

Development Fund for Iraq
Memorandum of Matters Arising from Audit
SPENDING MINISTRIES
FOR THE YEAR ENDED
31 DECEMBER 2006

30 April 2007

Private and confidential

TO THE GOVERNMENT OF IRAQ
TO THE INTERNATIONAL ADVISORY AND MONITORING BOARD
OF THE DEVELOPMENT FUND FOR IRAQ
BAGHDAD
IRAQ

Dear Sirs

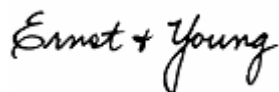
In accordance with our firm's normal practice, we enclose a memorandum of matters arising from our visits to the Iraqi ministries in connection with our audit of the statement of cash receipts and payments ("the financial statement") of the Development Fund for Iraq for the year ended 31 December 2006.

We stress that our normal audit procedures are designed primarily with a view to expressing our opinion on the DFI's financial statement and that our comments do not attempt to indicate all possible improvements in internal controls, which a special review might develop.

We will be pleased to provide further information or hold additional discussions on the matters set out in the report, should you so wish.

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

Yours faithfully
Ernst & Young



Baghdad, Iraq

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

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KEY ABBREVIATIONS

DFI	-	Development Fund for Iraq
MOF	-	Ministry of Finance
CBI	-	Central Bank of Iraq
SOMO	-	State Oil Marketing Organization
TBI	-	Trade Bank of Iraq
OPRA	-	Oil Proceeds Receipts Account

Common Observations

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Financial and Internal Controls – Policies and Procedures

Risk Rating: High

Observation

During our visits of the spending Iraqi ministries (the ministries), we noted that there are no policies and procedures manuals setting out comprehensive financial and internal controls for the ministries. We noted some of the ministries have certain instructions in the form of various internal memoranda only.

Recommendation

We recommend that the ministries prepare and maintain written standard policies and procedures for internal controls that should cover all the ministries financial and operating activities.

The manual should be reviewed on a periodic basis to ensure that it is updated and relevant in providing accounting and operational guidance to staff.

In addition, detailed monitoring procedures should be followed by key management to ensure proper and consistent implementation of the policies and procedures manual.

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2. Organization Structure and Job Descriptions

Risk Rating: High

Observation

We noted that there are no formal organization structure and job descriptions to clarify levels of responsibility and accountability.

Recommendation

We recommend that the ministries develop a formal approved organization structure and job descriptions for all levels at the Ministry, this organizational structure and job descriptions should include the following as a minimum:

- Hierarchy of the Ministry.
- Executive responsibility, immediate assistants and clear approval authorities.
- Operational responsibilities of employees, and specific duties to be performed.
- Administrative responsibilities required which relate to the performance of the job.
- Any other duties that the minister deems as necessary to be performed at any given circumstances.
- Type of reports that must be issued and the timetable for preparing and issuing these reports.

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3. Lack of Centralized Procurement Policies and Procedures

Risk Rating: High

Observation

During our visits to the ministries, we noted that there are no unified procurements policies and procedures manual. In addition, the Iraqi government procurement function is not centralized as each ministry and governmental entity made its own procurements.

Lack of centralized procurements policies and procedures manual is considered material weakness in the overall control of procurement process at the ministries.

Recommendation

We recommend the Ministry of Finance develop a written uniform procurements policies and procedures manual to be implemented by all ministries and governmental entities.

In addition, detailed monitoring procedures should be carried out by key management to ensure effective and consistent implementation of the procurement procedures manual.

In addition, 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 to be controlled by the Ministry of Finance.

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4. Projects Management and Monitoring Systems

Risk Rating: High

Observation

During our visits to the ministries, we noted the following in respect of projects management and monitoring systems:

- The ministries do not have proper projects management system and there are no written projects management policies and procedures manual.
- Most of the ministries do not maintain projects register or adequate records to report the transactions of each project and 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 serves 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 run.
- The ministries do not prepare a checklist for the provisions of contracts with each contractor and supplier to make sure full compliance with the terms and conditions of each contract by both the ministry and the contractor.

Lack of adequate projects management and monitoring systems is considered a material weakness over the ministries projects implementation, especially that the capital expenditure budget represents a significant part of the Government of Iraq budget.

Recommendation

We recommend the following:

- 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.
- 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 contract with each contractor and supplier to make sure full compliance with the terms and conditions 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.

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5. Information Technology – Policies and Procedures

Risk Rating: Medium

Observation

We noted that there are no formally documented Information Technology (IT) policies and procedures.

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 prove to be expensive and ineffective in the long run.

Recommendation

We recommend that the ministries 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:

- 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 process to ensure that the plan addresses the changing needs of each ministry.

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6. Internal Audit Department

Risk Rating: High

Observation

We noted that the internal audit departments of the ministries do not include the following:

- Formal policies procedures
- Standard internal audit programs.
- Clear lines of responsibilities and authority within the department.
- Policies for independence e.g. members of the department are participating in the purchasing committee.

Internal audit department exists to assist management in controlling the Ministry departments and activities and assist in the identification of matters requiring attention especially in large ministries

Recommendation

We recommend the following:

- Policies and procedures in accordance with the Institute of Internal Audit standards.
- Developing formal internal audit charter.
- A formal internal audit plan and work program should be drawn up and agreed upon by the Ministry.
- The Ministry should develop clear organizational structure and procedures clarifying authority and responsibility to carry out its duties effectively.
- The staff employed should 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.

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7. Human Resources Department

Risk Rating: Medium

Observation

We noted that the performance of the Human Resource Department had the following limitations:

- 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 salary.
- The staff files do not include table of content.
- Some employees' files were missing.
- All records are kept manually.

Recommendation

We recommend to maintain complete employees personnel files and to update these files regularly to ensure any changes in the employees' status are recorded and to ensure the completeness of the employees' information.

**Development Fund for Iraq
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8. Delegation and Authority Manual

Risk Rating: High

Observation

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 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.

Recommendation

We recommend that the ministries develop an authorization matrix to govern all their transactions to ensure that adequate and appropriate controls have been put in place.

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.

The types of authorities are as follows:

- Initiate
- Review
- Approve

The authorization matrix of the ministries should be reviewed and approved by the appropriate level of the Government of Iraq.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

9. Reconciliation with Ministry of Finance Records

Risk Rating: Medium

Observation

During our review, we noted that most of the ministries did 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.

The main purpose of such reconciliation is to confirm that the Ministry promptly and properly recodes all amounts received from the Ministry of Finance.

Recommendation

We recommend that each Ministry prepare reconciliations with the Ministry of Finance on a monthly basis to ensure proper recording of all transactions in each Ministry books of account, any differences should be followed up on a timely basis.

The reconciliation should be properly prepared and approved by the appropriate levels at the Ministry.

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10. Authorized Signatory Matrix

Risk Rating: High

Observation

During our visits, we noted that the ministries did not have an authorised signatory matrix, since several managers in certain ministries, have the authority of signing cheques with no limits or ceiling for the cheque amount and taking into consideration the frequent rotation of managers between departments.

Recommendation

We recommend each Ministry to set a signature matrix to determine ceiling and limits for authorized personnel in each Ministry to authorize cheques.

In addition, the matrix should specify the additional higher levels required to approve and authorize cheques above certain amounts as determined by each Ministry taking into consideration the amount and volume of payment transactions.

In all cases, at least dual signatories should be required for each cheque.

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11. Segregation of Duties over Payroll Process

Risk Rating: High

Observation

During our review of the ministries payroll process 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 uploading payroll sheet to the system. The accounting records are therefore more vulnerable to errors and fraud as the work of one employee is not being independently checked.

Recommendation

We recommend that segregation of duties should be introduced, as follows:

- 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.
- A reconciliation between the payroll records and the accounting records should be prepared on a monthly basis.

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12. Cash Payment of Salaries

Risk Rating: High

Observation

During our review of the ministries payroll process, we noted that most ministries pay salaries in cash. Cash payment of salaries directly or through the salaries disbursements committee increase the risk of misappropriation of cash, theft and risk of loss while handling and processing salaries disbursements.

We also noted that some employees delegate other colleagues to collect their salaries on their behalf and certain instances where the employee did not sign on the salary sheet.

Recommendation

We recommend the ministries pay salaries through bank transfers to each employee's personal bank account, in order to avoid risks associated with the cash payment process.

13. Manual Preparation of Payroll

Risk Rating: Medium

Observation

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.

Recommendation

We recommended that a unified and computerized payroll system should be implemented for all ministries. Using computerized software for processing payroll saves time and minimises the risk of human errors. In addition, the ministries can benefit from the computerized system in the following areas:

- Processing payroll sheets.
- Working hours' integration with payroll processing.
- Incorporating employees' files data.
- Automatic update of payroll for employees' salary increments, resignation, new hired employees, etc.
- Ability to use the software for employees' evaluations.

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14. Issued Cheques

Risk Rating: High

Observation

During our review of the ministries payment process we noted that copies of the issued cheque are not maintained by the accounting department nor a copy of the payee identity card attached.

Obtaining a copy of the cheque, copy of the payee ID and having the signature of the payee on the copy of the cheque serves as the most powerful evidence of receiving the cheque and accordingly avoiding possible risks of fraud, errors and litigations.

Recommendation

We recommend that the accounting department at each Ministry obtain a copy of the cheque for each payment transaction processed through cheques, obtain a copy of the payee ID and obtain the signature of the payee on the copy of the cheque.

In addition, all issued cheques should be crossed for payment to the beneficiary only.

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15. Monitoring and Internal Auditing of the Ministries' Related Companies

Risk Rating: High

Observation

As per our review, we noted that the ministries internal audit departments do not cover the operations of the companies and entities that are related to the ministries. In addition, there are no proper monitoring procedures over the operations of the related companies.

Recommendation

We recommend that ministries extend the scope of work of the internal audit departments to visit the related companies to audit all their processes on a periodic basis

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16. Supporting Documents Attached to Payment Vouchers

Risk Rating: Medium

Observation

During our review of the ministries payment process 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.

Recommendation

All payment vouchers and their supporting documents should be stamped "PAID" immediately after payment to prevent duplicate payments being made for the same invoice.

**Development Fund for Iraq
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17. Reconciliation with Records of Related Companies

Risk Rating: Medium

Observation

During our review, we noted that ministries did not prepare monthly reconciliations between its related companies to reconcile Letters of Credit that were provided by the Ministry of finance.

Lack of monthly reconciliation between ministries and their related companies increases the risk of non-reconciled items and records between the Ministry and the related company. Reconciliation by the Ministry with the related company increases the control over the activities of the companies and minimizes the risk of fraud.

Recommendation

We recommend that all ministries prepare monthly reconciliations with the related companies. Reconciliations should be performed on monthly basis, properly approved by appropriate levels at the Ministry and the related companies.

All outstanding and reconciling items should be resolved on a timely basis.

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18. Contract Standard Form

Risk Rating: Low

Observation

During our visits of the ministries, 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.

Recommendation

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.

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19. Fixed Assets Identification Numbers

Risk Rating: Low

Observation

We noted that the fixed asset register does not include individual asset identification numbers. Assigning an identification number to the 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.

Recommendation

We recommend that the ministries consider developing identification numbers to be attached to all items of fixed assets and which should be recorded in the fixed asset register. We further recommend, independent and periodic physical verification be performed to ensure safe custody of the fixed assets.

20. Budget Preparation Manual

Risk Rating: High

Observation

During our review, we noted that the budget departments of the ministries have standard forms for budget preparation, but did not have a budget preparation manual.

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.

The manual would also assist in meeting objectives when preparing ministries budgets and help in minimizing inconsistent practices while preparing annual budgets.

Recommendation

We recommend that the Ministry of Finance develop a budget preparation manual and hold training sessions for the staff of the ministries budget departments to become more familiar with the methods, needs and objectives of annual governmental budgets.

In addition, the ministries should document the basis and assumptions used in the preparation of the annual budget.

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21. Follow up of Previous Management Letter Recommendations

Risk Rating: High

Observation

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 predecessor audit management letters.

However, there is no action plan followed by the ministries for timely follow up and implementation of the recommendations of prior period management letters.

Recommendation

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 the Iraqi ministries.

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Ministry of Oil

**Development Fund for Iraq
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1. Operational Loading System at Loading Points

Risk Rating: High

Observation

During our visit, we noted that the Ministry of Oil does not operate a full operational loading and metering system at the loading points. Instead, production companies determine the quantity of each shipment by referring to the Ullage report.

Subsequently, during January 2007, the export sales process was suspended for a number of days and new metering systems were installed, however we understand that these systems were not calibrated and handed over to Iraqi Ministry of Oil.

In the absence of a full operational loading system, loaded quantities could not be determined accurately and could be subject to misstatements of readings and calculations.

Recommendation

We recommend the Ministry of Oil to follow up and accelerate the calibration and hand over of the metering systems at the loading points, storage facilities and oil wells.

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2. Reconciliation with Records of Related Companies

Risk Rating: Medium

Observation

During our visit, we noted that the Ministry of Oil did not perform reconciliations of its records with the Oil Production companies, Refining and Distributions companies.

The Technical Department at the Ministry obtains reports from the related companies and then summarises and reports to the Minister without verifying the accuracy of the data or reconciling the amounts with the records maintained by the companies. We noted differences between the records of the Ministry of Oil and monthly reports of the companies, however the Technical department clarified that this is due to the variety of the metering systems used by the companies, and the absence of an integrated metering system.

Recommendation

We recommend the Ministry of Oil to carry out monthly reconciliations between its records and the companies with respect of the quantity of oil produced, sold and delivered to the refineries. All differences should be followed up and resolved on timely basis.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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3. Recording Letters of Credits

Risk Rating: High

Observation

During our visit, we noted that the finance department of the Ministry of Oil does not maintain records of the Letters of Credit transactions as well as not performing periodic reconciliations with Ministry of Finance.

This may lead to inadequate and unreliable records.

Recommendation

We recommend the finance department to accelerate the installation of the accounting system to maintain detailed accounting records for all letters of credit transactions relating to the Ministry of Oil.

**Development Fund for Iraq
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4. Old Outstanding Cash Margins

Risk Rating: Medium

Observation

We noted a number old outstanding cash margin balances with JP Morgan Chase for 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.

L/C #	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date	Last Payment Date
1306/2004	Oil	14,391,721	14,391,721	17/3/2005	4/2/2006	N/A
990/2004	Oil	94,737	94,737	10/2/2005	10/5/2005	N/A

Recommendations

We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyse 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 ensure Letters of Credit are executed on a timely basis.

**Development Fund for Iraq
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5. Tracking Budget Allocations for the Ministry

Risk Rating: Medium

Observation

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.

We noted that the Ministry of Oil issued request 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 and the remaining balance.

The following is an example of a payment transfer order issued by the Ministry of Oil that exceeded its allocated budget:

CBI Letter No.	LC No.	Governmental Entity	Request for transfer USD	Budget Allocation USD
556/5 on 6/4/2006	2832/2005	NORTH OIL COMPANY – MINISTRY OF OIL	637,705	24,728

Recommendation

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 payment requests that exceed budget allocations.

If approved, any payments in excess of budget allocations should be formally documented as approved by the authorised authority or officer.

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

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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1. Internal Control Procedures over Oil Imports

Risk Rating: High

Observation

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.

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.

Recommendation

We recommend SOMO to develop and maintain written standard internal control procedures over the import of petroleum products.

In addition, detailed monitoring procedures should be followed by key management to ensure effective and consistent implementation of the internal control procedures.

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2. Measuring Metering System for Imported Petroleum Products

Risk Rating: High

Observation

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.

Recommendation

We recommend SOMO to consider 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.

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.

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.

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3. Reconciliation with Import Ledger for Petroleum Products

Risk Rating: Medium

Observation

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 Company (a certified services company that controls the entrance and confirms completeness of delivery of the imported petroleum products in terminals).

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.

Recommendation

We recommend that SOMO prepares monthly reconciliations between its petroleum products imports ledger and Sabbro or Khilani Company reports, in order to monitor and match recorded quantity with a third party confirmation.

In addition, we recommend reviewing and approving the monthly reconciliations by appropriate management level to ensure proper preparation of the reconciliation.

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4. Monthly Reconciliation with Suppliers of Petroleum Products

Risk Rating: High

Observation

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.

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.

Recommendation

We recommend SOMO to request confirmations or statement 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.

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5. Bank Reconciliations

Risk Rating: Medium

Observation

During our review, we noted that SOMO does not properly prepare and document monthly reconciliations for SOMO's bank accounts, with the bank reconciliations only being prepared at the end of the year only.

As a result, there is reduced control over the accuracy of the accounting for bank transactions, as any errors would not be promptly detected.

Recommendation

Bank reconciliations should be prepared on a monthly basis as soon as possible after the month end. To ensure the reconciliation is properly prepared it should be reviewed by a person independent of the reconciliation process.

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6. Pending Reconciliation Items

Risk Rating: High

Observation

During our review of the reconciliation between SOMO and the TBI Account # 1029, we noted that there are many long outstanding items with very high balances relating to 2005 and 2006, for example:

- Commissions presented per TBI statement and not presented in SOMO records amounting to USD 994,816.
- Drawings presented in TBI statement but not recorded in SOMO records amounting USD 752,914,066.
- Deposits not presented in the TBI records but recorded in SOMO records amounting to USD 465,008,019.

Recommendation

Reconciling items should be reconciled on a monthly basis and any long outstanding and unusual items should be properly explained and resolved on timely basis.

Also, we recommend SOMO to request and reconcile statements of account and confirmations from TBI regularly on a monthly basis.

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7. Filing System

Risk Rating: Low

Observation

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.

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.

Recommendation

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.

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8. Contracts and Supporting Documents

Risk Rating: Low

Observation

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.

Moreover, the Shipping department does not provide the finance department with copies of the Bill of Lading or Khilani or Sabbro 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.

Also, we noted for 2007 transactions, that prices are 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 quantities per contract and per the Bill of Lading.

Recommendation

We recommend that copies of all contracts, Bill of Lading, Khilani or Sabbro report and all relevant supporting documents relating to imports of petroleum products be provided to the finance department to enhance the transparent environment and to perform independent checks between the departments.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

9. Suppliers Invoices

Risk Rating: High

Observation

During our review, we noted that SOMO did not have invoices from some 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.

Examples where SOMO did not have invoices from suppliers:

Name of Supplier	Type Oil Product	Date	Amount USD
Turkish Petroleum Company	KEROSENE	Jan. 31, 2006	6,789,515
Turkish Petroleum Company	KEROSENE	Dec. 31, 2006	16,976,498

Recommendation

We recommend that SOMO obtains invoices from all suppliers of petroleum products imports for verification of quantity and price as stated in the contract.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

10. Control over Invoices and Certificates of Imports

Risk Rating: Low

Observation

We noted that all manual documents such as credit notes, invoices, and the shipping department's certificates of import were manually numbered.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

11. Supporting Documents for Payments

Risk Rating: Low

Observation

During our review, 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.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

12. Payment Vouchers and Supporting Documents

Risk Rating: Low

Observation

During our review, 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.

Recommendation

All payment vouchers and their supporting documents should be stamped “PAID” immediately after payment to prevent duplicate payments being made for the same invoice.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

13. Reconciliation between Departments

Risk Rating: Medium

Observation

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.

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.

Recommendation

We recommend SOMO to prepare periodic reconciliations between its departments to detect and report errors on a timely basis.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

14. Exchange Rate

Risk Rating: Low

Observation

We noted that the accounting records/trial balance of SOMO stated the US\$ exchange rate to be one Iraqi Dinar (IQD) as of 31 December 2006, while the market rate was IQD 1331 : USD 1.

Recommendation

We recommend SOMO to translate the oil export sales in its accounting records based on the denominated exchange rate of the USD against Iraqi at the date of the transaction.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

15. Back up Policy or Recovery Plan

Risk Rating: High

Observation

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 way to ensure a back up of SOMO's data is performed regularly and preferably on a daily basis.

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.

Recommendation

We recommend SOMO management to develop and approve a policy for contingencies and a recovery 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 loss of data.

**Ministry of Oil
Oil Marketing Company (SOMO)
Export Sales**

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Approved Policies and Procedures

Risk Rating: High

Observation

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.

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.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Supporting Document

Risk Rating: Low

Observation

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 Khailni report for invoice number F106/112, F106/080 and F106/002.

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.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Management Reporting

Risk Rating: Medium

Observation

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.

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 analyse each report.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

4. Reconciliation with Oil Production Companies

Risk Rating: Medium

Observation

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.

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.

Recommendation

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.

Also, we recommend the head of the shipping department to review and approve the monthly reconciliations and follow up all reconciling items.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

5. Detailed Documentation of Contracts Award Committee Meetings

Risk Rating: Medium

Observation

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.

Recommendation

We recommend that SOMO initiates a policy to document all minutes of meetings of contract awarding committee to serve management and auditors as a reference for those meetings and to document the approvals of committee members.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

6. Segregation of Duties

Risk Rating: High

Observation

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.

Such lack of segregation of duties can lead to circumvention of internal controls and increase the possibility for errors and fraud.

Recommendation

We recommend SOMO management to segregate all incompatible duties. Approval of export sales contracts and sales quantities should be limited to the Minister of Oil, in order to enhance the internal control over the awarding process.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

7. Bidding Procedures for Oil Contracts

Risk Rating: High

Observation

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.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

8. Export Sales Contracts

Risk Rating: Medium

Observation

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.

This may increase occurrence of errors in respect of terms and enforceability of the contracts.

Recommendation

We recommend that SOMO should not commence the shipping process to any buyer before receiving the approved export sales contract signed by the buyer.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

9. Shipment Destinations

Risk Rating: Medium

Observation

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 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.

Recommendation

We recommend SOMO to reconsider these contracts and control the shipments destinations to maximize export sales revenue.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

10. Certificate of Discharge at Destination Port

Risk Rating: Medium

Observation

Based on our review, we noted that SOMO does not nor obtain require 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.

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.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

11. Approval of OSP Calculation Formula

Risk Rating: Medium

Observation

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.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

12. Reconciliation with Sales Proceeds

Risk Rating: High

Observation

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.

Recommendation

We recommend SOMO to prepare monthly documented reconciliations between export sales of petroleum with sales records as soon as possible after the month end to monitor and match export sales records with proceeds and ensure that all export sales are collected.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

13. Proceeds of Fuel Oil Sales

Risk Rating: High

Observation

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.

Recommendation

We recommend SOMO to reconcile all advances received with the related sales ledger and sales invoices on at least monthly basis.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

14. Sequential Numbering for Standard Forms and Vouchers

Risk Rating: Low

Observation

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:

- Sales invoices.
- Loading cards.
- Bills of lading.
- Certificate of quantity and quality.
- Ullage reports.
- Export cargo manifest.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

15. Reconciliation of SOMO's Invoices with Export Cargo Manifest

Risk Rating: Low

Observation

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.

Recommendation

We recommend SOMO to match the supporting documents with the export sales invoices before issuing and posting the invoices, and any differences should be investigated and reconciled to avoid any possible disputes and litigation for discrepancies in readings of loaded shipments.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

16. Opening of Export Crude Oil Sales LCs

Risk Rating: Low

Observation

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 opened two days before loading date of the shipment.

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.

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.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

17. Authorization Matrix and Delegation of Authority

Risk Rating: High

Observation

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.

An authorization matrix specifies the role of SOMO's authorized employees and their limits to authorize and execute transactions.

The absence of an authorization matrix and proper delegation of authority can lead to confusion and uncertainty over individual authorities and responsibilities within SOMO.

Recommendation

We recommend SOMO to develop an authorization matrix to govern all of its transactions to ensure that adequate controls have been put in place.

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 initiate, review and approve.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

18. Control over Data Entry

Risk Rating: Medium

Observation

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.

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.

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.

Recommendation

We recommend SOMO to set adequate controls over data entry to ensure that the results are accurately reported.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

19. Reconciliations with Syrian Government

Risk Rating: High

Observation

According to the barter agreement between SOMO and the Syrian Government dated 19, 2006, the two parties should meet on a monthly basis to settle the outstanding amounts due to each other. However, such meetings were not held on a monthly basis and no final reconciliation has been prepared for 2006 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 for more than three months, but no cash transfer has been made to SOMO during 2006.

Recommendation

We recommend SOMO to prepare monthly reconciliations with the Syria Government, this will minimise 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.

Ministry of Communication

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Contracting Procedures

Risk Rating: High

Observation

During our visit to the Ministry of Communication, we noted certain non-compliance with contracting procedures as follows:

- A. Some contracts were awarded without obtaining competitive offers and no proper justification is documented. For example:

Contract #	Amount (USD)	Beneficiary	Contract Type
35	2,587,400	Egyptian Company For Telephone Equipment	External Purchases Contract
44	1,012,442	Overseas Company For Trading Agencies	External Purchases Contract

- B. We noted the following in respect of the contract for the Ministry building of USD 2,860,000:

- 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.
- The contractual execution period that ends on October 11, 2006 was exceeded, whereby the contract was entered on January 12, 2005 with an execution period of 10 months. The reason behind this exceeding the specified period is due to the existence of disputes between the Ministry and contractor that have not yet been resolved.

Recommendation

We recommend the Ministry to comply with the purchase procedures agreed upon in the annual budget issued by the Ministry of Finance.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Old Outstanding Cash Margins

Risk Rating: Medium

Observation

We noted a number of old outstanding cash margin balances with JP Morgan Chase for 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.

L/C #	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date	Last Payment Date
225/2004	Communication	300,000	48,900	19/3/2004	9/8/2004	4/3/2005
235/2004	Communication	4,970,286	980,561	18/3/2004	15/7/2005	17/5/2006
205/2003	Communication	2,900,000	21,195	23/3/2004	23/10/2004	29/8/2006

Recommendations

We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyse 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 ensure Letters of Credit are executed on a timely basis.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Contract Supporting Documents

Risk Rating: Medium

Observation

During our visit, we noted that the supporting documents for contracts are not properly organized, as these are distributed across all of the Accounting Directorate, Legal Directorate, Importing Directorate, Follow up and Planning Directorate, which makes it difficult to obtain and follow up some contracts and their related supporting documents.

Recommendation

We recommend the Ministry to develop an archiving system to keep each contract together with its related supporting documents in one file, and to properly organize these contracts in order to facilitate the retrieval and review process.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

4. Open and Analysis Tenders Committees

Risk Rating: Medium

Observation

During our visit, we noted that the members of the open and analysis tenders committees are permanents, officers, and are not being replaced regularly as required by the budget instructions issued by the Ministry of Finance, which requires replacing the committee members semi-annually.

Recommendation

We recommend the Ministry to follow the budget instructions issued by the Ministry of Finance as to the requirement of replacing the committee members every six months.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

5. Tender Announcements

Risk Rating: Medium

Observation

During our visits, we noted that some tenders were not announced 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.

Recommendation

We recommend the Ministry to announce and publish all tenders in the local and international newspapers in accordance with the instructions issued by the supreme contracting committee, and to use the Ministry's website for such purposes in order to increase the chances to obtain more competitive offers.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

6. Payroll Approvals

Risk Rating: High

Observation

During our visits, we noted that the payroll is not approved by the General Manager of the Finance & Administrative Directorate. The payroll is currently prepared by the salaries accountant and is compared to the budget by the internal audit department.

Recommendation

We recommend that the payroll should be reviewed and approved by appropriate high management level in order to enhance the controls over payroll.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

7. Fixed Assets Register

Risk Rating: Low

Observation

During our visits, we noted that the Ministry maintains an old fixed assets register that has not been updated 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.

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.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

8. Inventory Register

Risk Rating: Low

Observation

During our visit, we noted that the Ministry does maintain an inventory movement register. This would enable more effective control over the inventory movement as well as of carrying out the related reconciliations during the year.

Moreover, carrying out the inventory count without existence of inventory register would decrease the reliability of the inventory count results.

Recommendation

We recommend the Ministry to develop and maintain an inventory movement register to properly control inventory movement.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

9. Recording U.S. Agencies Contracts

Risk Rating: High

Observation

During our visits to the Ministry of Communication, 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.

The following are examples of contracts managed by the U. S Agencies and not recorded by the Ministry.

Contract Number	Contract Value (U. S. Dollar)	Award Date	Completion Date
DABV01-04-C-3565	\$999,650	28-Jun-04	31-Dec-05

Recommendation

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.

Ministry of Housing & Construction

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Letters of Credit (LCs) Disbursements

Risk Rating: Medium

Observation

During our visit, we noted that 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.

Recommendation

We recommend the Ministry to develop proper control over the recording process of LCs transactions, in order to ensure proper recording and regular updating of the accounting records.

Ministry of Sport & Youth

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Payment of Employees Salaries

Risk Rating: High

Observation

During our visit, we noted that certain representatives of Youth Clubs and the Ministry's related organizations are assigned to receive salary 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 salary payments on behalf of the respective employees.

Recommendation

We recommend that representatives should be officially authorized to collect the salaries on behalf of the employees.

Also, we recommend the Ministry to consider carrying out the payment of salaries through direct bank transfers to the respective employees' accounts.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Engineering Department Contracts

Risk Rating: Low

Observation

During our visit, we noted that the Engineering Department contracts as well as the related supporting documents are not properly organized, which makes it difficult to retrieve and review information relating to these contracts.

Recommendation

We recommend the Ministry to develop a proper archiving system to keep each contract together with its related supporting documents in one file, and to properly organize these contracts in order to facilitate the retrieval and review process.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Allocation Endorsement

Risk Rating: Medium

Observation

During our visit, we noted the that finance department does not check and endorse the availability of sufficient cash allocation as a primary procedure before approving purchase orders in order to prevent any contract being awarded that lacks appropriate budget allocation.

Recommendation

We recommend that the finance department should check and endorse the availability of a relevant allocation as a pre-approval process of the purchase order to prevent any contract being approved without the appropriate budget allocation.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

4. Recording of Donated Fixed Assets

Risk Rating: Low

Observation

During our visit, we were informed that the Ministry received donations of certain assets from an external organization, but these donations were not recorded in the fixed assets register.

Recommendation

We recommend the Ministry to record all donated assets in the fixed assets register and in the accounting records in accordance with the government accounting standards.

Ministry of Municipality & Public Works

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Recording of Donated Fixed Assets Register

Risk Rating: Low

Observation

During our visit and based on our discussions with the head of Ministry Inventory, we were informed that the Ministry receives donations (e.g. laptops) from external organization, but these donations are not recorded in the fixed assets register.

Recommendation

We recommend the Ministry to record all donated assets in its fixed assets register and in the accounting records in accordance with the governmental accounting standards.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Payroll Committees

Risk Rating: Medium

Observation

During our visit to the Ministry, we noted that the payroll committee responsible for receiving the salaries is a permanent committee, and its members are not being replaced semi-annually in accordance with, the annual budget instructions issued by the Ministry of Finance.

Recommendation

We recommend the Ministry comply with the annual budget instructions issued by the MOF as to the requirement of replacing the committee members every six months.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Recording U.S. Agencies Contracts

Risk Rating: High

Observation

During our visits to the Ministry of Municipalities & Public Works, 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.

The following are examples of contracts managed by the U. S Agencies and not recorded by the Ministry.

Contract Number	Contract Value (USD)	Award date	Completion Date
W91GY1-06-M-0004	507,118	03-Feb-06	15-Sep-06
DFIWAT-06-M-0001	63,000	04-May-06	15-Aug-06

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

Ministry of Transport

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Contractual Procedures Related to Construction of Ministry's Building

Risk Rating: High

Observation

During our visit, we noted that the Ministry had agreed with a Turkish company to construct the Ministry building for USD 7,843,000 whereby the contract was awarded through direct invitation and with no invitation for tender.

Also, we noted that the contract is not dated and not signed by the Ministry. In addition, we requested but did not receive the supporting documents to follow up on the execution procedures of the contract.

This procedure is contradicting the Council of Minister's regulations that require the Ministry to issue an invitation for tender and not to follow the direct invitation.

Recommendation

We recommend that the Ministry properly applies the Council of Minister's regulations and issue an invitation for tender for all contracts.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Recording U.S. Agencies Contracts

Risk Rating: High

Observation

During our visits to the Ministry of Transportation, 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.

The following are examples of contracts managed by the U. S Agencies and not recorded by the Ministry.

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

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Old Outstanding Cash Margins

Risk Rating: Medium

Observation

We noted a number of old outstanding cash margin balances with JP Morgan Chase for 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.

L/C #	Ministry	L/C Amount (USD)	Outstandin g Amount (USD)	L/C Opening Date	L/C Validation Date	Last Payment Date
1631/2005	Transportation	1,950,000	100,700	24/2/2005	30/1/2006	4/5/2006
1632/2005	Transportation	4,491,000	673,650	12/5/2005	31/1/2006	3/3/2006
1650/2006	Transportation	14,066,666	5,261,041	31/3/2005	31/8/2005	12/5/2005

Recommendations

We recommend the Ministry to coordinate 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.

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.

Ministry of Labour & Social Affairs

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Supporting Documents

Risk Rating: Medium

Observation

During our visits, we noted that the employee responsible for recording the purchases of assets in the inventory/fixed assets register does not receive a copy of the invoice related to the purchased assets from the accounting department.

Recommendation

We recommend the accounting department provide the employee responsible for updating the fixed assets register with a copy of the invoice of all fixed assets purchases.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Physical Count of Fixed Assets

Risk Rating: Low

Observation

During our visit, we noted that the Ministry did not carry a physical count on fixed assets at the end of 2006.

Recommendation

We recommend the Ministry to perform an independent and thorough physical count of fixed assets at the year end on regular basis, in order to safeguard the assets and ensure the accuracy of reported figures of fixed assets.

Ministry of Science & Technology

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Contractors Performance Bond

Risk Rating: Medium

Observation

During our visits, we noted that the Ministry had signed a contract on 21 August 2004 with an US company for the procurement of laboratory machines and equipment amounting to USD 1,233,098. The Ministry paid the final payment to the company of USD 1,206,190 on 26 December 2006. The contract terms did not contain the performance bond guarantee requirement of 5% of the contract amount that had to be presented in the form of either an endorsed cheque or letter of guarantee as required by the local procurement regulations.

We also noted that the Ministry signed another contract on 13 July 2004, with the U.S. company for the purchase of laboratory equipment of USD 548,721. The Ministry paid the final payment to the company of USD 435,000 on 26 December 2006. Again, the contract terms did not contain the requirement for a performance bond guarantee of 5% of the contract amount.

Recommendation

We recommend the Ministry comply with the local procurement regulations and ensure a performance bond of 5% of the contract value is obtained either in the form of endorsed cheque or letter of guarantee.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Physical Count of Fixed Assets

Risk Rating: Low

Observation

During our visit, we noted that the Ministry did not carry a physical count of fixed assets at the end year 2006.

Recommendation

We recommend the Ministry to perform a physical count on fixed assets at year end, in order to safeguard the assets and ensure the accuracy of reported figures of fixed assets.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

Ministry of Defense

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Military Bases Catering and Maintenance Contracts

Risk Rating: High

Observation

During our visits, we noted that the Ministry of Defence were engaged in contracts with certain contractors to provide catering and maintenance services (e.g. cleaning, washing etc...) 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.

We noted that there are not sufficient supporting documents to confirm the number 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.

During 2006, the Ministry of Defense decided to form two committees. The first committee in each military base is responsible for ensuring that the total number of persons at each military base is correctly reported. The second committee is responsible for ensuring that the number of persons at each military base based on the payroll records in the Ministry Headquarters agreed with the number of persons in each military base as approved by the first committee.

Recommendation

We recommend that further efforts are made to ensure all differences between the number of persons in the catering invoice for each military base and the Ministry payroll records are investigated and approved by high management level at the Ministry.

Also, we recommend that the Ministry also considers rotating the members of the committees on a quarterly or semi-annual basis.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Recording U.S. Agencies Contracts

Risk Rating: High

Observation

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.

The following are examples of contracts managed by the U. S Agencies and not recorded by the Ministry.

Contract Number	Contract Value (U. S. Dollar)	Award Date	Completion Date
FA8903-04-D-8690	42,513,237	25-Jun-04	15-Jan-06
DABV01-03-D-0001	254,904	05-May-04	N/A

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

Ministry of Agriculture

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Old Outstanding Cash Margins

Risk Rating: Medium

Observation

We noted a number of old outstanding cash margin balances with JP Morgan Chase for 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.

L/C #	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date	Last Payment Date
1316/2004	Agriculture	615,284	615,284	19/2/2005	20/10/2006	N/A
1453/2004	Agriculture	3,900,000	3,900,000	1/2/2005	1/9/2005	N/A
675/2004	Agriculture	1,152,000	184,355	15/9/2004	28/2/2005	31/3/2005
680/2004	Agriculture	142,500	142,500	2/9/2004	14/6/2005	N/A
1416/2004	Agriculture	615,284	615, 284	19/2/2004	20/10/2006	N/A

Recommendations

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.

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.

Ministry of Higher Education

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Fixed Assets Identification

Risk Rating: Low

Observation

During our review, 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.

Recommendation

We recommend that the Ministry creates an identification number for each fixed asset and record these identification numbers in the fixed assets register.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Reconciliation of the Transactions with Related Universities

Risk Rating: High

Observation

During our visit, we noted that the Ministry does not perform monthly reconciliations with the records of the universities to reconcile Letters of Credit and import contracts balances.

This could lead to un-reconciled amounts not being detected, reported and cleared with the related universities on a timely basis, which results less control over the disbursements of the universities.

Recommendation

We recommend the Ministry prepares regular reconciliations with the related universities, which should be reviewed and approved by the appropriate levels at both the Ministry and the related universities.

All reconciling differences should be identified, reported and cleared on a timely basis.

Ministry of Industry & Minerals

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Fixed Assets Identification

Risk Rating: Low

Observation

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.

Recommendation

We recommend that the Ministry creates an identification number for each fixed asset and record these identification numbers in the fixed assets register.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Recording U.S. Agencies Contracts

Risk Rating: High

Observation

During our visit, we noted that several reconstruction projects are executed by the U.S. Agencies without coordination between these Agencies and the Ministry. This is reported in Ministry of Industry and Minerals letter number 105 dated 18 June 2006 addressed to the U.S. agencies that discloses the absence of consultation from the Ministry side in all the reconstruction and development phases of the Ministry projects.

Recommendation

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 on a timely basis and in order to update the Ministry's accounting records.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Old Outstanding Cash Margins

Risk Rating: Medium

Observation

During our visit to the Ministry, we noted a number old outstanding cash margin balances with JP Morgan Chase for 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.

L/C #	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date	Last Payment Date
194/2003	Industry and Mineral	227,570	9,098	25/1/2004	15/7/2004	14/7/2004
196/2003	Industry and Mineral	105,400	13,913	17/2/2004	30/6/2005	1/8/2005
247/2004	Industry and Mineral	163,333	19,370	10/3/2004	28/2/2005	17/6/2005
264/2004	Industry and Mineral	261,052	24,178	9/6/2004	28/2/2005	2/11/2005
1143/2004	Industry and Mineral	1,608,597	1,608,597	10/1/2005	10/4/2005	N/A
494/2004	Industry and Mineral	239,350	239,350	4/9/2004	22/6/2006	N/A

Recommendations

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.

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

Ministry of Planning

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Fixed Assets Identification

Risk Rating: Low

Observation

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 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.

Recommendation

We recommend the Ministry creates an identification number for each fixed asset and record these identification numbers in the fixed assets register.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Following up Supplying Contracts

Risk Rating: High

Observation

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).

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).

Recommendation

We recommend the Ministry to follow up its contractual rights with the supplier.

Also, we recommend the Ministry to investigate the reason for the high difference between the prices of the two suppliers for the same item.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Armored Cars Purchasing Contract

Risk Rating: Medium

Observation

During our review of the contract for buying two armoured vehicles we noted the following:

- The technical specifications of the purchase order were not specified in details, as the specifications did not adequately specify the level of armouring of the vehicles. As a result, the procured vehicles were partially armoured, which does 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 in accordance with the contract terms.
- The contract was signed on 17 November 2006, while the Ministry received the vehicles on 18 October 2006 before signing the contract.

Recommendation

We recommend the Ministry to consider the importance of clearly stating the detailed technical specifications in the purchase orders and to comply with Supreme Contracting Committee instructions, especially for those instructions relating to the performance guarantee, in order to preserve the Ministry's rights.

Ministry of Water Resources

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Contracts' Supporting Documents

Risk Rating: Low

Observation

During our visit, we noted that no supporting documents for Al-Ahwar Revivification Centre contract are available at the Ministry because the related supporting documents are maintained at Al-Ahwar Revivification Centre.

Recommendation

We recommend the Ministry to maintain copies of all original supporting documents that belong to the contracts of the Ministry's related companies and organizations, in order to make these documents available when required.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Recording U.S. Agencies Contracts

Risk Rating: High

Observation

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.

The following are examples of contracts managed by the U. S Agencies and not yet recorded by the Ministry.

Contract Number	Contract Value (USD)	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

Recommendation

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 contracts managed by the U.S. Agencies and in order to update the Ministry's accounting records on a timely basis.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Salaries Committee

Risk Rating: High

Observation

During our visits to the Ministry, we noted that there is only one committee for both receiving the cash withdrawal from banks for the payment of salaries and the disbursing of the salaries to employees. This process increases the risk of misappropriation of cash during the cash handling and salaries disbursements process.

Recommendation

We recommend the Ministry to develop proper segregation of duties. Also, we commend the Ministry to consider pay salaries through bank transfers to each employee's personal bank account, in order to avoid risks associated with the cash payment process.

Ministry of Interior

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Contracting Procedures for the Ministry's Building

Risk Rating: High

Observation

During our visit, 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 ID 5,744,690,600 (equivalent to USD 3,890,404):

- 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 ش ل) 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 ID 5,450,238,500 while in numbers is ID 5,750,238,500.

Recommendation

We recommend the Ministry to comply with the Ministry of Finance annual budget regulations and guidance and ensure contracts that exceed the Ministry's authorities are approved by the Council of Ministries.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Recording U.S. Agencies Contracts

Risk Rating: High

Observation

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.

The following are examples of contracts managed by the U. S Agencies and not yet recorded by the Ministry.

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

Recommendation

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 contracts managed by the U.S. Agencies and in order to update the Ministry's accounting records on a timely basis.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Allocation of Budget

Risk Rating: Low

Observation

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 over the whole year. During 2006, the Ministry did not allocate any budgeted amount over the 12 months period as required by the budget guidance.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

Ministry of Health

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

1. Procurement Contracts' Supporting Documents

Risk Rating: Medium

Observation

During our visit to the Ministry, we noted that the contract files with suppliers do not include all the necessary supporting documents, such as purchase request from the requesting department, copy of the newspaper announcement for the contract and necessary documents to confirm that the contract is properly covered by the budget. The following are examples of such contracts:

Contract type	Contract Number	Missing Documents
External Purchasing Contract	77/2006/607	Purchase request, copy of bidding announcement
External Purchasing Contract	77/2006/608	Purchase request, copy of bidding announcement, documents supporting that contract amount is budgeted for.
External Purchasing Contract	40/2006/180	Purchase request, copy of bidding announcement, documents supporting that contract amount is budgeted for.

Recommendation

We recommend the Ministry to keep all the supporting documents for each contract in one file, and obtain a copy of all orders, internal memos and approvals relating to each contract and retain this information in one location to facilitate review and auditing process.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Procurement Contracts Bid Bond

Risk Rating: Medium

Observation

During our visit to the Ministry, we noted some instances of non compliance with the instructions issued by the Supreme Contracting Committee in connection with the contracts bid bond of 3% of total contract price that should be provided by the suppliers upon receiving their offers. The following are examples for instances where no bid bonds were received from suppliers:

Contract type	Contract Number	Contract Amount
External Purchasing Contract	40/2006/60	U.S.\$ 3,120,000
External Purchasing Contract	40/2006/179	U.S.\$ 796,540

Recommendation

We recommend the Ministry to comply with the Supreme Contracting Committee instructions and ensure receiving of bid bond of 3% of total contract price for each participating bid.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Delay in Purchasing and Contracting Processes

Risk Rating: Medium

Observation

During our visit, we noted a delay in purchasing and contracting process for necessary contracts such as follows:

- Contract Number 91/2004/85/D, where the purchase request of the State Medicines Marketing Company's order was approved on 11 July 2005, while the contract was signed on 19 October 2006.
- Contract Number 40/2006/60, where the Imports Committee has recommended the purchase on 20 September 2005, while the Supreme Contracting Committee's approval was obtained on 12 September 2006 and the contract was signed on 1st October 2006.
- Contract number 40/2006/481, where the contract was signed on 8 December 2005, while the related letter of credit was opened on 15 October 2006 and the purchased items were received on 18 January 2007. We also noted that the Ministry did not receive payment notification from the Trade Bank of Iraq confirming the payment of 80% of the shipment amount.

Recommendation

We recommend the Ministry to perform 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 to increasing the efficiency of purchasing and contracting department and ensure timely execution of the Ministry's annual budget.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

4. Old Outstanding Cash Margins

Risk Rating: Medium

Observation

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.

The following are examples of these outstanding balances as of 31 December 2006 according to the confirmation received from JP Morgan Chase.

L/C #	Ministry	L/C Amount (USD)	Outstandin g Amount (USD)	L/C Opening Date	L/C Validation Date	Last Payment Date
160/2003	Health	1,350,000	181,811	19/1/2004	28/4/2004	29/12/2004
1222/2004	Health	1,870,457	374,091	16/12/2004	1/4/2005	5/6/2005
1345/2004	Health	145,040	69,276	28/2/2005	28/11/2005	13/10/2005

Recommendations

We recommend that the Ministry coordinates with the Trade Bank of Iraq to analyse the current status of each outstanding letters of credit cash margins and follow up and resolve all old outstanding balances.

Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure the all letters of credit are executed on a timely basis, and the remaining balances are refunded to the DFI.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

5. Tracking Budget Allocations for the Ministry

Risk Rating: Low

Observation

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.

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.

The following is example of payment transfer order issued by the Ministry that exceed its allocated budgets:

CBI Letter No.	LC No.	Governmental Entity	Request for transfer USD	Budget Allocation USD
2158/1/5 on 23/12/2006	4070/2006	STATE COMPANY FOR DRUGS & MEDICAL SUPPLIES MARKETING – MINISTRY OF HEALTH	105,840	33,600

Recommendation

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.

If exceptions are approved, any payments in excess of budget allocations should be formally documented as approved by the authorised authority or officer.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

6. Recording U.S. Agencies Contracts

Risk Rating: High

Observation

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.

The following are examples of contracts managed by the U. S Agencies and not yet recorded by the Ministry.

Contract Number	Contract Value (U. S. Dollar)	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

Recommendation

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 contracts managed by the U.S. Agencies and in order to update the Ministry's accounting records on a timely basis.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

Ministry of Trade

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

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

Risk Rating: Low

Observation

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.

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.

Recommendation

We recommend the Ministry to prepare a budget for each related company budget and to develop an adequate budget monitoring system.

Also, we recommend the Ministry to prepare regular variance reports based on a comparison between the budget and actual expenses.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Recording of LCs Transactions

Risk Rating: High

Observation

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.

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.

The following are some examples:

LC #	LC Amount	LC Date	Paid Amounts as per accounting records (USD)	Paid Amounts as per Import Department records (USD)	Difference (USD)
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

Recommendation

We recommend the Ministry to review the LCs recording procedures to ensure that all LCs and related payments transactions are recorded in the accounting records.

Also, we recommend the Ministry performs monthly reconciliations between the Import Department records and the Accounting Department records on a timely basis and ensure all reconciling differences are followed up and resolved.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Imports of Vegetarian Oil

Risk Rating: High

Observation:

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 USD 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.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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4. Contract Bid Bonds

Risk Rating: Medium

Observation:

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:

- Order # 1/2006 for the purchase of milk
- Order # 3/2005 for the purchase of oil.

Recommendation

We recommend the State Company for Food Supplies strictly adheres to the instructions issued by the Supreme Contracting Committee relating to contract bid bonds.

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5. Bidding Analysis and Awarding Committee

Risk Rating: High

Observation

During our visit to the State Company for Food Supplies, we noted that the company does not have a bidding analysis and awarding committee. Currently, the division responsible for importing each type of materials is responsible for the analysis of the bid and award of the contracts relating to the division.

Recommendation

We recommend the State Company for Food Supplies establish a centralized bidding analysis and awarding committee and rotate its members each 6 months, in order to comply with the regulations of the Supreme Contracting Committee.

**Development Fund for Iraq
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6. Direct Awarding Contracts

Risk Rating: High

Observation

During our review of the direct awarding contracts, we noted the following:

- The Supreme Contracting Committee in its meeting number 56 resolved and issued certain guidance to control the direct awarding contracts of the Ministry of Trade. However, the copy of this resolution available at the Ministry is not signed by the committee members.
- The General Director of the State Company has approved the direct awarding contracts, rather than the Minister as specified in the direct awarding guidance.
- Bid invitations were made in the State Company for Food Supplies announcements board instead of being made through the official media channels as required by the direct awarding guidance.
- The State Company for Food Supplies does not receive the performance bond amounting to 5% of the total contract price as required by the Supreme Contracting Committee regulations.

The table below illustrates some examples of such practice:

Contract number	Contract date	Material	Contract value USD
1191	April 13, 2006	Legumes	3,937,500
1715	August 5, 2006	Chick-pea	2,325,000
2697	June 21, 2006	Lentil	1,625,000

Recommendation

We recommend the following:

- The direct awarding process should be approved by the Minister.
- The State Company for Food Supplies should comply with all the regulations of direct awarding contracts.
- Bid invitations should be announced through the official media channels in order to increase the chances to obtain more competitive offers.
- Ensure to receive performance bonds for all contracts.

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7. Old Outstanding Cash Margins

Risk Rating: Medium

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.

L/C #	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date	Last Payment Date
369/2004	Trade	295,000	31,000	15/6/2004	15/8/2004	15/10/2004
374/2004	Trade	2,740,500	52,615	15/6/2004	28/2/2005	17/10/2005
386/2004	Trade	29,645,000	381,178	22/6/2004	31/10/2004	18/2/2005
412/2004	Trade	495,000	363,260	21/6/2004	30/11/2005	17/2/2006
411/2004	Trade	29,645,000	885,425	30/6/2004	30/11/2004	8/2/2005

Recommendations

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.

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8. Tracking Budget Allocations for the Ministry

Risk Rating: Low

Observation

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.

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.

The following is an example of payment transfer order issued by the Ministry that exceeded its allocated budget:

CBI Letter No.	LC No.	Governmental Entity	Request for transfer USD	Budget Allocation USD
699/5 on 24/5/2006	0253/2006	STATE COMPANY FOR FOOD STUFF TRADING – MINISTRY OF TRADE	23,625,000	1,941,164

Recommendation

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.

If exceptions are approved, any payments in excess of budget allocations should be formally documented as approved by the authorised authority or officer.

Ministry of Electricity

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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1. Contracting Procedures

Risk Rating: High

Observation

During our review of one of the contracts that was entered with a foreign company in order to supply to Distance Relay transmission lines for 132 KV and 400 KV for USD 2,073,035, we noted the following:

- The issued memo number 19729 from economic sector at Ministry of Electricity to the general directory for transfer middle electricity power dated 11 December 2005 shows that instructions were received from H. E. Minister of Electricity to proceed on the contracting procedure with this company. However, the resolution of the analysis and awarding committee was only issued on 20 December 2005.
- The Ministry did not receive the bid bond of 3% of the total quotation price from the company.
- We noted that the legal department representative participated in both the opening and awarding committees, while the Supreme Contracting Committee instructions prohibit the same person to be in both committees.

Recommendation

We recommend the Ministry to comply with the instructions issued by Supreme Contracting Committee regarding bid bonds and segregation of duties and prohibit committee members from participating in more than one committee.

**Development Fund for Iraq
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2. Contracting Procedures for the Power Line Contract

Risk Rating: High

Observation

During our visit, we noted that contract number 5/6/2/2006 had been awarded to a Syrian company to supply power transmission line components (400 KV) for Moussel-Turkey power line amounting to USD 24,800,000, through formal tender process.

However, for the contract of Moussel-Kirkuk power line (400 KV), an invitation for tender was solely made to the same Syrian company without following the formal tender requirements and awarded for USD 21,317,735. This contract was approved by the Economic Department in the council of Ministers on 2 January 2006.

Recommendation

We recommend that the Ministry should comply with the instructions issued by Supreme Contracting Committee regarding the contract tendering and awarding procedures.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Approval of Settlement of Old Debt

Risk Rating: High

Observation

During our visit, we noted that the Ministry paid a total amount of USD 34,000,000 for an old outstanding contract, without having an approved budget and without prior approval by the Ministry of Finance. This payment is related to a contract for the supply of power supply materials by a Jordanian company signed on 21 May 2001 for USD 100 million. Based on the contract terms, the first payment was due after two years on 21 May 2003.

We noted that, based on the Ministry records, the Jordanian company supplied materials amounting to USD 77,418,321 up until 15 September 2004 and requested the settlement of its billings.

Recommendation

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 986 (1995).

We further recommend the Ministry of Electricity to comply with its budget allocations for each year and to obtain the Ministry of Finance approval for any exceptions.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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4. Contract of Supplying Chemical Operating Materials

Risk Rating: High

Observation

During our review of the contracting procedures of tender number W.K. 1/2006 for supplying chemical operating materials, which had been partially awarded to a Jordanian company for USD 7,674,500 and the remaining had been awarded to a Syrian company for USD 10,025,980, we noted the following:

- 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 received in advance amounting to USD 74,900 were considered as a performance bond.
- The Syrian company paid an amount of USD 50,000 as bid bond, which is much less 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, we were advised that the materials received in advance amounting to USD 229,580, in addition to the bid bond, were considered as performance bond. The total value of the materials received and the bid bond do not however fulfil the requirements of 5% of total contract value.

Recommendation

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.

**Development Fund for Iraq
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5. The procedures related to the contact No. 164

Risk Rating: High

Observation

During our visit, we noted that the contract of supplying materials for Al-Dibes Electricity Station, required an advance payment guarantee, which represents 20% of contract price, in addition to a performance bond through a bank guarantee equal to 5% of the contract price.

We noted that the Ministry opened the LC for the benefit of the contractor on 14 May 2006 and paid the advance payment after receiving the bank guarantee for the advance payment; however, the Ministry did not obtain the performance bond guarantee, which is a requirement of the contract terms.

Recommendation

We recommend the Ministry to adhere to the contract terms and ensure collection of the performance bond guarantee to preserve the Ministry contractual rights.

In addition, we recommend that the LCs terms should be prepared consistent with the contract terms and conditions.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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6. Al-Mosaib Gas Station Project

Risk Rating: High

Observation

During our visit, we noted the following in respect of LC No. 236/2004, which was opened during 2004 for the benefit of an American company for the execution of the construction of Al-Mosaib Gas Station project for USD 283,000,000:

The Ministry does not have any supporting documents or any progress report of the construction of the project. However, an amount of USD 17,620,471 was paid to the company during 2006 as follows:

Invoice No.	Ref. of Letter issued by the Ministry to Trade Bank of Iraq	Letter date	Amount USD
17006 *	1508	December 14, 2006	5,000,000
17007	5805	March 28, 2006	4,188,381
19001 *	Not Available	Not available	8,432,090
Total			17,620,471

* We requested and did not receive the receipt voucher of special works provided by the contractor.

However, based on the Minister's letter dated 18 March 2007 the LC has been cancelled due to the fact that the American company did not complete the work and has withdrawn from the project site in violation of the contract terms and conditions.

Recommendation

We recommend the Ministry to investigate the above 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.

**Development Fund for Iraq
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7. Procedures Related to Contract Number 4/2004

Risk Rating: High

Observation

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, and noted that the Ministry of Electricity had paid USD 1,935,000 in favor of the Lebanese company before receiving the materials.

Recommendation

We recommend that the Ministry should not pay any amount to the contractors and suppliers without receiving the contracted products and services.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

8. Recording and Reconciliation of LCs Payments

Risk Rating: High

Observation

During our visit, we noted the following in respect to the functions of the economic department and the finance department:

- No proper reconciliations are prepared regularly to match the statement of letters of credit received from Trade Bank of Iraq with the letters of credit records maintained by the Ministry.
- No proper filing system is maintained to keep the related supporting documents.
- There is weak coordination between Economic Department and Finance Department in order to ensure the proper recording of L/Cs transactions on a timely basis.

Recommendation

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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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9. Old Outstanding Cash Margins

Risk Rating: Medium

Observation

During our visit to the Ministry, we noted a number of old outstanding cash margin balances with JP Morgan Chase for 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.

L/C #	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date	Last Payment Date
220/2004	Electricity	3,867,559	203,161	2/3/2004	11/2/2005	13/10/2005
226/2004	Electricity	7,412,370	799,896	17/3/2004	31/12/2006	4/3/2005
239/2004	Electricity	7,050,000	1,357,000	10/3/2004	31/12/2006	20/12/2004
1206/2004	Electricity	305,000	395,000	14/12/2004	1/7/2005	N/A

Recommendations

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.

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 to refund the outstanding amounts of the expired LCs immediately.

Ministry of Justice

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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1. Payroll Processing and Payment

Risk Rating: High

Observation

During our visit to the Ministry of Justice, 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.

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.

Recommendation

We highly recommend the Ministry to develop the payroll processing and payment function to maintain adequate segregation of duties between the payroll processing, approval and payment functions. Also, we recommend the Ministry considers transferring all the employees' monthly salaries to their personal bank accounts.

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 affect the monthly payroll entitlements on a timely basis.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

2. Bidding Opening and Analysis Committees

Risk Rating: High

Observation

During our visits to the Ministry, we noted that the procurement bidding and awarding committee is a permanent committee, where its members are not being rotated regularly. Although, the annual budget instructions issued by the Ministry of Finance are emphasising on the matter of rotating the committee members semi-annually.

Recommendation

We recommend the Ministry to comply with the annual budget instructions issued by the MOF as to the requirement of rotating the committee members every six months.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

3. Contracting Procedures

Risk Rating: Medium

Observation

During our visit to the Ministry, we noted the following in respect of the contracting procedures:

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	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

Recommendation

We recommend the Ministry to adhere to the annual budget instructions issued by the Ministry of Finance in relation to the contracting procedures that should be followed by the ministries.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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4. Contracts Performance Bond

Risk Rating: Medium

Observation

During our visit to the Ministry, we noted that the Ministry is engaged in a contract with an Iraqi company to repair the building of the Directorate of Real-Estate Registration in Rossafi for an amount of IQD 190,000,000. The contract terms do not include the performance bond term of 5% of total contract price.

Recommendation

We recommend the Ministry to adhere to the Supreme Contracting Committee instructions concerning the contracting procedures and ensure receiving performance bonds for each contract.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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5. Construction of Forensic Complex Contract

Risk Rating: Medium

Observation

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 obtaining the construction permission as the Ministry is obligated to do under this contract. As a result, the Iraqi company claimed for compensation penalties from the Ministry since that the Ministry did not fulfil its obligations under this contract. However, this penalty has not been paid by the Ministry.

Recommendation

We recommend the Ministry to perform a thorough investigation and prepare all the requirements needed for executing any contract before signing any contracts, in order to avoid any failure to fulfil its obligations and decrease the probability of being claimed for such penalty.

**Development Fund for Iraq
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6. Contracts' Supporting Documents

Risk Rating: Medium

Observation

During our visit, we noted that the contracts files and related supporting documents are not properly organized, which makes it difficult to retrieve and review the documents.

Recommendation

We recommend the Ministry to develop a proper archiving system to keep each contract together with its related supporting documents in one file, and to properly organize these contracts in order to facilitate the reviewing process.

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7. Tender Announcements

Risk Rating: High

Observation

During our visit to the Ministry, we noted that all bids related to the Ministry have been announced only in one newspaper.

Announcing public tenders in several newspapers assists the Ministry in meeting the objectives of public tendering and increases the chance of competition.

Recommendation

We recommend that the Ministry publishes the public tenders in at least 3 newspapers as required by local regulations. Also, public tenders should be published in the Ministry website to increase competition opportunity.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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8. Recording U.S. Agencies Contracts

Risk Rating: High

Observation

During our visit to the Ministry of Justice, 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 and the contracts costs are not yet being recorded in the Ministry's accounting records.

The following are examples of payments on these contracts that managed by the U. S Agencies and not yet recorded by the Ministry.

Date payment	Amount (U. S. Dollar)
25-May-06	484,015
20-Nov-06	570,714

Recommendation

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 contracts managed by the U.S. Agencies and in order to update the Ministry's accounting records on a timely basis.

Kurdistan Region

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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1. Control and Administrative Procedures

Risk Rating: Medium

Observation

During our visit of Kurdistan Region/ Erbil and 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 memoranda.

In the absence of a consolidated procedures manual, the risk exists that:

- 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.

Recommendation

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.

In addition, detailed monitoring procedures should be carried out by management to ensure effective and consistent implementation of the control and administrative procedures manual.

**Development Fund for Iraq
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2. Accounting and Management Information Systems

Risk Rating: Medium

Observation

During our review of Kurdistan Region /Erbil and 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, and do not adequately meet the requirements of the ministries.

Recommendation

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:

- 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.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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3. Separate Bank Accounts for DFI Funds

Risk Rating: Medium

Observation

During our visits, we noted that the ministries of finance in Kurdistan Region do not maintain separate bank accounts for DFI funds. During 2006, all received funds from Baghdad Ministry of Finance and any received local revenues were deposited in one bank account.

Such practice may result in difficulties in identifying the source of funds and preparing monthly reconciliations for total received funds from Baghdad Ministry of Finance.

However, we understood that the Ministry of Finance/ Erbil opened a separate bank account for DFI funds during 2007.

Recommendation

We recommend the ministries of finance at Kurdistan Region deposit all transfers from Baghdad Ministry of Finance from the DFI funds in a separate bank account to facilitate monitoring of those funds and to reconcile with the records of Baghdad Ministry of Finance.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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4. Budget Variance Analysis

Risk Rating: Medium

Observation

During our visit, we noted that the ministries of finance in Sulaimaniyah and Erbil do not prepare regular analysis reports for variances between actual and budgeted expenses.

Also, we noted that other ministries in Kurdistan Region do not prepare periodic reconciliations between the received funds and the underlying fund statement of account obtained from Ministry of Finance\ Erbil and Sulaimaniyah.

Recommendation

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.

We further recommend all ministries to prepare periodic reconciliations between the received funds and the Ministry of Finance statements of account.

**Development Fund for Iraq
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5. Expenses Paid Through Cheques

Risk Rating: High

Observation

During our review of the ministries payment process we noted that neither copy of the cheque nor payee identity card was obtained by the accounting department to confirm the receipt of the cheque by the beneficiary; instead, only the counterfoil was filed.

Obtaining a copy of the cheque, copy of the payee identity card and having the signature of the payee on the cheque copy serves as the most powerful evidence of receiving the cheque and accordingly avoiding possible risks of fraud, errors and litigations.

Recommendation

We recommend the accounting department at each Ministry obtains a copy of the cheque for each payment transaction made by cheques, obtain a copy of the payee identity and the signature of the payee on the cheque copy. The above mentioned documents should be properly filed using a unique coding or filing system within the accounting department which ensures the quick retrieval of required data when needed.

All cheques issued should be issued for the “first beneficiary only”.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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6. Operating Budget

Risk Rating: Medium

Observation

We noted that the operating budget amounted to IQD 3.5 trillion, which represents 82% of the total budget of Kurdistan Region, which is considered very high.

Recommendation

We recommend to make a study to increase the investment budget.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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7. Formal Reconciliation with Ministry of Finance

Risk Rating: Medium

Observation

During our review we noted that the ministries of finance in Kurdistan Region do 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.

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 Baghdad and Kurdistan Region.

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.

Recommendation

We recommend that the Ministry of Finance prepares monthly reconciliations for funds received between:

- The Ministry of Finance and the receiving Ministries in Kurdistan Region.
- Both Ministries of Finance in Kurdistan Region and the Ministry of Finance in Baghdad.

These reconciliations should be independently reviewed and examined by senior levels in the Ministry. We understand that the Ministries of Finance in Kurdistan Region will start preparing such reconciliations during 2007.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

8. Reconciliation for Suppliers and Contractors Accounts

Risk Rating: Low

Observation

During our review, we noted that the ministries in Kurdistan Region do not perform reconciliations for suppliers and contractors accounts with their accounting records.

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.

Recommendation

We recommend the finance department at all Ministries 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 balances due.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

9. Bank Overdrafts

Risk Rating: Medium

Observation

During our review we noted that the following Ministries' bank accounts were overdrawn as of 31 December 2006:

- Erbil Governorate amounting to IQD 547,214,003,000
- Erbil Ministry of Finance amounting to IQD 346,071,544,000

Ministries 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 award of salary increases issued by the Prime Minister which has not been reflected in the allocated budget to Kurdistan Region.

In addition, we noted in some instances that budget allocations were transferred after the related month allocations, for example:

- Transfer order to the Central Bank of Iraq of ID 93,573,750,000 to Erbil Ministry of Finance dated 10 July 2006 for financing operating expenses for the months June 2006.
- Transfer order to the Central Bank of Iraq of ID 45,020,500,000 to Erbil Ministry of Finance dated 10 August 2006 for financing part of the operating expenses of July 2006.
- Transfer order to the Central Bank of Iraq of ID 34,999,750,000 to Erbil Ministry of Finance dated 5 December 2006 for financing part of the operating expenses of November 2006.

Recommendation

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.

Also, a plan should be developed to secure the sources of fund to settle the overdrawn bank accounts and related interest.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
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10. Word Document Payroll Sheets

Risk Rating: Low

Observation

During our review, 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.

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.

Recommendation

We recommend that the Ministry of Finance switch from the word document payroll sheets to excel payroll sheets until the decision is taken to procure and implement specialized software for payroll processing. Excel payroll sheets will facilitate the review process and minimizes risk of misstatements and risk of fraud.

**Development Fund for Iraq
Matters Arising During the Ministries Visits
For the year ended 31 December 2006**

11. Readily Available Data for Expenses by Project

Risk Rating: Low

Observation

During our review, we noted that the Ministry of Municipalities 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.

To improve the internal control over projects, breakdown of expenditure by project should agree with total financing provided by the Ministry of Finance.

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, identify current financial position and remaining resources required for the remaining duration of the project.

Recommendation

We recommend the Ministry of Municipalities and the Municipality Governorate to prepare monthly reports of expenditure; such reports should be classified and prepared in accordance with the needs of the users of those reports. Basically the monthly expenditure report should classify expenditure by project to assists management in monitoring expenditure of projects and the remaining costs to complete those projects.

In addition, a register should be maintained to account for all projects related data such as:

- Original contract amount
- Amendments and change orders
- Starting date and estimated completion date
- Advance payments
- Total billings received
- Total payments
- Accounts payable/unpaid invoices
- Retentions
- Letters of guarantees received from the contractors
- Any claims or outstanding issues

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12. Cash Payment of Salaries

Risk Rating: High

Observation

During our review of the ministries payroll process in Sulaimaniyah, we noted that all ministries pay salaries in cash. Salaries disbursements through cash and by the salaries disbursements committee increase the risk of misappropriation of cash, theft and risk of loss while handling and processing salary disbursements.

Recommendation

We recommend all ministries to start a new process for salary disbursements, with all salaries being transferred to each employee's personal bank account, in order to avoid risks associated with the salaries cash disbursement process.

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13. Sub-Ledger Accounts

Risk Rating: Low

Observation

During our review, we noted that Ministry of Municipalities in Kurdistan Region 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.

Recommendation

We recommend that the finance department at the Ministries of Municipalities should maintain sub-ledger accounts for each opened project within the accounting records. Using sub-ledger accounts assists in classifying project costs in the most appropriate method and determining accurately the cost of each project during the course and on completion of the project.

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14. Bank Reconciliations

Risk Rating: High

Observation

During our review we noted that the bank reconciliation as at 31 December 2006 were not performed properly at the Ministry of Municipalities of Sulaimaniyah, e.g. the bank reconciliations included arithmetical errors. In addition, we noted that reconciling items were not properly controlled and followed up, whereby we noted that the Finance Department does not prepare a detailed list of outstanding cheques not withdrawn from the Ministry bank account.

Recommendation

We recommend the Ministry properly prepares bank reconciliations, which should be followed up and monitored by an appropriate level in the Ministry. In addition, all reconciling items should be properly controlled by preparing, following up and clearing all reconciling items to properly reconcile and monitor bank accounts.

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15. Tender Announcements

Risk Rating: Medium

Observation

During our review, we noted that public tenders at the Ministry of Municipalities in Sulaimaniyah are announced in one local newspaper only. Public tenders are not announced in several local newspapers, 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.

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.

Recommendation

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.

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16. Orders to Form Committees

Risk Rating: Medium

Observation

During our visit to the Ministry of Municipalities of Sulaimaniyah, we noted that the orders of forming the committees for tender analysis and tender selection 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 and provided to management and auditors when required.

Recommendation

We recommend the Finance Department to obtain all formal letters for the formation of tender committees and to file those letters in a separate file or make a copy in each related tender file. Obtaining copies of those letters maintains audit trail for management and internal and external auditors.

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17. Pre-Printed Payment Vouchers

Risk Rating: Low

Observation

During our visit to the Ministry of Municipalities, we noted that payment vouchers are not pre-printed forms neither serially pre-numbered. The used form is photocopied and then manually prepared by the accountant for each payment transaction.

Payment forms should be pre-numbered, pre-printed and in multiple copies. At least one copy of the payment voucher should be attached to the journal voucher and the second copy to be kept in the book of payment vouchers. Such forms ensure completeness of payment vouchers and reduce the risk of misstatements in the financial records and risk of fraud.

Recommendation

We recommend that the Finance Department use pre-numbered, pre-printed and a multiple copy payment voucher to properly control the disbursement process, ensure completeness of recording of all disbursements and minimize the risk of fraud.

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18. Tender Procedures

Risk Rating: High

Observation

During our review, we noted that in some cases no tender procedures were used for contracting with construction contractors. Instead, direct source contracting was used to initiate contracts with contractors. The following are examples of contracts performed through direct contracting;

Contract	Amount USD
Construction of 1,008 flats	51,000,000
Construction of a central medical laboratory	16,641,513
Construction of 504 flats	15,492,960
Construction of 1,500	34,545,000
Construction of Erbil International Airport	210,070,000

We discussed the direct contracting method for those contracts with the Ministry of Finance personnel, and were advised that these contractors were the only reliable specialized companies in their related field of construction and that is why direct contracting was used instead of using tendering procedures.

Recommendation

We recommend that contracts should be initiated, approved and signed using tendering and bidding procedures instead of direct contracting with contractors.

Tendering procedures increase the chance to obtain competitive bids with high quality of construction and according to the analysis committee's decision.

Where direct tenders are the case, the reasons and approval should be formally documented.