

# Development Fund for Iraq

## Audit Results

### 1 January 2006 to 31 December 2006



IAMB Meeting 2 June 2007

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# 2006 Audit Scope of Work



# Work Locations

- Central Bank of Iraq (CBI)
- Ministry of Finance (MOF)
- Trade Bank of Iraq (TBI)
- U. S. Agencies
- State Oil Marketing Organization (SOMO)
- 23 Iraqi Ministries
- Kurdistan Region/Sulaimaniyah and Erbil

# 2006 Audit Deliverables



# Audit DFI Financial Statements

## E&Y Final Audit Work

- ✓ Testing cash receipts from oil export sales.
- ✓ Testing cash receipts from other sources.
- ✓ Testing cash disbursements from DFI.
- ✓ Review the reconciliation between the DFI accounts and other parties; FRBNY, PCO, SOMO and MOF.
- ✓ Testing the cash balances at the FRBNY at beginning and end of the period.
- ✓ Receiving third party confirmations.

# DFI Statement of Cash Receipts and Payments

	<b>1 January to 31 December 2006</b>	<b>1 January to 31 December 2005</b>
	<i>U.S. \$ 000'</i>	<i>U.S. \$ 000'</i>
<b>Cash Receipts</b>		
Export sales of petroleum	28,311,557 <i>543,141,815 Barrel</i>	21,913,970 <i>509,588,308 Barrel</i>
UN Oil for Food program	185,000	812,321
Proceeds from frozen assets	19,748	405,518
Interest received	456,705	197,874
Other receipts	586,112	485,246
<b>Total Cash Receipts</b>	<b>29,559,122</b>	<b>23,814,929</b>

## **DFI Statement of Cash Receipts and Payments – Cont.**

	<b>1 January to 31 December 2006</b>	<b>1 January to 31 December 2005</b>
<b>Cash Payments</b>	<b>U.S. \$ 000'</b>	<b>U.S. \$ 000'</b>
Transfers to the Ministry of Finance	<b>18,000,000</b>	14,751,258
LCs for the benefit of Iraqi ministries	<b>8,338,661</b>	6,926,348
Contracts administered by U.S. Agencies	<b>251,120</b>	419,049
Iraqi external debt repayments	<b>538,968</b>	159,677
Other payments	<b>103,583</b>	198,428
<b>Total Cash Payments</b>	<b>27,232,332</b>	22,454,760
<b>Excess of cash receipts over payments</b>	<b>2,326,790</b>	1,360,169
Purchased Treasury bills during the year	<b>(9,910,324)</b>	(2,312,156)
Proceed from matured Treasury bills	<b>6,289,,308</b>	344,165
Cash and cash equivalent, beginning of the year	<b>4,314,696</b>	4,922,518
<b>Cash and cash equivalent, end of the year</b>	<b>3,020,470</b>	4,314,696
Treasury bills, end of the year	<b>5,589,007</b>	1,967,991
<b>Cash and cash equivalent and Treasury bills, end of the year</b>	<b>8,609,477</b>	6,282,687



# Outstanding Information Required to Issue the Final Audit Report

- Signed letter of representation.
- Approval of the DFI financial statement by H.E. Minister of Finance.
- Receiving a confirmation from the MOF internal legal advisor.

# Key Issues

# Qualifications

- The DFI accounting records are maintained by the MOF as part of its records; no separate records for the DFI.
- The MOF records does not include complete set of accounting records to support the DFI's financial statement figures and the related notes disclosures.
- The DFI's statement of cash receipts and payments was compiled from:
  - Monthly statements of the DFI's main account prepared by the CBI,
  - DFI's sub-account maintained by the US Agencies and the CBI,
  - FRBNY statements,
  - MOF manual records and Access Data Base.

## Key Issues – Cont.

## Qualifications

- Weak internal controls over the completeness of the export sales of petroleum and petroleum products.
- Cash received from export sales of petroleum products of U.S. \$ 638 million have been deposited in SOMO bank accounts instead of the OPRA as required by UNSCR 1483.
- The U.S. Agencies list of contractual commitments amounted to U.S. \$ 103 million as of 31 December 2006 is incomplete.

## Key Issues – Cont.

## Qualifications

- The MOF paid U.S. \$ 363 million from the DFI accounts for LCs of certain self financing Iraqi ministries that are not covered by the DFI.
- On the other hand, the MOF received advances of U.S. \$ 535 million from the ministries to cover their LCs. This amount has not been deposited in the DFI accounts; it was deposited in the MOF account at the CBI.
- As a result, the DFI cash payments balance during the year is overstated by U.S. \$ 363 million.

## Key Issues – Cont.

- The MOF does not maintain separate bank account for the DFI at the CBI.
- All cash transfers during the year from DFI account at FRBNY to the MOF account at the CBI of U.S. \$ 18 billion were recorded directly as cash payments in the DFI financial statement; *before transferring the cash to the intended Iraqi ministries.*
- Total amounts transferred to the Iraqi ministries and related entities during the year amounted to U.S. \$ 17,722 million, (Lower than the receipts by U.S. \$ 278 million).

## Key Issues – Cont.

- Recall that in the prior period, the total amounts transferred from the DFI account at the FRBNY to the MOF account at the CBI exceed the total amounts transferred by the MOF to the Iraqi ministries and related entities by U.S. \$ 1,008 million.
- There is no reconciliation between the amounts transferred from the DFI account at the FRBNY to the MOF account at the CBI.

## Key Issues – Cont.

- SOMO was engaged in barter transactions with the Syrian Government valued at US \$ 176 million (US \$ 168.2 million for petroleum, US \$ 7.3 million for petroleum products) in exchange for electricity and petroleum products.
- As these barter transactions are non-cash, they are not recorded in the DFI's financial statement.

## Other Issues

- An amount of US \$ 10,886,400 of petroleum export sales proceeds was seized based on Court of Roma – Italy seizure order on 23 March 2006 as a result of a lawsuit against the Iraqi Ministry of Planning.
- The Iraqi Government is following up the collection of this amount and believes that the court order violates UNSCR 1483 related to the immunity of the petroleum and petroleum products originating in Iraq.



## Other Issues – Cont.

- According to UNSCR 1483 (2003), 5% of the proceeds of export sales of oil and oil products shall be deposited into the United Nations' Compensation Fund, however the MOF has no information about the following matters:
  - The balance available at the Compensation Fund.
  - The remaining outstanding amounts due to the United Nations Compensation Fund.
  - The estimated date of the final payment to the Compensation Fund.

# Internal Control Material Weaknesses

Ministry of Finance  
&  
Central Bank of Iraq

## Cash Margins at Correspondence Banks

- The CBI and the MOF do not maintain any records of the outstanding cash margins.
- The outstanding cash margin balances at the correspondence banks was U.S.\$ 3.2 billion as of 31 December 2006.
- There is a large number of old outstanding cash margin balances with the TBI's correspondence bank for LCs that were opened through the TBI for the benefit of the Iraqi ministries.

## Reconciliation of the MOF's Current Account at the CBI

- The reconciliation carried out by the Ministry of Finance for its current account held at the CBI is not being properly performed.
- This reconciliation only compares the transactions per the CBI statement of account to the MOF statement of account .

## CBI Transfers to the MOF's Current IQD account

- There is currently no written agreement between the MOF and the CBI as to the arrangements to be followed to finance the MOF's Iraqi Dinar current account at the CBI from the DFI FRBNY account.
- The CBI is financing the MOF's current account by withdrawing the amount from the DFI account at the FRBNY in U.S. Dollar and then transferring an equivalent amount in Iraqi Dinar to the MOF's current account at the CBI.
- The exchange rate used is the CBI's formal exchange rate plus a commission of ID 15 for each U.S. Dollar.

## Suspended Payment

- The MOF signed an agreement during December 2005 to settle the due amount to the Inter-Arab Investment Guarantee Corporation in the amount of U.S. \$ 120,983,000, of which U.S. \$ 46,000,000 was paid in 2006.
- The paid amount has been recorded by the Ministry of Finance as a suspended advance payment, until the completion of further investigation and approvals of this payment.

# Classification of DFI's Cash Receipts and Payments

- The CBI maintains an Excel database for all the DFI's main account transactions. The cash receipts and payments are not classified in the CBI's database in accordance with the presentation of the DFI financial statement.

# Payment from the DFI Sub-account

- The CBI only prepares a summary letter on a daily basis showing the cash receipts and cash payments of the sub-account of the U.S. Agencies.
- A detailed monthly statement is not being prepared by the CBI to record the details of the cash payments from the DFI sub-account at the FRBNY managed by the U.S. Agencies.



# Internal Control Material Weaknesses

## U. S. Agencies

# U. S. Agencies Incomplete Contracts Records

- The U.S. Agencies do not maintain a complete set of accounting records
- The U.S. Agencies maintain separate two Excel data bases for each of the payment transactions and the contracts. However, these data bases are not linked with each other.
- The database of the outstanding contractual commitments is not complete.
- Certain contracts with Closed, Terminated and Canceled status still have outstanding balances due to contractors.

# Cash on Hand and Disbursement Limit

- The U.S. Agencies have no ceiling limits for either cash on hand and held in the U.S. Agencies vault or for cash payment transactions.
- There was a payment from the cash on hand in the amount of U.S. \$ 10 million on 1 January 2006 to certain U.S. Agency for the settlement of the Agency's liabilities to contractors and suppliers. However, no sufficient supporting documents are available.

## U.S. Agencies New Contracts

- The purpose of U.S. Agencies sub-account is to facilitate disbursements for contracts signed by the former CPA, requiring payments subsequent to 28 June 2004. U.S. Agencies management of the DFI sub-account expired on 31 December 2006.
- The U.S. Agencies have signed new contracts during 2006 in the amount of U.S. \$ 42 million.
- The total number of these contracts is 26, of which 19 contracts were still in progress as of 31 December 2006.

# Hand Over of U.S. Agencies Documents to the BSA

- On 11 December 2006, the U.S. Agencies submitted the contracts files and other supporting documents of the former CPA and the U.S. Agencies to the BSA.
- According to the BSA letter to the U.S. Agencies:
  - The BSA found financial and legislative violations.
  - The BSA will review all the submitted documents.
  - The Government of Iraq has retained its right to request compensation for any financial damages.

# Other Internal Control Weaknesses

- Completed contracts of the U. S. Agencies have not been handed over to the related Iraqi Ministries
- Goods and services receiving reports are not signed by the beneficiary ministry or representative of the Government of Iraq.

**Follow up of prior year Recommendations to  
Improve the  
DFI Internal Control System**

# Follow up Committee

- In February 2007, a committee was formed by the CBI to take into consideration the recommendations of our prior period management letter.
- This committee is represented by the CBI, MOF, Ministry of Oil and the State Oil Marketing Company (SOMO).
- No action plan have been prepared to address and resolve the management letters recommendations.



# MOF Accomplishment during the year

- The DFI's statement of cash receipts and payments for the year has been approved by the Director General of the MOF Accounting Department.
- Based on our recommendations, the MOF used an Access database to compile and prepare the DFI's statement of cash receipts and payments.
- The MOF prepared a reconciliation between the MOF and the CBI records related to the DFI.
- However, most of prior period audit recommendations have not been implemented yet.
- The MOF started to reconcile the payments from the U.S. Agencies sub-account based on U.S. Agencies records with beneficiary ministries records.

## Board of Supreme Audit

- The Board of Supreme Audit (BSA) assigned a coordinator to assist Ernst & Young team in following up the information required from different parties to facilitate our work.
- BSA is following up the observations reported in the prior year management letters.
- Regular meetings are being held with the BSA to follow up the progress of the audit.
- Most 2006 significant audit issues have been discussed with the President of the BSA.

# Action Plan for Improvements

# Action Plan for Improvements

- We recommend the Committee of Financial Experts (COFE) to develop an action plan in coordination with the MOF and the CBI to implement the recommendations of the management letters and to improve the DFI's accounting and internal control systems.
- The action plan should include a clear assignment of the responsibilities to implement each recommendation.
- The action plan should include a time frame to implement each recommendation.

## Action Plan for Improvements – Cont.

➤ The action plan should be implemented by the following parties to improve the DFI's accounting and internal control system:

- Ministry of Finance (MOF)
- Central Bank of Iraq (CBI)
- U. S. Agencies
- State Oil Marketing Organization (SOMO)
- Ministry of Oil
- All other Iraqi Ministries
- Kurdistan Region ministries

## Action Plan for Improvements – Cont.

- Appointments of a Director to the DFI to oversee the DFI's operations.
- Also, the Director should assist in the implementation of the action plan in all locations to ensure effective development of the DFI controls.

## Action Plan for Improvements – Cont.

- The DFI should have a formally documented policy to deal with fraud which falls under the following four broad categories:
  - Fraudulent financial reporting.
  - Misappropriation of assets.
  - Expenditures and liabilities for improper purposes.
  - Fraudulently obtained revenue, assets, costs and expenses avoided.

## Action Plan for Improvements – Cont.

- The COFE should issue a resolution to ask both the MOF and the CBI to prepare a full set of DFI's statement of cash receipt and cash payments in accordance with International Public Sector Accounting Standards / Financial Reporting on Cash basis.
- The MOF should consider to open a separate DFI sub-bank account at the CBI to deposit the transfers from the DFI bank account at FRBNY that are designated to finance the Iraqi ministries and related entities.



## Action Plan for Improvements – Cont.

- The MOF and CBI coordinate with the TBI and the respective ministries to resolve all old outstanding balances of LCs cash margins.
- The MOF and CBI should follow up with the TBI and beneficiary ministries to ensure LCs are executed on a timely basis.
- The DFI should maintain complete records of the cash margins transferred to the correspondent banks.

## Action Plan for Improvements – Cont.

- The self financing entities should open their LCs directly at the TBI or other banks, rather than through the DFI.
- The Government of Iraq should consider to maintain sufficient information about the United Nations Compensation Fund for the purpose of making suitable disclosure in the notes to the DFI's financial statements.

## Action Plan for Improvements – Cont.

- The MOF should carry out monthly reconciliations with the ministries and other government entities for payments transferred to cover their operating and capital expenditures.
- The reconciliation of the MOF bank current account at the CBI should be carried out on a periodic basis, and all reconciling differences should be investigated, reported and resolved on a timely basis.
- The reconciliation should be reviewed and approved by an independent person.

## Action Plan for Improvements – Cont.

- The CBI should implement a process to immediately inform the FRBNY to cancel the authorization of any persons who retire or leave the CBI.
- The CBI should develop procedures to ensure that the DFI cash receipts and payments are properly recorded and classified in accordance with the presentation of the DFI annual financial statement, which has been prepared in accordance with International Public Sector Accounting Standards / Financial Reporting on Cash basis.

## Action Plan for Improvements – Cont.

- In accordance with UNSCR 1483 (2003), the immunity expires on 31 December 2007. consequently the Government of Iraq should consider what action is required to ensure the continuity of the immunity over the petroleum and petroleum products or to find out and assess any alternative procedures to protect the Member States.

# Key Findings & Internal Control Material Weaknesses

## Oil Export Sales SOMO & Ministry of Oil



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# Iraqi Oil Industry Threat Factors



# Weak Controls Over Extraction and Shipment

- No effective controls to ensure that all extracted petroleum are reported and accounted for properly.
- There is no accurate metering systems at the petroleum wells, storage facilities and at the petroleum refining facilities.
- No effective controls over the storage, loading and shipping of petroleum and petroleum products.



# Reconciliation with Production Companies

- There is no reconciliation of the exported quantities of petroleum between SOMO's records and the records of Oil Production Companies.
- There is a difference of 1,590,999 barrels between total exported quantity per SOMO's records and Oil Productions Companies.
- Recall that there was a difference of 1,837 thousands barrel during the prior year.

# Compliance with United Nations

- The proceeds from export sales of petroleum product were deposited into SOMO's bank accounts, however, there are significant pending reconciling items in these banks reconciliations. The total reconciling item on debit side and credit side as of 31 December 2006 amounted U.S.\$ 2,942,065,802 and U.S.\$1,626,209,450, respectively.

# Weak Controls Over Exporting Petroleum Products

- The Ministry of Electricity (MOE) was engaged with a Turkish Company for exporting petroleum products in exchange for electricity, SOMO will charge part of the export sales to the Turkish company and the remaining will be charged to the MOE.
- The maximum quantity that can be exported 30,000 ton per month, any additional quantities should be totally charged to the Company. During April 2006, SOMO exported 51,387 ton to the Company, the excess of exported quantity have not been charge separately to the company using the Official Selling Price.
- During 2006, SOMO signed an agreement with Jordan Petroleum Refinery Company for exporting minimum of 30,000 barrel of petroleum per day. Due to the security situation in Iraq, no exports were carried during 2006.

# Barter Transactions with Syrian Government

- SOMO was engaged in barter transactions with the Syrian Government valued at US \$ 175,537,481 (US \$ 168,230,355 for petroleum, US \$ 7,307,126 for petroleum products) in exchange for electricity and petroleum products. The due amount from the Syrian Government as of 31 December 2006 was U.S.\$ 92,324,823
- According to the signed agreement with the Syrian Government, as the due amount exceeds U.S.\$ 10 million for more than three months, a cash payment covering 75% of the due amount should be transfer to SOMO. However, no cash was received from the Syrian Government during 2006.

# Bidding and Awarding of Sales Contracts

- SOMO did not initiate contract bidding procedures, except for certain bidding for Kirkuk sales.
- Awarding of sales contracts was based on past performance of existing customers. The justification of this direct awarding process is not documented.
- Contract awarding committee meetings minutes were not fully documented
- The committee issued a memo of the selected customers, signed by the General Manager and approved by the Minister of Oil.

## Bidding and Awarding of Sales Contracts – Cont.

- SOMO signed 13 petroleum export sales contracts in which the customers had free destination. In such cases, the OSPs billed to customers were calculated based on the shipments destinations selected by the customers.
- The Minister of Oil consultant has approved two contract which were rejected and amended by the Minister of Oil. There was no proper and documented delegation of authority from Minister of Oil for such action.

## Bidding and Awarding of Sales Contracts – Cont.

- SOMO did not obtain customer signature on two export sales contracts. The total export sales for these contracts was U.S.\$ 1,591,968,466.
- There are two buyers delayed in signing export sales contracts of petroleum for the 1<sup>st</sup> half of 2006, while the exports commenced before signing the contracts.

# Approval and Recording of Export Sales

- No documented Authorization Manual to set the scope, authorities and responsibilities and limits for each position and each task performed at SOMO.
- No documented monthly reconciliation between SOMO's sales records and deposits at the DFI.
- Serial numbers of the sales invoices are entered manually to as Access database.
- 136 petroleum sales invoices were signed by other key personnel of SOMO instead of the Finance Manager.
- No formal delegation of authorities process.

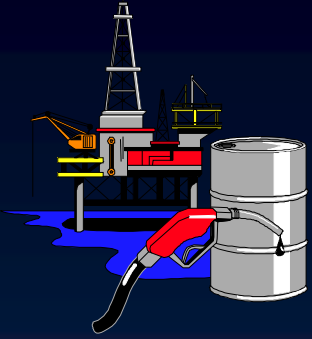


# Pricing of Petroleum Sales

- SOMO had issued two invoices for two different buyers having the same number, due to human error as the invoice number is entered manually.
- Minister of Oil had approved issuing 7 export sales invoices during December 2006 on provisional prices instead of actual prices, in order to avoid delay in issuing invoice and collection of invoice amount.
- Freight escalation for South Africa shipments was reduced during 2006 compared with last year from 75% to 50% of Europe destination approved Freight escalation.

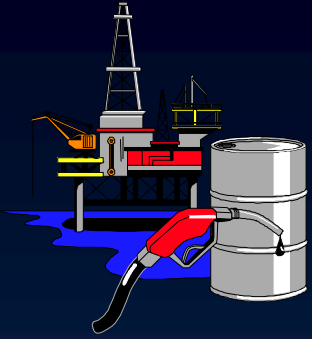
# Verification of Shipments

- SOMO does not obtain from its customers a Certificate of Discharge for each shipment and there is no third party confirmation of the receipt of each shipment.
- SOMO does not receive verification of quantity and quality for each shipment from its customers.



# Imports of Petroleum Products

- No metering system to measure the received quantities of petroleum products imports. The quantities delivered to SOMO's storage depots are determined by using a Dipstick measuring process, which is not accurate
- There is no reconciliation of the quantities of imported petroleum products between SOMO's records and the records of Sabbro (*a certified services company that controls the entrance and confirms complete receiving of the imported petroleum products in terminals*)



## Imports of Petroleum Products -Cont.

- Contracting and awarding procedures were not followed. In addition, there is no written justification for the uncompetitive awarding process
- SOMO does not obtain invoices from most of the suppliers of the imported petroleum products.
- No reconciliations are prepared between SOMO's records and the suppliers of petroleum products statements

# Internal Control Material Weaknesses

## Spending Ministries

# Overall Internal Control Systems

- No comprehensive internal controls and administrative procedures manual over operations.
- Accounting, financial, information technology, internal controls procedures and management systems in use through out the IG institutions are out dated and not in line with international best practices and standards
- No formal organization structure and job description to clarify levels of responsibility and accountability.
- Budget preparation process lack documentation of the ministries plans and budget assumption. Also, no proper budget implementation and monitoring procedures.

# Overall Internal Control Systems Cont.

- No proper controls over revenues and cash receipts from the operations of the entities related to ministries
- No formally documented Information Technology (IT) policies and procedures.
- No proper financial reporting process, the only financial report prepared by the ministries is a trial balance
- The ministries did not prepare monthly reconciliation between the amounts paid by the Ministry of Finance and amounts received by each ministry.

# Procurement and Contracting

- No unified centralized procurement and contracting policies and procedures manual for all ministries
- Lack of formal standard procurement contracts, to cover the legal and general terms to guarantee the right of the ministries.
- The payment of medium and long term procurement contracts are made in advance upon opening the LC. The contract terms should be modified to allow for partial payments based on the progress of receiving goods and services.



# Project Management and Monitoring System

- The ministries do not have proper projects management system and there are no written projects management policies and procedures manual.
- The ministries do not maintain projects register or adequate records to report the transactions of each project.
- The ministries do not prepare a checklist for the provisions of contracts with each contractor and supplier.

# Check Signatories

- The ministries do not have formal authority and signature matrix.
- Checks are signed by 3 medium management level personal in most ministries with no limits
- No segregation of duties between the checks signing function and the book keeping function
- No copies of the issued checks are kept by the ministry neither a copy of the payee identity card

# Internal Audit Department

- The ministries internal audit departments operations are very basic and lacked the following:
  - Independence, as they are involved in the operation and the pre-approval process of many transactions
  - No formal methodology and audit programs
  - No knowledge in the Institute of Internal Audit (IIA) standards
  - No proper reporting and follow up of observation.

# Payroll System

- No unified human resources and payroll system and policies and procedures manual for all ministries. In addition, the monthly payroll payment sheets are prepared manually.
- Most ministries pay the monthly salaries in cash.
- There was no control available to verify that the number of employees listed on the ministry's financial records correspond to the actual working number of employees.
- No proper controls to guarantee that salaries are only paid to eligible employees.

# Other Internal Control Weaknesses

- Old outstanding cash margin balances with JP Morgan Chase for letters of credit are not followed up.
- Most ministries does not maintain adequate records for the LCs payments made through the TBI for the benefits of the ministries.
- Contracts managed by the U. S Agencies are not recorded by the ministries.
- We are still awaiting to receive certain information from some ministries to complete the audit of their contracts.

# Ministry of Communication

- The Ministry did not obtain a competitive offers and there was no proper justification documented for two contracts in the amount of U.S.\$ 3,599,842.
- The Ministry directly invited and awarded a contract to construct the Ministry's building in the amount of U.S.\$ 2,860,000. The contract was approved by the Minister.

## Ministry of Transportation

- The Ministry directly invited and awarded a contract to construct the Ministry's building in the amount of U.S.\$ 7,843,000.

## Ministry of Higher Education

- The MOHE did not perform monthly reconciliations with its universities' to reconcile the LCs and import contracts.

# Ministry of Health

- The Ministry did not receive the contract bid bond of 3% for 2 contracts in the amount of U.S.\$ 3,916,540.
- The contract files with suppliers do not include all the necessary supporting documents.
- Delay in purchasing and contracting process for necessary contracts.
- The Ministry issued requests for payments exceeding their allocated budget.



# Ministry of Defense

- The MOD was engaged in contracts with certain contractors to provide catering and maintenance services to the military bases. The contract agreements are based on the number of persons in each military.
- There is no sufficient supporting documents to confirm the number of persons that are used as a base for the payments of the contractor invoices.
- During 2006, the MOD formed two committees to monitor the total number of persons in each military base and to compare with the Ministry's Personal Department records.

# Ministry of Planning

- The Ministry purchased armoured vehicles without specifying the technical specifications in details. The procured vehicles were not in accordance with the Ministry needs.
- The Ministry did not receive the performance guarantee bond of 5% of total contract.
- The contract was signed on 17 November 2006, while the Ministry received the vehicles on 18 October 2006; before signing the contract.

# Ministry of Interior

- The MOI engaged with a contractor to construct annex building in the amount of U.S.\$ 3,890,404. The contractor had neglected the contract.
- The Economic Committee in the Council of Ministers did not approve the contract due to lack of sufficient budget.
- The tender opening committee report have not been signed by the head of the committee.
- The contractor was listed in the list of the companies that did not meet the qualifying conditions.
- The contractor did not provide the required bond guarantee and its registration certificate.
- Based on the contract, the price in words is ID 5,450 million while in numbers is ID 5,750 million.

# Ministry of Trade

- No proper coordination between the MOT and its related companies regarding the allocation of the approved budget to each related company.
- The MOT does not have proper budget monitoring system and does not prepare any reports for the comparative between the budget and actual expenses.
- The Finance Department does not record all LCs transactions in the accounting system.
- LCs payment orders are issued by the Import Department to the TBI directly, without the approval and review of the Finance Department.
- No proper reconciliation is being prepared between the Import Department records and the Finance Department records.

# Ministry of Trade – Cont.

- The MOT engaged with a supplier to import vegetable oil, this supplier was not included in the list of tenders opening and analyses reports.
- The MOT did not receive the contract bid bond of 3%.
- The State Company for Food Supplies does not have bidding analysis and awarding committee.

# Ministry of Electricity

- The MOE entered with a supplier to purchase Distance Relay for U.S.\$ 2 million where the Minister approved the contract before the analysis and awarding committee issued their resolution.
- The MOE did not receive the contract bid bond of 3% for the contract.
- The legal department representative participated in both the opening and awarding committees.
- Direct invitation was made to a company for the contract of Moussel-Kirkuk power line in the amount of U.S.\$ 21,317,735.

# Ministry of Electricity – Cont.

- The MOE paid a total amount of U.S.\$ 34 million for an old outstanding contract, without having an approved budget and without prior approval by the MOF.
- This payment is related to a contract signed on 21 May 2001 for the supply of power supply materials in the amount of U.S.\$ 100 millions.
- The MOE did not receive the bid bond of 3% and performance bond of 5% on the contracts for supplying chemical operating materials of U.S.\$ 7,674,500 and U.S.\$ 10,025,980 from different suppliers.

## Ministry of Electricity – Cont.

- The MOE does not have any supporting documents or any progress report of the construction of Al-Mosaib Gas Station project for U.S.\$ 283,000,000. The paid amount of U.S.\$ 17,620,471 was supported by the supplier invoice only.
- The contractor did not complete the work and withdrawn from the project site.
- The MOE had paid an amount of U.S.\$ 1,935,000 to a Lebanese company before receiving the materials related to contract number 4/2004 to supply reserve materials and supervise the installation process and training.



# Ministry of Electricity – Cont.

- No proper reconciliation is prepared regularly to match the statement of LCs received from the TBI with the LCs records maintained by the MOE.
- No proper filing system is properly maintain to keep the LCs supporting documents.

# Ministry of Justice

- The procurement bidding and awarding committee is a permanent committee, where its members are not being rotated regularly.
- The MOJ contract with a Iraqi company does not include the performance bond term of 5% of the total contract price of IQD 190 million.
- All bids related to the MOJ have been announced only in one newspaper.
- The contracts files and related supporting documents are not properly organized.

# Internal Control Material Weaknesses

## Kurdistan Region

# Overall Internal Control Systems

- Most of the common internal control weaknesses described in the preceding section, are applicable to Kurdistan Region.
- Ministries of Finance in Kurdistan Region do not maintain separate bank account for DFI funds.
- No detailed chart of accounts, most expenditures are recoded in one general ledger account, without classification of accounts by nature.
- Ministries in Kurdistan Region do not perform reconciliation for suppliers and contractors accounts.

# Overall Internal Control Systems

- The salaries in Erbil are transferred to the employees bank accounts. In Sulaimaniyah, salaries are paid in cash without adequate controls.
- Bank reconciliations are not prepared properly.
- There are many old reconciling items with high amounts in the bank reconciliation of Erbil Ministry of Finance as at 31 December 2006.

# Direct Awarding of Contracts

- In Erbil MOF, there were no tender procedures for 5 construction contractors with a total amount of U.S. \$ 327,749,473. Instead, awarding were based on direct invitation of the contractors.