</td><td>507,118</td><td>03-Feb-06</td></tr><tr><td>DFIWAT-06-M-0001</td><td>63,000</td><td>04-May-06</td></tr></table>	Contract Number	Contract Value U.S. \$	Award Date	W91GY1-06-M-0004	507,118	03-Feb-06	DFIWAT-06-M-0001	63,000	04-May-06	<p>We recommend to maintain a continuous coordination between the Ministry and the U.S. Agencies through determining a mechanism for exchanging the information and documents related to the contracts managed by the U.S. Agencies in order to be update in the Ministry’s accounting records</p>		OLD
Contract Number	Contract Value U.S. \$	Award Date										
W91GY1-06-M-0004	507,118	03-Feb-06										
DFIWAT-06-M-0001	63,000	04-May-06										

Ministry of Municipalities and Public Works			
8. Recording of Donated Fixed Assets Register			
Observation	Recommendation	Risk Level	Status
During our visit and based on our discussions with the head of the Ministry Inventory, we were informed that the Ministry received donations (e.g. laptops) from external organization, but these donations were not recorded in the fixed assets register.	During year 2007, donations were recorded in the Ministry's records, but the value of these donations was not recorded as mentioned in point (2) about the ministry.		

Ministry of Transportation


Ministry of Transportation			
1. Contracting and Contracts' Supporting Documents			
Observation	Recommendation	Risk Level	Status
During our review we noted the lack of a centralized file for each contract to maintain a copy of all its related documents. Rather, documents are filed across the related departments.	We recommend that all documents related to each contract shall be centrally filed, to facilitate review and for better control procedures.		NEW

Ministry of Transportation			
2. Contractual Procedures Related to Construction of Ministry's Building			
Observation	Resolution method	Risk Level	Status
<p>During our visit, we noted that the Ministry had agreed with a Turkish company to construct the Ministry building for USD 7,843,000, the contract was awarded through direct invitation and with no invitations for public tender procedures.</p> <p>Also, we noted that the contract is not dated and not signed by the Ministry. This procedure is contradicting the Council of Ministers regulations that require the Ministry to perform invitation for public tenders.</p>	No direct invitation or unsigned contracts came to our attention during 2007		


Ministry of Transportation															
3. Recording U.S. Agencies Contracts															
Observation	Treatment method	Risk Level	Status												
<p>We noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. The Ministry does not have any information related to such contracts. The contracts costs are not recorded yet in the Ministry's accounting records.</p> <p>The following are examples of contracts managed by the U. S Agencies and not recorded by the Ministry.</p> <table border="1"> <thead> <tr> <th>Contract Number</th><th>Contract Value (USD)</th><th>Award Date</th><th>Completion Date</th></tr> </thead> <tbody> <tr> <td>DABV01-04-C-3569</td><td>1,331,400</td><td>28-Jun-04</td><td>01-Oct-06</td></tr> <tr> <td>FA8903-04-D-8681</td><td>1,671,376</td><td>03-Jul-04</td><td>01-Jan-06</td></tr> </tbody> </table>	Contract Number	Contract Value (USD)	Award Date	Completion Date	DABV01-04-C-3569	1,331,400	28-Jun-04	01-Oct-06	FA8903-04-D-8681	1,671,376	03-Jul-04	01-Jan-06	No U.S. Agency contracts related to the ministry have been carried out during 2007.		
Contract Number	Contract Value (USD)	Award Date	Completion Date												
DABV01-04-C-3569	1,331,400	28-Jun-04	01-Oct-06												
FA8903-04-D-8681	1,671,376	03-Jul-04	01-Jan-06												

Ministry of Transportation

4. Old Outstanding Cash Margins


Observation						Recommendation	Risk Level	Status																								
<p>We noted a number of old outstanding cash margin balances with JP Morgan Chase for letters of credit.</p> <p>The following are examples of these outstanding balances as of 31 December 2007 according to the confirmation received from JP Morgan Chase.</p> <table><tr><th>L/C No.</th><th>Ministry</th><th>L/C Amount (USD)</th><th>Outstanding Amount (USD)</th><th>L/C Opening Date</th><th>L/C Validation Date</th></tr><tr><td>1631/2005</td><td>Transportation</td><td>1,950,000</td><td>100,700</td><td>24/2/2005</td><td>30/1/2006</td></tr><tr><td>1650/2006</td><td>Transportation</td><td>14,066,666</td><td>5,261,041</td><td>31/3/2005</td><td>31/8/2005</td></tr><tr><td>1792/2005</td><td>Transportation</td><td>976.000</td><td>146,400</td><td>31/5/2005</td><td>15/3/2006</td></tr></table>						L/C No.	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date	1631/2005	Transportation	1,950,000	100,700	24/2/2005	30/1/2006	1650/2006	Transportation	14,066,666	5,261,041	31/3/2005	31/8/2005	1792/2005	Transportation	976.000	146,400	31/5/2005	15/3/2006	<p>We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the current status of each outstanding letter of credit cash margin and follow up and resolve all old outstanding balances.</p> <p>Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure Letters of Credit are executed on a timely basis.</p>		OLD
L/C No.	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date																											
1631/2005	Transportation	1,950,000	100,700	24/2/2005	30/1/2006																											
1650/2006	Transportation	14,066,666	5,261,041	31/3/2005	31/8/2005																											
1792/2005	Transportation	976.000	146,400	31/5/2005	15/3/2006																											

Ministry of Labor & Social Affairs

Ministry of labor & social affairs			
1. Tender Opening Committees			
Observation	Recommendation	Risk Level	Status
We noted that the members of Tender Opening Committee are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance which requires rotating committees' members every six months.	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months for better control procedures and to adhere to budget instructions.		NEW


Ministry of labor & social affairs

2. Salaries Committee

Observation	Recommendation	Risk Level	Status
We noted that there is only one committee that performs the tasks of both receiving the cash from banks for the payment of employees' salaries, and handing salaries to employees.	We recommend that two separate committees should be created; one for receiving salaries from the bank and the other for handing salaries to employees. Also we recommend considering payment of salaries through bank transfers to each employee's personal bank account, for better control procedures and better safeguarding of the ministry's cash.		NEW


Ministry of labor & social affairs



3. Maintaining Contracts' Supporting Documents

Observation	Recommendation	Risk Level	Status						
<p>We noted that the ministry does not maintain copies of the contracts files for its related directorates, as the contract files are kept with related companies and directorates only, for example:</p> <table><tr><th>Contract</th><th>Contractor</th></tr><tr><td>Rehabilitation and restoration Al-Daman building in Al-Wathba</td><td>Al-Salam General Co. for Contracting & Construction</td></tr><tr><td>Construction of trade center in Karkuk</td><td>Al-Mansour General Co. for Contracting</td></tr></table>	Contract	Contractor	Rehabilitation and restoration Al-Daman building in Al-Wathba	Al-Salam General Co. for Contracting & Construction	Construction of trade center in Karkuk	Al-Mansour General Co. for Contracting	<p>We recommend keeping a copy of companies and directorates’ contracts at the Headquarter of the Ministry in order to maintain better control procedures.</p>		NEW
Contract	Contractor								
Rehabilitation and restoration Al-Daman building in Al-Wathba	Al-Salam General Co. for Contracting & Construction								
Construction of trade center in Karkuk	Al-Mansour General Co. for Contracting								


Ministry of labor & social affairs


4. Supporting Documents

Observation	Recommendation	Risk Level	Status
We noted that the employee responsible for recording assets purchases in the inventory/fixed assets register does not receive a copy of the purchase invoice from the Accounting Department.	We recommend the Accounting Department to provide the responsible employee for updating the fixed assets register with a copy of the invoice of all fixed assets purchases.		OLD

Ministry of labor & social affairs			
5. Physical Count of Fixed Assets			
Observation	Resolution method	Risk Level	Status
During our visit, we noted that the Ministry did not carry a physical count on fixed assets at the end of 2006.	The ministry performed independent fixed assets physical count at year end.		



Ministry of Defense



Ministry of Defense			
1. Foreign Military Sales			
Observation	Recommendation	Risk Level	Status
<p>We noted that the ministry has transferred an amount of U.S. \$ 1,100 million during 2007 to the Foreign Military Sales- FMS account in FBRNY.</p> <p>We were not provided with any information related to the disbursements made out of this account due to the fact that such information is not available at the ministry. The ministry did not record the disbursed amounts during the year as part of its capital expenditure.</p>	<p>We recommend that the ministry shall record all disbursements related to capital expenditure in its records, in addition to preparation of a monthly reconciliation for the Foreign Military Sales account for better control procedures.</p>		NEW

Ministry of Defense			
2. Segregation of Duties between Members of Tender Opening and Analyzing committees			
Observation	Recommendation	Risk Level	Status
During our review of the contract number (0001-07) to supply winter suits, we noted that a member of Tender Opening Committee is also a member in the Tender Analyzing Committee.	We recommend that the ministry shall comply with budget instructions issued by the Ministry of Finance, which require the segregation of duties between members of Tender Opening and Analyzing committees, for better control procedures over the contracting process.		NEW

Ministry of Defense

3. Recording U.S. Agencies Contracts


Observation	Treatment method	Risk Level	Status												
<p>During our visits to the Ministry of Defence, we noted that several contracts are managed by the U.S. Agencies have not been properly coordinated with the Ministry and the U. S. Agencies. The Ministry does not have any information related to such contracts, and accordingly the Ministry are not able to record the contracts in its accounting records.</p> <p>The following are examples of contracts managed by the U. S Agencies and not recorded by the Ministry.</p> <table border="1"> <thead> <tr> <th>Contract Number</th><th>Contract Value (U. S. \$)</th><th>Award Date</th><th>Completion Date</th></tr> </thead> <tbody> <tr> <td>FA8903-04-D-8690</td><td>42,513,237</td><td>25-Jun-04</td><td>15-Jan-06</td></tr> <tr> <td>DABV01-03-D-0001</td><td>254,904</td><td>05-March-04</td><td>N/A</td></tr> </tbody> </table>	Contract Number	Contract Value (U. S. \$)	Award Date	Completion Date	FA8903-04-D-8690	42,513,237	25-Jun-04	15-Jan-06	DABV01-03-D-0001	254,904	05-March-04	N/A	U.S. Agencies did not contract for the benefit of the ministry during the year.		
Contract Number	Contract Value (U. S. \$)	Award Date	Completion Date												
FA8903-04-D-8690	42,513,237	25-Jun-04	15-Jan-06												
DABV01-03-D-0001	254,904	05-March-04	N/A												

Ministry of Defense			
4. Military Bases Catering and Maintenance Contracts			
Observation	Treatment method	Risk Level	Status
<p>We noted that the Ministry of Defense was engaged in contracts with certain contractors to provide catering and maintenance services (e.g. cleaning, washing) to the military bases in various cities through out Iraq. The contract agreements are based on the number of persons in each military base multiplied by the price per meal.</p> <p>We noted that there are no sufficient supporting documents to confirm that the numbers of persons that are used as a basis for the payments of the contractor invoices in each military base receiving the meals are accurately recorded.</p> <p>During 2006, the Ministry of Defense decided to form two committees. The first committee in each military base is responsible for ensuring the total number of persons at each military base is correctly reported. The second committee is responsible for ensuring the number of persons at each military base “based on the payroll records in the Ministry Headquarters” agree with the number of persons in each military base as approved by the first committee. But still, contractors are paid according to the in charge of the military base and not according to the reports of the committees.</p>	<p>The reports of the committees are considered as a basis to ensure that the total population in each military base is properly recorded when paying to contractors.</p>		

Ministry of Agriculture

Ministry of Agriculture


• Old Outstanding Cash Margins

Observation						Recommendation	Risk Level	Status																								
<p>We noted a number of old outstanding cash margin balances with JP Morgan Chase for letters of credit.</p> <p>The following are examples of these outstanding balances as of 31 December 2007 according to the confirmation received from JP Morgan Chase.</p> <table><tr><th>L/C No.</th><th>Ministry</th><th>L/C Amount (USD)</th><th>Outstanding Amount (USD)</th><th>L/C Opening Date</th><th>L/C Validation Date</th></tr><tr><td>810/2004</td><td>Agriculture</td><td>651,250</td><td>16,536</td><td>14 Oct 2004</td><td>15 Jan 2005</td></tr><tr><td>1506/2004</td><td>Agriculture</td><td>1,138,900</td><td>94,878</td><td>4 Jan 2005</td><td>30 Dec 2006</td></tr><tr><td>1634/2005</td><td>Agriculture</td><td>606,000</td><td>121,200</td><td>1 March 2005</td><td>30 Nov 2006</td></tr></table>						L/C No.	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date	810/2004	Agriculture	651,250	16,536	14 Oct 2004	15 Jan 2005	1506/2004	Agriculture	1,138,900	94,878	4 Jan 2005	30 Dec 2006	1634/2005	Agriculture	606,000	121,200	1 March 2005	30 Nov 2006	<p>We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyse the current status of each outstanding letters of credit cash margin and follow up and resolve all old outstanding balances.</p> <p>Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure Letters of Credit are executed on a timely basis and according to the contract terms.</p>		OLD
L/C No.	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date																											
810/2004	Agriculture	651,250	16,536	14 Oct 2004	15 Jan 2005																											
1506/2004	Agriculture	1,138,900	94,878	4 Jan 2005	30 Dec 2006																											
1634/2005	Agriculture	606,000	121,200	1 March 2005	30 Nov 2006																											

Ministry of Higher Education


Ministry of Higher Education

1. Recording U.S. Agencies Contracts

Observation	Recommendation	Risk Level	Status
We noted that a contract amounted to U.S. \$ 99,980 of the contracts managed by the U.S. Agencies on behalf of the ministry without notifying the ministry with any details related to the contract. However, the contract is recorded in the DFI as part of the ministry's expenditures.	We recommend to maintain a continuous coordination between the Ministry and the U.S. Agencies through determining a mechanism for exchanging information and documents related to the contracts managed by the U.S. Agencies in order to be updated in the Ministry's accounting records for better control procedures.		NEW

Ministry of Higher Education


2. Reconciliation of the Transactions with Related Universities

Observation	Recommendation	Risk Level	Status
<p>We noted that the Ministry do not perform a monthly reconciliations with the records of the universities to reconcile Letters of Credit and import contracts balances.</p> <p>The main purpose of the reconciliations is to ensure that all recorded amounts in the universities' accounting records have been recorded by the ministry.</p>	<p>We recommend the Ministry to prepare regular reconciliations with the related universities, to ensure proper matching of all transactions between the ministry and universities records, and to identify and clear differences permanently. Reconciliations should be reviewed and approved by the appropriate levels at both the Ministry and the related universities for better control procedures.</p>		OLD

Ministry of Industry and Minerals


Ministry of Industry & Minerals

1. Fixed Assets Identification

Observation	Recommendation	Risk Level	Status
We noted that the fixed asset register does not include identification numbers for fixed assets. Creating identification numbers for each individual asset would enable the Ministry to trace each particular item to the fixed asset register and improve accountability in respect of fixed assets. Furthermore, this will facilitate the physical verification of fixed assets at the Ministry.	We recommend that the Ministry creates an identification number for each fixed asset that should be recorded in the fixed assets register. Furthermore, we recommend periodic independent physical count to ensure existence of fixed assets.		OLD


Ministry of Industry & Minerals

2. Recording U.S. Agencies Contracts


Observation	Recommendation	Risk Level	Status
We noted a contract amounted to U.S. \$ 15,735,200 of the contracts managed by the U.S. Agencies on behalf of the Ministry, U.S. Agencies did not inform the Ministry of its details; accordingly the Ministry did not record it knowing that this contract is recorded in the funding accounts as Ministry expenses.	We recommend coordination is maintained between the Ministry and the U.S. Agencies and procedures are jointly developed to exchange the information and documents related to the projects managed by the U.S. Agencies in order to update the Ministry's accounting records.		OLD


Ministry of Industry & Minerals


3. Old Outstanding Cash Margins


Observation						Recommendation	Risk Level	Status
<p>We noted a number of old outstanding cash margin balances with JP Morgan Chase for letters of credit.</p> <p>The following are examples of these outstanding balances as of 31 December 2007 according to the confirmation received from JP Morgan Chase.</p>						<p>We recommend that the Ministry coordinates with the Trade Bank of Iraq to analyse the current status of each outstanding letter of credit cash margin and follow up and resolve all old outstanding balances.</p> <p>Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure Letters of Credit are executed on a timely basis.</p>		OLD
L/C #	Ministry	L/C Amount (U.S.\$)	Outstanding Amount (U.S.\$)	L/C Opening Date	L/C Validation Date			
194/2003	Industry and Mineral	227,570	9,098	25 Jan 2004	15 July 2004			
196/2003	Industry and Mineral	105,400	13,913	17 Feb 2004	30 June 2005			
247/2004	Industry and Mineral	163,333	19,370	12 May 2004	28 Feb 2005			



Ministry of Planning


Ministry of Planning			
1. Ministry's contracts			
Observation	Recommendation	Risk Level	Status
During our review to contracts No. 8 and 9, we noted the absence of approval from the authorized person on the recommendations of the tender analysis committee, which represents non-compliance with budget instructions issued by ministry of finance.	We recommend that the Ministry shall obtain the approval of the authorized person who approves the recommendations of the tender analysis committee to ensure proper implementation of budget execution instructions issued by the Ministry of Finance for better procedures and adherence to budget instructions.		NEW

Ministry of Planning			
2. Tenders Opening and Analyzing Committees			
Observation	Recommendation	Risk Level	Status
We noted that one member of the Tender Opening Committee is also a member of the Tender Analyzing Committee. Also we noted that the members of the Tenders Opening and Analyzing Committees are not periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committees' members every six months.	We recommend that the Ministry shall comply with the budget instructions issued by the Ministry of finance which requires the segregation of duties between Tender Opening and Analysis committees; as well as rotating committees' members every six months for better control procedures and to adhere to budget instructions.		NEW


Ministry of Planning			
3. Testing Committees			
Observation	Recommendation	Risk Level	Status
<p>During our review of supporting documents related to transportation of Ministry's employees by Al Rabee' transport office, we noted the following:</p> <ul style="list-style-type: none"> • No evidence has been noticed to support the existence of testing committee that ensures the agreed upon number and specifications of vehicles are used. • Al Rabee' Office started to perform the transportation for employees on June 15, 2007 prior to the date of signing the contract on July 8, 2007. • No identification number has been given to this contract to be used as reference. 	<p>We recommend that the ministry shall form a testing committee to ensure specifications stated in the contract are met. Also the Ministry should not start performing in any contract unless it is signed to maintain the ministry's contractual rights.</p> <p>Also we recommend the development of a proper archiving system to keep each contract together with its related supporting documents centrally, and to properly organize these contracts in order to facilitate retrieval and review processes.</p>		<p>NEW</p>


Ministry of Planning			
4. Following up Supplying Contracts			
Observation	Recommendation	Risk Level	Status
<p>During our review of the contract with an Iraqi company to purchase an Electrical Generator for an USD 185,000 we noted that the Iraqi company had failed to deliver on the contract and did not supply the generator. Later, the Ministry decided to terminate this contract and enter a new contract with another Iraqi company for purchasing the same item for IQD 385,000,000 (equivalent to USD 256,667).</p> <p>The contract entered with the first company stated that a penalty of 1% of total contract price was to be applied for each days delay after two weeks of the contract date. Also, article # 8 of the contract stated that, in case the supplier failed to execute the contract, the Ministry has the right to transfer the contract to another contractor to be performed on the supplier's account. However, we noted that the Ministry did not follow up this issue with the supplier, noting that the price difference between the two contracts was IQD 107,500,000 (equivalent to USD 71,667).</p> <p>The contract has been executed without collecting the penalty amount from the first contractor, or filing for a suit against him until the date of our visit in February 2008.</p>	<p>We recommend the ministry to follow up its contractual rights; we also recommend verifying the causes behind the large difference between the prices of both contractors.</p>		<p>OLD</p>

Ministry of Planning			
5. Armored Cars Purchasing Contract			
Observation	Resolution method	Risk Level	Status
<p>During our review of the contract for buying two armored vehicles we noted the following:</p> <ul style="list-style-type: none"> The technical specifications of the purchase order were not specified in details, as the specifications did not adequately specify the level of armoring of the vehicles. As a result, the procured vehicles were partially armored, which did not satisfy the needs of the Ministry. Performance guarantee bond of 5% of total contract value was not received from the supplier upon signing the contract which is in accordance with the contract terms. The contract was signed on 17 November 2006, while the Ministry received the vehicles on 18 October 2006 i.e. before signing the contract. 	<p>No contracts including any of the above notes came to our attention during 2007; also the contract mentioned above had been executed.</p>		

Ministry of Planning			
6. Fixed Assets Identification			
Observation	Treatment method	Risk Level	Status
<p>During our visit, we noted that the fixed asset register does not include identification numbers for each individual asset.</p> <p>Creating identification numbers for each individual asset would enable the Ministry of Planning to trace a particular item to the fixed asset register and improve accountability in respect of fixed assets. Furthermore, this will facilitate the physical verification of fixed assets.</p>	<p>Identification numbers has been created for each individual asset, and has been recorded in the fixed assets register.</p>		<p>OLD</p>


Ministry of Water Resources

Ministry of Water Resources			
1. Tender Opening Committee			
Observation	Recommendation	Risk Level	Status
We noted that the members of Tender Opening Committee at the ministry and some of its related directorates are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance which requires rotating committees' members every six months.	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months.		OLD

Ministry of Water Recourses			
2. Salaries Committee			
Observation	Recommendation	Risk Level	Status
We noted that there is only one committee for both receiving the payroll cash from banks in addition to handing salaries to employees.	We recommend that two separate committees should be created; one for receiving salaries from the bank and the other for handing salaries to employees. Also we recommend considering paying salaries through bank transfers to each employee's personal bank account, for better control procedures and better safeguarding of the ministry's cash.		OLD

Ministry of Water Recourses


3. Recording U.S. Agencies Contracts


Observation	Recommendation	Risk Level	Status																
<p>During our visit to the Ministry of Water Resources, we noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. As a result, the Ministry does not have any information related to such contracts and the contracts costs are not yet being recorded in the Ministry's accounting records.</p> <p>The following are examples of contracts managed by the U. S Agencies and not yet recorded by the Ministry.</p> <table border="1"> <thead> <tr> <th>Contract Number</th><th>Contract Value (U.S. \$)</th><th>Award Date</th><th>Completion Date</th></tr> </thead> <tbody> <tr> <td>W914NS-04-D-0007</td><td>46,781,754</td><td>10-Apr-04</td><td>30-Apr-06</td></tr> <tr> <td>DABV01-04-M-0169</td><td>1,876,845</td><td>27-Jun-04</td><td>15-Jul-05</td></tr> <tr> <td>DABV01-04-M-5145</td><td>317,375</td><td>22-Apr-04</td><td>12-Aug-05</td></tr> </tbody> </table>	Contract Number	Contract Value (U.S. \$)	Award Date	Completion Date	W914NS-04-D-0007	46,781,754	10-Apr-04	30-Apr-06	DABV01-04-M-0169	1,876,845	27-Jun-04	15-Jul-05	DABV01-04-M-5145	317,375	22-Apr-04	12-Aug-05	<p>We recommend that coordination shall be maintained between the Ministry and the U.S. Agencies and procedures are jointly developed to exchange the information and documents related to the contracts managed by the U.S. Agencies and in order to update the Ministry's accounting records on a timely basis.</p>		OLD
Contract Number	Contract Value (U.S. \$)	Award Date	Completion Date																
W914NS-04-D-0007	46,781,754	10-Apr-04	30-Apr-06																
DABV01-04-M-0169	1,876,845	27-Jun-04	15-Jul-05																
DABV01-04-M-5145	317,375	22-Apr-04	12-Aug-05																

Ministry of Interior

Ministry of Interior


1. Foreign Military Sales


Observation	Recommendation	Risk Level	Status
<p>We noted that the ministry has transferred an amount of U.S. \$ 169 million during 2007 to the Foreign Military Sales- FMS account in FBRNY.</p> <p>We were not provided with any information related to the disbursements made out of this account due to the fact that such information is not available at the ministry. The ministry did not record the disbursed amounts during the year as part of its capital expenditure.</p>	<p>We recommend that the ministry shall record all disbursements related to capital expenditure in its records, in addition to preparation of monthly reconciliation for the Foreign Military Sales account for better control procedures.</p>		NEW


Ministry of Interiors																												
2. Re-Announcing Tender Request																												
Observation		Recommendation	Risk Level	Status																								
<p>During our review, we noted that the Ministry has re-announced some bids after opening the bids for different reasons. This would uncover the prices submitted by the bidders to the committees’ members and therefore the confidentiality of tenders presented would be breached, for example:</p> <table><tr><th>Contract Number</th><th>Amount IQD</th><th>Reason for Re-announcing tender request</th><th>Contract Purpose</th></tr><tr><td>16-2007</td><td>1,847,040,000</td><td>Did not include all specifications</td><td>Generators Supply.</td></tr><tr><td>5-2007</td><td>4,949,625,000</td><td>Did not include all specifications</td><td>Military Supplies.</td></tr><tr><td>6-2007</td><td>15,700,000</td><td>Did not include all specifications</td><td>Designing, development and rehabilitation of Anti-Explosives Directorate Building.</td></tr><tr><td>7-2007</td><td>27,900,000</td><td>Did not include all specifications</td><td>Designing of a building.</td></tr><tr><td>8-2007</td><td>75,000,000</td><td>Did not include all specifications</td><td>Special communicate directorate building design</td></tr></table>		Contract Number	Amount IQD	Reason for Re-announcing tender request	Contract Purpose	16-2007	1,847,040,000	Did not include all specifications	Generators Supply.	5-2007	4,949,625,000	Did not include all specifications	Military Supplies.	6-2007	15,700,000	Did not include all specifications	Designing, development and rehabilitation of Anti-Explosives Directorate Building.	7-2007	27,900,000	Did not include all specifications	Designing of a building.	8-2007	75,000,000	Did not include all specifications	Special communicate directorate building design	<p>We recommend obliging the bidders to provide two offers and as follows:</p> <ul style="list-style-type: none">• Technical offer: This offer shall include the technical specifications of the contract subject matter, the date of delivery, and other technical matters.• Financial offer: This offer shall include price schedule, payment dates and method of payment. The financial offer should not be opened unless the technical offer is accepted. <p>We also recommend maintaining accuracy when announcing tenders and ensuring that the announcement includes all required specifications and conditions related to the contract for better control over the procurement process.</p>		NEW
Contract Number	Amount IQD	Reason for Re-announcing tender request	Contract Purpose																									
16-2007	1,847,040,000	Did not include all specifications	Generators Supply.																									
5-2007	4,949,625,000	Did not include all specifications	Military Supplies.																									
6-2007	15,700,000	Did not include all specifications	Designing, development and rehabilitation of Anti-Explosives Directorate Building.																									
7-2007	27,900,000	Did not include all specifications	Designing of a building.																									
8-2007	75,000,000	Did not include all specifications	Special communicate directorate building design																									


Ministry of Interiors


3. Equipment Receiving

Observation	Recommendation	Risk Level	Status
We noted that the Ministry received the equipment related to contract No. 2- 2007 amounted to IQD 4,949,625,000 to purchase military uniforms and equipments, in addition to contract No. 5-2007 amounted to IQD 20,836,500,000 to purchase explosive detection devices and to train the Ministry's staff to use these devices, without obtaining the recommendation from the Technical Specifications and Examination Committee's approval on acceptance of these devices.	We recommend that the ministry shall examine the received equipments by the Technical Specifications and Examination Committee, and to issue the committee's report prior to the final receipt of devices for better control procedures and better safeguarding of public property.		NEW

Ministry of Interiors			
4. Food Contract			
Observation	Recommendation	Risk Level	Status
During our review of the contract related to provide catering services to the Police College students amounting to IQD 10,220,000,000, we noted the absence of evidence that the Ministry reviewed the suppliers' invoices for numbers of meals provided before payment is made. Taking into consideration that the amount of the invoice is based on the number of students at the college, and the payment has to be approved by the Director of the College.	We recommend reconciling the payroll records of the Ministry, which has been approved by appropriate managerial levels, with the supplier's invoices for better control procedure and to ensure the accuracy of meals quantity included in the supplier's invoices.		NEW



Ministry of Interiors			
5. Coordination between Departments and Divisions			
Observation	Recommendation	Risk Level	Status
During our visit to the Ministry of Interior we noted poor coordination between the Contracts Department and Finance Department, where the Finance Department does not notify the Contracts Department regarding performance bond collection; which caused Contracts Department to proceed in contracting process without ensuring that the supplier adhered to contract terms and conditions	We recommend that a documented mechanism to coordinate between all departments and divisions in the ministry shall be issued and implemented, to ensure that the exchange of all information related to the contracting process and its related reimbursements is properly communicated, for better control procedures over contract execution.		NEW

Ministry of Interiors															
6. Recording U.S. Agencies Contracts															
Observation	Recommendation	Risk Level	Status												
<p>During our visits to the Ministry of Interior, we noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. As a result, the Ministry does not have any information related to such contracts and the contracts costs are not yet being recorded in the Ministry's accounting records, for example:</p> <table border="1"> <thead> <tr> <th>Contract Number</th><th>Contract Value (USD)</th><th>Award Date</th><th>Completion Date</th></tr> </thead> <tbody> <tr> <td>DABV01-04-C-9022</td><td>70,564,166</td><td>03 Jul 04</td><td>31 Jan 07</td></tr> <tr> <td>N62470-04-C-4717</td><td>63,633</td><td>20 May 04</td><td>24 Apr 06</td></tr> </tbody> </table>	Contract Number	Contract Value (USD)	Award Date	Completion Date	DABV01-04-C-9022	70,564,166	03 Jul 04	31 Jan 07	N62470-04-C-4717	63,633	20 May 04	24 Apr 06	<p>We recommend coordination shall be maintained between the Ministry and the U.S. Agencies and procedures are jointly developed to exchange the information and documents related to the contracts managed by the U.S. Agencies and in order to update the Ministry's accounting records on a timely basis.</p>		<p>OLD</p>
Contract Number	Contract Value (USD)	Award Date	Completion Date												
DABV01-04-C-9022	70,564,166	03 Jul 04	31 Jan 07												
N62470-04-C-4717	63,633	20 May 04	24 Apr 06												


Ministry of Interiors			
7. Allocation of Budget			
Observation	Recommendation	Risk Level	Status
During our visit, we noted that the Ministry's budget has been prepared based on lump sum amounts for each type of revenues and expenses during the year 2007. The Ministry did not allocate any budgeted amount over the 12 months period as required by the budget guidance.	We recommend that the Ministry allocate the approved budget over 12 months to enhance the controls over the budget. A monthly variance analysis between actual expenses and budget should be performed and any major differences should be investigated and followed up.		OLD


Ministry of Interiors

8. Contracting Procedures for the Ministry's Building Expansion

Observation	Treatment method	Risk Level	Status
<p>During our visit to the Ministry of Interior, we noted the following in respect of contract # (Baghdad/2/2006), which was entered with an Iraqi construction company on 15 May 2006 to build the Ministry's annex building for an amount of IQD 5,744,690,600 (equivalent to U.S. \$ 3,890,404):</p> <ul style="list-style-type: none"> – The contract is not approved by the Economic Committee in the Council of Ministers and not budgeted as there was not sufficient budget available according to the council of ministers' letter reference (18050/1/3/3/7) on 21 December 2006. – The tenders opening committee report dated 13 March 2005 was not signed by the head of committee; in addition the offer of the company was listed in the list of the companies that did not meet the qualifying conditions, since the company did not provide the required bond guarantee and the its registration certificate. – The contract price written in words is different from the contract price in numbers, as the price in words is IQD 5,450,238,500 while in numbers is IQD 5,750,238,500. 	<p>The contract has been cancelled due to breach by the supplier.</p>		


Ministry of Health


Ministry of Health			
1. Approval on contracts			
Observation	Recommendation	Risk Level	Status
During our review of contract No. 475/2006/40 to purchase medicine for an amount of U.S \$ 7,000,000 from Najat Pharma Company, we noted that the preliminary approval was dated December 18, 2006 according to the Tender Analyzing Committee's recommendation. On November 29, 2007, the Committee decided to change the contractor, to supply lower quantities and lower prices. The approval of the General Manager on changing the contract terms is not documented noting that approval on the change falls within the general manager's authority.	We recommend complying with ministry's regulation in relation to the authority of the General Manager for better control procedures and adherence to applicable laws and regulation.		NEW


Ministry of Health			
2. Excess Importing of Medicine			
Observation	Recommendation	Risk Level	Status
We noted that the Ministry did not consider the recommendation of the Tender Analysis Committee for contract number 36/2007/40 for an amount of U.S. \$ 6,499,679 to import 36,069,250 units of certain type of medicine from Novartis Company. The Committee recommendation was against purchasing this type of medicine due to surplus in the Ministry's inventory of 121,203,760 units of the same type, whereas the Ministry's need of this type is 72,138,500 units only.	We recommend that proper analysis for all contracted quantities should be performed to ensure the proper inventory needs are met. We also recommend that recommendations of the Tender Analyzing Committee shall be considered for better control procedures and better safeguarding of public assets.		NEW


Ministry of Health



3. Compliance with Contractual condition and Economic Committee Instructions


Observation				Recommendation	Risk Level	Status
We noted that the Ministry did not comply with the Supreme Contracting Committee instructions related to contracting procedures. Additionally; the Ministry did not comply with contractual conditions with the contractor as shown below:				We recommend complying with the Supreme Contracting Committee instructions related to contracting procedures and the contact terms for better safeguarding of the ministry's rights.		NEW
Company name	Contract Number	Amount (U.S. \$)	Comments			
Novartis	40/2006/345	13,644,372	The Economic Committee stated the delay penalty rate at (0.5%) per week, while the Ministry approved penalty rate at (1%) per month.			
Novartis	40/2006/542	4,998,100	The Ministry did not impose a delay penalty as stated in the terms of the contract; the contract terms stated that the contract should be performed in ten weeks starting April 16, 2007, while the contract was performed on July 11, 2007.			
Novartis	40/2006/682	4,481,528	The Ministry did not impose a delay penalty as stated in the terms of the contract; the terms state that the contract should be performed over two stages; The first is after one month of notifying the contractor that the LC is opened, and the second is after five months from the notice. The Ministry sent the notice to contractor in July 7, 2007, while the Ministry received the first shipment in September 10, 2007. The ministry did not collect the delay penalty amount for the first stage.			

Ministry of Health			
4. Reconciliation of the Transactions with Related Companies			
Observation	Recommendation	Risk Level	Status
<p>We noted that the Ministry did not perform monthly reconciliations with the records of the related companies to reconcile Letters of Credit and import contracts balances.</p> <p>The main purpose of the reconciliations is to ensure that all recorded amounts in the companies' accounting records have been recorded by the Ministry.</p>	<p>We recommend preparing regular reconciliations with the related companies records, to ensure proper matching of all transactions between the Ministry and related companies' records, and to identify and clear differences permanently. Reconciliations should be reviewed and approved by the appropriate levels at both the Ministry and the related companies to maintain additional accuracy and control procedures.</p>		<p>OLD</p>

Ministry of Health			
5. Fixed Assets Identification			
Observation	Recommendation	Risk Level	Status
During our visit, we noted that the fixed asset register does not include identification numbers for each individual asset. Creating identification numbers for each individual asset would enable the Ministry to trace a particular item to the fixed asset register and improve accountability in respect of fixed assets. Furthermore, this will facilitate the physical verification of fixed assets.	We recommend developing identification numbers to be attached to all items of fixed assets and which should be recorded in the fixed asset register. In addition, we recommend independent and periodic physical verification be performed to ensure safe custody of the fixed assets.		OLD



Ministry of Health			
6. Contract Supporting Documents			
Observation	Recommendation	Risk Level	Status
We noted that the contracts are not properly filed; the contracts' related supporting documents are distributed over the Ministry departments which make it difficult to obtain and follow up some of the contracts and its related supporting documents.	We noted that the contracts are not properly filed; the contracts' related supporting documents are distributed over the Ministry departments which make it difficult to obtain and follow up some of the contracts and its related supporting documents.		OLD

Ministry of Health														
7. Procurement Contracts Bid Bond														
Observation			Treatment method	Risk Level	Status									
<p>We noted non compliance with the instructions issued by the Supreme Contracting Committee in connection with submitting contracts bid bond of 3%. The following are examples</p> <table><tr><th>Contract type</th><th>Contract Number</th><th>Contract Amount</th></tr><tr><td>External Purchasing Contract</td><td>2/159/2005/84</td><td>U.S. \$ 2,032,587</td></tr><tr><td>External Purchasing Contract</td><td>A98/2006/284/</td><td>U.S. \$ 4,987,551</td></tr></table>			Contract type	Contract Number	Contract Amount	External Purchasing Contract	2/159/2005/84	U.S. \$ 2,032,587	External Purchasing Contract	A98/2006/284/	U.S. \$ 4,987,551	No contracts came to our attention that the bid bond was not collected during 2007.		
			Contract type	Contract Number	Contract Amount									
			External Purchasing Contract	2/159/2005/84	U.S. \$ 2,032,587									
			External Purchasing Contract	A98/2006/284/	U.S. \$ 4,987,551									

Ministry of Health										
8. Delay in Purchasing and Contracting Processes										
Observation						Recommendation	Risk Level	Status		
We noted delay in purchasing and contracting procedure during 2007, Example as follows:						We recommend conducting a study of the current purchasing and contracting process, in order to properly follow up the contracts in progress and identify reasons for delay in signing contracts with a view of increasing the efficiency of purchasing and contracting department and ensure timely execution of the Ministry’s annual budget.		OLD		
LC open year	Partially paid LC		Unpaid LCs		Total					
Number of LCs	LC amount U.S. \$	Outstanding balance U.S. \$	Number of LCs	Outstanding balance U.S. \$	Number of LCs				LC amount U.S. \$	
2005	99	94,693,210	26,001,761	44	28,014,228				143	122,707,438
2006	139	103,636,143	47,480,919	99	65,408,493				238	169,044,636
Total	238	198,329,353	73,482,680	143	93,422,721	381	291,752,074			



Ministry of Health


9. Tracking Budget Allocations for the Ministry

Observation					Treatment method	Risk Level	Status										
<p>The MOF approves the budget allocation of the letters of credit for each ministry and sends a copy of this approval to the respective ministries and to the CBI. Based on this approval, the ministries then open their letters of credit at Trade Bank of Iraq.</p> <p>We noted that the Ministry issued requests for payments exceeding their allocated budget approved by the Ministry of Finance. This indicates that the Ministry does not maintain sufficient records of the budget amounts approved by the Ministry of Finance, nor the amounts paid by the Ministry and the remaining balance to be paid by the Ministry.</p> <p>The following is example of payment transfer order issued by the Ministry that exceed its allocated budgets:</p> <table><tr><th>CBI Letter No.</th><th>LC No.</th><th>Governmental Entity</th><th>Request for transfer U.S. \$</th><th>Budget Allocation U.S. \$</th></tr><tr><td>2158/1/5 on 23/12/2006</td><td>4070/2006</td><td>State Company for Drugs & Medical Supplies Marketing – Ministry of Health</td><td>105,840</td><td>33,600</td></tr></table>					CBI Letter No.	LC No.	Governmental Entity	Request for transfer U.S. \$	Budget Allocation U.S. \$	2158/1/5 on 23/12/2006	4070/2006	State Company for Drugs & Medical Supplies Marketing – Ministry of Health	105,840	33,600	No requests for payments exceeding their allocated budget came to our attention during 2007.		
CBI Letter No.	LC No.	Governmental Entity	Request for transfer U.S. \$	Budget Allocation U.S. \$													
2158/1/5 on 23/12/2006	4070/2006	State Company for Drugs & Medical Supplies Marketing – Ministry of Health	105,840	33,600													

Ministry of Health

10. Recording U.S. Agencies Contracts


Observation	Treatment method	Risk Level	Status												
<p>During our visits to the Ministry of Health, we noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. As a result, the Ministry does not have any information related to such contracts and the contracts costs are not yet being recorded in the Ministry’s accounting records.</p> <p>The following are examples of contracts managed by the U. S Agencies and not yet recorded by the Ministry.</p> <table><tr><th>Contract Number</th><th>Contract Value (U. S. \$)</th><th>Award Date</th><th>Completion Date</th></tr><tr><td>DABV01-04-C-3492</td><td>263,887</td><td>19-Jun-04</td><td>11-Jan-07</td></tr><tr><td>DABV01-04-C-3576</td><td>251,058</td><td>28-Jun-04</td><td>11-Jan-07</td></tr></table>	Contract Number	Contract Value (U. S. \$)	Award Date	Completion Date	DABV01-04-C-3492	263,887	19-Jun-04	11-Jan-07	DABV01-04-C-3576	251,058	28-Jun-04	11-Jan-07	No contracts were carried out by U.S Agencies for the benefit of the ministry during 2007.		
Contract Number	Contract Value (U. S. \$)	Award Date	Completion Date												
DABV01-04-C-3492	263,887	19-Jun-04	11-Jan-07												
DABV01-04-C-3576	251,058	28-Jun-04	11-Jan-07												


Ministry of Health																														
11. Old Outstanding Cash Margins																														
Observation			Treatment method		Risk Level	Status																								
<p>During our visit to the Ministry, we noted a number of old outstanding cash margin balances at JP Morgan Chase for the Ministry’s letters of credit.</p> <p>The following are examples of these outstanding balances as of 31 December 2007 according to the confirmation received from JP Morgan Chase.</p> <table><tr><th>L/C #</th><th>Ministry</th><th>L/C Amount (U.S. \$)</th><th>Outstanding Amount (U.S. \$)</th><th>L/C Opening Date</th><th>L/C Validation Date</th></tr><tr><td>1345/2004</td><td>Health</td><td>145,040</td><td>69,276</td><td>28/2/2005</td><td>28/11/2005</td></tr><tr><td>143/2003</td><td>Health</td><td>360,000</td><td>2,886</td><td>22/1/2004</td><td>15/8/2004</td></tr><tr><td>1000/2004</td><td>Health</td><td>832,500</td><td>16,650</td><td>21/10/2004</td><td>20/2/2005</td></tr></table>			L/C #	Ministry	L/C Amount (U.S. \$)	Outstanding Amount (U.S. \$)	L/C Opening Date	L/C Validation Date	1345/2004	Health	145,040	69,276	28/2/2005	28/11/2005	143/2003	Health	360,000	2,886	22/1/2004	15/8/2004	1000/2004	Health	832,500	16,650	21/10/2004	20/2/2005	<p>We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the current status of each outstanding letters of credit cash margins and follow up and resolve all old outstanding balances.</p> <p>Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure that all letters of credit are executed on a timely basis, and the remaining balances are refunded to the DFI.</p>			OLD
L/C #	Ministry	L/C Amount (U.S. \$)	Outstanding Amount (U.S. \$)	L/C Opening Date	L/C Validation Date																									
1345/2004	Health	145,040	69,276	28/2/2005	28/11/2005																									
143/2003	Health	360,000	2,886	22/1/2004	15/8/2004																									
1000/2004	Health	832,500	16,650	21/10/2004	20/2/2005																									


Ministry of Trade


Ministry of Trade

1. Purchasing of cooking oil and vegetable ghee

Observation	Recommendation	Risk Level	Status
<p>We noted that the Ministry has agreed to purchase cooking oil and vegetable grease for an amount of U.S. \$ 43,995,757 from Mizan Al-Iraq Company. During our review of the contract, we noted the following:</p> <ul style="list-style-type: none"> The supplier request was approved without the Ministry announcement for its needs of these materials, as well as procurement was accomplished without preparing No Objection Letter which represents a non compliance with the instructions of the Governmental Contracts Execution No.(1) issued during 2007 by the Ministry of Finance and contracting procedures at the ministry. The value of purchases amounted to U.S. \$ 43,995,757, is over the authority limit of the Ministry as of the date of the purchase on 21 January 2007, while the Ministry's purchasing authority limit is U.S.\$ 10 million in accordance with the General Secretariat of the Council of Ministers letter dated October 12, 2006. The supplier did not provide a letter of guarantee by 5% of the total amount. 	<p>We recommend adherence to Economic Committee's resolution and contracting procedures guidelines in relation to the authority limits and execution of letter of guarantee for better control procedures and better safeguarding of public assets.</p>		NEW


Ministry of Trade			
2. Payment approval before issuing the no-objection letter			
Observation	Recommendation	Risk Level	Status
We noted that the State Company for Food Supplies has contracted for purchasing of sunflower oil for an amount of U.S. \$ 7,500,000 according to No Objection Letter No. 792. In November 8, 2007 the company has paid the first installment of the contract amounting U.S. \$ 422,907 after receiving the materials noting that the No Objection Letter was issued on December 3, 2007. Contrary to the instructions of the Governmental Contracts Execution No.(1) issued during 2007 by the Ministry of Finance, which stipulates that no payments shall be made to suppliers before signing all documents of the contract.	We recommend adherence to Economic Committee instruction in relation to No Objection letters for better control procedures and better application current laws and regulations.		NEW

Ministry of Trade														
3. Overdrawing the bank account														
Observation		Recommendation	Risk Level	Status										
<p>During our review we noted that the bank account of the State Company for Food Supplies at the Trade Bank of Iraq was overdrawn on the following dates:</p> <table><tr><th>Overdrawing Date</th><th>Overdrawn Amount (IQD)</th></tr><tr><td>7 January 2007</td><td>8,390,335</td></tr><tr><td>3 May 2007</td><td>27,599,890</td></tr><tr><td>28 October 2007</td><td>332,948,620</td></tr><tr><td>26 December 2007</td><td>286,888,739</td></tr></table> <p>Overdrawing current accounts is considered a weakness in bank accounts management, since the governmental financial management uses the cash basis for its transactions, in addition to weakness in the management of the annual budget of the government entity where the payments are done before the existence of an allocation.</p>		Overdrawing Date	Overdrawn Amount (IQD)	7 January 2007	8,390,335	3 May 2007	27,599,890	28 October 2007	332,948,620	26 December 2007	286,888,739	<p>We recommend following up the company's bank accounts on a daily basis and not to perform a payment of any amount without prior existence of funding for better control procedures over governmental entities assets.</p>		<p>NEW</p>
Overdrawing Date	Overdrawn Amount (IQD)													
7 January 2007	8,390,335													
3 May 2007	27,599,890													
28 October 2007	332,948,620													
26 December 2007	286,888,739													

Ministry of Trade			
4. Bidding Analysis and Awarding Committee			
Observation	Recommendation	Risk Level	Status
During our visit to the State Company for Food Supplies, we noted that the company does not have an Analysis and Opening Bidding Committee. Currently, the division responsible for importing each type of materials is responsible for the Tender Analyzing and Opening.	We recommend applying the budget instructions issued by the Ministry of Finance, which require having a centralized Tender Analysis and Opening Committees which their members should be rotated every six months.		OLD


Ministry of Trade

5. Recoding the LCs Transactions

Observation						Recommendation	Risk Level	Status																								
<p>During our visits to the State Company for Food Supplies, we noted that no proper reconciliations are being prepared between the Import Department records and the Finance Department records.</p> <p>Moreover, the Finance Department does not record all LC transactions in the accounting system. Also, the LCs payment orders are issued by the Import Department to the Trade Bank of Iraq directly, without approval and review of the Finance Department.</p> <p>For example:</p> <table><tr><th>LC Number</th><th>LC Amount</th><th>LC Date</th><th>Paid Amounts per accounting record (U.S. \$)</th><th>Paid Amounts per Import Department record (U.S. \$)</th><th>Difference (U.S. \$)</th></tr><tr><td>3448/2006</td><td>24,100,000</td><td>26/4/2006</td><td>10,968,282</td><td>22,894,977</td><td>11,926,695</td></tr><tr><td>3514/2006</td><td>24,100,000</td><td>23/6/2006</td><td>0</td><td>10,583,707</td><td>10,583,707</td></tr><tr><td>3474/2006</td><td>24,000,000</td><td>29/6/2006</td><td>0</td><td>22,799,973</td><td>22,799,973</td></tr></table>						LC Number	LC Amount	LC Date	Paid Amounts per accounting record (U.S. \$)	Paid Amounts per Import Department record (U.S. \$)	Difference (U.S. \$)	3448/2006	24,100,000	26/4/2006	10,968,282	22,894,977	11,926,695	3514/2006	24,100,000	23/6/2006	0	10,583,707	10,583,707	3474/2006	24,000,000	29/6/2006	0	22,799,973	22,799,973	<p>We recommend finding a documented mechanism to coordinate between all departments, directorate and companies of the ministry, which ensures the exchange of all information related to the contracting process and pay all the amounts related to, which leads to the existence of an effective monitoring mechanism to implement the contracts with suppliers. Also we recommend preparing a monthly reconciliation for company's bank accounts at the Trade Bank of Iraq.</p>		OLD
LC Number	LC Amount	LC Date	Paid Amounts per accounting record (U.S. \$)	Paid Amounts per Import Department record (U.S. \$)	Difference (U.S. \$)																											
3448/2006	24,100,000	26/4/2006	10,968,282	22,894,977	11,926,695																											
3514/2006	24,100,000	23/6/2006	0	10,583,707	10,583,707																											
3474/2006	24,000,000	29/6/2006	0	22,799,973	22,799,973																											


Ministry of Trade


6. Allocation of Budget by the Ministry to its Related Companies


Observation	Recommendation	Risk Level	Status
<p>During our visit, we noted that there is no proper coordination between the Ministry of Trade and its related companies regarding the allocation of the approved budget for each related company. The Ministry does not maintain a separate budget for each related company.</p> <p>Also, the Ministry does not have a proper budget monitoring system and does not prepare any variance reports for comparison between the budget and actual expenses.</p>	<p>We recommend the Ministry as following:</p> <ul style="list-style-type: none"> • Develop a system and a mechanism for coordination between the ministry and its affiliates; which aimed to inform the ministry about all amounts transferred directly from the Ministry of Finance to the companies. In addition, a monthly reconciliation should be prepared between the accounting records of the ministry and companies to ensure that all transfers are recorded and address the differences on timely basis. • The Budget Department at the Ministry to follow up and monitor the budget and ensure that all the controls have been applied by companies affiliated in order to adhere to the approved budget • The Budget Department to prepare a database for all sections related to departments activities and their size in order to review the performance of each section periodically (on monthly basis for example) and to verify of any significant deviations from the standards. The database will enable the budget department to know and identify the risks or the opportunities for cost savings. 		OLD



Ministry of Trade

7. Old Outstanding Cash Margins


Observation						Recommendation	Risk Level	Status
Observation During our visit to the Ministry, we noted many old outstanding cash margin balances with JP Morgan Chase for the Ministry's expired letters of credit. The following are examples of these outstanding balances as of 31 December 2006 according to the confirmation received from JP Morgan Chase.						We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the status of each outstanding letter of credit cash margin and follow up and resolve all old outstanding balances. Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to all ensure Letters of Credit are executed on a timely basis and to follow up the refund of any surplus cash.		OLD
L/C #	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date			
369/2004	Trade	295,000	31,000	15 June 2004	15 August 2004			
374/2004	Trade	2,740,500	52,615	15 June 2004	28 February 2005			
377/2004	Trade	362,400	13,418	13 June 2004	10 November 2004			


Ministry of Trade			
8. Tracking Budget Allocations for the Ministry			
Observation	Recommendation	Risk Level	Status
<p>The Ministry of Finance approves the budget allocation of the letters of credit for each ministry and sends a copy of this approval to the respective ministries and to the CBI. Based on this approval, the ministries then open their letters of credit at Trade Bank of Iraq.</p> <p>During our visit, we noted that the Ministry issued requests for payments exceeding their allocated budget approved by the Ministry of Finance. This indicates that the Ministry does not maintain sufficient records of the budget amounts approved by the Ministry of Finance, nor the amounts paid by the Ministry and the remaining balance to be paid by the Ministry.</p>	<p>The Ministry should create an authoritative budget monitoring system to monitor the budget amounts approved by the Ministry of Finance and the amounts paid and the remaining balance, in order to prevent or detect any payment requests that exceed the budget allocations.</p> <p>If exceptions are approved, any payments in excess of budget allocations should be formally documented as approved by the authorized authority or officer.</p>		OLD


Ministry of Trade			
9. Imports of Vegetarian Oil			
Observation	Recommendation	Risk Level	Status
During our visit to the State Company for Food Supplies, we noted that the company was engaged in contracts with an Emirates company to import sunflower oil for U.S. \$ 5,455,000 according to LC No. 34343/2006. However, we noted that the Emirates Company was not included in the statement of tenders opening and analyses. This is considered none compliance with the tendering and awarding instructions issued by the Supreme Contracting Committee.	We recommend the State Company for Food Supplies to strictly follow the regulations of the Superior Contracting Committee in the awarding of all its contracts.		OLD


Ministry of Trade			
10. Contract Bid Bonds			
Observation	Treatment method	Risk Level	Status
<p>During our visit to the State Company for Food Supplies, we noted that the Company does not receive the bid bond from its suppliers of 3% of the total quotation price as required by the Supreme Contracting Committee. For example:</p> <ul style="list-style-type: none"> • Order # 1/2006 for the purchase of milk • Order # 3/2005 for the purchase of oil. 	During 2007, no contract came to our attention that lacks bid bonds.		


Ministry of Electricity


Ministry of Electricity			
1. Power Plant Contract			
Observation	Recommendation	Risk Level	Status
<p>During our review of the contract number 518/2004 which amounted to U.S. \$ 229,810,100 to design and supply 20 power plants for Samera'a, we noted that the contract amount was increased during 2007 in the amount of U.S. \$ 22,809,207; such increase is mainly due to storage expenses in Aqaba port, and failure to implement the contract within the stated time limit.</p> <p>Until the date of our visit in February 2008, no resolution has been reached to complete and the remainder of the delivery.</p>	<p>We recommend reaching to a decision about this contract to avoid the burden of storage and administrative expenses and for better safeguarding of public assets.</p>		<p>NEW</p>


Ministry of Electricity			
2. Power Generators Contract			
Observation	Recommendation	Risk Level	Status
We noted that the ministry paid storage expenses an amount of GBP 732,279 for unit one and two of the steam turbine generators of the Northern project, for the period from June 2006 to May 2007 because the generators were located in Newcastle/UK during that period.	We recommend the ministry to reach to a decision about this contract to avoid the burden of storage and administrative expenses and for better safeguarding of public assets.		NEW


Ministry of Electricity			
3. Re-Announcing Tender Request			
Observation	Recommendation	Risk Level	Status
During our review, we noted that the Ministry has re-announced some bids after opening the bids for different reasons, this would uncover the prices submitted by the bidders to the committees' members and therefore the confidentiality of tenders presented would be breached.	<p>We recommend obliging the bidders to provide two offers and as follows:</p> <ul style="list-style-type: none"> • Technical offer: This offer shall include the technical specifications of the contract subject matter, the date of delivery, and other technical matters. • Financial offer: This offer shall include price schedule, payment dates and method of payment. The financial offer should not be opened unless the technical offer is accepted. <p>We also recommend maintaining accuracy when announcing tenders and ensuring that the announcement includes all required specifications and conditions related to the contract for better control over the procurement process.</p>		NEW


Ministry of Electricity			
4. Contracting Procedures to Supply Electricity Machines			
Observation	Recommendation	Risk Level	Status
<p>During our review the contracting procedures with a foreign company for U.S. \$ 2,073,035 to supply (Distance Relay for 132 and 400 KV), we noted that:</p> <ul style="list-style-type: none"> The Economic Department of the Ministry in its letter No. 19729 dated 11 December 2005 stated that the minister has instructed completion of the contracting process while the tenders analyzing committee's decision was issued subsequently in 20 December 2005. The Ministry did not receive the bid bond which amounts to 3% of the total quotation price from the company. We noted that the legal department representative is a member in the opening and analysis committees; this is considered incompliance with the Supreme Contracting Committee instructions which prohibit the same person to be in both committees. 	<p>We recommend the Ministry to comply with the instructions issued by Supreme Contracting Committee regarding bid bonds, segregation of duties, and prohibiting committee members from participating in more than one committee..</p>		OLD


Ministry of Electricity			
5. Contracting Procedures for the Power Line Contract			
Observation	Recommendation	Risk Level	Status
During our review of the contract related Moussel-Kirkuk power line (400 KV), that was processed through LC (2006/3070). We noted that the ministry obtained only one tender for this contract. However, the contract was awarded without following the formal tender requirements to the sole bidder for an amount of U.S. \$ 21,317,735 and the contract was approved by the Supreme Contracting Committee on 2 January 2006.	We recommend that the Ministry should comply with the instructions issued by Supreme Contracting Committee regarding the contract tendering and awarding procedures.		OLD


Ministry of Electricity			
6. Approval of Settlement of Old Debt			
Observation	Recommendation	Risk Level	Status
<p>We noted that the Ministry paid a total amount of U.S. \$ 34,000,000 for an old outstanding contract, without having an approved budget and without prior approval from the Ministry of Finance. This payment is related to a contract to supply electrical appliances by a Jordanian company which was signed on 21 May 2001 for U.S. \$ 100 million. Based on the contract terms, the first payment was due after two years on 21 May 2003.</p> <p>We noted that, based on the Ministry records, the Jordanian company supplied materials amounting to U.S. \$ 77,418,321 up until 15 September 2004 and requested the settlement of its billings.</p>	<p>We recommend that this issue needs further investigation by the Government of Iraq, as the above contract was signed in 2001 and during this period all contracts should be made in accordance with the United Nations' Memorandum of Understanding (MOU) signed on 20 May 1996 between the Secretariat of the United Nations and the Government of Iraq on the implementation of Security Council Resolution.</p> <p>We further recommend the Ministry of Electricity to comply with its budget allocations for each year and to seek the Ministry of Finance approval for any exceptions.</p>		OLD

Ministry of Electricity			
7. Contract of Supplying Chemical Materials			
Observation	Recommendation	Risk Level	Status
<p>During our review of the contracting procedures of tender number W.K. 1/2006 for supplying chemical materials, which had been partially awarded to a Jordanian Company for U.S. \$ 7,674,500 and the remaining had been awarded to a Syrian Company for U.S. \$ 10,025,980, we noted the following:</p> <ul style="list-style-type: none"> The Jordanian Company did not pay the bid bond of 3% or the performance bond of 5% of the contract amount; we were advised that the materials that were received in advance and amounting to U.S. \$ 74,900 were considered as a performance bond. The Syrian Company paid an amount of U.S. \$ 50,000 as bid bond, which is much lesser than the required 3% of the contract price. In addition, the Syrian Company did not submit a performance bond of 5% of the total contract amount. Instead, however, we were advised that both the materials that were received in advance and amounting to U.S. \$ 229,580, in addition to the bid bond, were considered as performance bond. The total value of the materials that were received in advance and the bid bond do not fulfill the requirements of the 5% performance bond of total contract value. 	<p>We recommend the Ministry to adhere to the Supreme Contracting Committee instructions concerning the contracting procedures and ensure the collection of bid bonds and the performance bond to preserve the Ministry's contractual rights.</p>		OLD

Ministry of Electricity			
8. Contract Procedures to Supply Power Station Materials			
Observation	Recommendation	Risk Level	Status
<p>During our visit, we noted that the contract No.164 related to supplying materials for Al-Dibes Electricity Station requires obtaining 20% guarantee of the contract value as an advance payment, in addition to presenting a 5% performance bond of the contract value in the form of bank letter of guarantee.</p> <p>We noted that the LC was opened on 4 May 2006 and including a bank letter of guarantee in advance payment. However, the Ministry did not obtain the performance bond letter of guarantee, which is a requirement of the contract terms.</p>	<p>We recommend the Ministry to adhere to the contact terms and ensure collection of the performance bond guarantee to preserve the Ministry contractual rights.</p> <p>In addition, we recommend that the LCs terms should be prepared consistently with the contract terms and conditions</p>		OLD


Ministry of Electricity																					
9. Al-Mosaib Gas Station Project																					
Observation		Recommendation		Risk Level	Status																
<p>During our review of the executing process for LC No. 236/2004, which was issued during 2004 for the benefit of an American Company for the execution of the construction of Al-Mosaib Gas Station project for U.S. \$ 283,000,000, we noted that the ministry does not have any supporting documents or any progress report of the construction of the project. However, an amount of U.S. \$ 17,620,471 was paid to the Company during 2006 as follows:</p> <table><tr><th>Invoice No.</th><th>Ref. of Letter issued by the Ministry to Trade Bank of Iraq</th><th>Letter date</th><th>Amount U.S. \$</th></tr><tr><td>17006 *</td><td>1508</td><td>December 14, 2006</td><td>5,000,000</td></tr><tr><td>17007</td><td>5805</td><td>March 28, 2006</td><td>4,188,381</td></tr><tr><td>19001 *</td><td>Not Available</td><td>Not available</td><td>8,432,090</td></tr></table> <p>The ministry does not have the payment certificates provided by the contractor for these invoices.</p> <p>* Based on the Minister’s letter dated 18 March 2007 the LC has been cancelled due to the fact that the American Company has withdrawn from the project site without completing the assigned work and breached the contract terms and conditions.</p>		Invoice No.	Ref. of Letter issued by the Ministry to Trade Bank of Iraq	Letter date	Amount U.S. \$	17006 *	1508	December 14, 2006	5,000,000	17007	5805	March 28, 2006	4,188,381	19001 *	Not Available	Not available	8,432,090	<p>We recommend the Ministry to investigate the above mentioned payment in further details and to fully comply with payment procedures, especially receiving proper supporting documents to ensure the satisfactory completion of the contractor work before making any payment.</p>			OLD
Invoice No.	Ref. of Letter issued by the Ministry to Trade Bank of Iraq	Letter date	Amount U.S. \$																		
17006 *	1508	December 14, 2006	5,000,000																		
17007	5805	March 28, 2006	4,188,381																		
19001 *	Not Available	Not available	8,432,090																		

Ministry of Electricity			
10. Procedures Related to Contract Number 4/2004			
Observation	Recommendation	Risk Level	Status
During our visit, we reviewed the payment procedures related to contract number 4/2004 that was signed on 27 October 2004 with a Lebanese Company to supply reserve materials and supervise the installation process and training, we noted that the Ministry of Electricity had paid U.S. \$ 1,935,000 to the Lebanese Company before receiving the materials.	We recommend that the Ministry should not pay any amount to the contractors and suppliers without receiving the contracted products and services.		OLD


Ministry of Electricity			
11. Recording and Reconciliation of LCs Payments			
Observation	Recommendation	Risk Level	Status
<p>During our visit, we noted the following in respect to the functions of the Economic Department and the Finance Department:</p> <ul style="list-style-type: none"> • No proper reconciliations are prepared regularly to match the statement of letters of credit received from Trade Bank of Iraq (TBI) with the letters of credit records maintained by the Ministry. • Weak coordination between Economic Department and Finance Department in order to ensure proper recording of LCs transactions on a timely basis. 	<p>We recommend the Ministry to develop a register to include all the LCs information and to reconcile this information regularly between with the TBI and the accounting records.</p>		OLD


Ministry of Electricity


12. Long Outstanding Cash Margins



Observation						Recommendation	Risk Level	Status																								
<p>During our visit to the Ministry, we noted a number of long outstanding cash margin balances with JP Morgan Chase for letters of credit.</p> <p>The following are examples of these outstanding balances as of 31 December 2007 according to the confirmation received from JP Morgan Chase.</p> <table><tr><th>L/C #</th><th>Ministry</th><th>L/C Amount (U.S. \$)</th><th>Outstanding Amount (U.S. \$)</th><th>L/C Opening Date</th><th>L/C Validation Date</th></tr><tr><td>220/2004</td><td>Electricity</td><td>3,867,559</td><td>203,161</td><td>2/2/2004</td><td>11/2/2005</td></tr><tr><td>764/2004</td><td>Electricity</td><td>2.851.569</td><td>106.975</td><td>19/6/2004</td><td>14/12/2004</td></tr><tr><td>763/2004</td><td>Electricity</td><td>2.406.782</td><td>437.650</td><td>16/9/2004</td><td>16/2/2005</td></tr></table>						L/C #	Ministry	L/C Amount (U.S. \$)	Outstanding Amount (U.S. \$)	L/C Opening Date	L/C Validation Date	220/2004	Electricity	3,867,559	203,161	2/2/2004	11/2/2005	764/2004	Electricity	2.851.569	106.975	19/6/2004	14/12/2004	763/2004	Electricity	2.406.782	437.650	16/9/2004	16/2/2005	<p>We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the current status of each outstanding letter of credit cash margin and follow up and resolve all long outstanding balances.</p> <p>Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure that all Letters of Credit are executed on a timely basis and in accordance to the contract terms and conditions.</p>		OLD
						L/C #	Ministry	L/C Amount (U.S. \$)	Outstanding Amount (U.S. \$)	L/C Opening Date	L/C Validation Date																					
220/2004	Electricity	3,867,559	203,161	2/2/2004	11/2/2005																											
764/2004	Electricity	2.851.569	106.975	19/6/2004	14/12/2004																											
763/2004	Electricity	2.406.782	437.650	16/9/2004	16/2/2005																											



Ministry of Justice



Ministry of Justice							
1. Contracts Identification Numbers							
Observation				Recommendation	Risk Level	Status	
We noted that all contracts of the ministry are not given identification numbers. For example:				We recommend the ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.		NEW	
Contract	Contractor	Contract amount USD	Paid amount USD				
Municipal Prison rehabilitation contract	Qasr Ma'ali Co.	327,930,000	67,441,080				
500 KV Generator supply contract for Law Academy	Ali Bannavi's office	117,500,000	-				



Ministry of Justice			
2. Tender Analysis Committee			
Observation	Recommendation	Risk Level	Status
We noted that the members of the Tender analyzing Committee are not being periodically rotated as required by the budget execution instructions issued by ministry of finance that requires changing members of tender analysis committees every six months.	We recommend complying with the budget instructions issued by the Ministry of Finance as to the requirement of rotating committees' members every six months for better control procedures and adherence to budget instructions.		OLD

Ministry of Justice			
3. Segregation of Duties			
Observation	Recommendation	Risk Level	Status
<p>We noted that the Payroll Department prepares payroll statements, receives the cash of the payroll payments and pays the payroll to the Ministry employees. As a result, there is no proper segregation of duties in the payroll department functions.</p> <p>Also, we noted that the payroll records are not updated on a timely basis as a result of delay in receiving the information from the Human Recourses Department.</p>	<p>We recommend the Ministry to develop the payroll processing and payment functions to maintain adequate segregation of duties between the payroll processing, approval and payment functions. Also, we recommend the Ministry to consider transferring all the employees' monthly salaries to their personal bank accounts for better control procedures.</p> <p>We further recommend the Ministry to develop a proper coordination between the Human Resources Department and the Payroll Department in order to keep the Payroll Department updated with any changes or information that might permanently affect the monthly payroll entitlements on a timely basis.</p>		OLD

Ministry of Justice			
4. Performance Bond			
Observation	Treatment Method	Risk Level	Status
During our review of the contract related to the rehabilitation of the Directorate of Real-Estate Registration building in Rossafi of amount of IQD 190,000,000. The contract terms did not include the performance bond term of 5% of total contract price	Although the ministry did not obtain the performance bond of 5% of the total contract value, the contract has been fully executed and paid during 2007.		



Ministry of Justice			
5. Contractual Procedures Related to Construction of Forensic Complex Contract in Al-Sader City			
Observation	Treatment Method	Risk Level	Status
During our visit to the Ministry, we noted that the Ministry signed a contract with an Iraqi company to build a forensic complex in Sader City for an amount of IQD 1,000,000,000. The contract has not been executed because the Ministry delayed in obtaining the construction permission as the Ministry is obligated to perform under this contract. Consequently, the Iraqi company claimed for compensation penalties from the Ministry since that the Ministry did not fulfill its obligations. However, this penalty has not been paid by the Ministry.	The terms of the contract have been amended according to mutual consent with the supplier to perform additional work; the contract value was adjusted to USD 1,500,000,000 as approved by the Council of Ministers and within the boundaries of contracting instructions.		

Ministry of Justice			
6. Recording U.S. Agencies Contracts			
Observation	Treatment Method	Risk Level	Status
We noted that several contracts are managed by the U.S. Agencies on behalf of the ministry without advising the Ministry with its details. Accordingly, the Ministry did not record it in its records, noting that this contract is recorded in the DFI as part of the ministry expenses.	U.S. Agencies did not contract for the benefit of the ministry during the year.		


Ministry of Justice			
7. Tender Announcements			
Observation	Treatment Method	Risk Level	Status
<p>During our visit to the Ministry, we noted that all bids related to the Ministry have been announced only in one newspaper.</p> <p>Announcing public tenders in several newspapers assists the Ministry in meeting the objectives of public tendering and increases the chance of competition.</p>	During the year of 2007, we did not note contracts that were announced in one newspaper only.		

Ministry of Justice

8. Contracting Procedures


Observation				Treatment Method	Risk Level	Status
During our visit to the Ministry, we noted the following in respect of the contracting procedures:				We did not note contracts that are missing the required documents during 2007.		
Contract Amount IQD	Contract Subject	Contract Date	Supporting Documents			
187,517,000	To establish Juridical College Laboratories	9/26/2005	There is no clearance from the Tax Authority, the contracting person is not identified and there are no previous similar works			
73,917,000	To establish a parking lot	2/13/2006	There is no clearance from the Tax authority			
190,000,000	Repairing the Directorate of Real Estate Registration in Rossafi	12/5/2005	There is no clearance from the Tax Authority			

Ministry of Culture


Ministry of Culture			
1. Received Contracts' Letters of Guarantee			
Observation	Recommendation	Risk Level	Status
During our review of contract number (2005/4) related to the establishment of the Ministry inventories in Al-Karkh, we noted that the Ministry did not obtain performance bond for 5% of the total contract value. Moreover, the Ministry did not obtain letter of guarantee extension, in spite that the contract duration was extended to 2007.	We recommend complying with contracting procedures issued by the Supreme Contracting Committee by ensuring collection of the performance bond for 5% of the contract value either in the form of certified check or letter of guarantee. Moreover, we recommend to following up on the durations of the guarantees provided by the contractor for better safeguarding of public rights.		NEW


Ministry of Culture


2. Contracts Identification Numbers


Observation				Recommendation	Risk Level	Status
We noted that all contracts of the ministry are not given identification numbers. For example:				We recommend the ministry to develop a proper contract indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.		NEW
Contract	Contractor	Contract amount IQD	Paid amount IQD			
Rehabilitation of Othman Al-Obaidi Hall	Group of contractors	25,000,000	25,000,000			
Disposal of construction damages related to the Cinema theatre and the rehabilitation of Al Rasheed theatre	Ali Fadil Majeed	2,250,000	2,250,000			

Ministry of Culture									
3. Announcement of Tenders									
Observation	Recommendation	Risk Level	Status						
<p>During our review of contracts’ selected sample, we noted that a copy of tender advertisement that includes contracting terms and conditions is not available within the contract’s file, for example:</p> <table><tr><th>Contract Description</th><th>Contractor Name</th></tr><tr><td>Rehabilitation of Othman Al-Obaidi Hall</td><td>Group of contractors</td></tr><tr><td>Establishment of the Ministry inventories\ Al-Karkh</td><td>Al-Masar & Baghdad Gate for Constructions</td></tr></table>	Contract Description	Contractor Name	Rehabilitation of Othman Al-Obaidi Hall	Group of contractors	Establishment of the Ministry inventories\ Al-Karkh	Al-Masar & Baghdad Gate for Constructions	<p>We recommend that a copy of the tender advertisement should be kept within the contract’s file for better control procedures over contracting process.</p>	<div></div>	<div>NEW</div>
Contract Description	Contractor Name								
Rehabilitation of Othman Al-Obaidi Hall	Group of contractors								
Establishment of the Ministry inventories\ Al-Karkh	Al-Masar & Baghdad Gate for Constructions								

Ministry of Culture			
4. Contracting and Contracts' Supporting Documents			
Observation	Recommendation	Risk Level	Status
During our review we noted the lack of a centralized file for each contract to maintain a copy of all its related documents. Rather, documents are filed across the related departments.	We recommend that all documents related to each contract shall be centrally filed, to facilitate review and for better control procedures.		NEW

Ministry of Culture			
5. Divided Spending on the One Project			
Observation	Recommendation	Risk Level	Status
During the review noted that the Ministry had divided the disbursement on the project of the Rehabilitation of Othman Al-Obaidi Hall (Al-Rabat). Disbursement with an amount of IQD 25,000,000 was divided into four tranches to four contractors contradicting the instructions of the Supreme Contracting Committee which requires awarding of work to a single party without dividing job requirements. In addition, the ministry did not obtain three offers for this project.	We recommend complying with instructions of procurement issued by the Supreme Contracting Committee, which prevents dividing expenditures. Moreover, we recommend obtaining offers before contracting for better contracting procedures and safeguarding of the ministry's assets.		NEW


Ministry of Culture			
6. Reclassification Between Capital Budget and Operational Budget			
Observation	Recommendation	Risk Level	Status
During our visit to the Ministry, we noted that an amount of IQD 2,250,000 which represents transportation fees for the Ministry employees during the months of May, July, August and September 2007 had been disbursed from the Capital budget of the Ministry and charged to Disposal of construction damages related to the Cinema theatre project and the rehabilitation of Al Rasheed theatre.	We recommend complying with the budget instructions issued by the Ministry of Finance which prevents the reclassification of disbursement between Capital budget and Operational budget, unless obtaining the necessary approvals were obtained in order to maintain accuracy and control procedures over budget execution process.		NEW

Ministry of Culture			
7. Salaries and Wages			
Observation	Recommendation	Risk Level	Status
During our review of personnel files, we noted incompleteness in the identification documents required for the employment process within some personnel files such as a certificate of graduation, and resume. In addition, we noted the absence of salary scale through which the salaries of employees are determined.	<ul style="list-style-type: none"> We recommend developing of an appropriate archiving system for employee files in the Ministry to ensure that all documents are available for each employee in order to meet the needs of all division in the Ministry, especially the Finance Department which is responsible for preparing and payment of payroll. We also recommend developing a salary scale to meet the requirements of the Ministry and ensure appropriation between hierarchy and salaries at the Ministry. 		NEW


Ministry of Education

Ministry of Education

- Follow up with the Ministry of Education General Directorate


Observation				Recommendation	Risk Level	Status
During our visit, we noted that the ministry does not have any statements of accounts or information related to the amounts transferred from Ministry of Finance directly to the ministry's general directorates due to financial independency of these Directorates.				We recommend that monthly statements from the ministry's general directorates should be obtained. Additionally, monthly reconciliations between the amounts transferred from the Ministry of Finance directly to these Directorates should be performed.		NEW
Ministry of Finance Letter number	Date	Related Directorate	Amount Iraqi Dinar			
Al Karkh General Directorate	1,959,100,147	17-May-2007	4522			
Al Rassafah General Directorate	2,546,276,780	20-August-2007	9346			
Al Karkh General Directorate	1,959,100,147	17-May-2007	4522			
The independency of Directorates is aimed to facilitate the funding process; however, it does not eliminate the Ministry's essential role in controlling the related directorates' expenditures to ensure that all Directorates have complied with budget instructions issued by the Ministry of Finance.						


Ministry of Foreign Affairs


Ministry of Foreign Affairs			
1. Tender Opening Committees			
Observation	Recommendation	Risk Level	Status
We noted that one member of the Tender Opening Committee is not being periodically rotated as required by the budget execution instructions issued by Ministry of Finance that requires rotating members of the committees every six months. The current Tender Opening Committee was formed on 6 May 2007 and was still operative until the date of our visit in February 2008.	We recommend complying with the budget instructions issued by the Ministry of Finance as to the requirement of rotating committees' members every six months for better control procedure and adherence to budget instructions.		NEW

Ministry of Foreign Affairs


2. Contracts Identification Numbers

Observation				Recommendation	Risk Level	Status
During our visit, we noted that all contracts of the ministry are not given identification numbers. For example:				We recommend that a proper contracts indexing system to serially arrange all contracts shall be implemented to avoid duplication, and to facilitate follow-up and review processes for better control procedures and safeguarding public assets.		NEW
Contract Description	Contractor	Contract Amount U.S.\$	Paid amount U.S.\$			
Build consulate and the residence of the Iraqi consul in Dubai	Fahim Contracting Company	3,863,975	579,596			


Ministry of Foreign Affairs			
3. Approving of the payroll salaries			
Observation	Recommendation	Risk Level	Status
During our visit, we noted that payroll sheets are prepared by the payroll accountant and compared with budget by the internal audit department. Payroll sheets are not being approved by the director general of finance department.	We recommend segregating executive duties and control duties, since the internal audit department is considered a monitoring body and it is not appropriate for controlling body to approve the payroll sheets which is considered as executive duty. The finance department shall be considered as the department responsible for disbursements for better control procedures.		NEW

Ministry of Foreign Affairs			
4. Salaries Committees			
Observation	Recommendation	Risk Level	Status
We noted that members of the Committee responsible for receiving salaries from the Finance Department and not being periodically rotated as required by the budget execution instructions issued by ministry of finance which requires rotating members of the committees every six months.	We recommend complying with the budget instructions issued by the Ministry of Finance as to the requirement of rotating committees' members every six months for better control procedure and adherence to budget instructions.		NEW


Ministry of Human Rights


Ministry of Human Rights			
• Salaries			
Observation	Recommendation	Risk Level	Status
We noted inadequate segregation of duties in the payroll process. The employee responsible for keeping the payroll records and preparing the payroll sheets is also responsible for posting payroll sheets to the system and paying salaries to employees. We also noted that the sheets were approved by the internal audit department and not the Department Head.	We recommend segregating executive duties and control duties, since the internal audit department is considered a monitoring body and it is not appropriate for controlling body to approve the payroll sheets which is considered as executive duty. The finance department shall be considered as the department responsible for disbursements for better control procedures.		NEW


Ministry of Migration


Ministry of Migration			
• Contracting procedures			
Observation	Recommendation	Risk Level	Status
We noted cases of non-compliance with the contracting procedures since some of the contracts were awarded without obtaining competitive offers nor documenting proper justification for awarding. For example, contract No. 1601 for an amount of IQD 4,500,000,000 related to supplying shoes for the refugees.	We recommend complying with the approved procurement procedures required by the annual budget instructions issued by the Ministry of Finance.		NEW



Common Observations - Erbil



Common Observation Erbil			
1. Contract Supporting Documents			
Observation	Recommendation	Risk Level	Status
During our visit to Kurdistan Region\Erbil, we noted that the ministries do not keep copies of files of contracts for its related directorates, as the files on contracts are only kept at the related directorates.	We recommend that all documents related to each contract shall be centrally filed, to facilitate review and for better control procedures.		NEW

Common Observation Erbil			
2. Accounting and Management Information Systems			
Observation	Recommendation	Risk Level	Status
<p>During our review of Kurdistan Region /Erbil, we noted that the implemented accounting system takes the form of manual recording and reporting process. However, the ministries size and activities have expanded significantly over last few years.</p> <p>The current accounting systems, including management information system as well as internal control procedures, are no longer suitable for the current size, structure of the ministries, and do not adequately meet the requirements of the ministries.</p>	<p>We recommend all ministries in Kurdistan Region to undertake a review of the accounting processes and systems of internal control, both at the Accounting Department and the Administrative Departments, with a view to improve efficiency of operations and effectiveness of controls. This should include, as a minimum:</p> <ul style="list-style-type: none"> • Review of the Accounting Department's documentation and back up filing procedures. • Review of the operating departments' systems of internal control. • Establishment of a mechanism for follow up of budget preparation and compliance with such budget. 		OLD


Common Observation Erbil			
3. Operating Budget			
Observation	Recommendation	Risk Level	Status
We noted that the operating budget of Kurdistan region\ Erbil amounted to IQD 2.17 trillion, which represents 67% of the total budget granted to Kurdistan Region, which is considered very high.	We recommend that a comprehensive study of Erbil requirements of capital and operational expenditures shall be conducted based on continuous development and rehabilitation needs.		OLD



Common Observation Erbil			
4. Reconciliation for Suppliers and Contractors Accounts			
Observation	Recommendation	Risk Level	Status
During our review we noted that Ministries in Kurdistan Region do not perform reconciliation for suppliers and contractors accounts. Reconciliations for suppliers and contractors accounts are essential to avoid the risk of unrecorded liabilities or double recording of invoices and accordingly double payment of those invoices.	We recommend the finance department at all Ministries to obtain confirmations or statements of account from suppliers to perform reconciliations for suppliers and contractors accounts on a monthly basis. Such reconciliations shall be documented and confirmed with suppliers and contractors to confirm due balances.		OLD



Common Observation Erbil			
5. Expenses Paid Through Checks			
Observation	Treatment method	Risk Level	Status
<p>During our review of the Kurdistan Region\Erbil ministries payment process we noted that the accounting departments did not obtain neither a copy of the check nor payee identity card; instead, only the counterfoil was filed.</p> <p>Obtaining a copy of the check copy of the payee identity card and having the signature of the payee on the check copy serves as the most powerful evidence of receiving the check and accordingly avoiding possible risks of fraud, errors and litigations.</p>	A circular was issued during 2007 and the ministries had kept a copy of the check signed by the recipient.		



Common Observation Erbil			
6. Control and Administrative Procedures			
Observation	Treatment method	Risk Level	Status
<p>During our visit of Kurdistan Region/ Erbil we noted that there is no comprehensive control and administrative procedures manual over operations. Each ministry management instructions on such procedures are documented in the form of various internal memoranda.</p> <p>In the absence of a consolidated procedures manual the risk exists that:</p> <ul style="list-style-type: none"> Operational procedures and controls of segregation of duties, authorization and approval, recording, safeguarding and reconciliation are not being effectively recognized by employees. Accounting policies and accounting procedures are not properly followed. Compliance with regulatory rules are not being effectively communicated to employees 	<p>During the year of 2007, a written manual of internal control systems has been developed by the region in addition to the training workshops carried out for these systems.</p>		

Ministry of Finance – Erbil


Ministry of Finance - Erbil			
1. Budget Deviation Analysis			
Observation	Recommendation	Risk Level	Status
<p>We noted that the Ministries of Finance in Kurdistan Region/ Erbil does not prepare regular analysis reports for variances between actual and budgeted expenses.</p> <p>Also, we noted that a periodic reconciliation between the received funds and the underlying fund statement of account obtained from Ministry of Finance/ Erbil is not prepared.</p>	<p>We recommend all ministries to prepare monthly budget analysis reports to properly control and manage received fund and budget resources. Major variances should be properly justified, documented and approved by key personnel.</p> <p>We further recommend all ministries to prepare periodic reconciliations between the received funds and the Ministry of Finance statements of account.</p>		OLD


Ministry of Finance - Erbil			
2. Separate Bank Accounts for DFI Funds			
Observation	Treatment method	Risk Level	Status
We noted that the ministries of finance in Kurdistan Region/ Erbil do not maintain separate bank accounts for DFI funds. Consequently all received funds from Baghdad Ministry of Finance and any received local revenues were deposited in one bank account. Such practice may lead to difficulties in identifying the source of funds and preparing monthly reconciliations for the received funds from Baghdad Ministry of Finance and other funds received.	During 2007 a current bank accounts has been opened at the Central Bank of Iraq – Erbil for operational expenditures and another one for capital expenditures.		


Ministry of Finance - Erbil			
3. Word Document Payroll Sheets			
Observation	Treatment method	Risk Level	Status
<p>We noted that the payroll sheets at Erbil Ministry of Finance were prepared using word documents, as the Ministry of Finance has not yet implemented Human Resource software for payroll processing nor makes use of excel payroll sheets.</p> <p>Such practice increases the risk of misstatements in payroll preparation and the risk of fraud. In addition, using word documents for processing payroll sheets makes the process of review more difficult for personnel involved in the review process.</p>	During 2007 the Ministry has prepared the payroll sheets using Excel software.		

Ministry of Finance - Erbil			
4. Formal Reconciliation with Ministry of Finance			
Observation	Treatment method	Risk Level	Status
<p>We noted that the Ministry of Finance in Kurdistan Region/ Erbil does not prepare formal reconciliations with Baghdad Ministry of Finance. Currently, reconciliations take the form of listing total funds received from Baghdad Ministry of Finance on an excel sheet files without reconciling the recorded amounts with the records of Ministry of Finance in Kurdistan.</p> <p>Absence of such reconciliations may lead to misstatements and mismatching of funds received due to time differences in transferring and receiving funds between the Ministries of Finance in Baghdad and Kurdistan Region.</p> <p>In the absence of monthly reconciliations for funds received from Baghdad Ministry of Finance, errors may not be detected and corrected on a timely basis.</p>	<p>During 2007, formal reconciliations were prepared for transfers between Ministry of Finance Headquarters in Baghdad and Kurdistan Region, in addition, a confirmation from Ministry of Finance was received for the purpose of the reconciliation.</p>		


Ministry of Electricity - Erbil


Ministry of electricity-Erbil					
1. Contracts Awarding Authority					
Observation		Recommendation	Risk Level	Status	
During our visit to the Directorates in Kurdistan/Erbil, we noted that some contracts were awarded from Sulaimaniyah directorate and other contracts from Ministry's Headquarters in Erbil without indicating a clear authority matrix. Following are examples of contracts that have been awarded:		We recommend the ministry to define and document a clear authority matrix of each party in the contracting process for better control procedures.		NEW	
Directorate	Contract value (IQD)	Purpose of Contract			Awarding party
Power supply	4,665,302,400	Purchase of spare parts			Ministry of Electricity\Erbil
Electricity	4,799,025,000	Purchase of electric towers			Ministry of Electricity\Erbil

Ministry of electricity-Erbil			
2. Segregation of Duties between Members of Tender Opening and Analyzing committees			
Observation	Recommendation	Risk Level	Status
We noted that a member of Tender Opening Committee is also a member in the Tender Analyzing Committee.	We recommend that the ministry shall comply with budget instructions issued by the Ministry of Finance, which require the segregation of duties between members of Tender Opening and Analyzing committees for better control procedures over the contracting process.		NEW


Ministry of electricity-Erbil			
3. Contract for the installation of central power stations			
Observation	Recommendation	Risk Level	Status
<p>We noted during our review of contract No. 4 related to the installation of Central Power Stations for an amount of U.S. \$52,430,989 was awarded through direct invitation, and not by following the tendering procedures.</p> <p>This contradicts the instructions issued by the Supreme Contracting Committee, which requires awarding contracts through public tender and not by direct invitation.</p>	<p>We recommend proper compliance with instructions issued by the Supreme Contracting Committee and obtaining public tenders for all contracts for better control procedures and adherence to the instructions of the Supreme Contracting Committee.</p>		NEW


Ministry of Municipalities - Erbil


Ministry of Municipality-Erbil			
1. Soran Water Project Contract			
Observation	Recommendation	Risk Level	Status
<p>During our review of the Soran Water Project contract for an amount of U.S. \$19,138,825 we noted it was awarded through direct invitation, and not by following the tendering procedures.</p> <p>This contradicts the instructions issued by the Supreme Contracting Committee, which requires the awarding contracts through public tender and not by direct invitation.</p>	<p>We recommend proper compliance with instructions issued by the Supreme Contracting Committee and obtaining public tenders for all contracts for better control procedures and adherence to the instructions of the Supreme Contracting Committee.</p>		NEW

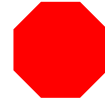
Ministry of Municipality-Erbil			
2. Receiving Payroll			
Observation	Recommendation	Risk Level	Status
During our review of salaries disbursement process, we noted that some employees delegate other colleagues to collect their salaries on their behalf, without any authorization or supporting documents available at the Ministry to ensure that the representatives are authorized to collect payments on behalf. We also noted in certain instances where the employees did not sign on the payroll sheet as an evidence of receipt, this was noted in the payroll sheet for the month of February, 2007.	<p>We recommend recipient to be formally authorized to receive the salary on behalf of the employee.</p> <p>We also recommend obtaining the signature of employee on the payroll sheet after receiving the cash, and we also recommend that the Ministry implements payment of salaries through direct bank transfer to the employees' accounts for better control procedures over payments.</p>		NEW

Ministry of Housing – Erbil

Ministry of Housing-Erbil				
1. Contract's identification numbers				
Observation			Recommendation	Risk Level
We noted that all contracts of the ministry are not given identification numbers, for example:			We recommend the ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.	
Contract	Contractor	Contract amount (IQD)		
Providing axial scales	Worfen Company for Construction & Transportation	136,080,000		
				NEW

Ministry of Housing-Erbil			
2. Contract Standard Form			
Observation	Recommendation	Risk Level	Status
<p>During our review of the Ministry's construction contracts, we noted no standard contract form issued for procurement. The Ministry prepared a contract form which does not include all legal terms and conditions included in the unified contract form used by other governmental entities. For example: contract to provide the Ministry with Axial Scales amounted to IQD 136,080,000.</p> <p>The absence of standard and authorized contract's form result in errors and irregularities in the terms used, conditions, and the rights of both the ministry and the contractor.</p>	We recommend using the unified procurement standard form for better control procedures and preserve the ministry's and contractor's rights.		NEW


Ministry of Housing-Erbil			
3. Salaries Receipts			
Observation	Recommendation	Risk Level	Status
We noted that some employees delegate other colleagues to collect their salaries on their behalf, without any authorization or supporting documents available at the Ministry to ensure that the representatives are authorized to collect payments on behalf. We also noted in certain instances where the employees did not sign on the payroll sheet as an evidence of receipt.	<p>We recommend recipient to be formally authorized to receive the salary on behalf of the employee.</p> <p>We also recommend obtaining the signature of employee on the payroll sheet after receiving the cash, and we also recommend that the Ministry implements payment of salaries through direct bank transfer to the employees' accounts for better control procedures over payments.</p>		NEW

Ministry of Housing-Erbil			
4. Documentation for Administration Approvals			
Observation	Recommendation	Risk Level	Status
During our review, we noted that some exceptions and administration approvals related to the projects are not documented. The Roads Directorate calculated a delay penalty for the maintenance contract of Zarkli Berezor Mezzeh Street based on 24 day of delay while the actual delay was 48 days. Verbal approvals have been obtained for this exception while no documentation has been performed.	We recommend documenting all administrative approvals on exceptions by the appropriate authorized managerial level for better control procedures.		NEW

Common Observation -Sulaimaniyah


Common Observation Sulaimaniyah

1. Delegation and Authority Manual

Observation	Recommendation	Risk Level	Status
The ministries and directorates do not have an authorized signatory matrix, signature format and a formal authority matrix to specify the role of each of the ministries' authorized employees and their approved limits to authorize and execute banking transactions and payments from the ministries banks accounts and the authority limits of each function at the ministries.	<p>We recommend developing an authorization matrix to govern all their transactions to ensure that adequate and appropriate controls have been put in place.</p> <p>The authorization matrix should specify the authorized positions, authorized activities and the authorization limit for each type of ministries activities and transactions, including cash transfers and payments.</p> <p>The types of authorities are as follows:</p> <ul style="list-style-type: none"> • Initiate • Review • Approve <p>The authorization matrix of the Ministries and Directorates should be reviewed and approved by the appropriate level of the Government of Iraq.</p>		OLD


Common Observation Sulaimaniyah


2. Authorized Signatory Matrix


Observation	Recommendation	Risk Level	Status
During our visits, we noted that the Directorates do not have an authorized check's signatory matrix, since several managers in certain Directorates, have the authority of signing checks with no limits or ceiling for the check amount taking into consideration the frequent rotation of managers between departments.	<p>We recommend each Directorate to set a signature matrix to determine ceiling and limits for authorized personnel in each Directorate to authorize checks.</p> <p>In addition, the matrix should specify the additional higher levels required to approve and authorize checks above certain amounts as determined by each Directorate taking into consideration the amount and volume of payment transactions.</p> <p>In all cases, at least dual signatories should be required for each check.</p>		OLD

Common Observation Sulaimaniyah

3. Segregation of Duties over Payroll Process


Observation	Recommendation	Risk Level	Status
During our review of the Directorates payroll process, we noted that there was inadequate segregation of duties in the payroll process. The employee responsible for maintaining the payroll and preparing the payroll sheets is also responsible for uploading payroll sheet to the system. The accounting records are therefore more vulnerable to errors and fraud as to the inadequate segregation of duties.	<p>We recommend that segregation of duties should be introduced, as follows:</p> <ul style="list-style-type: none"> • Payroll statements should be prepared by an accountant, reviewed by another independent accountant, reviewed and authorized by the Finance Manager. • The employee responsible for preparing the payroll statement should be independent of the employee responsible for uploading the statements to the payroll system. • Reconciliation between the payroll records and the accounting records should be prepared on a monthly basis. 		OLD


Common Observation Sulaimaniyah			
4. Cash Payment of Salaries			
Observation	Recommendation	Risk Level	Status
During our review of the Directorates payroll process, we noted that most Directorates pay salaries in cash. Cash payment of salaries directly or through the salaries disbursements committee increase the risk of loss while processing salaries disbursements.	We recommend the Directorates to pay salaries through bank transfers to each employee's personal bank account, in order to avoid risks associated with the cash payment process.		OLD


Common Observation Sulaimaniyah			
5. Supporting Documents Attached to Payment Vouchers			
Observation	Recommendation	Risk Level	Status
During our visit of the Directorates, we noted that the supporting documents attached to the payment vouchers were not cancelled with a 'PAID' stamp or otherwise defaced after the payment has been made, which increases the risk of duplicate payments of the same invoice.	All payment vouchers and their supporting documents should be stamped as "PAID" immediately after payment to prevent duplicate payments being made for the same invoice.		OLD


Common Observation Sulaimaniyah


6. Contract Standard Form

Observation	Recommendation	Risk Level	Status
During our visits of the Directorates, we noted that there is no standard contract form for procurement of goods and services. Each Ministry prepares the terms and provisions of procurements and service contracts internally including financial and legal terms and conditions.	We recommend that the ministries review the existing standard Contracts Form in consultation with independent legal and financial experts. In addition, there should be a standard form of contract used in each Ministry to cover the general terms.		OLD

Common Observation Sulaimaniyah			
7. Control and Administrative Procedures			
Observation	Recommendation	Risk Level	Status
<p>During our visit of Kurdistan Region/ Sulaimaniyah, we noted that there is no comprehensive control and administrative procedures manual over operations. For each Ministry management instructions on such procedures are documented in the form of various internal memorandums.</p> <p>In the absence of a consolidated procedures manual, the risk exists that:</p> <ul style="list-style-type: none"> • Operational procedures and controls over segregation of duties, authorizations and approvals, recording, safeguarding and reconciliation are not being effectively recognized by employees. • Accounting policies and accounting procedures are not properly followed. • Compliance with regulatory rules is not being effectively communicated to employees. 	<p>We recommend the Ministries in Kurdistan Region to prepare and maintain written standard internal controls policies and procedures covering all the ministries financial and operating activities.</p> <p>In addition, detailed monitoring procedures should be carried out by management to ensure effective and consistent implementation of the control and administrative procedures manual.</p>		OLD


Common Observation Sulaimaniyah			
8. Accounting and Management Information Systems			
Observation	Recommendation	Risk Level	Status
During our review of Kurdistan Region/Sulaimaniyah, we noted that the implemented accounting system takes the form of manual recording and reporting process. However, the ministries size and activities have expanded significantly over last few years. The current accounting systems, including management information system as well as internal control procedures, are no longer suitable for the current size, structure of the ministries.	<p>We recommend all ministries in Kurdistan Region to undertake a review of the accounting processes and systems of internal control, both at the Accounting Department and the Administrative Departments, 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"> • Review of the Accounting Department's documentation and back up filing procedures. • Review of the operating departments' systems of internal control. • Establishment of a mechanism for follows up of budget preparation and compliance with such budget 		OLD


Common Observation Sulaimaniyah			
9. Expenses Paid Through Checks			
Observation	Recommendation	Risk Level	Status
<p>During our review of the Sulaimaniyah Ministries' payment process, we noted that copies of the issued checks are not maintained by the accounting department, nor a copy of the receiving payee identity document (ID) attached.</p> <p>Obtaining a copy of the check, copy of the payee ID and having the signature of the receiving payee on the copy of the check serves as the most powerful evidence of receiving the check and accordingly avoiding possible risks of fraud, errors and litigations.</p>	<p>We recommend the accounting department at each ministry to obtain a copy of the check for each payment transaction processed through check s, a copy of the payee ID, and the signature of the receiver on the check copy. These documents should be filed and documented using a special code, or by means of a filing system within the accounting department, which ensures rapid recovery of the required data when required. We also recommend stamping all check s by “first beneficiary only” for better control procedures.</p>		OLD

Common Observation Sulaimaniyah			
10. Accounting and Management Information Systems			
Observation	Recommendation	Risk Level	Status
The operating budget during year 2007 and related to Kurdistan/Sulaimaniyah amounted to IQD 1,847,523,781,100 which represents 68% of the total budget allocated to Kurdistan/Sulaimaniyah, which is considered very high.	We recommend that a comprehensive study of Sulaimaniyah requirements of capital and operational expenditures shall be conducted based on continuous development and rehabilitation needs.		OLD


Common Observation Sulaimaniyah


11. Reconciliation for Suppliers and Contractors Accounts


Observation	Recommendation	Risk Level	Status
<p>During our visit, we noted that the Directorates of Kurdistan/ Sulaimaniyah Region do not perform reconciliations for suppliers and contractors accounts.</p> <p>Reconciliations of suppliers and contractors accounts are essential to avoid the risk of unrecorded liabilities or double recording of invoices and accordingly double payment of those invoices.</p>	<p>We recommend the Finance Department at all Ministries and Directorates to obtain confirmations or statements of account from the suppliers and contractors and to perform reconciliations on a monthly basis. Such reconciliations should be documented and confirmed with suppliers and contractors to confirm due balances.</p>		OLD

Common Observation Sulaimaniyah			
12. Pre-Printed Payment Vouchers			
Observation	Recommendation	Risk Level	Status
<p>During our visit of Kurdistan/ Sulaimaniyah Directorates, we noted that payment vouchers are not serially pre-numbered. The used form is photocopied and then manually prepared by the accountant for each payment transaction.</p> <p>Payment vouchers should be pre-numbered, pre-printed and in multiple copies. The copy of payment voucher should be attached to the journal voucher and the second copy to be kept in the book of payment vouchers.</p>	<p>We recommend that the Finance Department use pre-numbered, pre-printed and a multiple copy payment voucher to properly control the disbursement process, and ensure completeness of recording of all disbursements and minimize the risk of intentional and unintentional errors.</p>		OLD

Ministry of Finance - Sulaimaniyah


Ministry of Finance- Sulaimaniyah			
1. Financing operations through US Dollars			
Observation	Recommendation	Risk Level	Status
<p>During our visit, we noted that the Ministry of Finance\Sulaimaniyah is funding some of its related directorates in US Dollars for the purpose of settling contractual commitments. The funding is done through the purchase of dollar from the local exchange market.</p> <p>Purchasing currency at the local market exchange rate which is usually higher than auction rate at the Central bank of Iraq/Baghdad is resulting in preventable currency losses.</p>	We recommend buying the currency from the Central Bank of Iraq at official price to avoid losses from currency exchange.		NEW


Ministry of Finance- Sulaimaniyah			
2. Investment budget allocations			
Observation	Recommendation	Risk Level	Status
During our visit, we noted that the Ministry of Finance\Sulaimaniyah transferred an amount of IQD 170,230,741,192 on December 31, 2007 out of 2007 capital budget to the implementing commission of private services at Sulaimaniyah governorate and in accordance with the direction of the Supreme Council of Ministers of Kurdistan Region. The beneficiary committee started its operation during 2008.	We recommend the ministry to comply with the approved capital budget items in its related fiscal year.		NEW

Ministry of Finance- Sulaimaniyah			
3. No Separate Bank Accounts for DFI Funds			
Observation	Recommendation	Risk Level	Status
During our visits, we noted that the Ministry of Finance\Sulaimaniyah does not maintain separate bank accounts for DFI funds. All funds received from Erbil Ministry of Finance and any local revenues are deposited in one bank account, such practice may result in difficulties in identifying the source of funds and preparing monthly reconciliations for both the total funds received from Erbil Ministry of Finance and other sources of revenue.	We recommend maintaining separate bank account for the DFI fund deposits from Erbil Ministry of Finance to facilitate the control process over those deposits and to reconcile with the records of Erbil Ministry of Finance.		OLD

Ministry of Finance- Sulaimaniyah


4. Budget Variance Analysis

Observation	Recommendation	Risk Level	Status
<p>During our visit, we noted that the Ministry of Finance\Sulaimaniyah does not prepare regular analysis reports for variances between actual and budgeted expenses.</p> <p>Also, we noted that the related directorates do not prepare periodic reconciliations between the received funds and the underlying fund statement of account obtained from Ministry of Finance\ Sulaimaniyah.</p>	<p>We recommend all ministries and directorates in the region to prepare monthly budget analysis reports to properly control and manage received fund and budget resources. Major variances should be properly justified, documented and approved by key personnel.</p> <p>We further recommend all ministries and directorates to prepare periodic reconciliations between the received funds and the Ministry of Finance\Sulaimaniyah statements of account for better control procedures.</p>		OLD


Ministry of Finance- Sulaimaniyah			
5. Formal Reconciliation with Ministry of Finance			
Observation	Recommendation	Risk Level	Status
<p>During our review we noted that the Ministry of Finance\ Sulaimaniyah does not prepare formal reconciliations with Erbil Ministry of Finance. Currently, reconciliations take the form of listing total funds received from Erbil Ministry of Finance on an excel sheet files without reconciling the recorded amounts with the records of ministry of finance in Kurdistan.</p> <p>Absence of such reconciliations may result in misstatements and mismatching of funds received due to time differences in transferring and receiving funds between the ministries of finance in Erbil and Sulaimaniyah.</p> <p>In the absence of monthly reconciliations for funds received from Erbil Ministry of Finance, errors may not be detected and corrected on a timely basis.</p>	<p>We recommend that the Ministry of Finance prepares monthly reconciliations for funds received between:</p> <ul style="list-style-type: none"> • The Ministry of Finance and the receiving Ministries and directorates in Sulaimaniyah. • Both Ministries of Finance in Sulaimaniyah and Erbil. <p>These reconciliations should be independently reviewed and examined by senior levels in the Ministry for additional control procedures.</p>		OLD

Ministry of Finance- Sulaimaniyah

6. Bank Overdrawn Account


Observation	Recommendation	Risk Level	Status																
<p>During our visit to Ministry of Finance\ Sulaimaniyah, we noted that the Ministries’ bank account was overdrawn in the following months:</p> <table><tr><th>Month</th><th>Overdrawn Amount (IQD)</th></tr><tr><td>February</td><td>41.206.929.941</td></tr><tr><td>March</td><td>98.029.033.891</td></tr><tr><td>July</td><td>3.333.663.991</td></tr><tr><td>August</td><td>11.407.623.339</td></tr><tr><td>September</td><td>66.186.144.847</td></tr><tr><td>November</td><td>54.270.817.648</td></tr><tr><td>December</td><td>10.006.624.770</td></tr></table> <p>Ministry should allocate and use budgeted resources in accordance with the annual budget; any increase in actual expenses in comparison with the budget will result in deficit and will be on the account of the next year’s allocated resources. The Ministry of Finance explained that the increase in actual expenses over the budgeted expenses was mainly due to the fact that budget allocations were transferred after the related month allocations, for example:</p> <ul style="list-style-type: none">• Transfer order from the ministry of finance in Erbil of IQD 30,000,000,000 to Sulaimaniyah Ministry of Finance dated January, 24 2008 for financing investment expenses for the for the year of 2007.• Transfer order from the ministry of finance in Erbil of 43,122,470,000 IQD to Sulaimaniyah Ministry of Finance dated 19 February 2008 for financing part of the operating expenses for the month of December 2007.	Month	Overdrawn Amount (IQD)	February	41.206.929.941	March	98.029.033.891	July	3.333.663.991	August	11.407.623.339	September	66.186.144.847	November	54.270.817.648	December	10.006.624.770	<p>We recommend that any excess over budget should be approved by the Minister and the reasons for excess should be properly documented and explained. In addition, budget allocations should be transferred evenly through out the year and specially for financing the operating expenses in order to ensure the continuous implementation of the budget by the ministry within the limits and rules.</p>		OLD
Month	Overdrawn Amount (IQD)																		
February	41.206.929.941																		
March	98.029.033.891																		
July	3.333.663.991																		
August	11.407.623.339																		
September	66.186.144.847																		
November	54.270.817.648																		
December	10.006.624.770																		


Ministry of Electricity- Sulaimaniyah

Ministry of Electricity- Sulaimaniyah																
1. Contracts Awarding Authority																
Observation		Recommendation	Risk Level	Status												
<p>During our visit to the Directorates in Kurdistan / Sulaimaniyah, we noted that some contracts were awarded from Sulaimaniyah directorate and other contracts from Ministry's Headquarters in Erbil without indicating a clear authority matrix.</p> <p>Following are examples of contracts that have been awarded:</p> <table><tr><th>Directorate</th><th>Contract value (IQD)</th><th>Purpose of Contract</th><th>Awarding party</th></tr><tr><td>Central Workshop</td><td>2,078,609,500</td><td>Purchase of cables</td><td>Sulaimaniyah governorate</td></tr><tr><td>Roads</td><td>3,107,750,000</td><td>Pavement of roads in Halbaja District</td><td>Sulaimaniyah governorate</td></tr></table>		Directorate	Contract value (IQD)	Purpose of Contract	Awarding party	Central Workshop	2,078,609,500	Purchase of cables	Sulaimaniyah governorate	Roads	3,107,750,000	Pavement of roads in Halbaja District	Sulaimaniyah governorate	<p>We recommend the ministry to define and document a clear authority matrix of each party in the contracting process for better control procedures.</p>		NEW
Directorate	Contract value (IQD)	Purpose of Contract	Awarding party													
Central Workshop	2,078,609,500	Purchase of cables	Sulaimaniyah governorate													
Roads	3,107,750,000	Pavement of roads in Halbaja District	Sulaimaniyah governorate													

Ministry of Electricity- Sulaimaniyah


2. Tender Opening Committees and Analyzing Committees


Observation				Recommendation	Risk Level	Status
We noted that the members of the Tender Opening and Analyzing Committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committee members every six months. Also the committee minutes are not signed by all members, for example:				We recommend complying with the budget instructions issued by the MOF which require rotating the Committee members every six months, and signing all committees' minutes by all members for better control procedures.		NEW
Directorate	Contract value (IQD)	Purpose of Contract	Committee Minutes Not signed			
Roads	1,533,249,900	Construction of Security Building	Tender opening			
Electricity	405,133,000	Construction of Electricity Directorate at Darbandkhan	Tender opening and analyzing			
Roads	3,107,750,000	Pavement of roads in Halbaja District	Tender opening and analyzing			

Ministry of Electricity- Sulaimaniyah			
3. Performance Bond			
Observation	Recommendation	Risk Level	Status
During our visit to the general directorate of electricity, and during our audit of the contract related to the directorate of electrical power transfer (Electricity Power Transmissions Erection Project for an amount U.S. \$49,303,276 dollars), we noted that the submitted performance bond was less than 5%.	We recommend complying with the local procurement instructions and to ensure obtaining the performance bond amount of 5% of the contract value, either in the form of bank guarantee or certified check for better control procedures and to preserve the rights of the Directorate.		NEW

Ministry of Electricity- Sulaimaniyah

4. Awarding contracts to local companies


Observation			Recommendation	Risk Level	Status												
<p>During our visit to the Directorates, we noted that a number of import contracts were awarded to unspecialized local companies, which processed the outdoor construction of the General Directorate of Electricity, of the for example:</p> <table><tr><th>Directorate</th><th>Contract amount</th><th>Contract Details</th></tr><tr><td>Electricity</td><td>IQD 4,799,025,000</td><td>Purchase of electric towers</td></tr><tr><td>Power supply</td><td>U.S.\$ 49,303,276</td><td>Erection of transmitter stations</td></tr><tr><td>Central Workshop</td><td>IQD 2,078,609,500</td><td>Purchase reserve materials</td></tr></table>			Directorate	Contract amount	Contract Details	Electricity	IQD 4,799,025,000	Purchase of electric towers	Power supply	U.S.\$ 49,303,276	Erection of transmitter stations	Central Workshop	IQD 2,078,609,500	Purchase reserve materials	We recommend that contracts resources shall be evaluated prior to contracting. We also recommend contracting with the direct suppliers directly rather than through intermediaries for better control procedures.		NEW
			Directorate	Contract amount	Contract Details												
			Electricity	IQD 4,799,025,000	Purchase of electric towers												
			Power supply	U.S.\$ 49,303,276	Erection of transmitter stations												
			Central Workshop	IQD 2,078,609,500	Purchase reserve materials												


Ministry of Electricity- Sulaimaniyah			
5. Compliance with Authorization limits			
Observation	Recommendation	Risk Level	Status
During the visit to the General Directorate of Electricity/Sulaimaniyah we noted that the Ministry Headquarters\Erbil awarded the electricity towers supplying contract amounted to IQD 4,799,025,000 to a local company. Considering that the amount of the contract falls within the Council of Ministers\Kurdistan Region authority.	We recommend the Ministry to comply with the approved authority limits of the Directorate and to obtain the necessary approvals and documentation when exceeding these limits in order to maintain additional control and to implement budget instructions.		NEW

Ministry of Transportation – Sulaimaniyah

Ministry of Transportation- Sulaimaniyah


1. Tenders Opening and Analyzing Committees

Observation				Recommendation	Risk Level	Status												
<p>We noted that the members of the Tender Opening and Analyzing Committees not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committee members every six months. Also the committee minutes are not signed by all members, for example:</p> <table><tr><th>Directorate</th><th>Contract Value</th><th>Contracting Purpose</th><th>Committee Minutes Not Signed</th></tr><tr><td>General Directorate of Roads</td><td>1,533,249,900</td><td>Construction of security location</td><td>Tender Opening</td></tr><tr><td>General Directorate of Roads</td><td>3,107,750,000</td><td>Paving of countryside of Halabja's streets</td><td>Tender Opening and Analyzing</td></tr></table>				Directorate	Contract Value	Contracting Purpose	Committee Minutes Not Signed	General Directorate of Roads	1,533,249,900	Construction of security location	Tender Opening	General Directorate of Roads	3,107,750,000	Paving of countryside of Halabja's streets	Tender Opening and Analyzing	We recommend complying with the budget instructions issued by the MOF which require rotating the Committee members every six months, and signing all committees' minutes by all members for better control procedures.		NEW
				Directorate	Contract Value	Contracting Purpose	Committee Minutes Not Signed											
				General Directorate of Roads	1,533,249,900	Construction of security location	Tender Opening											
				General Directorate of Roads	3,107,750,000	Paving of countryside of Halabja's streets	Tender Opening and Analyzing											

Ministry of Transportation- Sulaimaniyah			
2. Contracts Identification Numbers			
Observation	Recommendation	Risk Level	Status
During our visit, we noted that all contracts of the ministry are not given identification numbers.	We recommend the ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.		NEW


Ministry of Transportation- Sulaimaniyah

3. Suspended Projects


Observation	Recommendation	Risk Level	Status
During our visit to the Roads Directorate/Sulaimaniyah we noted that the contract related to the construction of a bridge for an amount of IQD 208,600,000 which was performed by a local company is suspended due to problems in the execution process. No decision was taken about this contract up to our review date in March 2008.	We recommend that the necessary decisions regarding this contract should be taken in order to solve the execution problems.		NEW


Ministry of Transportation- Sulaimaniyah

4. Tender Procedures

Observation	Recommendation	Risk Level	Status						
<p>We noted that in some cases no public tender procedures were used for contracting with construction contractors. Instead, direct awarding was used to execute contract with contractors. The following are examples of contracts executed through direct awarding:</p> <table><tr><th>Contract</th><th>Amount (IQD)</th></tr><tr><td>Paving Taslouja-Dukan Street (First Stage)</td><td>42,247,500,000</td></tr><tr><td>Paving Taslouja-Dukan Street (Second Stage)</td><td>18,487,920</td></tr></table>	Contract	Amount (IQD)	Paving Taslouja-Dukan Street (First Stage)	42,247,500,000	Paving Taslouja-Dukan Street (Second Stage)	18,487,920	We recommend the ministry to obtain public tenders instead of direct awarding to increase the chance of obtaining more competitive bids with high quality construction specifications for additional accuracy and control procedures.		OLD
Contract	Amount (IQD)								
Paving Taslouja-Dukan Street (First Stage)	42,247,500,000								
Paving Taslouja-Dukan Street (Second Stage)	18,487,920								


Ministry of Higher Education – Sulaimaniyah University

Ministry of Higher Education-Sulaimaniyah University			
1. Tenders Opening and Analyzing Committees			
Observation	Recommendation	Risk Level	Status
During our visit to Sulaimaniyah University, we noted that the members of the Tender Opening and Analyzing Committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committee members every six months.	We recommend complying with the budget instructions issued by the MOF which require rotating the Committee members every six months for better control procedures and adherence to budget instructions.		NEW

Ministry of Higher Education-Sulaimaniyah University			
2. Contracts Identification Numbers			
Observation	Recommendation	Risk Level	Status
We noted that all contracts of the ministry are not given identification numbers.	We recommend the ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.		NEW


Ministry of Higher Education-Sulaimaniyah University

3. Performance Bond


Observation	Recommendation	Risk Level	Status
During our visit to Sulaimaniyah University, we noted that the university contracted with a Turkish company and local company for designing and constructing a new university campus for an amount of U.S. \$ 258,946,526. The contract terms did not include the performance bond of 5% of contract value clause, while the terms provided the payment of one million dollars annually and considering the amount as performance bond, however this term was only utilized during the first contractual year.	We recommend that application of contracts' terms should be followed up in addition to periodic evaluation of the contractor's compliance with the contractual terms. We also recommend compliance with Supreme Contracting Committee for better control procedures and safeguarding of university's rights.		NEW


Ministry of Higher Education-Sulaimaniyah University

4. Tender Procedures

Observation	Recommendation	Risk Level	Status						
<p>We noted that in some cases no public tender procedures were used for contracting with construction contractors. Instead, direct awarding was used to execute contract with contractors. The following are examples of contracts executed through direct awarding:</p> <table><tr><th>Contract</th><th>Amount USD</th></tr><tr><td>Construction of Sulaimaniyah University</td><td>258,946,526</td></tr><tr><td>Construction buildings for Penology & Science University</td><td>383,050,500</td></tr></table>	Contract	Amount USD	Construction of Sulaimaniyah University	258,946,526	Construction buildings for Penology & Science University	383,050,500	<p>We recommend the ministry to obtain public tenders instead of direct awarding to increase the chance of obtaining more competitive bids with high quality construction specifications for additional accuracy and control procedures.</p>		OLD
Contract	Amount USD								
Construction of Sulaimaniyah University	258,946,526								
Construction buildings for Penology & Science University	383,050,500								



General Directorate of Municipalities - Sulaimaniyah

General Directorate of Municipalities - Sulaimaniyah			
1. Contracts Identification Numbers			
Observation	Recommendation	Risk Level	Status
We noted that all contracts of the ministry are not given identification numbers.	We recommend the ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.		NEW

General Directorate of Municipalities - Sulaimaniyah			
2. Tender Announcements			
Observation	Recommendation	Risk Level	Status
<p>During our visit to the General Directorate of Municipalities/ Sulaimaniyah, we noted that the contract related to building a wall at Castle Dizah for an amount of IQD 388,512,000 was announced at the Directorate headquarters only.</p> <p>The announcement of the public tenders in several newspapers helps the Directorate to achieve the objectives of public tenders by increasing the publicity of the tender and increasing the chance of obtaining more competitive bids.</p>	<p>We recommend the Directorate to announce the public tenders at least in three newspapers, as required by contracting instructions and for better control procedures over contracting process.</p>		<p>NEW</p>


General Directorate of Municipalities - Sulaimaniyah

3. Readily Available Data for Expenses by Project

Observation	Treatment method	Risk Level	Status
<p>During our review, we noted that the Municipalities Directorate and the Municipality Governorate in Sulaimaniyah do not maintain nor have readily available data for the breakdown of expenditure by each project which can be agreed to the total financing amount provided by the Ministry of Finance. We had access to the Ministry's bank account general ledger and we reviewed excel sheet files prepared by the Ministry's personnel, but we could not obtain readily available breakdown of total financing provided for each project.</p> <p>To improve the internal control over projects, breakdown of expenditure by project should agree with total financing provided by the Ministry of Finance.</p> <p>In addition, the absence of such breakdowns in regular monthly reports makes it difficult for management to control spending by project, compare spending to budget by project, and identify current financial position and remaining resources required for the remaining duration of the project.</p>	<p>During 2007, the Municipalities Directorate/ Sulaimaniyah developed a database that includes all required details which the general director is provided with a monthly report that shows all of these details.</p>		


General Directorate of Municipalities - Sulaimaniyah

4. Sub-Ledger Accounts

Observation	Recommendation	Risk Level	Status
We noted that Municipalities Directorate in Sulaimaniyah does not maintain sub-ledger accounts for each project in progress. Instead, accounting records related to the bank account general ledger take the form of daily journals, which include the classification of expenditure in accordance with the budget classifications. Such practice reduces control over disbursements, project cost, remaining estimated cost and management awareness of completed and in progress projects.	We recommend maintaining accounting records include sub-ledger accounts of each project so that the Directorate can control the cost of each project alone. The sub-ledger should link to general ledger through proof the monthly balance for each project for better control procedures over projects in progress.		OLD


General Directorate of Municipalities - Sulaimaniyah

5. Bank Reconciliations

Observation	Recommendation	Risk Level	Status
We noted that the bank reconciliation as at 31 December 2007 were not performed properly at the Municipalities Directorate in Sulaimaniyah, the bank reconciliations included arithmetical errors. In addition, we noted that reconciling items were not properly controlled and followed up; also we noted that the Finance Department does not prepare a detailed list of outstanding check s not withdrawn from the Ministry bank account.	We recommend preparing bank reconciliations properly, which should be followed up and monitored by an appropriate level in the Ministry. In addition, all reconciling items should be properly controlled. Also we recommend following up and update the information of detailed list for all reconciling items to properly reconcile and monitor bank accounts.		OLD

General Directorate of Municipalities - Sulaimaniyah

6. Tender Announcements

Observation	Recommendation	Risk Level	Status
<p>During our visit, we noted that public tenders at the Municipalities Directorate in Sulaimaniyah are announced in one local newspaper only, and are not announced in several local news papers; in addition, tenders directed to foreign companies are not announced in international newspapers or through internet, as the only media channel used is through the one local newspaper.</p> <p>Announcing public tenders in several newspapers, international newspapers and using the internet assists management in meeting the objectives of public tenders by increasing the publicity of the tender and increasing the chance of obtaining more competitive bids.</p>	<p>We recommend that public tenders should be published and announced in several local and international newspapers and as appropriate. Public tenders should also be announced in the Government web site and other related market and product websites to increase the chance of obtaining more competitive bids.</p>		OLD

General Directorate of Municipalities - Sulaimaniyah

7. Orders to Form Committees

Observation	Treatment method	Risk Level	Status
During our visit to the Municipalities Directorate in Sulaimaniyah, we noted that the orders of forming the committees for Tender Opening and Analyzing were not available at the Finance Department. Committee formation letters are an essential part of the required documentation of the tender procedures which should be properly filed in the accounting department.	During 2007 a copy of Committee formation letters of Tender Opening and Analyzing are maintained in the tender file.	