



Development Fund for Iraq Management Letter

31 December 2008

AUDIT ■ TAX ■ ADVISORY

Disclaimer

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

Dear Sirs,

We have audited the Statements of Cash Receipts and Payments ("the financial statement") of the Development Fund for Iraq ("the Fund") for the year ended 31 December 2008. In planning and performing our audit of the financial statement of the Fund in accordance with international standards on auditing, we considered the internal control of the spending ministries as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the spending ministries' internal controls. Accordingly, we do not express an opinion on the effectiveness of the spending ministries' internal control. Throughout our audit we have noted some observations and recommendations that we are reporting to you for your kind attention and follow up.

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

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

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

Yours faithfully,

KPMG

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Observations raised for the year ended 31 December 2008

Ministry of Finance

1. Accounting records and supporting documents

Observation	<p>We noted the following:</p> <ul style="list-style-type: none"> • The accounting division at the Ministry does not maintain a register for fixed assets. • The Ministry does not maintain a register for payments of car maintenance expenses despite the size of the amounts spent from this account and the number of cars this account includes. • The finance department records the payment order in a journal and then records the journal entry in another journal without regard to the sequence. • The Ministry does not reverse entries it simply strikes the entry out and writes "VOID".
Recommendation	We recommend that the accounting department maintains the above mentioned accounting records and follows sequential numbering when recording transactions..
Risk Level	High
Status	New

2. Manual and Automated accounting System

Observation	We noted that the balances extracted from the automated accounting system do not reconcile to the balances in the manually maintained general ledger for the first 6 months of the year 2008.
Recommendation	We noted that the balances extracted from the automated accounting system do not reconcile to the balances in the manually maintained general ledger for the first 6 months of the year 2008.
Risk Level	Medium
Status	New

3. Procurement Committee

Observation	<p>We noted the following:</p> <ol style="list-style-type: none"> 1) Disbursement bill 8360 on 17/1/2008: The procurement committee obtained 3 quotations, 2 of which were from the same supplier. 2) Disbursement bill 8386 on 23/1/2008: No procurement committee was involved. 3) Disbursement bill 1599 on 29/1/2008: The procurement committee obtained 3 quotations, 2 of which were from the same supplier. 4) Disbursement bill 8634 on 5/3/2008: The procurement committee obtained 3 quotations, 2 of which were from the same supplier.
Recommendation	<p>We recommend that the Ministry puts procedures in place to ensure that 3 independent offers be obtained. In addition, we recommend that the procurement committee approves all purchases.</p>
Risk Level	High
Status	New

Observations raised for the year ended 31 December 2008 Ministry of Oil – Oil Marketing Company (SOMO)

1. Trial Balance

Observation	As of 18 March 2009 we have not obtained the trial balance for 2008. Therefore, we were unable to verify the accuracy of balances.
Recommendation	We recommend closing the accounts and preparing the trial balance in order to submit the financial statements to the intended users as per the applicable regulation.
Risk Level	High
Status	New

2. Accounting System

Observation	During our visit to the company, we noted that the company uses Microsoft Access Software, which is not suitable given the size of the company's operations. This system could result in delays in the company's operations.
Recommendation	We recommend installing a comprehensive accounting software as a complete solution for the quick processing and extraction of financial information.
Risk Level	Medium
Status	New

3. Fines

Observation	During our visit to the company, we noted that fines incurred by the company due to delays in loading the carriers amounted to USD 24,470,389 during the year 2008.
Recommendation	We recommend complying with time schedules set for loading in order to avoid fines and preserve public funds.
Risk Level	High
Status	New

4. Change of Destination

Observation	During our review of crude oil contracts, we noted that the company "Shell" changed the destination of one of its shipments from North America to the Far East resulting in additional dues of USD 26,287,818 which SOMO had demanded. Till the date of our visit on 18 March 2009, "Shell" had not settled this amount, knowing that SOMO has continued to sell to "Shell".
Recommendation	We recommend taking the appropriate steps against Shell company in order to collect the additional amounts due.
Risk Level	High
Status	New

5. Al Ahli Bank of Jordan

Observation	<p>We noted that the following outstanding balances due to the company from Al Ahli Bank of Jordan:</p> <p>USD 7,868,578</p> <p>Euro 922,704</p> <p>CHF 6,935</p> <p>GBP 1,389</p> <p>SOMO sent a letter to the bank to confirm these balances at 9/2/2009. On 1/3/2009, the above mentioned bank sent a letter to SOMO stating that there are no balances relating to SOMO and that any inquiries regarding this issue should be with the Central Bank of Jordan.</p>
Recommendation	<p>We recommend following up on this issue with the Central Bank of Jordan in order to ensure collection of these amounts and to deposit them in the DFI account.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

6. Outstanding Items in Bank Reconciliations

Observation	During our review of reconciliations between SOMO and the Trade Bank of Iraq (account number 1151 and 1084), we noted that there are old outstanding items with substantial balances from the year 2007.
Recommendation	We recommend that the company follows up on the old outstanding items in order to reconcile the book balances with the Trade Bank of Iraq.
Risk Level	High
Status	New

7. Amounts due from the Ministry of Electricity

Observation	During the course of our review of SOMO, we noted the existence of amounts due from the Ministry of Electricity based on the agreement between SOMO, the Turkish Company and the Ministry of Electricity. The dues amounted to USD 48,033,030 for the period 1/7/2007 till 31/12/2008, and IQD 27,200,725 for the period 1/1/2008 till 30/6/2008.
Recommendation	We recommend following up this issue with the Ministry of Electricity.
Risk Level	Medium
Status	New

8. Reconciliation of Crude Oil Sales

Observation	During our visit to the company, we noted that the company performs monthly reconciliations of oil sales with the Central Bank of Iraq and not with the Ministry of Finance.
Recommendation	We recommend performing monthly reconciliations with the Ministry of Finance.
Risk Level	Medium
Status	New

9. Operating and Trade Accounts

Observation	During our visit to the company, we noted that the company prepares two types of accounts: trade accounts, and operations accounts, and does not combine these accounts in presenting the financial position.
Recommendation	We recommend combining the trade and operations accounts in order to present a comprehensive financial position.
Risk Level	Medium
Status	New

10. Commissions

Observation	During our visit to SOMO, we noted that the accounting division recorded commissions on oil products for only nine months in the trade activity revenue statement 42 for the year 2008.
Recommendation	We recommend recording commissions on oil products for the whole year.
Risk Level	Medium
Status	New

11. Sales of Oil Products

Observation	During our visit to SOMO, we noted that the accounting division does not prepare reconciliations between sales of oil products on an accrual basis, and receipts from sales of oil products on a cash basis. The difference between the cash and accrual basis amounted to USD 205,630,000 for the year ended 31 December 2008.
Recommendation	We recommend preparing reconciliations between the accrual basis and cash basis sales. We also recommend opening a separate bank account for sales of oil products to facilitate the reconciliation process.
Risk Level	High
Status	New

Observations raised for the year ended 31 December 2008

Ministry of Oil

1. Burning Condensed Petroleum Products

Observation	During our visit to the Ministry, we noted that the North Oil Company burns quantities of petroleum condensates products from the Ajil fields due to the lack of outlets. The burnt quantity during 2008 amounted to 1,391,230 barrels.
Recommendation	We recommend that the Ministry finds outlets for the condensed petroleum products instead of burning them in order to preserve public funds.
Risk Level	High
Status	New

2. Missing Barrels

Observation	During our visit to the Ministry, we noted that there are 698,083 stolen barrels during the year 2008 from North Oil Company due to terrorist activities.
Recommendation	We recommend that the Ministry increase its security procedures to preserve public funds.
Risk Level	High
Status	New

3. Injection of Oil

Observation	During our visit to the Ministry, we noted that the North Oil Company injected back 605,392 barrels of crude oil into the oil fields during 2008 causing damage to the oil fields.
Recommendation	We recommend preventing the injection of oil back into the oil fields to prevent damage to oil fields.
Risk Level	High
Status	New

4. General Strategic Budget for the Iraqi Government for the year 2008

Observation	During our visit to the Ministry, we noted that the Ministry prepared an annual plan for the year 2008 on 23/1/2008. The quantities to be produced according to the budget were 585,000 barrels of oil per day by the North Oil Company and 2,135,000 barrels of oil per day by the South Oil Company. The actual quantities produced per day in the North Oil Company were 577,000 barrels per day, and the South Oil Company were 1,703,000 barrels per day. Comparing the actual with the budget, we noted a difference of 440,000 barrels per day relating to the South Oil Company.
Recommendation	We recommend that the Ministry fully coordinates with the oil companies in the preparation of the budget.
Risk Level	High
Status	New

5. Method of Measurement of Quantities Exported

Observation	During our visit to the Ministry, we noted that the North Oil Company uses the quantities shipped till 12 midnight when preparing the Budget and reconciliation quantities of crude oil and oil products report. As for the reconciliation with SOMO, the North Oil Company reconciles the quantities according to the bill of lading of vessels. Applying this method could lead to differences in the quantities exported in the budget report and the reconciliation of crude oil. The instructions issued by the Ministry to all companies is to use the bill of lading as the measurement basis.
Recommendation	We recommend that the North Oil Company adheres to the Ministry's instructions.
Risk Level	High
Status	New

6. Reconciliations Department

Observation	During our visit to the Ministry's reconciliation department, we noted that there are differences between the quantities supplied by the North Oil Company and the quantities received by Al Masafi Company amounting to 290 barrels. And 50,134 barrels between the south oil company and al masafi company.
Recommendation	We recommend that the Ministry identifies and resolves the reason behind these differences.
Risk Level	High
Status	New

7. Middle Refineries – Initial Guarantees

Observation	During our visit we noted that the refinery, submitted an initial guarantee of 3% of the contract's nominal value, in the form of a bank guarantee as per instructions issued by the Supreme Contracting Committee. These initial guarantees however, were issued through foreign banks outside Iraq violating the instructions issued by the Supreme Contracting Committee which requires the issuance of guarantees to be done through Iraqi banks. For example, a contract to supply 3 air compressors with a guarantee of USD 210,000 was issued by a Jordanian bank.
Recommendation	We recommend that the Ministry adheres to the instructions issued by the Supreme Contracting Committee regarding initial guarantees for contracting be issued by Iraqi banks.
Risk Level	Medium
Status	New

8. Excavation Company – Tenders Opening Committee

Observation	During our visit to the company, we noted that the name of one member of the Tender Opening Committee was included in more than one committee from 25/7/2007 to 31/12/2008. The member's name is Mr. Ahmad Ramzi Sobhi acting as the committee's accountant.
Recommendation	We recommend that the Ministry complies with governmental contracts instructions issued by the MOF which requires that members of the Tender Opening Committee be changed every six months.
Risk Level	Medium
Status	New

9. Excavation Company – Performance Bond

Observation	During our review of the company's contracts, we noted that the companies that deal with the Excavation Company do not adhere to the period specified in the contract for submitting the performance bonds. Following are examples: Contract number IDC4/B/2006 and contract number IDC/100/2008.
Recommendation	We recommend that the Ministry adheres to the terms of the contract with regard to obtaining performance bonds on time.
Risk Level	Medium
Status	New

10. Oil Projects Company – Initial Guarantee

Observation	During our visit we noted that the refinery, submitted an initial guarantee in the form of a bank guarantee as per instructions issued by the Supreme Contracting Committee. These initial guarantees however, were issued through foreign banks outside Iraq contradicting the instructions issued by the Supreme Contracting Committee which requires the issuance of guarantees to be done through Iraqi banks. For example, tender number 2145/QR dated 12/2/2006 was issued through a Jordanian bank
Recommendation	We recommend that the Ministry adheres to the instructions issued by the Supreme Contracting Committee regarding initial guarantees for contracting be issued by Iraqi banks.
Risk Level	Medium
Status	New

11. Ministry Headquarters– Approval of Accounts by the Ministry of Finance

Observation	The Ministry of Finance has not approved the consolidated register that includes a summary of accounts for the financial year 2008.
Recommendation	We recommend that the Ministry obtains the approval of the consolidated register from the Ministry of Finance.
Risk Level	Medium
Status	New

12. Ministry Headquarters - Stolen Vehicles

Observation	During our visit to the Ministry, we noted that before 2008, a known party had stolen vehicles from the Ministry's headquarters. Although the person involved is known, these vehicles have not been recuperated yet. The General Secretary of the Council of Ministers requested the recuperation of the stolen vehicles.
Recommendation	We recommend that the Ministry follows up on this issue and recuperates the stolen vehicles.
Risk Level	High
Status	New

13. Ministry Headquarters – Legal Contracts Division

Observation	<p>During our visit to the contracts division at the Ministry, we noted the following:</p> <ol style="list-style-type: none"> 1- The division does not have a list of tenders and contracts for 2008 or of contracts signed before 2008 and are still valid. 2- The division does not use a system to index and number contracts. 3- The division does not maintain a centralized file that includes all contract supporting documents.
Recommendation	We recommend that the Ministry prepares a list of all tenders and contracts, indexes and numbers contracts, and mains a centralized file for all contracts.
Risk Level	Medium
Status	New

14. Increasing the Contract Amount

Observation	We noted that the contracts relating to the supply and installation of a steam boiler and a hydroiomerization unit in the Dora refinery were increase by USD 550,000 and USD 4,086,000 respectively during the year 2008. The increase was due to the delay in signing the contracts.
Recommendation	We recommend that the Ministry sets a specific time frame to deal with the issue of bids till the time of signing the contract.
Risk Level	High
Status	New

15. Completeness of Petroleum and Petroleum Products Extracted

Observation	The IAMB recommended in March 2004 the expeditious installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices. Oil metering is a key factor to achieve financial transparency and accountability over oil resources in Iraq. While the Iraqi government supports oil metering, a letter has been addressed by the Oil Minister informing the head of COFE on 4/2/2008 that a comprehensive oil metering system will be installed by 31/12/2009. During our follow up, we were informed that the percentage of completion of installation is around 33% till 31/12/2008. The estimated time to complete installation of oil meters will be in year 2011 based on a letter addressed from the metering and measuring division on 16/3/2009.
Recommendation	We recommend installation of comprehensive metering systems for all oil industry related entities and expeditious installation and calibration processes for entities already received the metering systems.
Risk Level	High
Status	New

16. Differences between the MoO and the South Oil Company records

Observation	During our visit to the Ministry of Oil, we noted that there is a difference between the crude oil produces records where the Ministry of Oil recorded 623,341,260 barrels and the South Oil Company recorded 630,115,418 barrels. The difference of 6,774,158 barrel relates to the South Oil Company.
Recommendation	We recommend following up these differences.
Risk Level	High
Status	New

Follow up on the observations raised by the previous auditor Ministry of Oil

1. Awarding of Contracts Authority

Observation	During our review of a contract relating to supply the oil pipes for the benefit of South Oil Company amounting to USD \$ 15,847,800 which was executed by a company in United Arab of Emirates, we noted that the contract was awarded in May 23, 2007 and approved by the Minister although that the contract amount exceeds the ceiling of authority limits granted to the Minister to approve contracts at that date. However, the contract is categorized under the authorized limits of the Economic Committee of the Ministers Counsel.
Recommendation	We recommend the Ministry complies with budget execution instructions issued by Ministry of Finance for 2007 for better control procedures.
Management's Response	<p>"The contract relating to supply of oil pipelines, for the benefit of South Oil Company amounting to U.S. \$ 15,847,800 which was executed by an Emirates Company awarded in May 23, 2007 and approved by the Minister even though the contract value exceeded at said date, the authority limits granted to the Minister to approve contracts.. Approval of said contract is within the authorized limits of the Higher Committee for contracts at the Council of Ministers".</p> <p>The Ministry replied that the Economic Affairs Committee at the Council of Ministers convened on 23/5/2007 and issued its recommendations to raise the limits of authorities of certain Ministers, one of which is the Minister of Oil, which was resolved by the Council of Ministers as later indicated in its letter S.B./689 of 28/5/2007 confirming raising his authority to U.S.\$ 20 million.</p>
Risk Level	High
Status	Old
Follow up	Ceilings of authority limits granted have been raised for several ministers, including the Minister of Oil whose ceiling was raised to USD 20 million per contract.

2. Cash Margins

Observation	During our review of the contract No.NR-150 amounting to U.S. \$85,700,100 executed by an American company, we noted that the company submitted cash margins of 2% out of the contract's value. This represents a non compliance with governmental contracts execution requirements No. (1) of 2007 which requires obliging all contractors and suppliers to provide 3% of total contract's value as cash margin.
Recommendation	We recommend complying with government contracts execution requirements No. (1) of 2007 for better control procedures.
Management's Response	E&Y's note: "The company supplying items for contract NR-150 amounting to U.S. \$85,700,100 executed by an American company, submitted cash margins of 2% instead of 3% out of the contract's value. This represents a non compliance with government stipulations. We could not ascertain the correctness of this note due to the non specification of the beneficiary party and the purpose of the contract. We continue following up on this note at the Ministry's offices and at other premises by our commissions.
Risk Level	High
Status	Old
Follow up	We were unable to obtain the contract. Accordingly, we were unable to follow up on it. From a selected sample of contracts belonging to the Ministry's headquarters, none of the above mentioned observations came to our attention during 2008.

3. Tender Opening Committees

Observation	We noted that the members of the Tender Opening and Analyzing Committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committee members every six months.
Recommendation	We recommend complying with the budget instructions issued by the MOF which require rotating the Committee members every six months for better control procedures and adherence to budget instructions.
Management's Response	Our monitoring commission stated that the above note is a generalization and the general practice at most companies is the opposite of this rate. The report failed to specify the related company is respect of this violation.
Risk Level	Medium
Status	Old
Follow up	We noted that in some companies relating to the Ministry of Oil, members of the tender opening and evaluating committees have not been changed every six months.

Ministry of Oil

4. Bid Bonds

Observation	During our visit, we noted that the Ministry had collected the bid bonds valued at 3% of the tender amount in a form of a bank guarantee as required by the Supreme Contracting Committee instructions, however, these bonds have been issued by foreign banks outside Iraq. This matter contradicts with the Supreme Contracting Committee instructions which require that the bid bonds to be issued by Iraqi banks, for example:		
	Project	Contractor	Bank Guarantee Issuer
	Al Najaf Refinery	Project GEA Energy System Limited	Standard Chartered
	Supplementary Works	Project for Water Supply Unit ICCS	
Recommendation	We recommend complying with the Supreme Contracting Committee instructions related to bid bonds for better and control procedures.		
Management’s Response	Our related monitoring commission at the Petroleum Projects Company confirmed the above note and the said company was advised of this contravention and the need for its rectification.		
Risk Level	Medium		
Status	Old		
Follow up	From the selected sample, none of the above mentioned observations came to our attention in 2008 in the Ministry’s Headquarter.		

5. Changing Company Name

Observation	During our review of contact number QR-01/5294 related to Najaf Oil and Oil Products storage depot for an amount of U.S. \$ 8,877,745, we noted that the company' name has changed from GEA to BRG, while name on the contract and the performance bond has not been adjusted.
Recommendation	We recommend adjusting all the contracts and the performance bonds for companies changing their names during the contract period, in order to preserve the Ministry's rights in case of any breaches of contracts signed.
Management's Response	Follow up by our Monitoring Commission revealed that this note is in-accurate since the Petroleum Projects Company did provide a guarantee in the name of BRG and the LC was opened in the company's new name, noting that the new annex to the contract was made in the new name.
Risk Level	Medium
Status	Old
Follow up	From the selected sample, none of the above mentioned observations came to our attention in 2008 in the Ministry's Headquarter.

6. Contracting Procedures

Observation	<p>During our review for contract No.CGS7/CGS8 related to the rehabilitation of West Al Qurna for an amount of EUR 59,788,000 we noted the following:</p> <ul style="list-style-type: none"> · The contract had been awarded through direct invitation and the tender was not published in three newspapers as required by the Supreme Contracting Committee of the Council of Ministers. · The contract has been exempted from taxes and fees. The performance bond has not been obtained before issuing the LC. The contract stated that the performance bond will be submitted after receiving the advance payment by the contractor, which contradicts contracting instructions.
Recommendation	We recommend complying with the Supreme Contracting Committee instructions and applicable laws for control procedures and to preserve the public resources.
Management's Response	<p>First: The contract had been awarded through direct invitation and the tender was not announced in three newspapers as required by the Supreme Contracting Committee of the Council of Ministers. Follow up by our Monitoring Commission at the Petroleum Projects Company, confirmed the awarding of the contract through direct invitation based on Council of Ministers resolution no.(890) of 1/7/2007.</p> <p>Second: The contract has been exempted from all legal taxes and fees, as was confirmed by our Monitoring Commission.</p> <p>Third: The performance bond has not been obtained prior to issuance of the LC, since the contract specified that the performance bond shall be submitted after receipt of the advance payment by the supplier, which contradicts contracting instructions. Follow up by our Monitoring Committee revealed that this note is incorrect since a performance bond has been obtained per guarantee No (3357) of 8/11/2007 issued by TBI before the opening of LC No (26) of 10/1/2008.</p>
Risk Level	High
Status	Old
Follow up	From the selected sample, none of the above mentioned observations came to our attention in 2008 in the Ministry's Headquarter.

7. Contracts' Supporting Documents

Observation	We noted that the Ministry does not maintain a copy of the contract files related to the Ministry's directorates, while the contract files are being maintained only in Ministry's Directorate.
Recommendation	We recommend that copies of the contracts' original documents related to the Ministry's Directorates should be kept within Ministry's Headquarter for better control procedures.
Management's Response	E&Y's report stated that the Ministry does not maintain a copy of the contract files of its related directorates. This note has been mentioned within the general notes and attention should be drawn to our reply in respect of said General notes under paragraph A page 18 on this same subject.
Risk Level	Medium
Status	Old
Follow up	From the selected sample, none of the above mentioned observations came to our attention in 2008 in the Ministry's Headquarter.

8. Operational Loading System at Loading Points

Observation	The IAMB recommended in March 2004 the expeditious installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices. Oil metering is a key factor to achieve financial transparency and accountability over oil resources in Iraq. While the Iraqi Government supports oil metering, progress has been slow. Some metering has been installed at oil terminals, but there continues to be no metering in the oil fields. Because of the absence of an overall comprehensive system of controls over oil, there are un-reconciled differences between oil extraction, production, export sales and internal usage. In the absence of a comprehensive control system over oil, differences will occur between oil quantities extracted, produced, exported and locally consumed.
Recommendation	We recommend installing a comprehensive system to measure the oil quantities in all of the oil facilities, and to accelerate installing and calibrating processes in the plants where these systems were received
Management's Response	Follow up of our monitoring commission revealed that this note is still valid. The Council's follow up asserted that this note is still applicable. Moreover the Ministry of oil has set year 2009 as a final target date to complete the installation of the meters for the whole oil Industry.
Risk Level	High
Status	Old
Follow up	We noted that the above mentioned observation was still valid for the year ended 31 December 2008.

9. Reconciliation with Records of Related Companies

Observation	We noted that the Ministry of Oil does not perform reconciliation between its records and the Oil Production Refining, and Distribution companies' records. The Technical Department at the Ministry obtains monthly reports from the related companies, and summarizes, and issue reports to the minister without verifying the accuracy of the data or reconciling the quantities with the records maintained by the companies. We noted differences between the Ministry of Oil's records and monthly reports of the companies.
Recommendation	<p>We recommend installing oil metering system as mentioned in the previously mentioned point related to the Operational Loading System, and to prepare monthly reconciliations for the oil quantities including all the directorates and companies related to the oil industry in Iraq including:</p> <ul style="list-style-type: none"> · Oil Companies · Loading Points · Refineries Companies · Oil Pipelines Companies · Electricity Companies · Distribution Companies · State Oil Marketing Organization (SOMO) <p>The preparation of reconciliations between those parties shall include analysis of differences, and investigating of differences for all parties involved for better control procedures.</p>
Management's Response	Our related commission confirmed this note and indicated that differences are due to differentials in readings of the meters. Its faculty operation or its absence. This note was also mentioned in the Firm's report for the prior year. The Council also referred to this subject in its special reports on the Ministry's activities added to the fact that this matter was raised in the joint meeting in the presence of the Ministry of Oil. No action has yet been taken by the Ministry to fully rectify this issue.
Risk Level	High
Status	Old
Follow up	In mid 2008, the reconciliations department was established. The department performs the reconciliations on a quarterly basis, while we recommend that they perform it on a monthly basis.

10. Long Outstanding Cash Margins

Observation	We noted a number of long outstanding cash margin balances with JP Morgan Chase for letters of credit. The following are examples of these outstanding balances as of 31 December 2007 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
	2005/1596	Oil	958 870•	11 638•	12-2-2005	1-7-2005
	2005/1589	Oil	395 490•	72 598•	15-2-2005	15-8-2005
	2004/1512	Oil	1 252 850•	124 850•		
Recommendation	We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the status of each outstanding letters of credit cash margin and follow up and resolve all long outstanding balances. 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.					
Management's Response	<p>E&Y's note:</p> <p>"A number of long outstanding cash margin balances with JP Morgan for letters of credit were noted". Our Related Monitoring Commission has confirmed the correctness of this note and specific reference was made thereof in both of our monitoring reports No. (6862 and 7276) of 26/8/2007 and 4/9/2007 respectively.</p>					
Risk Level	Medium					
Status	Old					
Follow up	We did not receive a confirmation letter from JP Morgan. Therefore, we were unable to check for any long outstanding cash margin balances for letters of credit.					

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

1. Quantities of Oil Products Received

Observation	During 2007, the task of controlling and reporting the entrance and completeness of oil products imported was assigned to the technical department at the Ministry of Oil instead of Sabra and Khilani companies in accordance with minister of oil instructions. During our review, we noted that the Technical Department did not prepare technical reports to confirm the received quantities of petroleum products, whereas it approved the certificate of quantity issued by the Shipping Department at SOMO for the eastern boarder only.
Recommendation	During 2007, the task of controlling and reporting the entrance and completeness of oil products imported was assigned to the technical department at the Ministry of Oil instead of Sabra and Khilani companies in accordance with minister of oil instructions. During our review, we noted that the Technical Department did not prepare technical reports to confirm the received quantities of petroleum products, whereas it approved the certificate of quantity issued by the Shipping Department at SOMO for the eastern boarder only.
Management's Response	The related commission confirmed the Auditors' note and stressed the importance of the technical department's issuance of reports ascertaining quantities received of petroleum products at all border exists with copies thereof to SOMO on a regular basis.
Risk Level	Medium
Status	Old
Follow up	We noted that the above mentioned observation was still valid for the year ended 31 December 2008. As for the Technical Division, its current job is the supervision of quality of production and the acceptance or rejection of products.

2. Monitoring Fees of Oil Products Quantities

Observation	During 2007 SOMO canceled the contract of controlling and reporting received quantities of oil products with Sabra and Khilani. Technical Department at the Ministry was assigned to perform the tasks according to the Ministry's resolution, which also instruct to transfer a portion of the amounts withheld from suppliers to the benefit of Technical Department to cover its expenses relating to the task. These instructions did not specify the amounts to be transferred or method of transfer.
Recommendation	We recommend that an agreement shall be signed or instructions be issued to determine the fees to be paid by SOMO to the Technical Department in the Ministry for better control procedures.
Management's Response	<p>Follow up by the related commission revealed the following:</p> <p>First: The Technical Department was entrusted with the monitoring duty on quantities of imported and exported oil products as per the Minister's approval of the advisor's memorandum dated 26/6/2006 which included the Minister's directives to abide by the committees recommendations and coordinate with related departments for the formation of a special unit for quantity and quality control.</p> <p>Second: The financing of the Technical Department is done by amounts withheld by SOMO from the suppliers to cover its monitoring expenses. The Minister's directives did not specify amounts to be transferred to said Department nor its fees. No document or instructions/contract is available to regulate this relationship.</p> <p>Third: The Technical Department does not possess the needed capabilities for monitoring all of 6 import and export outlets. The Ministry has recommended in this respect the formation of work-teams (from SOMO, Pipeline and distribution and gas filling companies, and the general inspection of the Technical Department) to assume the monitoring duties.</p> <p>Fourth: The Ministry estimated the amounts spent on the monitoring committee for the period from 1/6/2007 to 31/12/2007 at 145,500,000 Dinars.</p> <p>Fifth: An amount of 25,050,800 Dinars was transferred to the Monitoring Committee from SOMO's accounts.</p> <p>Sixth: Future expenditure for the committee is to be done from amounts withheld from suppliers and deposited in a transitory account for SOMO. Instructions from the Ministry of Oil are needed and for defining the actual procedures for discharging the monitoring duties including the financing of the committee and its responsibilities and obligations towards the Ministry of Oil and its related companies.</p>
Risk Level	Medium
Status	Old
Follow up	We noted that the above mentioned observation was still valid for the year ended 31 December 2008. We only found minutes of a meeting stating the continuance to withhold a commission of 50 cents per ton from the supplier.

3. Internal Control Procedures over Oil Imports

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 developing and maintaining 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.
Management's Response	The related commission confirms the above note together with the need for preparation and completion of internal audit procedures on petroleum products import. This note was also mentioned in the Firm's report for the prior year and SOMO did not take any action thereon.
Risk Level	High
Status	Old
Follow up	We noted that the above mentioned observation was still valid for the year ended 31 December 2008.

4. Measuring Metering System for Imported Petroleum Products

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 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.
Management's Response	We in this respect point out that SOMO does not have stations for petroleum products storage, as these stations are for the petroleum products distribution company and Pipelines Company. The application of a detailed monitoring system on quantities of imported products is subject to the note in respect of the over-all monitoring system on all phases of the oil industry. This note was also mentioned in the Firm's note for the prior year.
Risk Level	High
Status	Old
Follow up	We noted that the above mentioned observation was still valid for the year ended 31 December 2008.

5. Monthly Reconciliation with Suppliers of Petroleum Products

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 requesting confirmation or statements of account from all suppliers of imported petroleum products on a monthly basis. The suppliers' balances should then be reconciled to SOMO records with any differences being investigated and resolved on a time basis.
Management's Response	The marketing company stated that its financial section was not provided with statements by suppliers of petroleum products for its reconciliation with the records. Only a monthly reconciliation of quantities supplied, was prepared between the records division and products export section. The company providing the petroleum supplies was requested at the end of year 2007 to provide the marketing company with statements of account for reconciliation with records of the finance department. The monitoring commission confirms the need for performing the mentioned reconciliation periodically. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	We noted that the above mentioned observation was still valid for the year ended 31 December 2008.

6. Pending Reconciliation Items

Observation	<p>During our review of the reconciliation between SOMO and the TBI Account No. 1029, we noted that there are many long outstanding items with very high balances relating to 2005, 2006 and 2007, whereas the payments which appeared in company's record and did not appear in TBI records amounted as following</p> <ul style="list-style-type: none"> · Payments for an amount of U.S. \$ 71,519,015 during 2005. · Payments for an amount of U.S. \$ 2,123,980,327 during 2006. · Payments for an amount of U.S. \$ 493,405,927 during 2007. During 2007 SOMO has opened a new account at TBI (Account No. 1151) instead of that account, in order to avoid more pending items being carried forward; however, the reconciliation of the old account is still in process.
Recommendation	<p>We recommend that pending items shall be resolved and a reconciliation with TBI to be performed for better control procedures and better safeguarding of the company's assets.</p>
Management's Response	<p>The marketing company confirmed this note and indicated that the said bank failed to provide the company with advises, nor were enough necessary full details shown in the bank statement in addition to the mix up between current account and the account for LCs, although attempts at resolving this mix-up continue.</p> <p>The related commission confirms the need for resolving all items in suspense and reconciling the account balances with TBI, after acknowledging reasons for said items. The Financial Monitoring Council provided the Ministry of Oil on April 2007 with listing of all LCs opened at TBI and not yet closed or terminated including old amounts. The Minister directed to resolve fully this subject with the bank. Moreover the Council is following up directly in respect of all allocations to ministries at the bank and in order to update its data base accordingly. This note was mentioned in the Firm's report for the prior year.</p>
Risk Level	High
Status	Old
Follow up	<p>During our visit to the company, we noted from reconciliation 31/12/2007 that was provided to us on 15/3/2009 (2008 reconciliation was not provided), the following outstanding items were settled:</p> <ul style="list-style-type: none"> -No payments during the year 2005 -Payments amounting to USD 105,363,615 during the year 2006 -Payments amounting to USD 125,590,969 during the year 2007

7. Filing System

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.
Management's Response	SOMO, on the other hand pointed out that documents relating to import transactions such as contracts with suppliers, price calculations, bills of lading, certificate of quantities and price lists are stored in the Company's file. Price lists are kept at the petroleum products marketing section. The follow up of the related commission revealed that some data in respect of imports and payment therefore is kept at the financial section while the good part of data re import transactions is stored at the import section file. Accordingly we stress the need to store all related data in one file. This note was also mentioned in the Firm's report for the prior year
Risk Level	Low
Status	Old
Follow up	During our visit to the company, we noted that every division or department has a developed and adequate filing system.

8. Suppliers Invoices

Observation	<p>We noted that SOMO did not obtain invoices from most of the suppliers of imported petroleum products. In order to reduce the risk of misstatements, it is essential to obtain invoice from all suppliers of imported petroleum products as a formal record of the transaction and accordingly avoiding possible risks of fraud, errors or litigations. Examples where SOMO did not have invoices from suppliers:</p> <table><tr><td>Type Oil Product</td><td>Date</td><td>Amount U.S. \$</td></tr><tr><td>KEROSENE</td><td>Oct. 29, 2007</td><td>15,185,653</td></tr><tr><td>KEROSENE</td><td>Mar. 24, 2007</td><td>11,658,573</td></tr></table>	Type Oil Product	Date	Amount U.S. \$	KEROSENE	Oct. 29, 2007	15,185,653	KEROSENE	Mar. 24, 2007	11,658,573
Type Oil Product	Date	Amount U.S. \$								
KEROSENE	Oct. 29, 2007	15,185,653								
KEROSENE	Mar. 24, 2007	11,658,573								
Recommendation	We recommend obtaining invoices from all suppliers of petroleum products imports for verification of quantity and price as stated in the contract.									
Management’s Response	The marketing company indicated that some companies provide the company with the commercial list to agree it with its records, and others send said lists to TBI which in turn sends it to the marketing company for reconciliation.									
Risk Level	Low									
Status	Old									
Follow up	During our visit to the company, we noted that the Trade Bank of Iraq provides the company with the original documents provided by the supplier in order to reconcile them with the purchase order sent from the company to check that the amount transferred is for goods ordered.									

9. Control over Invoices and Certificates of Imports

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.
Management's Response	<p>The company stated that the pre-numbering procedure for credit advices could not be done as they are serially numbered on issuance. It is also difficult to pre-number part of the documents.</p> <p>The related committee indicated that serial pre-numbering should be done at all times and pre-printed on the important documents such as price lists, receipts, etc.</p> <p>This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	Low
Status	Old
Follow up	We noted that the above mentioned observation was still valid for the year ended 31 December 2008.

10. Supporting Documents for Payments

Observation	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.
Management's Response	Our monitoring commission confirmed the correctness of this note and requested the company to urgently deal with this issue and obtain the bank slips.
Risk Level	Low
Status	Old
Follow up	During our visit to the company, we noted that the bank slip for payments of invoices is not attached and that there are no receipts. There is however, an email from the supplier stating the amount received.

11. Payment Vouchers and Supporting Documents

Observation	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.
Management's Response	Our related commission confirmed this note and re-iterated the importance of cancellation of all payment vouchers and related documents via a "PAID" stamp to avoid its repeated payment. The council has previously referred to this issue in its summarized report to the Ministry of Oil. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Low
Status	Old
Follow up	During our visit to the company, we noted that in mid 2008, the audit department began stamping all payment vouchers as "The necessary procedures have been done" but not stamped "PAID".

12. Exchange Rate

Observation	We noted that the accounting records/ trial balance of SOMO stated the U.S. \$ exchange rate to be one Iraqi Dinar (IQD) as of 31 December 2007, while the market rate as per CBI was IQD 1225 for each U.S. \$ 1.
Recommendation	We recommend SOMO to translate the oil export sales in its accounting records based on the denominated exchange rate of the U.S. \$ against Iraqi at the date of the transaction.
Management's Response	The marketing company indicated that no exchange rates are used in the accounting records and this note does not apply to the nature of its transactions. The related commission confirms the Auditors' note in respect of utilization of published exchange rate advised by CBI for recording the Iraqi oil exports. The council in its reports referred to this note and the need for its necessary adjustment at both ministries (MOF and Ministry of Oil).
Risk Level	Low
Status	Old
Follow up	We noted that the trial balance was prepared in USD and IQD where the USD amounts were not translated to IQD. We recommend that the USD amounts be translated to IQD at the prevailing rate of each transaction to present the financial statements in a single currency, and to compute the difference of exchange.

13. Back up Policy or Recovery Plan

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 a 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 that SOMO management has to develop and approve a policy for contingencies and a recovery plan to ensure continuity of operations, and to ensure that SOMO maintains a back up for its hard and soft copy records in order to reduce the risk of lost data
Management's Response	The company advised that it does maintain copies of programs used by the computer on Flash Ram.
Risk Level	High
Status	Old
Follow up	Through our visit to the company, we noted that the chief accountant backs up files as follows: daily through (Flash ram), monthly through (Flash ram), and annually on a CD. The CD is then passed on to senior management for back up.

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

1. Approved Policies and Procedures

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.
Management's Response	SOMO indicated that there exists an exhibit prepared for detailed description of responsibilities of the petroleum products export section which helps in the smooth flow of work and the prevention of conflicts. Our related commission confirmed SOMO's reply about the existence of special procedures for review and approval of export invoices. This note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	During our visit to the company, we noted that there is a memorandum prepared to describe the duties and responsibilities relating to the oil products exports division. This memorandum facilitates the flow of work.

2. Supporting Document

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 Khilani 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.
Management's Response	SOMO advised that the transaction takes place on the strength of opening of a special file for each contract which contains all related data including data in respect of each exported shipment. This special file is kept in a special cabinet for easy access when needed. Upon liquidation of the transaction of contract, the file is then transferred to a different cabinet. The related commission confirms that the above procedure is being followed and that this note was also mentioned in the Firm's report for the prior year.
Risk Level	Low
Status	Old
Follow up	We noted that the above mentioned observation was still valid for the year ended 31 December 2008.

3. Management Reporting

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 analyze 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.
Management's Response	SOMO indicated that there are many reports issued by it on a monthly and semi-annually basis. The related commission confirms the existence of the referred to reports and stated that the Audit Firm should specify the nature and quantity of the asked-for reports. The related commission stresses the need for up-grading of the management reporting system covering all aspects of the company's activities. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	During our visit to the company, we noted that the company provides the concerned parties with requested reports. However, we recommend developing a comprehensive automated reporting system covering all of the company's activities and operations.

4. Bidding Procedures for Oil Contracts

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.
Management's Response	<p>SOMO indicated that the general procedure used is basically through direct contracting with petroleum companies that own major refineries and are considered MAJORS-end users which use Iraqi oil as basic material in addition to their international status and specialization in the oil industry, capable of providing quick responses to changes in marketing of Iraqi oil on the international markets.</p> <p>It is wrong to suggest the sale of crude oil through tendering as it is not possible to wait until tenders are awarded to petroleum companies, given the limitations of storage capacity (specifically as relates to the crude oil of Al Basra which cause descriptions to the production process and its continuity. This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	High
Status	Old
Follow up	During our visit to the company, and after reviewing management's response, we noted that the response is acceptable under the circumstances of not having enough stores for extracted oil.

5. Export Sales Contracts

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.
Management's Response	<p>SOMO replied that the general adopted procedure is through sending the contracts' signed by the general manager of SOMO through fax/Email to purchasers. Due to the urgency of this matter, the purchasing companies send a time letter confirming in order to assure continuity of execution of the monthly programs. It later sends the signed contract via the available correspondence channels which in certain cases do have its own complications.</p> <p>The marketing sections follow up with the related company on receipt of the signed contract, noting that the halting of the shipment process until receipt of the signed contract, would inflict heavy damages to the export process in addition to the negative impact on the exported quantities and financial revenues thereof. All of the above is in addition to the fact that actual shipment cannot be initiated without the opening of irrevocable letter of credit for each crude oil shipment. Accordingly, there is no valid threat from delay of sending the copy of the signed contract. This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	Medium
Status	Old
Follow up	During our visit to the company, we noted that SOMO sends the contracts signed by the General Manager via (fax/email) to the buyers. The buyers reply with a letter confirming the acceptance of the contract terms, and issue a non revocable letter of credit.

6. Shipment Destinations

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 Oil Selling Price (OSP), which is calculated based on the shipment destination determined by the customer, and directly has effect on the amount of the export sales revenues.
Recommendation	We recommend SOMO to reconsider these contracts and control the shipments destinations to maximize export sales revenue.
Management's Response	SOMO indicated that the destination is a basic clause in the contract, though some purchasers insist on multiple destinations as they own refineries in different markets. The increase in revenues is not only due to price but also to increases in exports via new additions of markets, and increased volume exports. The related commission stresses the need for reconsidering these contracts to have full control on destinations of shipments in order to maximize revenues of export sales. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	Through our visit to the company, we noted that the above mentioned observation was still valid during the year 2008. In 2008, however, SOMO has knowledge of the shipment's destination and could possibly charge the company any differences arising from the change in destination.

7. Certificate of Discharge at Destination Port

Observation	Based on our review, we noted that SOMO does not obtain the certificate of discharge at port of destination. Considering that SOMO's contractual provisions do not permit the change of the destination or reselling without the prior consent of SOMO, the shipping department should obtain the discharge certificate at destination port to ensure customer compliance with SOMO's contractual provisions. 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.
Management's Response	<p>SOMO indicated that paragraph 3 of clause 11 of section 2 of the standard contract stipulate that the purchaser undertakes to provide the seller with an offloading certificate for each shipment, if requested by the sellers, which certificate shall be approved by a representative of Iraq or any other party accepted by it in the country of final destination. The reasons behind making the request for this offloading certificate an option for and not an obligation on our company are:</p> <ul style="list-style-type: none"> -Responsibility of the shipment and its ownership is transferred to the purchaser as of the date of issuance of the loading certificate. The imposition of an offloading certificate as an obligatory condition on the purchaser would extend our responsibility for the shipment until it's offloading, thus providing the purchaser with opportunity to exploit this time-extended responsibility to request compensation for differences that could arise between quantities offloaded and those originally loaded in addition to changes that could affect the quality. - In many instances, the companies are not able to provide an offloading certificate signed in ink and stamped by our embassies in certain countries due to the non-availability of such embassy. -It is possible to trace the movement of all tankers' loaded at our terminals to various markets by referring to Lloyd's site on the internet. In case of any doubt as to the final destination of an oi; tanker and the exact port of discharge, Lloyd's register will here be considered an important alternative to the offloading certificate. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	Through our visit to the company, we noted that the above mentioned observation was still valid during the year 2008. Concerning the agreement with KARTET KARADENIZ TOPTAN ELEKTRIC COMPANY, a yearly reconciliation is prepared as of 31/12/2008. We recommend the reconciliation be done on a monthly basis.

8. Approval of OSP Calculation Formula

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.
Management's Response	<p>SOMO stated that the formula for the official monthly price is calculated after a series of meetings and discussions between members of the pricing committee, after which minutes are prepared and signed and a letter is issued by said committee to the Minister for approval.</p> <p>As to compensation for transportation fees and reduction in the viscosity of Al Basra light crude oil and Karkouk crude oil, these were based on prior approvals from the Minister of oil noting that the mode of compensation and its calculation are adopted by oil producing countries in the gulf region especially Saudi Arabia, and adopted for enhancing the competitiveness of Iraqi oil in international markets. This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	Medium
Status	Old
Follow up	We noted during our visit to the company that the OSP is being calculated by a committee, and approved by the Minister.

9. Sequential Numbering for Standard Forms and Vouchers

Observation	<p>We noted that most of the standard forms and vouchers used by SOMO for export sales transactions do not have a pre-numbered serial number. The following forms are example of forms without a pre-numbered serial number:</p> <ul style="list-style-type: none"> - Loading cards. - Bills of lading. - Certificate of quantity and quality. - Ullage reports. - Export cargo manifest.
Recommendation	<p>We recommend that all forms used by SOMO should be pre-numbered in order to improve the control over export sales and to keep proper audit trail.</p>
Management's Response	<p>SOMO replied as follows:</p> <p>First: A sequential Code No. is used by SOMO and oil extracting companies for the preparation of loading manifest until actual loading where the sequence changes to a Shipment No. which is determined at the terminal, and is the basis indicated on all shipping documents and commercial bills.</p> <p>Second: Initial pre-numbering could be implemented in case an overall comprehensive export system is adopted (starting with the signature of contract and until the terminal).</p> <p>Third: As relates to sales of fuel oil, Shipment Nos. are utilized for bills of lading which are determined at the export terminal and are also indicated in the commercial bills and other shipping documents. This number is considered the basis for numbering exported shipments. Certificates of quantity and quality have a numbering series controlled by the shipping department. This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	Low
Status	Old
Follow up	Through our visit to the company, we noted that the above mentioned observation was still valid during the year 2008.

10. Opening of Export Crude Oil Sales LCs

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 not opened during the determined period. 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
Management's Response	SOMO stated that follow up on opening of the documentary credit with the purchaser takes place in case of realization of the 7-day period in which is usually a result of banking channels, holiday periods, and disruption of internet services at CBI. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Low
Status	Old
Follow up	Through our visit to the company, we noted that the above mentioned observation was still valid during the year 2008.

11. Authorization Matrix and Delegation of Authority

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 to initiate, review and approve.
Management's Response	Follow up by our related monitoring commission indicated that there are administrative orders issued by the company defining the authorities of the general manager. This note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	During 2008, a new organization structure has been prepared and approved by the BOD and Minister of Oil.

12. Reconciliations with Syrian Government

Observation	According to the barter agreement between SOMO and the Syrian Government which is renewed on January 20, 2007, the two parties should meet on a monthly basis to settle the outstanding amounts due to each other. However, no final reconciliation has been prepared for 2006 and 2007 transactions. Moreover, according to the agreement, when the due amount exceeds USD 10 million for more than three months, 75% cash payment of the due balance should be transferred to the other party. However, the due amount from the Syrian Government exceeded USD 10 million from the last year, but no cash transfer has been made to SOMO from the last year until the end of 2007. The due amount to Iraqi side was increased during the year of 2007 which amounted to USD 302 million.
Recommendation	We recommend SOMO to prepare monthly reconciliations with the Syrian Government records; this will minimize any disputes that may arise with respect to pending quantities. In addition, we recommend SOMO to follow up collection of the due amount and to control these transactions in accordance with the agreement.
Management's Response	<p>Re the collection of the difference in the trade balance arising from the Iraqi/Syrian agreement, SOMO stated that follow up continues for collection of this amount. The Syrian party fails to transfer the amount due to the American penalties imposed on it and its fear of expropriating the funds.</p> <p>Lately, MOF/ Foreign Development Fund were referred to for arranging transfer of this amount noting that the said agreements were canceled during December 2007 as per SOMO's letter No. M/34/29 dated 28/12/2007 addressed to the head of Syrian Council of Ministers (office of marketing of Syrian oil). This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	High
Status	Old
Follow up	No barter transactions have occurred during 2008 with the Syrian government. This is because the Iraqi government is still requesting the amount of USD 302,391,000, and the Syrian government is not responding. We recommend following up and collecting the mentioned amount.

13. Reconciliation with Oil Production Companies

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.
Management's Response	SOMO replied that shipping documents used for determination of monthly exported quantities are issued by the extracting companies (North and South Oil). These quantities (properly confirmed by captains of the tankers evidencing their receipt of the shipment) are used for determination of amounts that should be claimed, in addition for statistical purposes. Marketing of North and South oil as between export and local consumption is within the responsibilities of the Ministry of Oil and the related extracting company. This note was also mentioned in the Firm's report for the prior years.
Risk Level	Medium
Status	Old
Follow up	We noted that the North Oil Company and South Oil Company send confirmation balances to SOMO of the quantities of oil exported, on a monthly and annual basis according to the bill of lading.

Observations raised for the year ended 31 December 2008

Ministry of Communication

1. Organization Chart

Observation	The Ministry does not have an Organization Chart or Job Description.
Recommendation	<p>We recommend the ministries to develop a formally approved organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

2. Approved of accounts by the Ministry of Finance

Observation	Till 28 February 2008 the Ministry of Finance had not approved the combined register, which includes summary of 2007 and 2008 accounts till 28 February 2008.
Recommendation	We recommend that the combined register be approved by the Ministry of Finance for the years 2007 and 2008.
Risk Level	Medium
Status	New

3. Automation of the Accounting System

Observation	We noted that journal entries are done and recorded in the general ledger manually and that the preparation of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing, to increase efficiency and to enable the backing up all electronic files.
Risk Level	Medium
Status	New

4. Bank Accounts

Observation	The Ministry has two bank accounts. Trade Bank of Iraq and Rafidain Bank. One reconciliation is done for both banks.
Recommendation	We recommend separate reconciliation for each bank account.
Risk Level	Medium
Status	New

5. Fixed Assets Identification

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

6. Work Time Control

Observation	During our visit to the Ministry, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

7. General Company for Posts & Telecommunications – Balance Sheet

Observation	We did not find opening journal entries in the records of the company for the years 2004 till 2008.
Recommendation	We recommend following up on this matter and completing opening journal entries at the beginning of each year.
Risk Level	Medium
Status	New

8. General Company for Posts & Telecommunications – Bank reconciliations

Observation	During our visit on January 2009, we noted that bank reconciliations have not been prepared for the years 2007 and 2008.
Recommendation	We recommend preparing bank reconciliations regularly and following up on reconciling items, we also recommend that these reconciliations be reviewed by an independent employee in the accounting division.
Risk Level	High
Status	New

9. Automation of the accounting System

Observation	We noted that journal entries are done and recorded in the general ledger manually and that the preparation of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing to increase efficiency and to enable the backing up all electronic files.
Risk Level	Medium
Status	New

10. General Company for Posts & Telecommunications – Contracts Files

Observation	During our visit to the Ministry, we noted that contracts' supporting documents are not properly organized which makes it difficult to retrieve These documents. The documents are distributed across the Accounting Department, Legal Department, Importing Department, and Planning Department. This leads to difficulties in following up of some contracts and obtaining related supporting documents.
Recommendation	We recommend developing a proper filing system to keep each contract together with its related supporting documents separately, and to properly organize these contracts in order to facilitate the retrieval and review process.
Risk Level	Medium
Status	New

11. Fees for Protection and Rent of Towers Locations

Observation	During our visit to the Ministry, we noted that audit committees in the office of the inspector general found that the fees for the protection of towers for mobile phone companies and the rent of their locations have not been claimed by the Ministry nor paid by mobile phone companies. The fees and rent amounted to USD 8.2 million till 30/10/2008.
Recommendation	We recommend following up on this matter and collecting these fees and rent due.
Risk Level	High
Status	New

12. General Company for Posts & Telecommunications - Contracts

Observation	We noted cases of non-compliance with the contracting procedures since some of the contracts were awarded without obtaining competitive offers nor documenting proper justification for awarding. Example: Contract no. 28/2008 amount to USD 13 million.
Recommendation	We recommend complying with governmental tendering procedures for awarding contracts.
Risk Level	High
Status	New

13. General Company for Posts & Telecommunication - Memorandum of Understanding

Observation	During our visit to the Ministry and review of the financial position of the contracts relating to the Memorandum of Understanding for the General Company for Posts & Telecommunications , we noted that the financial position for some contracts do not agree with the financial position of the Central Bank.
Recommendation	We recommend follow up of these differences with the Central Bank.
Risk Level	Medium
Status	New

14. General Company for Posts & Telecommunication

Observation	During our visit to the Ministry we noted that a fine amounting to USD 282,000 relating to contract no. 19/2005 signed with Communications Technology Company has to be paid to the Ministry. The company paid the amount of USD 2,850 and refused to pay the remaining amount of USD 279,150.
Recommendation	We recommend that the company follows up on the above mentioned contract and collect the full amount of the fine.
Risk Level	High
Status	New

15. Al Assad Power Company and Iskratling Company Proposal

Observation	During our visit to the Ministry we noted that Al Assad Power Company and Iskratling Company have participated in a tender, which Al Assad Power Company won. During our review of the contracts we found a letter from Iskratling company informing the General Company for Posts & Telecommunications that Al Assad Power company is authorized to represent Iskratling company in Iraq. Thus, the elements of tendering that require the existence of more than one bidder is not present.
Recommendation	We recommend the need to ensure the participation of several companies in the bidding so that there is actual and transparent competition.
Risk Level	High
Status	New

16. General Company for Posts & Telecommunications – Gifts and Donations

Observation	During our visit to the company and based on our discussions with several employees, we noted that the Ministry received donations and grants in prior years, but these donations were not recorded in the company's records.
Recommendation	We recommend the registration of donations and grants received in the records of the company and the updating of these records according to the warehouse entrance and exit authorizations.
Risk Level	Medium
Status	New

17. General Company for Posts & Telecommunications – Fixed assets

Observation	During our visit to the company, we noted the existence of obsolete fixed assets that should be derecognized from the Company's records.
Recommendation	We recommend derecognizing all obsolete fixed assets from Company's records.
Risk Level	Medium
Status	New

18. General Company for Posts & Telecommunications – Trade Bank of Iraq

Observation	No reconciliations are prepared for Trade Bank of Iraq (TBI) because statements of accounts of the said Bank were not received.
Recommendation	We recommend that TBI statements of accounts be obtained to prepare monthly bank reconciliations and to follow up on any outstanding balances.
Risk Level	High
Status	New

19. General Company for Post & Telecommunications – War Losses 2003

Observation	The Ministry did not perform a survey of the losses resulting from the 2003 war to derecognize the lost assets from its records.
Recommendation	We recommend that the losses resulting from the 2003 war be estimated and that these assets be derecognized from the Ministry's records after obtaining the appropriate approvals.
Risk Level	Medium
Status	New

20. General Company for Post & Telecommunications – 2006 Robberies

Observation	During the year 2006, some of the company's assets were stolen. These stolen assets were not estimated and derecognized from the accounting records.
Recommendation	We recommend a list of all stolen items be prepared and derecognized from the accounting records.
Risk Level	Medium
Status	New

21. Receivables and Payables Balances

Observation	Through our review of the trial balance we noted that there are old outstanding receivables and payables balances from previous years.
Recommendation	We recommend that the company follows up, and analyze these accounts and settle them by either paying, collecting or derecognizing from records.
Risk Level	Medium
Status	New

22. General Company for Post & Telecommunications – Capital of the Company

Observation	Through our review of the trial balance we noted that the cumulative losses have exceeded the company's capital.
Recommendation	We recommend this matter be addressed in compliance with Public Companies Act.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Communication

1. Contracting Procedures

Observation	<p>During our visit to the Ministry of Communication, we noted certain non-compliance with contracting procedures as follows:</p> <p>A. Some contracts were awarded without obtaining competitive offers and without documenting proper justification. For example:</p> <table><tr><td>Contract No.</td><td>Contract Amount (U.S. \$)</td><td>Contract Type</td></tr><tr><td>35</td><td>2,587,400</td><td>External Purchases Contract</td></tr><tr><td>44</td><td>1,012,442</td><td>External Purchases Contract</td></tr><tr><td>10/2006</td><td>11,050,000</td><td>External Purchases Contract</td></tr></table> <p>B. We noted the following related reconstruction of the Ministry’s building contract of amount U.S. \$ 2,860,000:</p> <ul style="list-style-type: none">· Financial offers were obtained through direct invitation and the awarded offer was directly approved by the Minister.· The contract was awarded without obtaining an approval from the Legal Committee or Legal Department and the respective Commercial Committee in the Ministry.· There is a delay in executing the contract since the contract was signed on 21 December 2005 with an execution period of 10 months. To the date of our visit the contract has not been fully executed due to disputes between the Ministry and contractor.	Contract No.	Contract Amount (U.S. \$)	Contract Type	35	2,587,400	External Purchases Contract	44	1,012,442	External Purchases Contract	10/2006	11,050,000	External Purchases Contract
Contract No.	Contract Amount (U.S. \$)	Contract Type											
35	2,587,400	External Purchases Contract											
44	1,012,442	External Purchases Contract											
10/2006	11,050,000	External Purchases Contract											
Recommendation	<p>We recommend the Ministry to comply with the purchase procedures agreed upon in the annual budget issued by the Ministry of Finance.</p>												
Management’s Response	<p><u>A-Contracting Procedures</u></p> <p>First: “The Firm’s report stated that some contracts were awarded without obtaining competitive offers and without backing the contract with proper justification”.</p> <p>Our follow up confirmed correctness of this note except for contract No. 10/ 2006 where the Ministry indicated that invitation was done directly to ZTE Company which installed the network for Baghdad and AL Najaf. The object of the contract was for the extension of the wireless network communication system. The approval of the economic committee was obtained per its letter No. S.L./163 of 23/12/2006.</p> <p>Second: The company’s report stated in respect of the rehabilitation of the Ministry’s building “that offers of prices were obtained on a direct invitation and approval of the Minister without obtaining the approval from the legal department, in addition to delays in its execution and failure to fully complete the project due to a dispute between the Ministry and the supplier”. Our monitoring board confirmed the correctness of this note and upon the investigation the general inspector whereby the committee recommended cancellation of the contract with Al Rabee’ Company since it is listed as a commercial and not contracting company with no actual activity in this field neither does it have a contractor’s classification nor a incorporation certificate. The contract was considered null and void and the company black-listed and advances and other dues were stopped. This note was also mentioned in the Firm’s report for the prior year, and necessary measures were taken by the Ministry.</p>												

1. Contracting Procedures (continued)

Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, non of the above mentioned observations came to our attention in 2008. However, the contract with Al Rajih Company for the Ministry's renovation was canceled in 2008, and a new contract was signed with Al-Mandal Company.

2. Old Outstanding Cash Margins

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 (U.S. \$)	Outstanding Amount (U.S. \$)	L/C Opening Date	L/C	Validation	Date
	225/2004	Communication	300,000	48,900	19 March 2004	9.	August	2004
	235/2004	Communication	4,970,286	980,561	18 March 2004		15 July 2005	
	1877/2005	Communication	500,000	26,000	27 June 2005		4 October 2005	
Recommendation	We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the status of each outstanding letter of credit's cash margin and follow up and resolve all old outstanding balances. Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure Letters of Credit are executed on a timely basis and as per contract terms.							
Management's Response	Our commission's follow up confirmed this note in respect of LCs No. 225/2004 and 235/2004 and 1877/2005. This note was also mentioned in the Firm's report for the prior year.							
Risk Level	Medium							
Status	Old							
Follow up	We did not receive confirmation letters from JP Morgan and therefore we are unable to confirm the outstanding cash margin balances for letters of credit.							

3. Contract Supporting Documents

Observation	During our visit to the Ministry, we noted that contracts' supporting documents are not properly organized which make it difficult to obtain these documents. The documents are distributed across the Accounting Department, Legal Department, Importing Department, and Planning Department. This leads to difficulties in obtaining and follow up of some contracts and their related supporting documents
Recommendation	We recommend developing a proper archiving system to keep each contract together with its related supporting documents separately, and to properly organize these contracts in order to facilitate the retrieval and review process.
Management's Response	The Ministry replied per its letter No. 2914 of 3/4/2008 that all documents of contracts relating to the Ministry's headquarters are properly kept at the legal department and those relating to the companies are kept with said companies. The financial section at the Ministry maintains copies of some contracts that require follow up by said section. Our monitoring commission confirmed the Ministry's reply. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

4. Tenders Opening and Analyzing Committees

Observation	We noted that members of the open and analysis tenders committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires replacing the committee members every six months.
Recommendation	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months for additional accuracy and control procedures and to adhere to budget instructions.
Management's Response	<p>The Ministry stated in its letter No. 2914 of 3/4/2008 that it is bound by the need to change committees of tender's opening and analyzing per Ministerial Orders No. 142, 192, and 6 of 4/2/2007, 18/2/2007, 31/5/2007 respectively, relating to tenders' opening committees and Orders No. 5,9,1381 of 31/5/2007, 27/6/2007 and 17/7/2007 respectively, in respect of Tenders' analysis".</p> <p>The related commission confirmed the Ministry's reply. This note was also mentioned in the Firm's report for the prior year and the Ministry did not take any the necessary actions.</p>
Risk Level	Medium
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

5. Payroll Approvals

Observation	During our visit, we noted that the payroll is prepared by the salaries accountant and is compared to the budget by the internal audit department, but it is not being approved by the General Manager of the Finance Department, but it is approved by the internal audit department.
Recommendation	We recommend segregating executive duties and control duties, since the internal audit department is considered a monitoring body and it is not appropriate for controlling body to approve the payroll sheets which is considered as executive duty. The finance department shall be considered as the department responsible for disbursements for better control procedures.
Management's Response	<p>The Ministry replied as per its above letter that the payroll is only checked and not approved by the internal audit. The finance manager in cooperation with the general manager of the finance and administrative department authorizes the payment of salaries, as being the authorized signatory.</p> <p>Our related committee confirmed the Ministry's reply. This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	High
Status	Old
Follow up	From the selected sample of payroll sheets, none of the above mentioned observations came to our attention in 2008. The financial manager approved the payroll sheet on monthly basis.

6. Fixed Assets Register

Observation	During our visit, we noted that the Ministry maintains an old fixed assets register that has not been up-dated since 2004. By the end of 2006 a new fixed assets register was developed by the Ministry based on the physical count carried at the end of the year without any reference to the old register. 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.
Management's Response	<p>The Ministry replied per its above letter that it continues to use 2006 register as reference, and 2004 register was referred to determine resulting differences. The Ministry introduced the register at the end of 2006 and in accordance with physical stock taking on 31 December 2006 due to the in-existence of the old register. Accordingly, the new register was started on this basis, but later when the old register was found, entering of fixed assets purchases continued in the old register until the adoption of the new one.</p> <p>Our related commission confirmed the Ministry's reply. This note was also mentioned in the Firm's report for the prior year and necessary action in this respect was taken during 2007.</p>
Risk Level	Low
Status	Old
Follow up	The old fixed asset register has been agreed with the new fixed assets register in order to confirm that all items have been transferred from the old fixed assets register to the new one in 2008.

7. Inventory Register

Observation	During our visit, we noted that the Ministry does not maintain inventory movements register. This would enable more effective control over inventory movement as well as preparing the related reconciliations during the year. Moreover, performing inventory count without the availability of inventory register would decrease the reliability of the inventory count results.
Recommendation	We recommend the Ministry to develop and maintain inventory register for inventory movements to properly implement inventory control procedures over inventory movement.
Management's Response	<p>The Ministry replied per its above letter that the Ministry's headquarters does not have any stock to necessitate the keeping of official registers of warehouse items and that the present register is used for the in and out recording of purchases at the same time. The register is available and subject for inspection though the official instructions dictate the keeping of a register for warehouse assets irrespective of volume or its movement.</p> <p>Depreciated machinery and equipment is received and delivered to the machinery department at the State Company for Communications and Post situated at Al Talbeyat.</p> <p>The related commission confirmed the Ministry's reply in respect of depreciated machinery and equipment. This note was also mentioned in the Firm's report for the prior year.</p>
Risk Level	Low
Status	Old
Follow up	Through our visit to the Ministry, we noted that the above mentioned observation is still valid regarding storage supplies bearing in mind that they are secondary office supplies and items which are not substantial in value.

Observations raised for the year ended 31 December 2008

Ministry of Youth & Sports

1. Contracts Administered by US Agencies

Observation	We noted that the Ministry does not maintain records of 146 contracts administered by U.S. agencies during 2003 and 2004.
Recommendation	We recommend that the Ministry coordinates with the Ministry of Finance and US. Agencies to obtain all records and documents.
Risk Level	High
Status	New

2. Storage Facilities

Observation	We noted that the Ministry has no adequate storage facilities. The Ministry is storing its fixed assets and supplies in open air at Al Zawraa Park.
Recommendation	We recommend that the Ministry takes steps to provide adequate storage facilities, that will ensure the safeguarding of assets.
Risk Level	Medium
Status	New

3. Contract Payments

Observation	We noted that the letters in respect of Contract no. YS/10/6 on 1/11/2001 signed between the Board of Youth and Sports of Iraq and ITI of Jordan (Intl Trade and Inv) in the amount EUR 10,055,865 +10% for the constructions of 3 sport halls. This contract was put on shelf for two years until the first payment was made on 18/12/2003. Up until 11/5/2005 the amount of EUR 9,848,225 was paid, which represents 89% of the total contract value. According to the resident engineer's office reports the percentage of completion is about 35%. ITI has stopped work on the contract and the Ministry of Youth has filed a lawsuit against the company.
Recommendation	We recommend that a committee be set to determine percentages of completion of work in order to settle amounts accordingly.
Risk Level	High
Status	New

4. Accounting Records

Observation	We noted that the accounting department does not maintain a General Ledger within its set of accounting books. We also noted that the engineering accounting department has only a journal book as an accounting record.
Recommendation	We recommend that the Ministry maintains adequate accounting records.
Risk Level	Medium
Status	New

5. Fixed Asset Register

Observation	We noted that the fixed asset register held by the Ministry does not contain identifying numbers such as chassis number or VIN for vehicles to be identified.
Recommendation	We recommend that the Ministry identifies each vehicle by its chassis number or VIN number in the fixed asset register.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Youth & Sports

1. Payroll Committees

Observation	We noted that the payroll committee members responsible for receiving the salaries from Finance Department are not being periodically rotated in accordance with the annual budget instructions issued by the Ministry of Finance, which requires rotating committee members every six months.
Recommendation	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months for better control procedures and to adhere to budget instructions.
Management's Response	The Ministry confirmed this note in its memorandum dated 17/4/2008 and stated that measures will be taken to rotate the committees periodically every six months. Our related committee confirmed the Ministry's reply since the issued authority in respect of payroll is in the name of a single person and not a committee.
Risk Level	Medium
Status	Old
Follow up	The observation has been resolved in 2008.

2. Recording Daily Transactions

Observation	We noted that some accounting transactions were not signed in accordance with the implemented procedures in the Ministry. For example, journal voucher No. 4/62 dated 7 October 2007 related to receipt of IQD 11,250 million from Ministry of Finance to finance capital expenditures. The voucher was not signed by the preparer and the Internal Audit Department.
Recommendation	We recommend segregating executive duties and control duties, since the internal audit department is considered a monitoring body and it is not appropriate for controlling body to approve the payroll sheets which is considered as executive duty. The finance department shall be considered as the department responsible for disbursements for better control procedures.
Management's Response	The Ministry confirmed the Auditor's note and per its memorandum dated 17/4/2008 stated that this will be avoided in future. Our monitoring committee confirmed that the non-signature of the voucher relating to the amount of 11,250 thousand Dinars was due to delay in receipt of said advise and accordingly, the voucher was filed without being signed.
Risk Level	Medium
Status	Old
Follow up	From the selected sample of vouchers, none of the above mentioned observations came to our attention in 2008.

3. Engineering Department Contracts

Observation	We noted that the supporting documents of the Engineering Department contracts are not properly organized, which led to difficulties in reviewing information relating to these contracts. For example:		
	Contract Number	Contract Amount (IQD)	Supplier Name
	39	193,185,000	Al Nabeel Engineering Company
	63	313,607,500	Al Shams Contracting Company
Recommendation	We recommend developing a proper archiving system to keep each contract together with its related supporting documents separately, and to properly organize these contracts in order to facilitate the retrieval and review process.		
Management's Response	The Ministry confirmed per its memorandum dated 17/4/2008 the Auditors' report in this respect and stated that the reason was due to the non-availability of an appropriate place for keeping the files. A proper place was prepared for this purpose in addition to the utilization of a new program for the specifically for this objective.		
	The monitoring commission confirmed the Ministry's reply in respect of the preparation of an appropriate place and utilization of a new computer program for retaining documents related to the contracts in an organized and correct way. This note was also mentioned in the Firm's report for the prior year and the Ministry has taken proper measures in this respect.		
Risk Level	Low		
Status	Old		
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.		

Observations raised for the year ended 31 December 2008

Ministry of Transportation

1. Review of Contracts

Observation	During our review, we noted a contract to purchase 4 boats amounting to USD 18,800,000 from “Wazef” Company dated and signed on 6/12/2004. The letter of credit was opened in 2008 instead of 2004, only 2 boats were purchased at USD 18,800,000.
Recommendation	We recommend the opening of letters of credit in time to avoid additional expenses and to preserve public funds. We also recommend an inquiry about the reasons for the increase in the purchase price of 100%.
Risk Level	High
Status	New

2. War Losses

Observation	The Ministry did not perform a survey of the losses resulting from the 2003 war to derecognize the lost assets from its records.
Recommendation	We recommend the losses resulted from the 2003 war be estimated and assets derecognized from the Ministry's records after obtaining the appropriate approvals.
Risk Level	Medium
Status	New

3. The General Company for Railings – Receivable Balances

Observation	During our visit to the "General Company for Railings", we noted that several receivable balances from prior years relating to government institutions have not been followed up and resolved.
Recommendation	We recommend the follow up on these accounts to determine whether the amounts are collectable. If the amounts are determined to be not collectable, we recommend they be written off.
Risk Level	Medium
Status	New

4. The General Company for Railways – Inventory Count

Observation	During our visit to the “General Company for Railways”, we found that the Company has not established a committee responsible for performing inventory counts in Biji, Al Qaem, Al ramadi, Al Haklaniah and Karkouk, and only performs counts that are sent by its stations for reconciliation purposes.
Recommendation	We recommend that the Company establishes committees to supervise inventory counts in all districts including Biji, Al Qaem, Al ramadi, Al Haklaniah and Karkouk.
Risk Level	Medium
Status	New

5. Organization Chart

Observation	The Ministry does not have an Organization Chart or Job Description.
Recommendation	<p>We recommend that the Ministry to develops a formally approved organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

6. Work Schedule Control

Observation	During our visit to the Ministry, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

Follow up on observations raised by the previous auditor Ministry of Transportation

1. Contracting and Contracts' Supporting Documents

Observation	During our review we noted the lack of a centralized file for each contract to maintain a copy of all its related documents. Rather, documents are filed across the related departments.
Recommendation	We recommend that all documents related to each contract shall be centrally filed, to facilitate review and for better control procedures.
Management's Response	Our related commission has confirmed the non-existence of a centralized file for contracts, and this note was mentioned in its report No. (10/40/1/4557) dated 19/6/2007.
Risk Level	Medium
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

2. Old Outstanding Cash Margins

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 2007 according to the confirmation received from JP Morgan Chase.					
	L/C No.	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C Opening Date	L/C Validation Date
	1631/2005	Transportation	1,950,000	100,700	24/2/2005	30/1/2006
	1650/2006	Transportation	14,066,666	5,261,041	31/3/2005	31/8/2005
	1792/2005	Transportation	976.000	146,400	31/5/2005	15/3/2006
Recommendation	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 Letters of Credit are executed on a timely basis.					
Management's Response	No response					
Risk Level	High					
Status	Old					
Follow up	We did not receive confirmation letters from JP Morgan and therefore we are unable to confirm the outstanding cash margin balances for letters of credit.					

Observations raised for the year ended 31 December 2008

Ministry of Labor and Social Affairs

1. Organization Chart

Observation	We noted that the Ministry does not have an "Organization Chart" and an updated set of "Job Descriptions". The last set of job descriptions was approved and issued on September 1983.
Recommendation	<p>We recommend that the Ministry develops a formally approved organization structure and job description for all levels at Ministries, this organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems as necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

2. Consolidated Financial Statements

Observation	We noted that the Ministry does not compile consolidated financial statements to include all related directorates and the Ministry.
Recommendation	We recommend that the Ministry compiles consolidated financial statements as it will give a more complete view of the Ministry's financial status.
Risk Level	Medium
Status	New

3. Physical Stock Taking Committee

Observation	We noted when revising order # 1849 on 24/12/2008 regarding the appointment of the physical stock taking committee for weapons and arms inventory that Mr. Khalil Ibrahim , the custodian, was appointed as a member of the committee. This may raise questions regarding the committee's independence.
Recommendation	We recommend that the committee be made up of members independent of the custodian of the weapons and arms.
Risk Level	Medium
Status	New

4. War Losses

Observation	We noted that the Ministry has assessed and identified the war losses but has not written off the amount of losses from its accounting records.
Recommendation	We recommend that the Ministry follows-up on this issue with the concerned parties in order to derecognize the amount of war losses from its accounting records.
Risk Level	Medium
Status	New

5. Automation of the Accounting System

Observation	We noted that journal entries are recorded and posted to the general ledger manually. In addition, the extraction of the trial balance and financial reports are also done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing and to increase efficiency in the extraction of reports.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Labor and Social Affairs

1. Tender Opening Committees

Observation	We noted that the members of Tender Opening Committee are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance which requires rotating committees' members every six months.
Recommendation	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months for better control procedures and to adhere to budget instructions.
Management's Response	E&Y's note: "Members of Tender Opening Committee are permanent without being periodically rotated". Our related commission has confirmed the correctness of the above note.
Risk Level	Medium
Status	Old
Follow up	During year 2008 the Tender Opening Committee was changed every six months.

2. Salaries Committee

Observation	We noted that there is only one committee that performs the tasks of both receiving the cash from banks for the payment of employees' salaries, and handing salaries to employees.
Recommendation	We recommend that two separate committees should be created; one for receiving salaries from the bank and the other for handing salaries to employees. Also we recommend considering payment of salaries through bank transfers to each employee's personal bank account, for better control procedures and better safeguarding of the Ministry's cash.
Management's Response	Our follow up revealed the correctness of this note.
Risk Level	High
Status	Old
Follow up	We noted that the payroll sheet is prepared by Ms. Ferdaws Haydar Jasem and reviewed by Ms. Suhaila Ahmad, while a committee consisting of Mr. Kamel Fleih, Sabah Abbas Adel Nabi and Ms. Asmaa Majid Hamid pays the salaries.

3. Maintaining Contracts' Supporting Documents

Observation	<p>We noted that the Ministry does not maintain copies of the contracts files for its related directorates, as the contract files are kept with related companies and directorates only, for example:</p> <table> <tr> <th>Contract</th><th>Contractor</th></tr> <tr> <td>Rehabilitation and restoration Al-Daman building in Al-Wathba</td><td>Al-Salam General Co. for Contracting & Construction</td></tr> <tr> <td>Construction of trade center in Karkuk</td><td></td></tr> </table>	Contract	Contractor	Rehabilitation and restoration Al-Daman building in Al-Wathba	Al-Salam General Co. for Contracting & Construction	Construction of trade center in Karkuk	
Contract	Contractor						
Rehabilitation and restoration Al-Daman building in Al-Wathba	Al-Salam General Co. for Contracting & Construction						
Construction of trade center in Karkuk							
Recommendation	We recommend keeping a copy of companies and directorates' contracts at the Headquarter of the Ministry in order to maintain better control procedures.						
Management's Response	Our follow up confirmed the correctness of this note, knowing that the Ministry has introduced a special section for contracts, activation of which is still pending						
Risk Level	Medium						
Status	Old						
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.						

4. Supporting Documents

Observation	We noted that the employee responsible for recording assets purchases in the inventory/fixed assets register does not receive a copy of the purchase invoice from the Accounting Department.
Recommendation	We recommend the Accounting Department to provide the responsible employee for updating the fixed assets register with a copy of the invoice of all fixed assets purchases.
Management's Response	Our follow up revealed that the employee responsible for the recording of purchases of assets does receive a copy of the purchase invoices. This note was also mentioned for prior year.
Risk Level	Medium
Status	Old
Follow up	From the selected sample of purchases contracts, none of the above mentioned observations came to our attention in 2008.

Observations raised for the year ended 31 December 2008

Ministry of Agriculture

1. Checks overdue over than six months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and the accounting records amended accordingly.
Risk Level	Medium
Status	New

2. Payroll

Observation	We noted that the payroll were not revised following the instructions of the Ministry of Finance.
Recommendation	We recommend that the Ministry complies with the instructions of the Ministry of Finance in computing payroll.
Risk Level	Medium
Status	New

3. War losses

Observation	We noted that the Ministry has not written off the war damages from its books as they have not been able to identify the damages.
Recommendation	We recommend that the Ministry uses the prewar fixed asset register of 31/12/2002 in order to follow-up and identify war damages.
Risk Level	Medium
Status	New

4. Job Description

Observation	We noted that the Ministry does not have an organization chart and in addition the job description found, dating back to 1983 when the Ministry was called "The Ministry of Agriculture and Irrigation".
Recommendation	We recommend that the Ministry updates its job description, and sets the responsibilities.
Risk Level	Medium
Status	New

5. Automation of the Accounting System

Observation	We noted that journal entries are recorded and posted to the general ledger manually. In addition, the extraction of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry to use an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing and to increase efficiency in the extraction of reports.
Risk Level	Medium
Status	New

6. Bank Reconciliations

Observation	<p>We noted when receiving the bank reconciliations the following:</p> <ul style="list-style-type: none"> 1- Large balances relating to previous months without any description or explanation. 2- Deposits relating to previous years that have not been assigned journal entries. 3- Outstanding checks more than 6 months old. 4- Bank checks relating to previous months that are still held as reconciling items.
Recommendation	<p>We recommend that the Ministry follow-up on all reconciling items and records the necessary journal entries. In addition, we recommend that the Ministry reverses the entries relating to outstanding checks that are more than 6 months old as they are void.</p>
Risk Level	High
Status	New

7. Contracts of the Engineering Department

Observation	We noted that the engineering department does not have the contracts and the supporting documentation relating to the construction of 3 “Modern Villages” in Karbala in 2007 for the amount of 10.4 billion IQD, in Simawah in 2008 for 13.8 billion IQD and in Diwaniyah in 2008 for 13.5 billion IQD.
Recommendation	We recommend that the engineering department keeps all original contracts and supporting documentation that have been signed as this department holds both technical and administrative responsibilities related to the contracts signed.
Risk Level	High
Status	New

Follow up on observations raised by the previous auditor Ministry of Agriculture

1. Old Outstanding Cash Margins

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 2007 according to the confirmation received from JP Morgan Chase.

L/C No.	Ministry	L/C Amount (USD)	Outstanding Amount (USD)	L/C	Opening Date	L/C Validation Date
810/2004	Agriculture	651,250	16,536		14 Oct 2004	15 Jan 2005
1506/2004	Agriculture	1,138,900	94,878		4 Jan 2005	30 Dec 2006
1634/2005	Agriculture	606,000	121,200		1 March 2005	30 Nov 2006

Recommendation

We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze 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 and according to the contract terms.

Management's Response

"A number of old outstanding cash margin balances with JP Morgan for letters of credit has not been resolved". The Ministry's response revealed the following:

a. Re LC No. 810/2004 for contract A/23/2004 signed with (ARD-Unifert) for a total amount of 651,250 U.S.\$ with a remaining balance of the LC U.S.\$ 16,536 refund of which was refused to DFI, unless the approval of the supplying company is granted. The General State Company for agricultural supplies will be discussing this matter with the supplying company.

Our monitoring commission follow up revealed that the above amount was on account of certain damages and deficiencies in the supplied items, and that the State Company did not, up till now take any legal measure for claiming the above referred to damages from the supplier.

b. Re LC No. 1506/2004 for contract No. M/17/2004 signed with the Iraqi Company for Machinery and Equipment Services (limited) for the provision of 3 bulldozers. The remaining amount of 94,878 U.S. \$ represent delay fines due from the company. Refund to DFI was refused by JP Morgan unless the approval of the supplier is obtained which approval has been denied.

The follow up of the commission confirmed the reply of the Ministry whereby the subject was raised by the Iraqi company with the supplier in respect of delay fines so that upon the receipt of approval from the supplier, TBI will be informed for follow up with JP Morgan for refunding the balance to DFI.

c. Re LC No. 1634/2005 for contract M130/2005 signed with Aviation Freight Academy to train 19 agricultural pilots for a total amount of 606,000. The remaining balance of 121,200 \$ resulting from the non training by the Academy of 5 pilots as agreed upon whereby ground and air training was not performed, since the agreement stipulated 200 flying hours to 5 pilots while the actual training was done for 50 flying hours only. The Academy did not abide by the contract and halted the training as of 13/4/2006 without any request from the Agricultural Supplies Company or the benefiting party (The General Institute for the Protection of Plantation.). The company cannot transfer the remaining balance of LC to DFI except with the approval of the supplier.

Our monitoring commission confirmed the Ministry's reply. This note was also mentioned in the Firm's report for the prior year.

1· Old Outstanding Cash Margins (continued)

Risk Level	Medium
Status	Old
Follow up	We did not receive confirmation letters from JP Morgan and therefore we are unable to confirm the outstanding cash margin balances for letters of credit.

Observations raised for the year ended 31 December 2008

Ministry of Higher Education and Scientific Research

1. Bank Reconciliations

Observation	We noted that the last bank reconciliation with the Ministry's account at the Trade Bank of Iraq was performed on 29 August 2007.
Recommendation	We recommend that bank reconciliations be performed on a monthly basis and reviewed by an independent member of the finance department.
Risk Level	High
Status	New

2. Automation of the Accounting System

Observation	We noted that journal entries are done and recorded in the general ledger manually and we also noted that the preparation of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing, to increase efficiency and to enable the backing up all electronic files.
Risk Level	Medium
Status	New

3. Checks overdue over than six months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and that the accounting records be amended accordingly.
Risk Level	Medium
Status	New

4. Consolidated Financial Statements

Observation	We noted that the Ministry does not consolidate with the universities and its directorates as they are considered to be financially and administratively independent. We believe that having financial independence is not a valid reason for not consolidating financial figures.
Recommendation	We recommend that the Ministry consolidates its accounts with the universities and affiliated directorates in order to obtain a more complete view of the Ministry's financial position.
Risk Level	Medium
Status	New

5. Ministry Accounting Records

Observation	We noted that the Ministry does not maintain adequate records. We noted a lot of corrections and mistakes in the records.
Recommendation	We recommend that the Ministry maintains their records in a more organized manner.
Risk Level	Medium
Status	New

6. Archiving System

Observation	We noted that the archiving system in the accounting and audit departments needs more care and especially with regard to contracts documentation.
Recommendation	We recommend the development of the archiving system and ensure continuous maintenance of this system.
Risk Level	Medium
Status	New

7. Expenditures Exceed Appropriations

Observation	We noted that the Ministry has exceeded its appropriations in most captions but received approval to reallocate funds from other captions except for the "housing" appropriation.
Recommendation	We recommend that the Ministry abides by the set budgeting and obtain approval for all reallocations.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Higher Education and Scientific Research

1. Recording U.S. Agencies Contracts

Observation	We noted that a contract amounted to U.S. \$ 99,980 of the contracts managed by the U.S. Agencies on behalf of the Ministry without notifying the Ministry with any details related to the contract. However, the contract is recorded in the DFI as part of the Ministry's expenditures.
Recommendation	We recommend to maintain a continuous coordination between the Ministry and the U.S. Agencies through determining a mechanism for exchanging information and documents related to the contracts managed by the U.S. Agencies in order to be updated in the Ministry's accounting records for better control procedures.
Management's Response	The Ministry replied in its memorandum dated 26/12/2007 that this contract was not within contracts' signed by the Ministry and accordingly, no data in this respect is available. Follow up by the commission revealed the correctness of this note since the records did not reveal any amounts relating to the above contract. This note did not specify the details of this contract.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

2. Reconciliation of the Transactions with Related Universities

Observation	We noted that the Ministry do not perform a monthly reconciliations with the records of the universities to reconcile Letters of Credit and import contracts balances. The main purpose of the reconciliations is to ensure that all recorded amounts in the universities' accounting records have been recorded by the Ministry.
Recommendation	We recommend the Ministry to prepare regular reconciliations with the related universities, to ensure proper matching of all transactions between the Ministry and universities records, and to identify and clear differences permanently. Reconciliations should be reviewed and approved by the appropriate levels at both the Ministry and the related universities for better control procedures.
Management's Response	The Ministry stated that universities enjoy financial and administrative independence and no letters of credit or balances relating to import contracts are available. This note was also mentioned for the prior year and the Council stated that it is incorrect due to the financial and administrative independence of institution's related to the Ministry. The Ministry's records do not reveal any balances relating to these institutions, though we recommend a statistical combination of the universities with the Ministry of Higher Education and Scientific Research be done to arrive at overall accounting and statistical data.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

Ministry of Planning

1. Extension of Contracts

Observation	We noted during our review of a sample of the Ministry's contracts that the cleaning contract of the Ministry's building for 2007 was extended to 2008, which means that the Ministry did not comply with the contracting procedures which requires obtaining competitor offers.
Recommendation	We recommend that the Ministry complies with governmental tendering procedures for awarding contracts.
Risk Level	Medium
Status	New

2. Extension of Contracts and Reconciling Specification Committees

Observation	We noted during our review of a sample of the Ministry's contracts that the contract with Al Rabih Commuting for employee transport for 2008 is an extension of the 2007 contract, which means that the Ministry did not comply with the governmental procedures for awarding contracts which require obtaining competitive offers. We also noted that no supporting documents exist to evidence that a committee was established to ensure that the specifications and number of vehicles provided is in accordance with the terms of the contract.
Recommendation	We recommend that the Ministry complies with the governmental procedures for awarding contracts, we also recommend establishing committees to examine that the specifications of items received or services delivered are in accordance with the contracts terms.
Risk Level	Medium
Status	New

3. Organization Chart

Observation	The Ministry does not have a formal and approved Organization Chart or Job Descriptions.
Recommendation	<p>We recommend that the Ministry develops a formally approved organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Planning

1. Ministry's contracts

Observation	During our review of contracts No. 8 and 9, we noted the absence of approval from the authorized person on the recommendations of the tender analysis committee, which represents non-compliance with budget instructions issued by Ministry of finance.
Recommendation	We recommend that the Ministry obtains the approval of the authorized person who approves the recommendations of the tender analysis committee to ensure proper implementation of budget execution instructions issued by the Ministry of Finance for better procedures and adherence to budget instructions.
Management's Response	The Ministry stated per its letter No. 1572 of 20/4/2008, that the person authorized to approve the Tender Committee recommendation is the Minister of Planning and Developmental Cooperation. The related commission confirmed this reply.
Risk Level	Low
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention for the year ended 2008.

2. Tenders Opening and Analyzing Committees

Observation	We noted that one member of the Tender Opening Committee is also a member of the Tender Analyzing Committee. Also we noted that the members of the Tenders Opening and Analyzing Committees are not periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committees' members every six months.
Recommendation	We recommend that the Ministry shall comply with the budget instructions issued by the Ministry of finance which requires the segregation of duties between Tender Opening and Analysis committees; as well as rotating committees' members every six months for better control procedures and to adhere to budget instructions.
Management's Response	The Ministry advised per its above letter that Tenders Opening and Analyzing Committee are formed specifically for each case and not on an annual or periodic basis, i.e. for each tender a special committee is formed. Said committees' members (specifically the head of the committee are rotated on each case, though certain committee members enjoy permanent membership at certain committees due to their wide experience in specifications re certain technical devises. The legal member's name was repeated due to an odd exceptional circumstances. The related commission confirmed this exceptional circumstances which obliged the Minister to take this measure.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

3. Testing Committees

Observation	<p>During our review of supporting documents related to transportation of Ministry's employees by Al Rabee' transport office, we noted the following:</p> <ul style="list-style-type: none"> · No evidence has been noticed to support the existence of testing committee that ensures the agreed upon number and specifications of vehicles are used. · Al Rabee' Office started to perform the transportation for employees on June 15, 2007 prior to the date of signing the contract on July 8, 2007. · No identification number has been given to this contract to be used as reference.
Recommendation	<p>We recommend that the Ministry shall form a testing committee to ensure specifications stated in the contract are met. Also the Ministry should not start performing in any contract unless it is signed to maintain the Ministry's contractual rights. Also we recommend the development of a proper archiving system to keep each contract together with its related supporting documents centrally, and to properly organize these contracts in order to facilitate retrieval and review processes.</p>
Management's Response	<p>The related committee confirmed the Firm's note as the Ministry did not form a committee for verification of specifications and numbers of vehicles. As to AL RABEE' Office, the commission found out that a prior contract signed on 15/6/2006 is available. Since paragraph 7 of the general clauses of said contract stipulates that " the duration of the contract starts as of commencement date and until 31/12/2006 which duration is renewable by mutual agreement". Accordingly said contract has been considered as renewed.</p> <p>As to the last paragraph of the Auditors' note, the commission confirms the correctness thereof, except that the old contract was given number 4 for identification.</p>
Risk Level	Medium
Status	Old
Follow up	<p>During our visit to the Ministry, we noted that the above mentioned contract was awarded without following the formal tendering process for governmental contracts. This contract was renewed for the year 2008. We could not find any documentation that supports the existence of a committee responsible for agreeing the specifications and number of vehicles.</p>

4. Following up Supplying Contracts

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). The contract has been executed without collecting the penalty amount from the first contractor, or filing for a suit against him until the date of our visit in February 2008.
Recommendation	We recommend the Ministry to follow up its contractual rights; we also recommend verifying the causes behind the large difference between the prices of both contractors.
Management's Response	The contract was executed by the new contractor without the Ministry's collection of the fine from the first contractor nor was a legal case raised until February 2008. The follow up of the commission revealed that the Ministry has raised a case against Qaswa' Al-Bawadi Company, but the later appealed the ruling. The Ministry accordingly appealed the case to the court of cassation. This note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008. As for the above mentioned contract, the Ministry filed a lawsuit against the supplier.

Observations raised for the year ended 31 December 2008

Ministry of Water Resources

1. Job Description

Observation	We noted that the Ministry does not have a formal updated job descriptions. The Job description available was issued in 1998. The ministry is working on updating the old job description
Recommendation	We recommend that the Ministry accelerates the updating of the old job descriptions.
Risk Level	Medium
Status	New

2. War Losses (2003)

Observation	The Ministry did not perform a survey of the losses resulting from the 2003 war to derecognize the lost assets from its records.
Recommendation	We recommend the losses resulted from the 2003 war be estimated and assets derecognized from the Ministry's records after obtaining the appropriate approvals.
Risk Level	Medium
Status	New

3. Fixed Asset Count

Observation	We noted that the stock and fixed assets committees include personnel that have custody of the stock and assets.
Recommendation	We recommend that stock and fixed assets committee include independent members.
Risk Level	Medium
Status	New

4. Contract Number 1/2008

Observation	Upon reviewing contract #1/2008 we noted that the specifications of the boats received by the Ministry were not in accordance with the contract. The boats were not recorded in the Ministry's books.
Recommendation	We recommend that the Ministry ensures that the receiving committee checks the specifications and approves the receipt note.
Risk Level	Medium
Status	New

5. Uniform Numbering System for Contracts

Observation	We noted that the Ministry does not use a uniform numbering system for contract numbering. We also noted that some contracts were not numbered and others were not signed.
Recommendation	We recommend that the Ministry follows a uniform numbering system and ensures that all contracts are signed by all parties.
Risk Level	Medium
Status	New

6. Archiving System

Observation	We noted that the archiving system in the accounting and audit departments need more development.
Recommendation	We recommend the development of the archiving system and ensure continuous maintenance of this system.
Risk Level	Medium
Status	New

7. Automation of the Accounting System

Observation	We noted that journal entries are recorded and posted to the general ledger manually and we also noted that the extraction of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid making mistakes that may arise as a result of manual proceeding in order to increase efficiency and to have a back ups of all electronic files.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Water Resources

1. Tender Opening Committee

Observation	We noted that the members of Tender Opening Committee at the Ministry and some of its related directorates are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance which requires rotating committees' members every six months.
Recommendation	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six month
Management's Response	Our follow up confirmed the correctness of this note. The Ministry has also issued Ministerial Order No. 17259 of 31/12/2007 for changing the members of the Tender Opening Committee. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	During the year 2008 the Tender Opening Committee was changed every 6 months.

2. Salaries Committee

Observation	We noted that there is only one committee for both receiving the payroll cash from banks in addition to handing salaries to employees.
Recommendation	We recommend that two separate committees should be created; one for receiving salaries from the bank and the other for handing salaries to employees. Also we recommend considering paying salaries through bank transfers to each employee's personal bank account, for better control procedures and better safeguarding of the Ministry's cash.
Management's Response	Follow up on this subject confirmed its correctness and revealed that the Ministry has now formed two separate committees for receiving and payment of salaries as per its letter of 27 December 2007. This note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	The memo # 17071 issued on 27 December 2007 requires the establishment of two committees, one responsible for receiving funds to be paid as salaries, and the other responsible for paying the salaries. During 2008, the payroll schedules and statements were prepared by Ms. Sita Azer and reviewed by Ms. Wahida Ibrahim, and salaries were paid by a committee composed of three members.

3. Recording U.S. Agencies Contracts

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 (U.S. \$)	Award Date	Completion Date
	W914NS-04-D-0007	46,781,754	10-Apr-04	30-Apr-06
	DABV01-04-M-0169	1,876,845	27-Jun-04	15-Jul-05
	DABV01-04-M-5145	317,375	22-Apr-04	12-Aug-05
Recommendation	We recommend that coordination shall be maintained between the Ministry and the U.S. Agencies and procedures are jointly developed to exchange the information and documents related to the contracts managed by the U.S. Agencies and in order to update the Ministry’s accounting records on a timely basis.			
Management’s Response	The related commission confirmed the non-existence of data or information at the Ministry in respect of said contracts. This note was also mentioned in the Firm’s report for the prior year.			
Risk Level	High			
Status	Old			
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.			

Observations raised for the year ended 31 December 2008

Ministry of Interior

1. Salaries of Ministry employees in the Provinces

Observation	The process of paying salaries to Ministry employees in the provinces is audited in the provinces and the amounts are paid from the treasury of the provinces. A CD that contains the names and information for each month is sent to the department responsible for auditing the salaries in the Ministry. The auditing department uses the Access Computer software to audit the recurring name only for which each month recurring names are discovered and a memorandum is sent to the province to recover the amounts from employees paid more than once.
Recommendation	We recommend that Ministry audits the names of the Ministry employees and their salaries and reconcile between the Ministry records and the province records before paying salaries.
Risk Level	High
Status	New

2. Checks overdue over than six months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend a follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
Risk Level	Medium
Status	New

3. Non-compliance with the implementation of government contracts

Observation	We noted that the contract signed with Horoscopes Technical Engineering Services Company contains a copy of a letter of guarantee amounting to six million Iraqi Dinars issued from Ashur Bank in 21/10/2007 while the report of the tender opening committee was dated 7/10/2007, which means that the letter of guarantee was presented after awarding the tender. When the material was tested it turned out to be of Mexican origin and not of English origin as committed by the company.
Recommendation	We recommend adherence to the instructions of the implementation of government contracts in terms of obtaining all the required documents and to ensure upon receipt of material the authenticity of its origin and its conformity with the tender documents and specifications required.
Risk Level	High
Status	New

4. Organizational Restructuring

Observation	We noted that the Ministry's law and internal regulations and procedures are outdated. The Ministry developed new jobs and canceled others that were present without proper approval and without preparation of a job description for each new job.
Recommendation	We recommend that the Ministry obtains the required approval from the parties concerned for restructuring and prepares a job description for every new job.
Risk Level	Medium
Status	New

5. Weapons Inventory

Observation	The Coalition Forces provided the Directorate of Baghdad police with 6951 "Glock pistols", which were not entered into the inventory and there is no information about their location to date.
Recommendation	We recommend that the Ministry includes these pistols in the weapons inventory and gives them identification numbers and upon withdrawing them, they should be recorded in a private record including the name and signature of the person receiving the weapon.
Risk Level	High
Status	New

6. Non-compliance with the contracting procedures

Observation	We noted some cases of non-compliance with the contracting procedures where some contracts have been awarded without obtaining competitive bids and without the presence of documented justification for awarding. For example: contract # 14/2008 amounting to 15 billion Dinar, contract # 16/2008 amounting to 7 billion Dinar, contract # 23/2008 amounting to 1.7 billion Dinar, contract # 26/2008 amounting to 37 billion Dinar, and contract # 36/2008 amounting to 61 billion Dinar.
Recommendation	We recommend that the Ministry complies with the instructions of the implementation of government contracts in terms of commitment to the way of tendering.
Risk Level	High
Status	New

7. Asset Register

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 develops identification numbers to be attached to all items of fixed assets and which should be recorded in the fixed asset register. In addition, we recommend that the Ministry performs independent and periodic physical verification to ensure safe custody of the fixed assets.
Risk Level	Medium
Status	New

8. Auditing the U.S. Embassy Contracts

Observation	During our visit to the Ministry of Interior, we found that the Directorate of audit – the department of the Ministry general inspector is auditing 1317 contracts with the U.S. embassy . Serious irregularities were identified in these contracts.
Recommendation	We recommend a follow-up with the U.S. embassy.
Risk Level	High
Status	New

Follow up on observations raised by the previous auditor Ministry of Interior

1. Foreign Military Sales

Observation	We noted that the Ministry has transferred an amount of U.S. \$ 169 million during 2007 to the Foreign Military Sales- FMS account in FBRNY. We were not provided with any information related to the disbursements made out of this account due to the fact that such information is not available at the Ministry. The Ministry did not record the disbursed amounts during the year as part of its capital expenditure.
Recommendation	We recommend that the Ministry shall record all disbursements related to capital expenditure in its records, in addition to preparation of monthly reconciliation for the Foreign Military Sales account for better control procedures.
Management's Response	The Ministry of Interior provided us with a detailed list of foreign sales contracts on account of amounts allocated out of 2006 budget and amounting to U.S. \$ 181,416,940 contrary to what was mentioned in the Firm's report. Our related monitoring commission at the Ministry confirmed the Auditors' note, knowing that the Ministry continues discussions with MOF for recording of these amounts in its records.
Risk Level	High
Status	Old
Follow up	We noted that the Ministry's transfer of USD 169 million (mentioned above) during the year 2007 from the 2006 budget. Till February 2009, these disbursements have not been registered in the Ministry's records. In year 2008, two transfers in the amounts of 461 and 325 Billion Iraqi Dinars were transferred to the FMS account and were not recorded in the books.

2. Re-Announcing Tender Request

Observation	During our review, we noted that the Ministry has re-announced some bids after opening the bids for different reasons. This would uncover the prices submitted by the bidders to the committees' members and therefore the confidentiality of tenders presented would be breached.
Recommendation	<p>We recommend obliging the bidders to provide two offers and as follows:</p> <ul style="list-style-type: none"> · Technical offer: This offer shall include the technical specifications of the contract subject matter, the date of delivery, and other technical matters. · Financial offer: This offer shall include price schedule, payment dates and method of payment. The financial offer should not be opened unless the technical offer is accepted. We also recommend maintaining accuracy when announcing tenders and ensuring that the announcement includes all required specifications and conditions related to the contract for better control over the procurement process.
Management's Response	<p>The Ministry in its letter no. (979) dated 3 April 2008 replied as follows:</p> <p>First: Supply of Generators: The tender for supplying the Ministry with 2 power generators was re-scheduled due to the fact that new requirements surfaced in addition to increased need for the electricity network to various departments of the Ministry. These new elements necessitated a reconsideration by the Engineering and Maintenance Departments of the new specifications and quantities together with addition of new paragraphs in respect of electric lines, operations and erection aspects, and as a result of which estimated costs of the project had to be altered. Due to the importance of this issue, this matter was raised to the Minister and his approval on alteration of amounts and re-tendering through direct invitations to the companies was obtained.</p> <p>Second: Tenders no. 5, 6, 7, 8, /2007: Usually conditions of the tending process dictate the need to obtain a technical offer and a commercial offer. In many cases whereby the tender offers do not comply with the above condition, call for re-tendering is made.</p> <p>In some cases, the need for new requirements arise thus compelling the reconsideration of specifications and quantities lists in respect thereof and subsequent re-tendering in line with instructions and controls enforced in this respect. Our monitoring commission at the Company stressed the need for detailed and comprehensive listing of specifications and other information for each tender</p>
Risk Level	High
Status	Old
Follow up	From the selected samples we noted that the bid for hand-cuffs material was renounced in 2008 due to the lack of information in the tender announcement documents.

3. Receipt of Equipment

Observation	We noted that the Ministry received the equipment related to contract No. 2- 2007 amounted to IQD 4,949,625,000 to purchase military uniforms and equipments, in addition to contract No. 5-2007 amounted to IQD 20,836,500,000 to purchase explosive detection devices and to train the Ministry's staff to use these devices, without obtaining the recommendation from the Technical Specifications and Examination Committee's approval on acceptance of these devices.
Recommendation	We recommend that the Ministry shall examine the received equipments by the Technical Specifications and Examination Committee, and to issue the committee's report prior to the final receipt of devices for better control procedures and better safeguarding of public property.
Management's Response	<p>The Ministry per its letter no. (979) of 3 April 2008, replied as follows:</p> <p>First: Re contract no. 2-2007: The Ministry issued administrative orders no. 6682 and 8227 on 15 March 2007 and 8 March 2008 respectively for the creation of committees for monitoring the hand-over of explosive detection devices as contracted for per contract no. 2/2007.</p> <p>The Ministry's letter no. 979 of 3 April 2008 included the attached specific administrative orders for the formation of the committees for handing-over these devices Similarly the memorandum of the assistant deputy of administrative affairs dated 24 February 2008 explicitly stated that the technical committee entrusted with the testing and receipt of said devices, did not finalize its assignment up till now due to the failure of its representatives to attend and their deficient technical expertise in these devices. The General Manager of the explosives prohibition section recommended the creation of another committee to finalize this assignment. Accordingly a new committee for this purpose was formed as per letter no. 673 of 4 March 2008 to accomplish the handing-over of the devices as per the executed contract with WAHAT AL-BADIYAT, though actual hand-over of said devices was not ascertained.</p> <p>Second: Contract no. 5/2007: The Ministry of Interior indicated that pursuant letter No. 1237 of 21 April 2007 of Contracts Directorate and letter No. SL647 of 16 May 2007 issued by the Head of Economic Affairs committee per which the said committee took the following decision: "Material subject matter of the contract, even if not in agreement with the contract and stated specifications, shall be received and a special committee formed to delineate responsibilities for said contraventions. This committee shall be made of one representative of each of the Ministry of Finance, Ministry of Planning and Ministry of Interior."</p>
Risk Level	High
Status	Old
Follow up	Concerning the contract #5, there was an inspection committee that found defects in the clothes purchased. A committee was established on in 2007, which decided that 0.5% of contracts nominal amount should be discounted although the contract states that if defects are found, the clothes can be returned. As for the clothes in contract # 1, the Ribwort material Syclose type, was tested and accepted for use on 28/8/2008. The explosives detector was also tested and accepted for use on 28/8/2008.

4. Food Contract

Observation	During our review of the contract related to provide catering services to the Police College students amounting to IQD 10,220,000,000, we noted the absence of evidence that the Ministry reviewed the suppliers' invoices for numbers of meals provided before payment is made. Taking into consideration that the amount of the invoice is based on the number of students at the college, and the payment has to be approved by the Director of the College.
Recommendation	We recommend reconciling the payroll records of the Ministry, which has been approved by appropriate managerial levels, with the supplier's invoices for better control procedure and to ensure the accuracy of meals quantity included in the supplier's invoices.
Management's Response	The Ministry replied that in accordance with item no. 11 of contract no. 3/2007 for catering service to the Police College, verification was based on published lists (orders of 2nd Division) and supplied by the administration of the Police College over-seeing the execution of this contract. Our related monitoring commission confirmed the Ministry's reply whereby it stated that the Ministry requested the Police College to produce the orders from the 2 nd Division indicating the number of students being serviced which should be agreed with payroll records noting that payments on this contract were done on this basis as of September 2007.
Risk Level	Medium
Status	Old
Follow up	We noted that the Ministry requested that the police college student present list of students in order to determine the number of beneficiaries and agree to records.

5. Coordination between Departments and Divisions

Observation	During our visit to the Ministry of Interior we noted poor coordination between the Contracts Department and Finance Department, where the Finance Department does not notify the Contracts Department regarding performance bond collection; which caused Contracts Department to proceed in contracting process without ensuring that the supplier adhered to contract terms and conditions
Recommendation	We recommend that a documented mechanism to coordinate between all departments and divisions in the Ministry shall be issued and implemented, to ensure that the exchange of all information related to the contracting process and its related reimbursements is properly communicated, for better control procedures over contract execution.
Management's Response	Our follow-up revealed the in-correctness of the Firm's note as mutual coordination does exist between the Finance Department and the Contracts Department specifically as relates to the performance bond, proper execution and payment of financial dues on contracts. The Firm did not indicate the specific contract in this respect to perform our follow-up.
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

6. Recording U.S. Agencies Contracts

Observation	<p>During our visits to the Ministry of Interior, we noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. As a result, the Ministry does not have any information related to such contracts and the contracts costs are not yet being recorded in the Ministry’s accounting records, for example:</p> <table><tr><td>Contract Number</td><td>Contract Value (USD)</td><td>Award Date</td><td>Completion Date</td></tr><tr><td>DABV01-04-C-9022</td><td>70,564,166</td><td>03 Jul 04</td><td>31 Jan 07</td></tr><tr><td>N62470-04-C-4717</td><td>63,633</td><td>20 May 04</td><td>24 Apr 06</td></tr></table>	Contract Number	Contract Value (USD)	Award Date	Completion Date	DABV01-04-C-9022	70,564,166	03 Jul 04	31 Jan 07	N62470-04-C-4717	63,633	20 May 04	24 Apr 06
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	<p>We recommend coordination shall be maintained between the Ministry and the U.S. Agencies and procedures are jointly developed to exchange the information and documents related to the contracts managed by the U.S. Agencies and in order to update the Ministry’s accounting records on a timely basis.</p>												
Management’s Response	<p>Our monitoring commission at the Ministry indicated that follow-up continues with MOF in respect of these contracts. This note was also mentioned in the Firm’s report for the prior year.</p>												
Risk Level	High												
Status	Old												
Follow up	<p>The above mentioned observation was still valid for the year ended 31 December 2008.</p>												

7. Allocation of Budget

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 during the year 2007. 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 and followed up.
Management's Response	Our monitoring commission at the Ministry indicated that computations of the budget are done on gross basis and a re-analysis of monthly expenditures is done. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Low
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

Ministry of Health

1. Charges for Issuing Documentary Credit

Observation	We noted that the charges for issuing documentary credit are being withheld by the TBI and have accumulated since 2003 and the amount has reached approximate of USD1.5 million. The Ministry has been trying to follow up this issue with the TBI but to date there has been no progress.
Recommendation	We recommend that a committee be formed to deal with this issue directly with TBI.
Risk Level	Medium
Status	New

2 . Inventory Management

Observation	<p>We noted the following:</p> <ol style="list-style-type: none"> 1- Unrealistic supply forecasting. Hence the public warehouses (public clinics) are required to set their inventory levels 18 months before the required date. 2- The concerned committee does not incorporate in their quantity ordering process the inventory that has been previously ordered and that is being shipped. 3- With the receipt of medication the management of the public warehouses find it difficult to disburse the quantities due to the fact that they are close to the expiry date. 4- The Ministry obliges the public warehouses to receive the excess quantities which are usually close to the expiry date. 5- The received quantities are distributed to the warehouses at the divisions without taking into consideration the expiry date. 6- The public warehouses have raised concerns regarding the manufacturers of the medications. 7- We noted that large quantities of medication are expired that are being disposed.
Recommendation	<p>We recommend that:</p> <ol style="list-style-type: none"> 1- The company puts in place a committee to follow up on the expiry of medication and follows on inventory management system. 2- The company sets new policies in forecasting expected quantities to avoid disposing of expired goods. 3- The company upgrades the role of the public warehouses.
Risk Level	High
Status	New

3. Opening Journal Entry

Observation	We noted during our visit that the opening journal entry was posted in October 2008. We believe that this is too late in the year to effect this transaction. This will result in inaccurate reports being generated.
Recommendation	We recommend that the opening entry be posted earlier in the fiscal year.
Risk Level	High
Status	New

4. Firearms and Ammunition

Observation	We noted that firearms and ammunition that belong to the Ministry are in the possession of individuals that are not part of the Ministry's cadre.
Recommendation	We recommend that the personnel department makes sure that all assets in the possession of individuals be returned when they are transferred or resign.
Risk Level	High
Status	New

5. Returned checks (NSF)

Observation	We noted that the Ministry's cash management is weak, hence the Ministry has issued checks that were deposited and returned due to insufficient funds.
Recommendation	We recommend that the accounting department performs a projected weekly cash flow and updates it with all cash movements.
Risk Level	Medium
Status	New

6. War Losses

Observation	The Ministry did not estimate the losses resulted from the 2003 war to derecognize the lost assets from its records.
Recommendation	We recommend the losses resulting from the 2003 war be estimated and derecognized from the Ministry's records after obtaining the appropriate approvals.
Risk Level	High
Status	New

7. Administrative Positions held by Doctors

Observation	We noted that some senior administrative positions are held by doctors that had not receive training in administration
Recommendation	We recommend the appointment of professionals or provide training courses to develop their administrative skills.
Risk Level	Medium
Status	New

8. Automation of the Accounting System

Observation	We noted that journal entries are recorded and posted to the general ledger manually and that the extraction of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing and for time efficiency and for the availability of backing up all electronic files.
Risk Level	Medium
Status	New

9. Consolidated Financial Statements

Observation	We noted that the Ministry does not compile consolidated financial statements to include all related directorates and the Ministry.
Recommendation	We recommend that the Ministry compiles consolidated financial statements as it will give a more complete view of the Ministry's financial status.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Health

1. Approval on contracts

Observation	During our review of contract No. 475/2006/40 to purchase medicine for an amount of U.S \$ 7,000,000 from Najat Pharma Company, we noted that the preliminary approval was dated December 18, 2006 according to the Tender Analyzing Committee's recommendation. On November 29, 2007, the Committee decided to change the contractor, to supply lower quantities and lower prices. The approval of the General Manager on changing the contract terms is not documented noting that approval on the change falls within the general manager's authority.
Recommendation	We recommend complying with Ministry's regulation in relation to the authority of the General Manager for better control procedures and adherence to applicable laws and regulation.
Management's Response	The Ministry indicated that the said contract is in the name of Najat Pharma Company and as manufactured by Byer Health Care, and as thus the supplier has not been changed. Our related commission confirmed the Ministry's reply.
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008. In addition, the management of the contract mentioned above, falls within the interests of KIMADIA (State Company for Marketing Drugs and Medical Appliances).

2. Excess Importing of Medicine

Observation	We noted that the Ministry did not consider the recommendation of the Tender Analysis Committee for contract number 36/2007/40 for an amount of U.S. \$ 6,499,679 to import 36,069,250 units of certain type of medicine from Novartis Company. The Committee recommendation was against purchasing this type of medicine due to surplus in the Ministry's inventory of 121,203,760 units of the same type, whereas the Ministry's need of this type is 72,138,500 units only.										
Recommendation	We recommend that proper analysis for all contracted quantities should be performed to ensure the proper inventory needs are met. We also recommend that recommendations of the Tender Analyzing Committee shall be considered for better control procedures and better safeguarding of public assets.										
Management's Response	<p>The Ministry advised the following:</p> <table border="1"> <thead> <tr> <th></th><th><u>Unit</u></th></tr> </thead> <tbody> <tr> <td>Stocks at 20/8/2006</td><td>51,203,760</td></tr> <tr> <td>Transfers to national factories on 25/9/2006</td><td>70,000,000</td></tr> <tr> <td>Balance</td><td>121,203,760</td></tr> <tr> <td>Ministries' requirements for 2007</td><td>72,138,500</td></tr> </tbody> </table> <p>The Ministry indicated that the first batch per the contract was received on 16/3/2008 and that actual importation was done after obtaining the approval of the Secretariat for Economic Affairs Committee of the Council of Ministers per their letter no. 841 of 24/6/2007. Our commission confirmed the Ministry's reply.</p>		<u>Unit</u>	Stocks at 20/8/2006	51,203,760	Transfers to national factories on 25/9/2006	70,000,000	Balance	121,203,760	Ministries' requirements for 2007	72,138,500
	<u>Unit</u>										
Stocks at 20/8/2006	51,203,760										
Transfers to national factories on 25/9/2006	70,000,000										
Balance	121,203,760										
Ministries' requirements for 2007	72,138,500										
Risk Level	High										
Status	Old										
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.										

3. Compliance with Contractual Conditions and Instructions

Observation

We noted that the Ministry did not comply with the Supreme Contracting Committee instructions related to contracting procedures. Additionally; the Ministry did not comply with contractual conditions with the contractor as shown below:

Company name	Contract Number	Amount (U.S. \$)	Comments
Novartis	40/2006/345	13,644,372	The Economic Committee stated the delay penalty rate at (0.5%) per week, while the Ministry approved penalty rate at (1%) per month.
Novartis	40/2006/542	4,998,100	The Ministry did not impose a delay penalty as stated in the terms of the contract; the contract terms stated that the contract should be performed in ten weeks starting April 16, 2007, while the contract was performed on July 11, 2007.
Novartis	40/2006/682	4,481,528	The Ministry did not impose a delay penalty as stated in the terms of the contract; the terms state that the contract should be performed over two stages; The first is after one month of notifying the contractor that the LC is opened, and the second is after five months from the notice. The Ministry sent the notice to contractor in July 7, 2007, while the Ministry received the first shipment in September 10, 2007. The Ministry did not collect the delay penalty amount for the first stage.

Recommendation

We recommend complying with the Supreme Contracting Committee instructions related to contracting procedures and the contract terms for better safeguarding of the Ministry's rights.

Management's Response

First: contract no. 345/2006/40 signed with Novartis Company for an amount of U.S. \$ 13,644,372: The Firm's report indicated that the Economic Committee has set a condition of 0.05% per week as a delay fine, while the Ministry set this fine at 1% per month. The Ministry explained in this respect that the Economic Committee's 0.05% per week fine was a mere suggestion, and as thus the Ministry is not bound by application of the above fine. Our related committee confirmed the Ministry's reply.

Second: contract no. 540/2006//40 signed with Novartis Company for an amount of U.S. \$ 4,998,100: The Firm's report stated that the Ministry did not impose the delay fine in accordance with terms of the contract which stipulates that provision of items subject matter of the agreement should be completed within 10 weeks as of 16 April 2007, whilst procurement was done by 11 July 2007.

3. Compliance with Contractual Conditions and Instructions (continued)

Management's Response	<p>The Ministry's reply explained that no time limit was set and the date of opening the LC was 16/4/2007 and that the provision time limit indicated in the company's offer was 12-15 weeks. Moreover material were imported and customized on 1/8/2007 i.e. within the agreed upon period. Accordingly, no delay fine should be imposed. The related committee confirms the Ministry's reply.</p> <p>Third: Contract no. 682/2006/40 signed with NOVARTIS company for U.S. \$ 4,481,528: The Firm's report indicated that "the Ministry did not impose the delay fine in accordance with terms of the contract, since these terms stipulates that the provision of materials should be done in two installments; the first, one month after the date of opening the LC as notified to the supplier; and the second, 5 months after said notification. The Ministry notified the supplier on 7 June 2007 while it received the first shipment on 10 September 2007 and no delay fine was withheld from this first payment.</p> <p>The Ministry confirmed the above and indicated its intention to withhold the fine from the remaining 20% for the second shipment. Our related committee confirmed the Firm's note</p>
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

4. Reconciliation of the Transactions with Related Companies

Observation	We noted that the Ministry did not perform monthly reconciliations with the records of the related companies to reconcile Letters of Credit and import contracts balances. The main purpose of the reconciliations is to ensure that all recorded amounts in the companies' accounting records have been recorded by the Ministry.
Recommendation	We recommend preparing regular reconciliations with the related companies records, to ensure proper matching of all transactions between the Ministry and related companies' records, and to identify and clear differences permanently. Reconciliations should be reviewed and approved by the appropriate levels at both the Ministry and the related companies to maintain additional accuracy and control procedures.
Management's Response	The commission confirmed the above note since the Ministry did not keep records showing details and balances of contracts, other than the register that shows the payments made for financing certain contracts which are reconciled with the schedule sent to the Ministry by the General Company for Marketing of Medicines and Medical Supplies. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

5. Fixed Assets Identification

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 developing identification numbers to be attached to all items of fixed assets and which should be recorded in the fixed asset register. In addition, we recommend independent and periodic physical verification be performed to ensure safe custody of the fixed assets.
Management's Response	The commission confirmed the absence of identification numbers in the fixed assets registers. This note was also mentioned in the Firm's report for the prior year, and no rectifying measures were taken by the Ministry in this respect.
Risk Level	Low
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

6. Contract Supporting Documents

Observation	We noted that the contracts are not properly filed; the contracts' related supporting documents are distributed over the Ministry departments which make it difficult to obtain and follow up some of the contracts and its related supporting documents.
Recommendation	We noted that the contracts are not properly filed; the contracts' related supporting documents are distributed over the Ministry departments which make it difficult to obtain and follow up some of the contracts and its related supporting documents.
Management's Response	The related commission confirmed the above. Similarly this note was also mentioned in the Council's report no. 9578 of 19/11/2007, and also has been mentioned in the Firm's report for the prior year. The Ministry did not take any measures in this respect.
Risk Level	Medium
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

7. Delay in Purchasing and Contracting Processes

Observation	We noted delay in purchasing and contracting procedure during 2007.
Recommendation	We recommend conducting a study of the current purchasing and contracting process, in order to properly follow up the contracts in progress and identify reasons for delay in signing contracts with a view of increasing the efficiency of purchasing and contracting department and ensure timely execution of the Ministry's annual budget.
Management's Response	The related commission confirmed delays by the company in the purchasing and contracting process of certain contracts. The commission has previously noted this delay in its reports no. 9578, 7686 and 8120 of 19/3, 11/10, 19/9 and 2/10/2007 respectively. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

8. Old Outstanding Cash Margins

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 2007 according to the confirmation received from JP Morgan Chase.

L/C #	Ministry	L/C Amount (U.S. \$)	Outstanding Amount (U.S. \$)	L/C Opening Date	L/C Validation Date
1345/2004	Health	145,040	69,276	28/2/2005	28/11/2005
143/2003	Health	360,000	2,886	22/1/2004	15/8/2004
1000/2004	Health	832,500	16,650	21/10/2004	

Recommendation

We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the current status of each outstanding letters of credit cash margins and follow up and resolve all old outstanding balances. Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure that all letters of credit are executed on a timely basis, and the remaining balances are refunded to the DFI.

Management's Response

The Ministry replied as follows:

First: Re LC no. 1345/2004: The Ministry confirmed that the gross balance amounting to U.S. \$ 69,276 is still pending.

Second: the Ministry replied, in respect of the LC, that request for refunding the remaining balance of U.S. \$ 2886 to DFI was done per its letter no. 1483 of 31/1/2008.

Third: Re LC no. 143/2003: the Ministry replied that the full amount of the LC has been paid (in two installments) by the General Company for Marketing of Medicines and Medical Supplies. This note was also mentioned in the Firm's report for the prior year.

Risk Level

High

Status

Old

Follow up

We did not receive confirmation letters from JP Morgan and therefore we are unable to confirm the outstanding cash margin balances for letters of credit.

Observations raised for the year ended 31 December 2008

Ministry of Trade

1. Ministry of Trade – Grain Board

Observation	We noted that although there is an internal audit program for all departments and sections in place, the procedures included are not precise. As for the import department the audit program does not include specialized procedures on the imports of grains. The audit of the import cycle requires knowledge of the permitted working days, actual working days and how to compute demurrage and dispatch.
Recommendation	We recommend that the Ministry develops an internal audit program specialized for the import department and provide adequate training for audit staff.
Risk Level	High
Status	New

2. Payroll

Observation	We noted that the accounting department does not obtain the payroll listing from the personnel department. The accounting department updates and amends the listing without the approval or the collaboration of the personnel department.
Recommendation	We recommend that the personnel department sends an updated list to the accounting when preparing payroll.
Risk Level	Medium
Status	New

3. Consolidated Financial Statements

Observation	We noted that the company has 13 branches related to Baghdad and 3 related to KRG. The consolidation process is performed manually which gives rise to human errors and is very time consuming. In addition, statements of accounts and trial balances are sent monthly but not consolidated until year end.
Recommendation	We recommend that the company implements an automated accounting system to facilitate the consolidation of accounts and the extraction of reports.
Risk Level	Medium
Status	New

4. Automation of the Accounting System

Observation	We noted that journal entries are recorded and posted to the general ledger manually and that the extraction of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing and for time efficiency and for the availability of backing up all electronic files.
Risk Level	Medium
Status	New

5. Accounts Receivable that have been aging for more than 3 years

Observation	We noted that there are accounts receivable older than 3 years totaling in excess of 3 billion Iraqi Dinar. These accounts receivable are related to governmental Agencies.
Recommendation	We recommend that the company follows up on these receivables and if their collection is unlikely, we propose that the accounts receivable be written off.
Risk Level	Medium
Status	New

6. Bank Reconciliations

Observation	We noted that bank reconciliations are performed for all banks in the same reconciliation. Up until 9/2/2009 the reconciliations for November 2008 and December 2008 were not performed.
Recommendation	We recommend that the reconciliations be performed monthly, for each bank account separately and on a timely basis.
Risk Level	High
Status	New

7. checks Register

Observation	We noted that there are discrepancies between the issued checks register extracted by the IT department and the records of the finance department and the import department.
Recommendation	We recommend that the checks register extracted by the IT department be reviewed on a daily basis to ensure that there are no discrepancies.
Risk Level	High
Status	New

8. Doubtful Debts

Observation	We noted that there are doubtful debts in the excess of 2.3 billion Iraqi Dinar that are related to 60 dissolved governmental bodies.
Recommendation	We recommend that these doubtful debts be written off.
Risk Level	Medium
Status	New

9. War Damages

Observation	The Ministry did not perform a survey of the losses resulting from the 2003 war to derecognize the lost assets from its records.
Recommendation	We recommend the losses resulting from the 2003 war be estimated and derecognized from the Ministry's records after obtaining the appropriate approvals.
Risk Level	Medium
Status	New

10. Checks overdue over than six months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and the accounting records amended accordingly.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Trade

1. Purchasing of cooking oil and vegetable ghee

Observation	<p>We noted that the Ministry has agreed to purchase cooking oil and vegetable grease for an amount of U.S. \$ 43,995,757 from Mizan Al- Iraq Company. During our review of the contract, we noted the following:</p> <ul style="list-style-type: none"> · The supplier request was approved without the Ministry announcement for its needs of these materials, as well as procurement was accomplished without preparing No Objection Letter which represents a non compliance with the instructions of the Governmental Contracts Execution No.(1) issued during 2007 by the Ministry of Finance and contracting procedures at the Ministry. · The value of purchases amounted to U.S. \$ 43,995,757, is over the authority limit of the Ministry as of the date of the purchase on 21 January 2007, while the Ministry's purchasing authority limit is U.S.\$ 10 million in accordance with the General Secretariat of the Council of Ministers letter dated October 12, 2006. · The supplier did not provide a letter of guarantee by 5% of the total amount.
Recommendation	<p>We recommend adherence to Economic Committee's resolution and contracting procedures guidelines in relation to the authority limits and execution of letter of guarantee for better control procedures and better safeguarding of public assets.</p>
Management's Response	<p>First: "The Ministry has agreed to purchase cooking oil and vegetable ghee for an amount of U.S. \$ 43,995,757 from Mizan Al- Iraq Company. The supplier's request was approved without the Ministry's prior announcement for its needs for these materials, as well as procurement was accomplished without preparing No-Objection Letter which represents a breach of Governmental Contracts Instructions No.(1) issued during 2007 by the MOF and contracting procedures at the Ministry."</p> <p>The company stated that the mechanism of direct purchasing is within the Minister of Trade authorities without the need for calling for public tenders for providing material of food supply on an emergency basis, since contract enforcement instruction no. 1 for year 2007 was received on April 2007 and was put in use as of said date. Our monitoring commission at the Ministry confirmed the existence of such case and that the company frequently resorts to direct invitations for bids, as was referred to in our report no. 7154 of 3/9/2007. Presently, suppliers make their offers to the company for providing food materials in accordance with direct purchasing orders.</p> <p>Second: the Auditors' report stated that purchases amounting to U.S. \$ 43,995,757 were beyond the Ministry's authorized limits, since approval for purchasing was granted on 21 January 2007 at which time its limit of authority was up to U.S. \$ 10 million only as mentioned in the letter of the General Secretariat of the Council of Ministers on 12 October 2006. The company replied that the value of 25000 tons of vegetable ghee (U.S. \$ 24 million) and 25000 tons of cooking oil for U.S. \$ 27,500 were within the Minister's authority.</p> <p>Our monitoring commission at the company confirmed the fact that this purchase was beyond the set authorities of the Minister at a maximum of U.S. \$ 10 million.</p> <p>Third: The supplier did not provide a performance bond at 5% of the total amount and the company indicated in its reply that instructions at the time did not require a performance bond. Alternatively an amount was deducted from dues to the supplier equal to 5% of the total contract value to compensate for the performance bond. Our monitoring commission indicated that we have properly stressed this issue in our report no. 7154 of 3/9/2007.</p>

1. Purchasing of cooking oil and vegetable ghee (continued)

Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

2. Payment approval before issuing the no-objection letter

Observation	We noted that the State Company for Food Supplies has contracted for purchasing of sunflower oil for an amount of U.S. \$ 7,500,000 according to No Objection Letter No. 792. In November 8, 2007 the company has paid the first installment of the contract amounting U.S. \$ 422,907 after receiving the materials noting that the No Objection Letter was issued on December 3, 2007. Contrary to the instructions of the Governmental Contracts Execution No.(1) issued during 2007 by the Ministry of Finance, which stipulates that no payments shall be made to suppliers before signing all documents of the contract.
Recommendation	We recommend adherence to Economic Committee instruction in relation to No Objection letters for better control procedures and better application current laws and regulations.
Management's Response	<p>E & Y's note:</p> <p>State Company for Food Supplies has contracted for purchasing of sunflower oil for an amount of U.S. \$ 7,500,000 according to No-Objection Letter No. 792. In November 8, 2007 the Company has paid the first installment of the contract amounting U.S. \$ 422, 907 after receiving part of the materials noting that the No-Objection Letter was issued subsequent to the payment of the amount. This contravenes the instructions of the Economic Committee of the Council of Ministers, the contracting procedures set by the Ministry and the No-Objection Letter which stipulates that no payment shall be made to contractors or suppliers prior to the signature of all documents relating to the contracting process."</p> <p>State Company for Food Supplies explained that said company had at the time ordered a supply of 12,500 tons, which order was approved by the Minister of Trade and the supplying company was provided with a No-Objection letter. Subsequently the supplier (Noun Wa Al-Kalam Company) requested decreasing the contracted quantity to 5000 tons instead of 12,500 tons which alteration was approved by the General Manager. The supplier was already acting on the basis of the initial approval for 12,500 tons and warehouses of the State Food Company did receive the sunflower oil and dues thereon were thus paid.</p> <p>Our monitoring commission at the State Food Company confirmed that the supply company did not abide by the quantity contracted (12,500 tons), and stressed the importance of honoring the terms of the contract. We confirm the Firm's recommendation in respect of honoring governmental contracting instructions issued by MOF.</p>
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

3. Overdrawing the bank account

Observation	During our review we noted that the bank account of the State Company for Food Supplies at the Trade Bank of Iraq was overdrawn. Overdrawing current accounts is considered a weakness in bank accounts management, since the governmental financial management uses the cash basis for its transactions, in addition to weakness in the management of the annual budget of the government entity where the payments are done before the existence of an allocation.
Recommendation	We recommend following up the company's bank accounts on a daily basis and not to perform a payment of any amount without prior existence of funding for better control procedures over governmental entities assets.
Management's Response	The State Company for Food Supplies justified this purchase and the provision of food materials as a result of an agreement between the Ministry of Trade, TBI and the Economic Affairs Committee so that TBI provide the financial facilities to cover bills up to U.S. \$ 250 million to guarantee the non-interruption of the in-flow of food supplies. Our monitoring commission at the State Company for Food Supplies confirmed the company's reply.
Risk Level	Medium
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

4. Bidding Analysis and Awarding Committee

Observation	During our visit to the State Company for Food Supplies, we noted that the company does not have an Analysis and Opening Bidding Committee. Currently, the division responsible for importing each type of materials is responsible for the Tender Analyzing and Opening.
Recommendation	We recommend applying the budget instructions issued by the Ministry of Finance, which require having a centralized Tender Analysis and Opening Committees which their members should be rotated every six months.
Management's Response	Our monitoring commission follow up confirmed the correctness of the Auditors' note since the specific unit responsible for the purchase of the material does also analyze the bids. There is no central committee for Analysis and Opening of bids. All bids after consideration, are passed on to the importation committee at the State Company for food in order to take a preliminary decision. The Financial Monitoring Council has also mentioned this note in its report no. 7154 of 3/9/2007. This note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

5. Recoding the LCs Transactions

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.
Recommendation	We recommend finding a documented mechanism to coordinate between all departments, directorate and companies of the Ministry, which ensures the exchange of all information related to the contracting process and pay all the amounts related to, which leads to the existence of an effective monitoring mechanism to implement the contracts with suppliers. Also we recommend preparing a monthly reconciliation for company's bank accounts at the Trade Bank of Iraq.
Management's Response	The company's reply that payment for LCs referred-to in the report was at the rate of 95% of the total amount of the LC after arrival of concerned ship and verification of its sea-worthiness. Delay of the accounting department in fixing settlement installments for these LCs was confirmed by the company. The related commission follow up confirmed this note in its report no. 7154 of 3/9/2007 and stressed the need for periodic reconciliations between the Import Department and the Finance Department/LCs Section, in addition to proper recording of settlements there-of on a timely basis. This note was also mentioned in the Firm's report for the prior year noting that the Ministry did not take any measures in this respect.
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

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

Observation	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	<p>We recommend the Ministry as following:</p> <ul style="list-style-type: none"> · Develop a system and a mechanism for coordination between the Ministry and its affiliates; which aimed to inform the Ministry about all amounts transferred directly from the Ministry of Finance to the companies. In addition, a monthly reconciliation should be prepared between the accounting records of the Ministry and companies to ensure that all transfers are recorded and address the differences on timely basis. · The Budget Department at the Ministry to follow up and monitor the budget and ensure that all the controls have been applied by companies affiliated in order to adhere to the approved budget · The Budget Department to prepare a database for all sections related to departments activities and their size in order to review the performance of each section periodically (on monthly basis for example) and to verify of any significant deviations from the standards. The database will enable the budget department to know and identify the risks or the opportunities for cost savings
Management's Response	<p>One: the Auditor's report stated that there is no coordination between the Ministry of Trade and companies related to it in respect of distribution of amounts transferred to it for the account of each company by MOF, and that the Ministry does not have an effective periodic system of control on the utilized balance of each item of the budget of said companies. Also no reports on deviations between actual expenses and those budgeted are prepared. The Ministry of Trade replied in its letter no. 5498 of 4/4/2008 that it has complete control on transfers of funds from MOF to its related companies and specifically in respect of the food provisioning list where it follows up on movement of funds transferred to TBI for providing cash liquidity to open LCs for food provisioning and cash purchases in addition to providing cost of local transport, freight and settlement of farmers' dues for their marketed products. A schedule was prepared on the computer showing the number and date of MOF's letter, amount transferred, concerned bank, and purpose of transfer of which the company's representative is supplied with a copy. Our related committee confirmed that the budget section at the Ministry of Trade follows up transfers of funds from MOF and has full control on these amounts.</p> <p>As relates to the lack of coordination between the Ministry of Trade and companies related to it and in respect of distribution of amounts transferred by MOF, we point out that this note has been previously mentioned in the Firm's prior report and the Council in its letter no. 1/1/3/7580 of 16/9/2007 addressed to the General Secretariat of the Council of Ministers re the Auditors' report for year 2006. We indicated that entities affiliated to the Ministry are financially and administratively independent and that proper handling of public funds, which was assured by this independency, does not need to be agreed with the Ministry's headquarters in spite of the fact that this Council asserts the need for a monthly reconciliation for statistical purposes.</p>

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

Management's Response	<p>Second: The Auditing Firm recommended that the budget section at the Ministry of Trade follow up and supervise the budget of the companies affiliated to it. The Ministry indicated that companies affiliated to it are subject to the Companies' Regulations Act no. 22 for year 1997 and as such are compelled to record all data in its registers and are subject to the Audit by the Financial Monitoring Council. Our monitoring commission does not recommend the budget section of the Ministry follow up and control of the affiliated companies due to different sources of funding of these entities.</p> <p>Third: As relates to the setting up of data base for all sections related to activities of other divisions as recommended by the Auditing Firm, the Ministry stated that the statistics and data section affiliated to financing and planning department of the Ministry of Trade assumes the responsibility for preparing a report on the activity of these sections within the Ministry's structure and its related companies.</p>
Risk Level	High
Status	Old
Follow up	Through our visit to the Ministry and follow up on the observation mentioned above and the review of management's response to the observation, we concur with management's response.

7. Old Outstanding Cash Margins

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.
Recommendation	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.
Management's Response	<p>State Company for Food Supplies replied as follows:</p> <p>LC no. 369/2004 for U.S. \$ 295,000 (outstanding balance U.S. \$ 31,000): The State Company indicated that an amount of U.S. \$ 29,993 was paid out of the outstanding balance, thus reducing the remaining margin to U.S. \$ 1007.</p> <p>LC no. 374/2004 for U. S. \$ 2,740,500 (outstanding balance U.S. \$ 52,615) which balance represents the value of 41,120 tons not yet shipped by the supplier.</p> <p>LC no. 377/2004 for U.S. \$ 362,400 (outstanding balance U.S. \$ 13,418) with a remaining amount of U.S. \$ 122,138 representing discount from supplier's dues (and not U.S. \$ 13,418 as stated by the Firm's report). Follow up of our related committee at the State Company confirmed the correctness of the company's reply and that it is continuing its efforts for proper clearance of said outstanding amounts.</p>
Risk Level	High
Status	Old
Follow up	We did not receive confirmation letters from JP Morgan and therefore we are unable to confirm the outstanding cash margin balances for letters of credit.

8. Tracking Budget Allocations for the Ministry

Observation	The Ministry of Finance approves the budget allocation of the letters of credit for each Ministry and sends a copy of this approval to the respective ministries and to the CBI. Based on this approval, the ministries then open their letters of credit at Trade Bank of Iraq. 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.
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 authorized authority or officer.
Management's Response	The Ministry replied that excesses on allocated budgets took place with the approval of the related authorities and was due to the insufficient amounts annually allocated for the provision of items on the food provision list for year 2006, but allocations for year 2007 were not exceeded. We, in this respect, indicate that MOF has deposited the amount of U.S. \$ 250 million at TBI in favor of the Ministry of Trade for opening Letters of Credit for the purchase of items of the food provisions list. Accordingly the Ministry of Trade possesses enough facilities to enable it to open the LCs without exceeding allocated amounts for such important matter. As to the records maintained by the Ministry that do not reflect all approved allocated budgets and amounts paid out, we confirm that said records are not maintained, noting that the budget section at the Ministry of Trade does enter this data to the computer and provides a report of amounts received from MOF in U.S. Dollars and Iraqi Dinars that were transferred to each of TBI and other banks relating to allocations for food procurement, flour production costs, settlements to farmers and transportation fees per activity of each of the Ministry of Trade companies, knowing that other bodies related to the Ministry maintain records for allocated amounts received from MOF and payments there from. This note was also mentioned in the Firm's report for last year.
Risk Level	Low
Status	Old
Follow up	Through our visit to the Ministry , follow up of the above mentioned observation and the Ministry's response to the observation, we noted that the facilities granted to the Ministry allows it to open letters of credit exceeded the allocated budget in certain situations such as the supply of food coupons. As for maintaining records, we noted that all the allocations approved and paid from, are entered onto the computer system by the budget division within the Ministry.

9. Imports of Vegetarian Oil

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 U.S. \$ 5,455,000 according to LC No. 34343/2006. However, we noted that the Emirates Company was not included in the statement of tenders opening and analyses. This is considered none compliance with the tendering and awarding instructions issued by the Supreme Contracting Committee.
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.
Management's Response	<p>The Food and Supplies Company replied that said note was mentioned in the Firm's report for the prior year in respect of AVCO company of the Emirates, which note was replied to with related documents.</p> <p>The follow up of the related commission indicated that invitations were issued to 42 companies specialized in the manufacturing of this product. Offers were received from companies that were invited (AVCO being one of them) and from non-invited companies and thus the Import Committee at the Company confirmed these contracts with said companies due to their proven competence in execution of prior contracts.</p>
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

Observations raised for the year ended 31 December 2008

Ministry of Electricity

1. Contract of Processing Breakers (Dora) ----- 400 KV

Observation	<p>Through our visit to the Ministry of Electricity, we noted that the contact number EU/2006 relating to Nakheel Al Basik company is an old contract, which was transferred to Siemens company and was not executed due to the 2003 war. We noticed the following irregularities:</p> <p>1- Nakheel Al Basik company did not present a bank guarantee at the beginning and despite this, the company was not excluded as two companies were. (Arabian Investors Company and Kemit Company).</p> <p>2- It was shown that Nakheel Al Basik company is an intermediary company and not an industrial company and despite of this, it was awarded the contract on the basis that it is an industrial company although there is a recommendation from the Council of Ministries to deal exclusively with industrial companies.</p> <p>3- The processing company delayed in presenting the performance guarantee.</p> <p>4- It was approved to increase the contract percentage by 10% as of 7 September 2008 due to the increase in price of the electricity breaker from the price stated in the contract, and the delay in opening the guarantee.</p>
Recommendation	<p>We recommend that the Ministry adheres to the requirements of government contracts. We also recommend that the Ministry opens letters of credit in a timely manner to avoid incurring additional expenses and to preserve public funds.</p>
Risk Level	High
Status	New

2. Contract for spare parts related to the secondary stations

Observation	We noted that the amount of the contract for spare parts relating to the secondary stations amounting to USD 972,070 was increased during 2008 by USD 276,537 resulting from the delay in opening the documentary credit for Al Maher company.
Recommendation	We recommend that the Ministry opens documentary credit on time to avoid incurring additional expenses to preserve public funds.
Risk Level	High
Status	New

3. Contract for spare parts – Al Moussel Station

Observation	We noted that the contract for spare parts relating to Al Moussel station – 400 KV voltage amounting to USD 541,187 was increased during 2008 by 10% resulting from the delay in signing the contract with Arsheh company.
Recommendation	We recommend signing the contracts with suppliers on time to avoid additional expenses and to preserve public funds.
Risk Level	High
Status	New

4. Rehabilitation Contract– Al Najaf Station (1 and 2)

Observation	<p>We noted the following irregularities in the contract signed with the German ABB company:</p> <ul style="list-style-type: none"> -The amount relating to the performance guarantee was paid in a German bank and not in an Iraqi bank -The country producing the materials was changed. -A document relating to the insurance of equipments was removed from the contract. -The company delayed the execution of the contract for more than three years.
Recommendation	We recommend that the Ministry complies with the government contracts requirements.
Risk Level	High
Status	New

5. Automation of the Accounting System

Observation	We noted that journal entries are done and recorded in the general ledger manually and that the preparation of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry use an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing to increase efficiency and to enable the backing up all electronic files.
Risk Level	Medium
Status	New

6. Fixed Assets Identification

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

7. Work Schedule Control

Observation	During our visit to the Ministry, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

Follow up on observations raised by the previous auditor Ministry of Electricity

1. Power Plant Contract

Observation	During our review of the contract number 518/2004 which amounted to U.S. \$ 229,810,100 to design and supply 20 power plants for Samera'a, we noted that the contract amount was increased during 2007 in the amount of U.S. \$ 22,809,207; such increase is mainly due to storage expenses in Aqaba port, and failure to implement the contract within the stated time limit. Until the date of our visit in February 2008, no resolution has been reached to complete and the remainder of the delivery.
Recommendation	We recommend reaching to a decision about this contract to avoid the burden of storage and administrative expenses and for better safeguarding of public assets.
Management's Response	The Ministry confirmed per its letter no. 392 of 7/4/2008 the correctness of its note as the contract amount was increased by the above stated amount on the request of WARTSLA Company in order to expedite execution. The above company did not though, transport the related machinery due to various reasons such as the explosion of ALZAB bridge and ALKAYARAH bridge and the denial of the American party to grant approval for using the suspended bridge in addition to the prevailing security situation. Last correspondence in this respect was done with the agent to transport the machinery to AL- QUDS plant-north of Baghdad, instead of Semara' site. It is to be noted here that our Ministry is serious in finalizing this contract as there is urgent need for these items which were delayed due to Force-majeur. Our related commission confirmed this note in respect of the THERMAL ELECTRIC PLANT, for the NORTH.
Risk Level	High
Status	Old
Follow up	The equipment was transferred to the specified location inside Iraq.

2. Power Generators Contract

Observation	We noted that the Ministry paid storage expenses an amount of GBP 732,279 for unit one and two of the steam turbine generators of the Northern project, for the period from June 2006 to May 2007 because the generators were located in Newcastle/UK during that period.
Recommendation	We recommend the Ministry to reach to a decision about this contract to avoid the burden of storage and administrative expenses and for better safeguarding of public assets.
Management's Response	The Ministry's reply per its letter no. 392 of 7/4/2008 stated that this note is correct, and the delay was not due to the Ministry but due to MoF's delays, which resulted in payment by the Ministry of additional storage expenses for November and December 2007 and January 2008. Based on our letter no. 4825 of 21/2/2008 addressed to the Prime Minister / Committee for Urgent Contracts, approval was granted for payment of storage expenses per the Council's General Secretariat no. D.T./1/5432 of 9/3/2008. Accordingly, it was decided to transport the related machinery and a contract for this purpose was signed by the General Directorate for Electric Power Generation projects and the Iraqi General Company for land Transportation to move the generators from Newcastle port in UK to the Municipality of BASRA. Our commission confirmed the Firm's report, relating to the Thermal Electric Plant for the North.
Risk Level	High
Status	Old
Follow up	All of the material was transferred from New Castle seaport to Iraq.

3. Re-Announcing Tender Request

Observation	During our review, we noted that the Ministry has re-announced some bids after opening the bids for different reasons, this would uncover the prices submitted by the bidders to the committees' members and therefore the confidentiality of tenders presented would be breached.
Recommendation	<p>We recommend obliging the bidders to provide two offers and as follows:</p> <ul style="list-style-type: none"> · Technical offer: This offer shall include the technical specifications of the contract subject matter, the date of delivery, and other technical matters. · Financial offer: This offer shall include price schedule, payment dates and method of payment. The financial offer should not be opened unless the technical offer is accepted. <p>We also recommend maintaining accuracy when announcing tenders and ensuring that the announcement includes all required specifications and conditions related to the contract for better control over the procurement process.</p>
Management's Response	The Ministry in its above letter above stated that this note is ill-logical and does not agree with issued instruction for governmental contract no. 1 for 2007, of which clause 5, para 2.2 stated "Re-announcing bids shall be made in case the amount of the best bid exceeds the estimated cost for the project or the intended work". Accordingly there is no way to apply the above condition without perusing the financial bid and the prices. Similarly and as stated in clause 11 para 5 section B/2 in respect of tender schedules to which no preliminary performance bond is attached. In most cases these guarantees are in fact included in the financial part of the tender. Our related committee confirmed the note in the Firms' report relating to tender no. 4/2007 in respect of the provision of heavy fixed additives to ALQUDS Power Plant.
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

4. Contracting Procedures to Supply Electricity Machines

Observation	<p>During our review the contracting procedures with a foreign company for U.S. \$ 2,073,035 to supply (Distance Relay for 132 and 400 KV), we noted that:</p> <ul style="list-style-type: none"> · The Economic Department of the Ministry in its letter No. 19729 dated 11 December 2005 stated that the minister has instructed completion of the contracting process while the tenders analyzing committee's decision was issued subsequently in 20 December 2005. · The Ministry did not receive the bid bond which amounts to 3% of the total quotation price from the company. · We noted that the legal department representative is a member in the opening and analysis committees; this is considered incompliance with the Supreme Contracting Committee instructions which prohibit the same person to be in both committees.
Recommendation	<p>We recommend the Ministry to comply with the instructions issued by Supreme Contracting Committee regarding bid bonds, segregation of duties, and prohibiting committee members from participating in more than one committee..</p>
Management's Response	<p>The Ministry stated in its above letter that the letter was issued on the request of the Directorate for Transfer of the Center to allocate amounts for items listed there-in. Accordingly the said Directorate requested per this letter to take all necessary measures and refer to the Ministry to obtain the Council of Minister's approval. The reason behind not receiving the specified guarantees was due to the fact that this was a direct invitation and not an open public tender. In accordance with instructions of Council of Ministers per letter no. SL/345 of 11/3/2007. As to the legal department representative, this was due to the Directorate being newly formed and its lack of specialized responsible at the said time, which matter will be avoided in future.</p> <p>Our monitoring committee confirmed the correctness of the note in respect of preliminary guarantees amounting to 3% as specified in the contract for the supply of chargers and batteries by Al-JALMAD Trading and Contracting Company. This note was also mentioned in the Firms' report for the prior year.</p>
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

5. Contracting Procedures for the Power Line Contract

Observation	During our review of the contract related Moussel-Kirkuk power line (400 KV), that was processed through LC (2006/3070). We noted that the Ministry obtained only one tender for this contract. However, the contract was awarded without following the formal tender requirements to the sole bidder for an amount of U.S. \$ 21,317,735 and the contract was approved by the Supreme Contracting Committee on 2 January 2006.
Recommendation	We recommend that the Ministry should comply with the instructions issued by Supreme Contracting Committee regarding the contract tendering and awarding procedures.
Management's Response	<p>The Ministry explained per its above letter that Council of Ministries / Supreme Contracting Committee approval was obtained per their letter no. (ch L 7/3/1/75) of 2/1/2006 based on its report no. 18652 of 27/11/2005 raised to the Council and stating the explanatory reasons.</p> <p>The related commission confirmed the above note since the approval of the Economic Affairs Committee was obtained for direct contracting by some companies without receiving prior offers due to the fact that these are monopolies. This note was mentioned in the Firms' report for the prior year.</p>
Risk Level	High
Status	Old
Follow up	The Council of Ministers and the Supreme Contracting Committee have agreed to award the above contract since it is a monopoly contract. From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

6. Approval of Settlement of Old Debt

Observation	We noted that the Ministry paid a total amount of U.S. \$ 34,000,000 for an old outstanding contract, without having an approved budget and without prior approval from the Ministry of Finance. This payment is related to a contract to supply electrical appliances by a Jordanian company which was signed on 21 May 2001 for U.S. \$ 100 million. Based on the contract terms, the first payment was due after two years on 21 May 2003. We noted that, based on the Ministry records, the Jordanian company supplied materials amounting to U.S. \$ 77,418,321 up until 15 September 2004 and requested the settlement of its billings.
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. We further recommend the Ministry of Electricity to comply with its budget allocations for each year and to seek the Ministry of Finance approval for any exceptions.
Management's Response	The Ministry in its above letter stated that the Council of Ministries, per letter no. 1103 of 27/11/2004 was approached and approval obtained per the Council's letter no. 9/1/1775 of 28/2/2005, and settlement was made at the end of 2005 as no settlement was done at the earlier time. Our related commission confirmed the correctness of the Firm's note relating to the Jordanian Company (Al-HADAF ENGINEERING). This note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	The case has been presented to the Ministry's legal division and the government general security council for discussion. Till 5 March 2009 there has been no outcome.

7. Contract of Supplying Chemical Materials

Observation	<p>During our review of the contracting procedures of tender number W.K. 1/2006 for supplying chemical materials, which had been partially awarded to a Jordanian Company for U.S. \$ 7,674,500 and the remaining had been awarded to a Syrian Company for U.S. \$ 10,025,980, we noted the following:</p> <ul style="list-style-type: none"> · The Jordanian Company did not pay the bid bond of 3% or the performance bond of 5% of the contract amount; we were advised that the materials that were received in advance and amounting to U.S. \$ 74,900 were considered as a performance bond. · The Syrian Company paid an amount of U.S. \$ 50,000 as bid bond, which is much lesser than the required 3% of the contract price. In addition, the Syrian Company did not submit a performance bond of 5% of the total contract amount. Instead, however, we were advised that both the materials that were received in advance and amounting to U.S. \$ 229,580, in addition to the bid bond, were considered as performance bond. The total value of the materials that were received in advance and the bid bond do not fulfill the requirements of the 5% performance bond of total contract value.
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.
Management's Response	The Ministry in its above letter explained that the reason was due to the urgent need for these chemicals to operate both plants: South of Baghdad and AL-QUDS Plants to avoid halting their operations. This required quick action due to shortage of this material at the warehouses of operation departments and the good will of the company in agreeing to proceed in actual delivery prior to signature of the contract in order to ensure continuous operations of both plants. 5% was withheld from the first installment in addition to amounts mentioned in the note and all needed chemicals were provided within the time frame of the contract. Mention should be here made to the fact that these chemicals do not survive long periods of storage for continuous operations of the power plant due to the limitation of its expiry date. The company insisted at the time not to pay taxes which compelled us to raise this issue with the economic committee to obtain its tax release. Our related commission confirmed the note mentioned by the Firm in respect of the bid bond and as was reported by our monitoring commission on the contract with Jalmad Trading and Contracting Company for the supply of batteries and charges. This note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	Concerning the Jordanian Company, the remaining balance of the 5% performance bond has been withheld from the payment for 20 tons of the material Gadadium. As for the Syrian Company, it has supplied 24 barrels of Turboted 134 valued at USD 229,680 for free and considered this amount as a performance bond.

8. Contract Procedures to Supply Power Station Materials

Observation	During our visit, we noted that the contract No.164 related to supplying materials for Al-Dibes Electricity Station requires obtaining 20% guarantee of the contract value as an advance payment, in addition to presenting a 5% performance bond of the contract value in the form of bank letter of guarantee. We noted that the LC was opened on 4 May 2006 and including a bank letter of guarantee in advance payment. However, the Ministry did not obtain the performance bond letter of guarantee, which is a requirement of the contract terms.
Recommendation	We recommend the Ministry to adhere to the contact 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 consistently with the contract terms and conditions
Management's Response	The Ministry in its letter no. 6/4/1288 of 7/3/2007 indicated that a performance bond was received by the General Directorate for Power Generation (Salah-Eldeen) in its capacity as beneficiary of this contract. Our monitoring commission confirmed the Firm's note which was also mentioned in its report for the prior year.
Risk Level	High
Status	Old
Follow up	Based on our inquiry with Ministry employees, we noted that the performance bond is available in the file of letters of credit with the general directorate for the production of the power station (Salah El din) that carries the number IGT070231ND issued from the Trade Bank of Iraq.

9. Al-Mosaib Gas Station Project

Observation	<p>During our review of the executing process for LC No. 236/2004, which was issued during 2004 for the benefit of an American Company for the execution of the construction of Al-Mosaib Gas Station project for U.S. \$ 283,000,000, we noted that the Ministry does not have any supporting documents or any progress report of the construction of the project. The Ministry does not have the payment certificates provided by the contractor for these invoices.</p> <p>Based on the Minister's letter dated 18 March 2007 the LC has been canceled due to the fact that the American Company has withdrawn from the project site without completing the assigned work and breached the contract terms and conditions.</p>
Recommendation	We recommend the Ministry to investigate the above mentioned payment in further details and to fully comply with payment procedures, especially receiving proper supporting documents to ensure the satisfactory completion of the contractor work before making any payment.
Management's Response	The Ministry in its above letter explained that the project was 90% completed as mentioned in letter no. 12/7437 of 3/7/2007 issued by the General Directorate for Electric Power Production Projects. All documents evidencing receipt of materials are available at said Directorate since it is the party responsible for the project performance. The related commission confirmed the note that was mentioned in the Firm's report and advised that a legal case was raised against South East Texas Company (an American company). This note was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	The Company did not comply with the contract terms and a claim was raised against it.

10. Procedures Related to Contract Number 4/2004

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, we noted that the Ministry of Electricity had paid U.S. \$ 1,935,000 to 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.
Management's Response	The Ministry explained in its above letter that contract no. 4/2004 signed with SAQR – Lebanese Company, part of which being the above amount for reserve material to AL-HURIYAT Diesel Plant (62 Megawatt) per the Ex Minister's order (Dr. Mohsen Shalash) per our letter no. 6661 of 6/4/2008 and TBI's subsequent approval letter no. 2332 of 12/4/2006. Our related commission confirmed the company's report whereby an addendum was later attached to the contract and the above amount was withheld from the contract value. This note was also mentioned in the Firm's report for prior year.
Risk Level	High
Status	Old
Follow up	The Generator was received in 2008. As for the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

11. Recording and Reconciliation of LCs Payments

Observation	<p>During our visit, we noted the following in respect to the functions of the Economic Department and the Finance Department:</p> <ul style="list-style-type: none"> · No proper reconciliations are prepared regularly to match the statement of letters of credit received from Trade Bank of Iraq (TBI) with the letters of credit records maintained by the Ministry. · Weak coordination between Economic Department and Finance Department in order to ensure proper recording of LCs transactions on a timely basis.
Recommendation	<p>We recommend the Ministry to develop a register to include all the LCs information and to reconcile this information regularly between with the TBI and the accounting records.</p>
Management's Response	<p>The Ministry in its above letter stated that, it acted as a medium between the various Directorates and TBI. Files are available at these Directorates for following up on these LCs being the beneficiary party. As to LCs relating to the Ministries headquarters, responsibility there-of is vested with the accounting section for maintaining records and reconciling TBI's statement, in addition to documenting all information in this respect as per a special computer format. The related commission confirmed this note appearing in the Firm's report, and noted the Ministry's measures for adopting an IT system since 2007 as a first step. Records for LCs will be maintained in year 2008. This note was mentioned in the Firm's report for the prior year.</p>
Risk Level	High
Status	Old
Follow up	<p>During our visit to the Ministry, we noted that the Ministry does not maintain a register that includes all data related to Letters of Credit and accordingly could not reconcile LCs data regularly with the Trade Bank of Iraq.</p>

12. Long Outstanding Cash Margins

Observation	During our visit to the Ministry, we noted a number of long outstanding cash margin balances with JP Morgan Chase for letters of credit.
Recommendation	We recommend the Ministry to coordinate with the Trade Bank of Iraq to analyze the current status of each outstanding letter of credit cash margin and follow up and resolve all long outstanding balances. Also, we recommend the Ministry to follow up with the Trade Bank of Iraq to ensure that all Letters of Credit are executed on a timely basis and in accordance to the contract terms and conditions.
Management's Response	The Ministry in its above letter stated that LC 220/2004 was opened in favor of the General Directorate for Power Generation /Middle Province, and is actually an annex to the memorandum of understanding, and as such the Directorate continuous its follow up with the bank in respect of the remaining balance. As to LC no. 764/2004 and LC no. 763/2004 which were opened by CPA, no information is available to us in this respect. In year 2007 a new program was installed at TBI which had many draw-backs and we were not supplied with debit and credit advices, to perform the reconciliation, in spite of our repeated official letters to the bank, last of which was our letter no. 7005 of 17/3/2008. Our related commission confirmed the correctness of this note which was also mentioned in the Firm's report for the prior year.
Risk Level	Medium
Status	Old
Follow up	We did not receive confirmation letters from JP Morgan and therefore we are unable to confirm the outstanding cash margin balances for letters of credit.

Observations raised for the year ended 31 December 2008

Ministry of Justice

1. Legal claims outside Iraq

Observation	During our visit to the Ministry we noted that the legal department receives via email, compensation requests from lawyers outside Iraq for expenses relating to claims outside Iraq. The funds spent on these claims during 2008 was estimated at around ID 567,357,575. The finance department does not maintain sufficient information regarding these claims.
Recommendation	We recommend that the Ministry obtains a list of all the claims and names of all lawyers outside Iraq from relevant parties and provide the finance department with copies.
Risk Level	High
Status	New

2. Registration of contracts

Observation	In 2008 the contracts division was established where all contracts relating to 2008 were filed, whereas the contracts relating to years prior to 2008 still remain in the Investments division. There is no coordination between the two divisions which is needed because there are contracts found in the investments division relating to years prior to 2008 but were settled in 2008.
Recommendation	We recommend full coordination between the Contracts Division and Investment Division and the registration of all contracts settled during 2008 in the contract division.
Risk Level	Medium
Status	New

3. Daily register of the operational budget

Observation	<p>Through our review of the daily journal of the operational budget we noted the following:</p> <ol style="list-style-type: none"> 1- The journal does not have any stamps and signatures of the accountant and the internal audit department. 2- The use of the correction liquid.
Recommendation	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1- the accountant and the internal audit department to stamp and sign the daily journal. 2- Not to use corrections liquid. 3- Use adjusting entries to correct any adjustment.
Risk Level	Medium
Status	New

4. Iraqi Maintenance Division

Observation	The maintenance division in the Ministry which is responsible for all Iraqi prisons does not coordinate with its related divisions in the districts in matters relating to inventory counts of warehouses and assets.
Recommendation	We recommend coordination between the Iraqi maintenance division and its related divisions in the districts with respect to the stock count procedures of warehouses and assets.
Risk Level	Medium
Status	New

5. Contracting procedures

Observation	During our review of a sample of contracts, we noted from the contract relating to the installation and connection of air ventilations in the Ministry's building signed with General Company for Electrical Products that there has been a request to extend the duration required to install the material. This request was submitted 35 days after the expiration of the contract on 20/1/2008 as the extension request has been made from the company on 25/3/2008. This is contrary to instructions bearing in mind that the Ministry had imposed fines which were returned to the company. It should be noted that the Ministry has signed a second contract with the company for the same subject as indicated in the contract.
Recommendation	We recommend adherence to the contract requirements for the year 2008 taking into consideration the history and the credibility of the supplier.
Risk Level	Medium
Status	New

6. FMS Contracts

Observation	We noted that during the year 2007, an amount of sixty four billion Iraqi Dinars was transferred without the Acknowledgment or authorization of the Ministry of Justice to the special account. (FMS: Foreign Military Sales) relating to the Federal Reserve Bank in the foreign military contracts department in New York. The Ministry does not have any information about the reason for this transfer and the Ministry did not record the amount disbursed from the account during the year as part of its expense. We were informed that the Ministry had received only 300 thousand liters of gas for a price of 750 Iraqi Dinars per liter for a total of 225,000,000 Iraqi Dinars form 21/10/2007 till 22/11/2007.
Recommendation	We strongly recommend coordination between the Ministry of Justice, the Ministry of Finance and the related U.S. Agencies in order to keep the Ministry informed of all expenses incurred and relates to U.S. Agencies.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Justice

1. Contracts Identification Numbers

Observation	We noted that contracts of the Ministry are not given identification numbers.
Recommendation	We recommend the Ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.
Management's Response	Our monitoring committee confirmed the above note.
Risk Level	Low
Status	Old
Follow up	From the selected sample of contracts, we noted that the Ministry's contracts for 2008 were given identification numbers in conformity with the above recommendation.

2. Tenders Analysis Committee

Observation	We noted that the members of the Tender analyzing Committee are not being periodically rotated as required by the budget execution instructions issued by Ministry of finance that requires changing members of tender analysis committees every six months.
Recommendation	We recommend complying with the budget instructions issued by the Ministry of Finance as to the requirement of rotating committees' members every six months for better control procedures and adherence to budget instructions.
Management's Response	Our related commission confirmed the above note, knowing that this note has also been mentioned in the Firm's report for the prior year and the Ministry has taken the necessary measures for its rectification.
Risk Level	Medium
Status	Old
Follow up	Member of the Tender analysis Committee are being periodically changed every 6 months as required by the budget execution instructions in 2008.

3. Segregation of Duties

Observation	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 recommend the Ministry to develop the payroll processing and payment functions to maintain adequate segregation of duties between the payroll processing, approval and payment functions. Also, we recommend the Ministry to consider transferring all the employees' monthly salaries to their personal bank accounts for better control procedures. We further recommend the Ministry to develop a proper coordination between the Human Resources Department and the Payroll Department in order to keep the Payroll Department updated with any changes or information that might permanently affect the monthly payroll entitlements on a timely basis.
Management's Response	Our commission confirmed the above note, which was included within its report no. 8567 of 17/10/2007. This note was also mentioned in the Firm's report for the prior year. The Ministry did not take any measures in this respect.
Risk Level	High
Status	Old
Follow up	During 2008 we noted that there was segregation of duties between the employee preparing the payroll sheets, the employee reviewing it and the employee paying the salaries.

Observations raised for the year ended 31 December 2008

Ministry of Culture

1. Budget Overruns

Observation	When reviewing a sample of contracts, we noted that the first phase of the research and museum center project signed with the Kasir Al Amir and Sinjar Company amounting to ID 5,475,600,000 exceeded the budgeted amount of ID 800,000,000.
Recommendation	We recommend adherence to the budget and that approval be obtained for amounts in excess of budget.
Risk Level	Medium
Status	New

2. War Losses

Observation	The Ministry did not perform a survey of the losses resulting from the 2003 war to derecognize the lost assets from its records. A committee was established in 19/6/2008 according to decision no. 4371 to resolve this issue, but the committee has not concluded its work.
Recommendation	We recommend that the Ministry estimates the losses resulted from the 2003 war and derecognize these assets from the Ministry's records after obtaining the appropriate approvals.
Risk Level	Medium
Status	New

3. Automation of the Accounting System

Observation	We noted that journal entries are done and recorded in the general ledger manually and we also noted that the preparation of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing to increase efficiency and to enable the backing up all electronic files.
Risk Level	Medium
Status	New

4. Payroll System and segregation of Duties

Observation	During our review of the payroll system process, we noted that the payroll is prepared manually. This process is laborious and time-consuming and may lead to human errors. We also noted that there is no segregation of duties between the preparer of the payroll and the person in charge of transferring funds to the paying committee. The paying committee have not changed during 2008.
Recommendation	We recommend the automation of the payroll system and the completion of employees database with all relevant information. This will organize and facilitate the extraction of payroll sheets and will increase accuracy. We also recommend the segregation of the duties in the payroll process between the preparer and the person in charge of transferring the funds to paying committee.
Risk Level	Medium
Status	New

5. Organization Chart

Observation	The Ministry does not have an Organization Chart or Job Description.
Recommendation	<p>We recommend that the Ministry develops a formally approved organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

6. Operating Budget

Observation	During reviewing the daily journal register of the operating budget we noted a number of manual corrections and erasing without evidence of approval of the head of accounting and internal audit.
Recommendation	We recommend obtaining the approval and signature of the Head of Accounting and the Internal Auditor on all corrections and erasing.
Risk Level	Medium
Status	New

7. Checks overdue over than six months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Culture

1. Received Contracts' Letters of Guarantee

Observation	During our review of contract number (2005/4) related to the establishment of the Ministry inventories in Al-Karkh, we noted that the Ministry did not obtain performance bond for 5% of the total contract value. Moreover, the Ministry did not obtain letter of guarantee extension, in spite that the contract duration was extended to 2007.
Recommendation	We recommend complying with contracting procedures issued by the Supreme Contracting Committee by ensuring collection of the performance bond for 5% of the contract value either in the form of certified check or letter of guarantee. Moreover, we recommend to following up on the durations of the guarantees provided by the contractor for better safeguarding of public rights.
Management's Response	<p>E & Y's note:</p> <p>"During our review of contract number (2005/4) related to the establishment of the Ministry inventories in Al-Karkh, we noted that the Ministry did not obtain performance bond for 5% of the total contract value. Moreover, the Ministry did not obtain letter of guarantee failed to follow up on renewed of the letter of guarantee in spite of extending the contract to year 2007.</p> <p>Our follow up has confirmed the correctness of above, as we noticed that 4%, instead of 5% was received in the form of letters of guarantees and in addition to expiration of the letter of guarantee without its renewal until the final execution of the project. The Ministry confirmed the note of the Auditors.</p>
Risk Level	Medium
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008. As for the above mentioned contract, a final warning has been given to the supplier on 13/12/2008 for failure to comply with the contract provisions.

2. Contracts Identification Numbers

Observation	We noted that all contracts of the Ministry are not given identification numbers.
Recommendation	We recommend the Ministry to develop a proper contract indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.
Management's Response	Our follow up revealed that this note is not precise since the examples listed are not in fact contracts. The rehabilitation contract of the Martyr Othman Al-Oaeidi Hall was executed directly, and the amount allocated for removal of debris of the Cinema and Theater building totaling IQD 2,250 thousands relates to hire of a passenger car to transport personnel of the engineering department.
Risk Level	Low
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

3. Announcement of Tenders

Observation	During our review of contracts' selected sample, we noted that a copy of tender advertisement that includes contracting terms and conditions is not available within the contract's file.
Recommendation	We recommend that a copy of the tender advertisement should be kept within the contract's file for better control procedures over contracting process.
Management's Response	E & Y's note: "During our review of contracts' selected sample, we noted that a copy of tender advertisement that includes contracting terms and conditions is not available within the contract's file." Our follow up revealed that newspapers in which announcements appeared were indeed attached to the announcement at the department concerned instead of filing it within the specific contract file.
Risk Level	Medium
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

4. Contracting and Contracts' Supporting Documents

Observation	During our review we noted the lack of a centralized file for each contract to maintain a copy of all its related documents. Rather, documents are filed across the related departments.
Recommendation	We recommend that all documents related to each contract shall be centrally filed, to facilitate review and for better control procedures.
Management's Response	We confirm this note since all documents relating to contracts or copies thereof are not kept in a centralized file to facilitate referring to them and to strengthen internal controls.
Risk Level	Medium
Status	Old
Follow up	The above mentioned observation is still valid for the year ended 31 December 2008.

5. Divided Spending on the One Project

Observation	During the review noted that the Ministry had divided the disbursement on the project of the Rehabilitation of Othman Al-Obaidi Hall (Al-Rabat). Disbursement with an amount of IQD 25,000,000 was divided into four tranches to four contractors contradicting the instructions of the Supreme Contracting Committee which requires awarding of work to a single party without dividing job requirements. In addition, the Ministry did not obtain three offers for this project.
Recommendation	We recommend complying with instructions of procurement issued by the Supreme Contracting Committee, which prevents dividing expenditures. Moreover, we recommend obtaining offers before contracting for better contracting procedures and safeguarding of the Ministry's assets.
Management's Response	The related commission confirmed the Ministry's reply re disbursing amount directly in the name of performing committee within which a member from the accounting section and the project manager and not as a contract. Direct execution of projects include labor costs, materials supply, transportation, equipment rentals and others.
Risk Level	High
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

6. Reclassification Between Capital Budget and Operational Budget

Observation	During our visit to the Ministry, we noted that an amount of IQD 2,250,000 which represents transportation fees for the Ministry employees during the months of May, July, August and September 2007 had been disbursed from the Capital budget of the Ministry and charged to Disposal of construction damages related to the Cinema theatre project and the rehabilitation of Al Rasheed theatre.
Recommendation	We recommend complying with the budget instructions issued by the Ministry of Finance which prevents the reclassification of disbursement between Capital budget and Operational budget, unless obtaining the necessary approvals were obtained in order to maintain accuracy and control procedures over budget execution process.
Management's Response	The Ministry in its letter no. 463 of 22/1/2008 stated that the said amount was paid for transporting the personnel for the disposal of damages at the Cinema and Theater project. Our follow up revealed that this note is not very precise as the amounts disbursed relate to transportation fees for engineers of said project to and from the site and that these projects are tied to the investment (not the commercial) budget
Risk Level	Medium
Status	Old
Follow up	From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

7. Salaries and Wages

Observation	During our review of personnel files, we noted incompleteness in the identification documents required for the employment process within some personnel files such as a certificate of graduation, and resume. In addition, we noted the absence of salary scale through which the salaries of employees are determined.
Recommendation	<ul style="list-style-type: none"> · We recommend developing of an appropriate archiving system for employee files in the Ministry to ensure that all documents are available for each employee in order to meet the needs of all division in the Ministry, especially the Finance Department which is responsible for preparing and payment of payroll. · We also recommend developing a salary scale to meet the requirements of the Ministry and ensure appropriation between hierarchy and salaries at the Ministry.
Management's Response	Our follow up confirmed the correctness of this note since many of the personnel files lack the documentary evidence.
Risk Level	Low
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

Ministry of Education

1. Bank Reconciliations

Observation	We noted that bank account reconciliations are being performed every 3 months, furthermore we noted that no supporting documents are attached to the reconciliation with details of the reconciling items.
Recommendation	We recommend that the Ministry performs reconciliations monthly. In addition, we recommend that all supporting documentation relating to reconciliations and balances be attached to the reconciliation.
Risk Level	High
Status	New

2. Organization Chart

Observation	We note that the applicable Job description's of the Ministry date back to April 1984, while the "Organization Chart" dating back to 2003.
Recommendation	We recommend that the Ministry updates its job descriptions and its organization chart to clearly define the lines of communication.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Education

1. Follow up with the Ministry of Education General Directorate

Observation	During our visit, we noted that the Ministry does not have any statements of accounts or information related to the amounts transferred from Ministry of Finance directly to the Ministry's general directorates due to financial independency of these Directorates. The independency of Directorates is aimed to facilitate the funding process; however, it does not eliminate the Ministry's essential role in controlling the related directorates' expenditures to ensure that all Directorates have complied with budget instructions issued by the Ministry of Finance.
Recommendation	We recommend that monthly statements from the Ministry's general directorates should be obtained. Additionally, monthly reconciliations between the amounts transferred from the Ministry of Finance directly to these Directorates should be performed.
Management's Response	Our follow up revealed the correctness of this note and that the financial system adopted by the Ministry induced each General Directorate of Education prepare ending financial statements that are sent to the accounting department in Baghdad and those pertaining to Directorates of the Municipalities, sent to the treasuries. Accordingly, the financing process was done directly with the related directorates. Revenues and expenditure of each directorate was done with the accounting department and the treasuries. The Financial Monitoring Council did comment on the budget for the Ministry of Education and recommended in its letter no. 8665 of 21/10/2007 to MOF re the coordination with the Ministry of Education to list said directorates as sections of the current budget with related trial balances. Our commission did not confirm this recommendation for providing the Ministry with monthly statements from the general directorates due to the fact that said directorates are not linked within the Ministry's headquarters through a joint financing.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

Ministry of Human Rights

1. Organization Chart

Observation	The Ministry does not have a formal and approved Organization Chart or Job Description.
Recommendation	<p>We recommend that the Ministry develops a formally approved organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

2. Work Schedule Control

Observation	During our visit to the Ministry, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

3. Checks overdue over than six months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
Risk Level	Medium
Status	New

4. Automation of the Accounting System

Observation	We noted that journal entries are done and posted to the general ledger manually and that the extraction of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual proceeding and for time efficiency and for the availability of backing up all electronic files.
Risk Level	Medium
Status	New

5. Fixed Assets Register

Observation	We noted that the fixed assets register does not include the chassis numbers of the Ministry's vehicles.
Recommendation	We recommend that the Ministry includes the chassis numbers of the ministries vehicles in the fixed assets register.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Human Rights

1. Salaries

Observation	We noted inadequate segregation of duties in the payroll process. The employee responsible for keeping the payroll records and preparing the payroll sheets is also responsible for posting payroll sheets to the system and paying salaries to employees. We also noted that the sheets were approved by the internal audit department and not the Department Head.
Recommendation	We recommend segregating executive duties and control duties, since the internal audit department is considered a monitoring body and it is not appropriate for controlling body to approve the payroll sheets which is considered as executive duty. The finance department shall be considered as the department responsible for disbursements for better control procedures.
Management's Response	Our commission confirmed the correctness of this note. The Ministry will take necessary measures to avoid the above shortcoming,
Risk Level	High
Status	Old
Follow up	The above mentioned observation has been resolved in 2008.

Observations raised for the year ended 31 December 2008

Ministry of Migration and Displaced

1. Ministry by-laws

Observation	We noted that the Ministry's by-laws describing the Ministry's mission, have not been issued by a law.
Recommendation	We recommend that the Ministry follow-up with the concerned parties in order to issue a law stating the incorporation of the Ministry and setting its by-laws.
Risk Level	High
Status	New

2. Stolen Vehicle

Observation	We noted that the word “stolen” was written in the fixed assets register next to the caption “Nissan Sunny”. The Nissan Sunny a vehicle had no chassis # VIN to identify the vehicle. In addition, no theft report was found.
Recommendation	We recommend that as investigation be opened regarding the theft of the vehicle, identify the responsible parties and increase efforts to reduce theft in order to preserve public funds.
Risk Level	High
Status	New

3. Bank Reconciliations

Observation	We noted that the bank reconciliation for a/c # 11200 does not contain enough information regarding the reconciling items that appeared within the reconciliation.
Recommendation	We recommend that employees should be given adequate training in accounting tasks. In addition, we recommend that all reconciliations be reviewed.
Risk Level	High
Status	New

4. Fixed Asset Register

Observation	We noted that all fixed assets are registered in an un orderly manner in a book without identifying numbers such as chassis's # on VIN for vehicles are fire arms. No serial numbers were found in the fire arms assets page nor VIN found in the vehicles assets page.
Recommendation	We recommend that the Ministry organizes the fixed asset register and assigns identifying numbers for vehicles and fire arms.
Risk Level	High
Status	New

5. Ministry Employees

Observation	We noted that there are 3 deputy ministers although the Ministry's by-laws stipulate 1 deputy minister. We also noted that one general manager (Mr. Abdallah Fadel Aoun) does not have a department.
Recommendation	We recommend that the Ministry updates its by-laws and develops a new organization chart to reflect the number of deputy ministers and the department they oversee. This applies to general manager as well.
Risk Level	Medium
Status	New

6. Automation of the Accounting System

Observation	We noted that journal entries are done and posted to the general ledger manually and we also noted that the extraction of the trial balance and financial reports are done manually.
Recommendation	We recommend that the Ministry uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual proceeding and for time efficiency and for the availability of backing up all electronic files.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Migration and Displaced

1- Contracting procedures

Observation	We noted cases of non-compliance with the contracting procedures since some of the contracts were awarded without obtaining competitive offers nor documenting proper justification for awarding. For example, contract No. 1601 for an amount of IQD 4,500,000,000 related to supplying shoes for the refugees.
Recommendation	We recommend complying with the approved procurement procedures required by the annual budget instructions issued by the Ministry of Finance.
Management's Response	Review done by the related commission revealed that the above referred to contract was signed with the Ministry of Industry / State Company for Leather Manufacturing in respect of supplying the Ministry with 250,000 baskets and one million leather shoes, which was based on a public tender. Letter no. 5372 of 12/11/2007 was issued by this Ministry to the Ministry of Industry / State Company for Leather Manufacturing, which letter contained the approval of the Minister for supplying the mentioned quantities. This was not publicly advertised in local newspapers due to the fact that the supplier in this case was a governmental qualified department and thus was contracted for, without a public announcement.
Risk Level	High
Status	Old
Follow up	The above mentioned contract was awarded to a governmental company, the General Company for the Production of Leather, which is affiliated to the Ministry of Industry. From the selected sample of contracts, none of the above mentioned observations came to our attention in 2008.

Observations raised for the year ended 31 December 2008

Ministry of Technology

1. Checks overdue for more than 6 months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend that the Ministry follows up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
Risk Level	Medium
Status	New

2. Tender Opening Committees

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

3. Letters of Guarantees (LGs)

Observation	In reviewing the sample of contracts we noted that the contracts division does not follow up regularly on letters of guarantees (LG). This division asks the issuing bank to extend the LGs after the expiry date. Following are examples of LGs renewed after the expiry date:			
	Contract No.	LG no.	Expiry date	Extension request date
	20	901/2008	1/2/2009	3/2/2009
	14	690/2008	1/2/2009	10/2/2009
Recommendation	We recommend the follow up on LGs and request the bank to renew or extend the LGs before they expire.			
Risk Level	Medium			
Status	New			

4. Employee Training Contract

Observation	During our review of the contracts we noted that the employee training contract no. 37 (Development of Human Capacity) was done through direct tender and not through the normal tendering process without any reason for the direct tender.
Recommendation	We recommend complying with the government provisions for tendering.
Risk Level	High
Status	New

5. Contracts Division

Observation	<p>During our review of the contracts we noted that the contract division does not include the amount of guarantees in its tender announcement document in violation of paragraph 2 in article 5 of the bidding process. Example:</p> <table> <tr> <td>Contract no.</td><td>Bidding no.</td></tr> <tr> <td>2</td><td>45 m 2007</td></tr> <tr> <td>13</td><td>7 m 2008</td></tr> </table>	Contract no.	Bidding no.	2	45 m 2007	13	7 m 2008
Contract no.	Bidding no.						
2	45 m 2007						
13	7 m 2008						
Recommendation	We recommend complying with the provisions of the governmental contracts in terms of including all information and conditions in the tender announcement document .						
Risk Level	Medium						
Status	New						

6. Ministry Establishment Law

Observation	We noted that the law for establishing the Ministry has not been approved by relevant governmental bodies.
Recommendation	We recommend that an effort be made to obtain the required approvals on the Ministry's Establishment Law
Risk Level	Medium
Status	New

Observations raised for the year ended 31 December 2008

Ministry of Environment

1. Contractual Employees

Observation	During our review of HR procedures relating to contractual employees, we noted that the contractual employees file disclose their names only with no reference to their salaries. We also noted that their files are incomplete.
Recommendation	We recommend that the Ministry records all information relating to contractual employees full detail including the names, salary amounts, and grades
Risk Level	Low
Status	New

2. Employee files

Observation	We noted that the Ministry does not keep copies of files of its companies' and directorates' employees. These files are kept only in companies and directorates.
Recommendation	We recommend that the Ministry maintains files for all its employees working at the Head Office and at its related companies and directorates.
Risk Level	Low
Status	New

3. Coordination between Ministry's Departments

Observation	During our visit to the Ministry we noted insufficient coordination between the Contracts Department and Finance Department, where the Finance Department does not notify the Contracts Department regarding obtaining performance bonds; which caused Contracts Department to proceed in contracting process without ensuring that the supplier adhered to contract terms and conditions.
Recommendation	We recommend that the Ministry issues and implements a documented mechanism to coordinate between all departments and divisions in the Ministry, to ensure that the exchange of all information related to the contracting process and its relating reimbursements is properly communicated, for better control procedures over contract execution.
Risk Level	Medium
Status	New

4. Organization Structure and Job Descriptions

Observation	We noted that the Ministry does not have an Organization Chart or Job Description.
Recommendation	<p>We recommend that the Ministry develops an organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

5. Financial and Internal Controls – Policies and Procedures

Observation	During our visit to the Ministry, we noted that there are no policies and procedures manuals to set out comprehensive financial and internal controls processes.
Recommendation	We recommend that the Ministry prepares and maintains written policies and procedures manuals for internal controls, that should cover all Ministry's financial and operating activities. The manual should be reviewed on a periodic basis to ensure that it is updated and relevant to providing accounting and operational guidance to staff. In addition, detailed monitoring procedures should be followed by key management to ensure proper and consistent implementation of the policies and procedures manual.
Risk Level	High
Status	New

6. Fixed Assets Register

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

7. Work Schedule Control

Observation	During our visit to the Ministry, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
Recommendation	We recommend that the Ministry installs an automated system accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

9. Furnishing Contract

Observation	During our review of the contract to furnish the Ministry's directorate buildings in Al Basrah . Missan – Thikar provinces with a nominal value of ID 283,430,000 we noted that the submitted performance bond of ID 10,000,000 only represents 3.53% of the contract's nominal value when it should be 5% (ID 14,171,500) as per government instructions, leaving a difference of ID 4,171,500.
Recommendation	We recommend that the Ministry complies with governmental instructions with respect to performance bonds.
Risk Level	High
Status	New

10. Contracts' Supporting Documents

Observation	During our review we noted the lack of a centralized comprehensive file for each contract that maintains a copy of all its related documents, such as letter of guarantee and bank guarantee as these documents have been separated and placed in one file that includes all letter and bank guarantees. Maintaining supporting documents in this way increases the contracts division's duties and complicates the follow-up and audit procedures related to the contracts.
Recommendation	We recommend that all documents relating to each contract be centrally filed, to facilitate review and for better control procedures.
Risk Level	Medium
Status	New

11. Contract No. 121 Loulou Company

Observation	During our review of the contracts, we noted in contract number 121 Al-Loulou and Al-Murjan Company (contract to install surveillance equipment to observe phase 2 and air quality) that the primary guarantee was in the form of a certified bond valued at ID 14,000,000 representing less than 1% (ID 14,560,000) of the total contract value (ID 1,456,000,000) leaving a difference of ID 560,000.
Recommendation	We recommend that the Ministry complies with governmental instructions with respect to performance bonds.
Risk Level	High
Status	New

12. Re-tendering

Observation	<p>During our review, we noted that the Ministry has re-announced some tenders after opening the bids for different reasons, this would uncover the prices submitted by the bidders to the committees' members and therefore the confidentiality of tenders presented would be breached. Example:</p> <p>Contract numbers 70, 19, 39, 94, 103 and 121.</p>
Recommendation	<p>We recommend that the bidders be required to provide two offers as follows:</p> <ul style="list-style-type: none"> · Technical offer: This offer would include the technical specifications of the contract subject matter, the date of delivery, and other technical matters. · Financial offer: This offer would include price schedule, payment dates and method of payment. The financial offer should not be opened unless the technical offer is accepted. We also recommend maintaining accuracy when announcing tenders and ensuring that the tender announcement document includes all required specifications and conditions related to the contract for better control over the procurement process.
Risk Level	Medium
Status	New

13. Checks overdue over than six months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
Risk Level	Medium
Status	New

Observations raised for the year ended 31 December 2008

Ministry of Housing and Construction

1. Segregation of Duties

Observation	We noted that the Payroll Department prepares payroll statements, receives the cash of the payroll payments and pays the salaries 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 recommend that the Ministry maintains adequate segregation of duties between the payroll processing, approval and payment functions.
Risk Level	High
Status	New

2. Contract Files

Observation	We noted that authorities and not the contract division in the Ministry are responsible for the preparation of the tender process and of the awarding of contracts. The contracts division's responsibility is limited to evaluation of the bid. Also the contract division does not maintain an archive of contract files relating to 2008 and previous years.
Recommendation	We recommend coordination between the authorities and the contract division where the contracts division performs its role in the preparation of tenders, announcing and identification of its results and the authorities' participation in these processes.
Risk Level	High
Status	New

3. Organization Chart

Observation	The Ministry does not have an Organization Chart or Job Description.
Recommendation	<p>We recommend that the Ministry develops a formally approved organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

4. Donations from Foreign Organizations

Observation	During our review, we noted that the Ministry received donations from foreign organizations. A significant amount of these donations were not recorded in the accounting records or store records.
Recommendation	We recommend the registration of all donations in the accounting records and store records of the Ministry.
Risk Level	High
Status	New

5. Arms stores

Observation	As a result of stock count relating to arms, we noted that the 2008 physical counts of arms do not reconcile to records. Example: <table><tr><td>Type</td><td>Inventory number</td><td>Records number</td><td>difference</td></tr><tr><td>Beretta pistol</td><td>72</td><td>260</td><td>188</td></tr><tr><td>Bruneq pistol</td><td>3</td><td>10</td><td>7</td></tr><tr><td>Kalashnikov</td><td>104</td><td>139</td><td></td></tr></table>				Type	Inventory number	Records number	difference	Beretta pistol	72	260	188	Bruneq pistol	3	10	7	Kalashnikov	104	139	
Type	Inventory number	Records number	difference																	
Beretta pistol	72	260	188																	
Bruneq pistol	3	10	7																	
Kalashnikov	104	139																		
Recommendation	We recommend that the Ministry follows up on these differences between the physical count and the records as a control procedure of the stock of arms.																			
Risk Level	Medium																			
Status	New																			

6. Vehicles Warehouse

Observation	<p>As a result of our review in the assets division we noted that some vehicles exist in the were not but not found in the physical count.</p> <p>Example:</p> <ul style="list-style-type: none">- Peugeot ROA- Dodge Chrysler- Proton salon- Kia Saphia- Pequot 306
Recommendation	<p>We recommend that the Ministry follows up on these differences between the physical count and the records as a control procedure of the stock of vehicles.</p>
Risk Level	<p>Medium</p>
Status	<p>New</p>

7. Vehicles and machinery stock

Observation	As a result of our review in the department of finance and trade we noted that 49 private vehicles and other equipment of the Ministry have been lost or stolen. The legal department was informed of this fact but until now the issue has not been resolved.
Recommendation	We recommend that the Ministry follows up this issue to discover the reason behind the loss of these vehicles and equipment and make the necessary accounting adjustments. We also recommend a stock count of all vehicles and machinery every six months and follow up any differences as a control procedure.
Risk Level	Medium
Status	New

8. Daily Journal of current operational budget

Observation	Through our review of the accounting records at the Ministry we noted that the daily journal of the current operational budget is free from stamps or signature of the accountant and the Internal Audit Department in the Ministry.
Recommendation	We recommend a review of the daily journal of the current operational budget on a monthly basis and that it be stamped by the accountant and the Internal Audit Department.
Risk Level	Medium
Status	New

9. Outstanding Balances

Observation	Through our review of the financial records of the Ministry of housing and construction, we found outstanding balances since 9/4/2003.	
	<u>Account description</u>	<u>Amount in IQD</u>
	Debtors for projects	1,546,259,574
	Other debtors	136,000,000
	Fiduciary accounts	1,522,167,915
	Creditors	4,979,291,559
Recommendation	We recommend reviewing and analyzing the above accounts and making the necessary adjustments.	
Risk Level	Medium	
Status	New	

10. Anbar project Bid

Observation	Through our visit to the Public Authority for Housing and review of a sample of the Ministry's contracts we noted that Housing Project tender number 7/2008 in Anbar was awarded to Hadrnout Company although the price submitted by the company exceeds the price submitted by Nabd al Rafidian company and Jabal Al Salam Company. We were not able to obtain justification for the award of this tender to Hadrnout Company because the file was referred to the Court.
Recommendation	We recommend that the Ministry complies with the governmental instructions for evaluation of contracts, and that a copy of the evaluation be maintained in files before sending to courts or any other party.
Risk Level	Hlgh
Status	New

Observations raised for the year ended 31 December 2008

Ministry of Municipalities and Public Works

1. Contracts Division

Observation	<p>From the results of our review of the ministry's divisions, we found weaknesses in the performances and duties of the contracts division, these weaknesses are described below:</p> <p>1- The division does not hold any position in tenders and contracts of its directorates for at least the year 2008. It is either the committee's responsibility to review and approve the contracts, or the responsibility of the directorates General Manager.</p> <p>2- The division's activities have been confined to only the review of the tender, and to then submit the tender's supporting documents to the central committee within the ministry.</p> <p>3- The division has no knowledge about the contracts signed before 2008, neither on the amendments of these contracts in 2008 with respect to the increase and extent of progress</p>
Recommendation	<p>We recommend the complete coordination between the directorates and the contracts division, so that the contracts division can perform its duty in terms of preparing the tenders, announcing them, and determining their results.</p>
Risk Level	<p>Medium</p>
Status	<p>New</p>

2. General Directorate for Water, Sewage and Municipalities – segregation of duties

Observation	During our visit to the directorates, we noted that the payroll division prepares salaries statements, receives the amounts to be paid, and pays the salaries to employees. There is no segregation of duties between the preparer of the statement, the person reviewing the statements, and the person paying the salaries.
Recommendation	We recommend segregation of duties between the preparer of the statement, the person reviewing the statements, and the person paying the salaries.
Risk Level	High
Status	New

3. The General Directorate– Accounting system

Observation	We noted that the entries recorded in the daily journal and posted to the general ledger, and the extraction of the trial balance and financial reports are done manually.
Recommendation	We recommend the ministry to use an automated accounting system for all accounting operations to avoid any possible mistakes occurring from entries being recorded manually, and for the efficiency of extracting financial information and being able to maintain a database to store all accounting data.
Risk Level	Medium
Status	New

4. General Directorate for Water – Jobayesh Water Project Contract

Observation	From our review of a sample of contracts for the general directorate of water, we noted that approximately USD 109,243 was paid, representing %90 of the Jobayesh project contract (Equipment supply and execution) for the first shipment instead of %40 as mentioned in the contract knowing that the project total cost is IQD 23,064,870,400.
Recommendation	We recommend the ministry to abide by the terms and conditions of payments set in the contract.
Risk Level	High
Status	New

5. Length of time between the awarding date and signature date of the contract

Observation	<p>From our review of a sample of contracts for the directorate, we noted that the time between the awarding date and signature date of the contract is long, such as the following:</p> <table><tr><td>Name of contract</td><td>Awarding date</td><td>Signature date</td></tr><tr><td>Supply of 15 multipurpose machines with reserves</td><td>30/6/2008</td><td>18/11/2008</td></tr><tr><td>Study and design of Al kufah’s water</td><td>27/12/2007</td><td>20/4/2008</td></tr></table>	Name of contract	Awarding date	Signature date	Supply of 15 multipurpose machines with reserves	30/6/2008	18/11/2008	Study and design of Al kufah’s water	27/12/2007	20/4/2008
Name of contract	Awarding date	Signature date								
Supply of 15 multipurpose machines with reserves	30/6/2008	18/11/2008								
Study and design of Al kufah’s water	27/12/2007	20/4/2008								
Recommendation	We recommend following up on the awarding and signature of the contracts in a suitable time.									
Risk Level	Low									
Status	New									

6. General Directorate for Sewage– Accounting and Financial Records

Observation	During the course of our review of accounting records in the finance division for every directorate for water sewerage, we noted the following: - concerning the directorate for water, the daily records are not sealed and approved by the internal audit department. As for the directorate for sewerage, we noted that the investment plan records do not hold any seals or approval from the internal audit department.
Recommendation	We recommend the internal audit department audit the daily records and investment plan records and check for proper approval.
Risk Level	Medium
Status	New

7. General Directorate for Sewage– Recording Letter of Guarantee Payments

Observation	During our review of financial records, we noted that the finance division does not record and classify the guarantees in its records according to number, amount, and the date of opening and closing of the guarantee. We also noted that only the trade division is maintaining the Records of the guarantees.
Recommendation	We recommend coordination between the finance and trade division in order to check the proper recording and follow up of the guarantee.
Risk Level	Low
Status	New

8. General Directorate for Sewage – Checks overdue over than six months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
Risk Level	Medium
Status	New

9. General Directorate for Sewage – War Losses

Observation	During our visit to the directorate, we noted that during 2008 the directorate changed the committee that was responsible for the war losses of 2003 since the previous committee was unable to quantify the losses.
Recommendation	We recommend that the directorate follows up this issue with the concerned parties to quantify the losses related to the 2003 war.
Risk Level	Medium
Status	New

10. Contract Indexing

Observation	We noted that all directorate contracts are not given identification numbers. They are only given export and import numbers.
Recommendation	We recommend establishing a suitable indexing system for contracts where contracts can be placed in order, avoiding any recurrence of contracts to facilitate the follow up and review and to add control procedures.
Risk Level	Medium
Status	New

11. Naamaniyi Sewerage Contract

Observation	From our review of the Naamaniyi sewerage contract at the directorate amounting to IQD 33,673,706,000, we noted that the company submitted initial guarantees amounting to IQD 300,000,000 (less than 1% of the tender amount). The initial guarantee required by contract to be Submitted is IQD 336,737,060 leaving a difference of IQD 36,737,060. We also noted a lack of approval from members of the board of review, and approval of contracts in its resolution (numbers 31 and 59) related to the Naamaniyi sewerage project.
Recommendation	We recommend the directorate follow the contract procedures provided to it in the instructions of the execution of governmental contracts for 2008.
Risk Level	Medium
Status	New

12. General directorate for the sewerage and water – Goods Receipt Voucher

Observation	During our visit to the directorate, it appeared to us that there is a difference in the inventory records of IQD 2,526,914,752 due to the lack of recording on time. This difference goes back to 2008 and previous years.
Recommendation	We recommend the directorate maintains the storage documents once goods are entered into the warehouses.
Risk Level	Low
Status	New

13. General directorate for Sewage – Najaf Sewage System Contract

Observation	From our review of the contract amounting to IQD 85,350,053,450 at the general directorate for sewerage to supply and install the Najaf sewerage system, we noted that the Ministry signed the contract without the approval of the Central Contracting Committee of the Ministry council that clarified it is not responsible for the awarding procedures after the contract has been signed.
Recommendation	We recommend the ministry adhere to the approach of the central contracting committee of the ministry council with respect to the contracts that are not within the authority of the Ministry to comply with Article 7-20-A
Risk Level	High
Status	New

14. General directorate for the sewerage and water – Performance Bond

Observation	From our review of the contract to supply 34 bulldozers signed with Toyota Tsusho, we noted that the performance bond was submitted by the company on 14/12/2008. This contradicts what was stated in the contract that the performance bond should be submitted 15 days after the signature of the contract (i.e. on 20/5/2008).
Recommendation	We recommend to comply with the terms of the contract.
Risk Level	Medium
Status	New

15. General directorate for the sewerage and water – Payroll System

Observation	During our review of the payroll process in the directorate, we noted that the directorate prepares the salaries manually. This process is time Consuming, and increases the chance of human error.
Recommendation	We recommend an automated payroll system where a database for all employees is installed which can facilitate and regulate the extraction of salary reports and can guarantee additional precision.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Municipalities and Public Works

1- Activity of Directorates Related to Ministry

Observation	We noted the absence of a copy of the approved annual budgets by Ministry of Finance and related to the ministry's entities and directorates at the Ministry's Headquarter. Also we noted the absence of copies of expenses and revenues statements, contract register, and letters of credit registers. Total contracts and letters of credit issued by the Ministry amounted to U.S. \$ 339,772,676 during 2007. This makes it difficult to the Ministry's Headquarter to monitor the performance and decrease control over related entities and directorates, and therefore leads to difficulty in assessing the level of utilization at the Ministry level.
Recommendation	We recommend that the ministry shall monitor the activities of its related entities and directorates, in order to enhance control and ability to compare the annual budget with actual expenditure. This assists in determining the required budget and to monitor the performance of the related entities and directorates during the year.
Management's Response	The follow up of the commission revealed the existence of a copy of 2008 budgets prior to its approval. Budgets for 2007 were not backed by any information. The commission confirmed the Firm's note in respect of the non-existence of copies of income and expense statements and a register for, contracts file or LCs.
Risk Level	High
Status	Old
Follow up	We noted copies of the annual budgets approved in the ministry, but did not note copies of statements of payments and receipts, and a contracts record.

2· Recording Assets in the Fixed Assets Register

Observation	<p>During our review of fixed assets management, we noted the following:</p> <ul style="list-style-type: none"> · Absence of a unified register to record the Ministry's fixed assets. · Registers in use do not keep the book value of the assets, but only the quantities. · The value of gifts and donations is not recorded, but they are recorded by their type and quantity. · Fixed assets registers are not updated according to inventory inputs and outputs, this leads to inability to trace fixed assets movements based on inventory records. · Fixed assets register was not signed by the preparer or the head of department also the register was not signed by the Internal Audit Department. · We noted that the fixed assets register do not include identification numbers for fixed assets.
Recommendation	<ul style="list-style-type: none"> · Unifying fixed assets registers to include all departments in order to enhance control over fixed assets recording and to follow up the continuous updates. · Development of a fixed assets recording system to include quantities, costs, in addition to recording gifts and donations at fair value, and to update these records according to inventory receiving and issuance vouchers. · Approving and signing the fixed assets register by preparer and the head of department, and to audit and sign the register by the Internal Audit Department. · Development of identification numbers allocated to all items of fixed assets that should be recorded in the fixed asset register. We further recommend performing independent and periodic physical count to ensure safeguarding of fixed assets
Management's Response	Our Related Commission has confirmed the above notes
Risk Level	High
Status	Old
Follow up	All observations except for the identification numbers have been resolved for 2008.

3- Contracts Supporting Documents

Observation	We noted that the contracts supporting document at the General Directorate of Municipalities are not properly organized. The documents are distributed across the Accounting Department, Legal Department, Transportation Department, and Planning Department. This leads to difficulties in obtaining and follow up of some contracts and their related supporting documents.
Recommendation	We recommend developing a proper archiving system to keep each contract together with its related supporting documents separately, and to properly organize these contracts in order to facilitate the retrieval and review processes.
Management's Response	The Related commission has confirmed the correctness of the above note.
Risk Level	High
Status	Old
Follow up	The observation concerning the general directorate for the municipalities and the directorate of water and sewerage is still valid.

4. Tenders Opening Committees

Observation	We noted that the members of the Tender Opening and Analyzing Committees are not being periodically rotated as required by the budget instructions issued by the Ministry of
Recommendation	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months.
Management's Response	The Related commission has confirmed the correctness of the above note.
Risk Level	High
Status	Old
Follow up	The observation concerning the general directorate for the municipalities and the directorate of water and sewerage is still valid.

5. Contracting Procedures Related to Supplying Litter disposal Vehicles

Observation	We noted that the General Directorate Municipalities contracted with a Foreign Company to import 114 litter disposal vehicles and spare parts (contract number 8 amounted to U.S. \$ 4,902,000 dated December 27, 2006). Members of the Tender Open Committee did not sign the minute of their recommendations.
Recommendation	We recommend that no contract shall be executed prior to completeness of all contracting procedures derived from applicable laws and regulations for better control procedures and better protection of contracting parties' rights.
Management's Response	The Related commission has confirmed the correctness of the above note.
Risk Level	High
Status	Old
Follow up	Contract was awarded during 2008.

6. Payroll Committees

Observation	We noted that the payroll committee members responsible for receiving the salaries are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the Committee members every six months.
Recommendation	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the committee members every.
Management's Response	The related commission has confirmed the correctness of the above note, which was also mentioned in the Firm's report for the prior year.
Risk Level	High
Status	Old
Follow up	The above mentioned observation was still valid for the year ended 31 December 2008

7- Recording U.S. Agencies Contracts

Observation	We noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. As a result, the contracts costs are not yet being recorded in the Ministry's accounting records knowing that these contracts are included in the Ministry's expenses according to DFI records
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
Management's Response	The follow up by the related commission revealed that no data in this respect is available at the Ministry.
Risk Level	High
Status	Old
Follow up	The observation has been resolved for 2008.

Observations raised for the year ended 31 December 2008

Ministry of Industry and Minerals

1. Reconciliation between Trial Balance and Payroll Listing

Observation	We noted that the Internal Audit department does not perform a monthly or quarterly reconciliation between the trial balance and the payroll listing.
Recommendation	We recommend that the Internal Audit department performs a monthly reconciliation between the payroll listing and the trial balance and follow up on any variances if any.
Risk Level	Low
Status	New

2. Payroll Committee

Observation	We noted that during 2008 the cash withdrawn from the bank to settle payroll and employee benefits were being handed to one individual, responsible for its disbursement, instead of a committee. The Ministry has ordered as per memo 411/20/5929 dated 12/2/2009 the formation of payroll committees responsible for the receipt of cash and its disbursement to the employees.
Recommendation	We recommend that ministry follows the above mentioned order and that the committee members be replaced periodically. In addition, we recommend that all members of the committee sign off on the receipt of cash and not only the Head of the committee.
Risk Level	High
Status	New

3. War Damages

Observation	We noted that a technical committee to identify and quantify war damages was formed as per order # 411/20/21308 dated 3/7/2008 but up to 7/4/2009 only damages for 24 companies related to the ministry were approved by the Ministry of Planning and Development Cooperation. War damages to other companies and the Ministries Head Quarters have not been prepared yet.
Recommendation	We recommend that the ministry follows up on the committees assigned to the war damages.
Risk Level	Medium
Status	New

4. Vehicle Maintenance Disbursement

Observation	We noted that the ministry does not reconcile the balances for vehicle maintenance as per the financial records to the maintenance cards maintained by the Vehicle Department,
Recommendation	We recommend that the accounts department compiles a journal for vehicle maintenance and reconciles it to the cards maintained by the Vehicle Department,
Risk Level	Low
Status	New

Follow up on observations raised by the previous auditor Ministry of Industry and Minerals

1. Fixed Assets Identification

Observation	We noted that the fixed asset register does not include identification numbers for fixed assets. Creating identification numbers for each individual asset would enable the Ministry to trace each particular item to the fixed asset register and improve accountability in respect of fixed assets. Furthermore, this will facilitate the physical verification of fixed assets at the Ministry.
Recommendation	We recommend that the Ministry creates an identification number for each fixed asset that should be recorded in the fixed assets register. Furthermore, we recommend periodic independent physical count to ensure existence of fixed assets.
Management's Response	The Ministry per its letter No. 289 of 10/4/2008 confirmed the correctness of this note and advised that necessary measures were taken by it during 2007 for the recording of the fixed assets as appearing in the inventory list of year 2006 on a special computer program at the Scientific Information Center. Presently, print outs of this system include identification numbers for the assets to enable tracing it to the physical inventory lists through the Scientific Information Center and verify the actual existence of the assets. This note was also mentioned in the Firm's report for the prior year.
Risk Level	Low
Status	Old
Follow up	<p>We noted that the ministry has recorded the fixed assets in a "Microsoft Access" database devised by the Scientific Information Center as per the fixed asset count of the year 2006. The Database includes identification numbers for every asset, although the assets are not tagged there is a list for every room in the ministry detailing the item #, type of item, quantity of items of that room.</p> <p>In 2008, a fixed asset count was performed; we noted that most of the variances between the physical count and the listings were due to assets purchased prior to the 9/4/2003 events and not recorded in the listings.</p>

2. Recording U.S. Agencies contracts

Observation	We noted a contract amounted to U.S. \$ 15,735,200 of the contracts managed by the U.S. Agencies on behalf of the Ministry, U.S. Agencies did not inform the Ministry of its details; accordingly the Ministry did not record it knowing that this contract is recorded in the funding accounts as Ministry expenses.																														
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 in order to update the Ministry's accounting records.																														
Management's Response	The Ministry replied per its above letter that no information about this contract is available and pursuant to what was stated in the memorandum from the committee for rehabilitation of the Ministry's headquarters No. 218 of 1/4/2008 whereby this project was awarded to an American company which its subcontracted it to a local company. This said local company completed the works without the Ministry having any say as to the subcontracting, price and execution of the contract, noting that no minutes of handover were prepared for completed works between the Ministry and the contractor. This note was also mentioned in the Firm's report for the prior year.																														
Risk Level	High																														
Status	Old																														
Follow up	<p>We were unable to check the above mentioned contract. As per the Assistant General Manager of the Economic Division at the ministry the amount stated is inaccurate.</p> <p>We noted the ministry received a memo from the Ministry of Planning and Development Cooperation # 1/5/19 dated 4/1/2009 attached is a CD provided by the U.S. Embassy. This CD includes all projects funded by U.S. grants. The Ministry responded in memo # 5803 dated 12/2/2009 as follows:</p> <table border="1"> <thead> <tr> <th></th><th>Description</th><th>Cost in USD</th><th>Ministries observations</th></tr> </thead> <tbody> <tr> <td>1</td><td>Medical Ward & Pharmacy Equipment</td><td>185,551.92</td><td>No supporting documentation at the Ministry.</td></tr> <tr> <td>2</td><td>Ministry of Industry and Minerals, Remodel 4th & 8th Floor (Terminated)</td><td>370,614.67</td><td>Renovation committee has reservations over the work performed.</td></tr> <tr> <td>3</td><td>PPA Remodel 4th Floor at Ministry Building to Cafeteria</td><td>250,102.00</td><td>Work performed by the Ministry.</td></tr> <tr> <td>4</td><td>TAPA Market Sewage renovation</td><td>14,862</td><td>No supporting documentation at the Ministry.</td></tr> <tr> <td>5</td><td>ACID storage tanks construction</td><td>1,280,684.00</td><td>No supporting documentation at the Ministry.</td></tr> <tr> <td>6</td><td>Restore Ministry of Industry and Minerals Building</td><td>14,843,531</td><td>Renovation committee has reservations over the work performed.</td></tr> </tbody> </table>				Description	Cost in USD	Ministries observations	1	Medical Ward & Pharmacy Equipment	185,551.92	No supporting documentation at the Ministry.	2	Ministry of Industry and Minerals, Remodel 4th & 8th Floor (Terminated)	370,614.67	Renovation committee has reservations over the work performed.	3	PPA Remodel 4th Floor at Ministry Building to Cafeteria	250,102.00	Work performed by the Ministry.	4	TAPA Market Sewage renovation	14,862	No supporting documentation at the Ministry.	5	ACID storage tanks construction	1,280,684.00	No supporting documentation at the Ministry.	6	Restore Ministry of Industry and Minerals Building	14,843,531	Renovation committee has reservations over the work performed.
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3. Old outstanding cash margins

Observation	We noted a number of old outstanding cash margin balances with JP Morgan Chase for letters of credit.
Recommendation	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.
Management's Response	The Ministry indicated per its above letter in respect of LC No. 194/2003 that the State Company for Manufacturing of Fertilizers – for the North, in its letter No. 2362 of 3/10/2007 that no out-standings are are pending and thus, said LC was closed. As to LC No. 196/2003 the State Company for Manufacturing of Fertilizers-for the North, reported that the remaining balance (being delay fines and balance of taxes) was not refunded in spite of the continued follow up by the company.
Risk Level	Medium
Status	Old
Follow up	We noted that there is still correspondence between the ministry and the Trade Bank of Iraq and the last correspondence was on 24 February 2009. We did not obtain a confirmation from JP Morgan and accordingly, we could not ensure whether old outstanding cash margins exists as at 31 December 2007.

Observations raised for the year ended 31 December 2008

Ministry of Defence

1. Bank reconciliation: Rafidain Bank – Head Office

Observation	<p>We noted, when reviewing the reconciliation of the above mentioned account for the month of December 2008, the following:</p> <ol style="list-style-type: none"> 1. The reconciliation included checks recorded in the Ministry's records but did not appear in the bank statement. These checks amount to IQD 1,076,097,424 for 2006; IQD 16,637,168,432 for 2007; hence a total of IQD 17,820,825,776. These checks have to be reversed as they are no longer valid. 2. The reconciliation included amounts that appeared in the bank statement but the ministry has no knowledge of the details. Amounts related to 2005 are IQD 10,279,250 in total. Amounts related to 2006 are IQD 1,783,000. Amounts related to 2007 are IQD 892,122,350. Amounts related to 2008 are IQD 36,815,530. In total IQD 941,000,130. 3. The reconciliation included amounts that the ministry has recorded under collections but these amounts do not appear in the bank statement. Amounts related to 2006 are IQD 7,830,000. Amounts related to 2007 are IQD 456,019,150. Amounts related to 2008 are IQD 89,397,200. In total IQD 545,416,350. 4. The reconciliation included amounts recorded without supporting documentation totalling IQD 18,625,637,039. 5. We noted that the list mentioned in point 1 contains an error in addition amounting to IQD 9,000,000.
Recommendation	<p>We recommend that the ministry performs the following:</p> <ol style="list-style-type: none"> 1. Reverses all checks mentioned in point 1 above as these checks are more than 6 months old and are no longer valid. 2. Obtains supporting documentation for the amounts mentioned in points 2 and 4 above. 3. Follows up on amounts mentioned in point 3 above with the bank to obtain all the supporting documentation. 4. Has the internal audit department review all reconciliations.
Risk Level	High
Status	New

2. Bank reconciliation: Rafidain Bank – Ministry's Branch

Observation	<p>We noted, when reviewing the reconciliation of the above mentioned account for the month of December 2008, the following:</p> <ol style="list-style-type: none"> 1. The reconciliation included amounts that appeared in the bank statement but the ministry has no knowledge of the details. Amounts related to 2006 are IQD 470,174,127. Amounts related to 2007 are IQD 1,391,551,931. Amounts related to 2008 are IQD 7,722,912,844. In total IQD 9,584,638,902. 2. The reconciliation included amounts recorded in the Ministry's records but did not appear in the bank statement. Amounts related to 2006 are IQD 403,241,447. Amounts related to 2007 are IQD 214,958,258. Amounts related to 2008 are IQD 411,982,096. In total IQD 1,033,960,601. In addition to an amount of IQD 3,778,800 related to 2009 3. The reconciliation included amounts recorded without supporting documentation totalling IQD 16,884,155. 4. We noted that the list mentioned in point 1 contains an error in addition amounting to IQD 62,450 and the list mentioned in point 2 contains an error in addition amounting to IQD 4.
Recommendation	<p>We recommend that the ministry performs the following:</p> <ol style="list-style-type: none"> 1. Obtains supporting documentation for the amounts mentioned in points 2. 2. Follows up on amounts mentioned in points 1 and 3 above with the bank to obtain all the supporting documentation. 3. To check that the reconciliations do not include amounts related to different periods. Refer to point 2. 4. Has the internal audit department review all reconciliations.
Risk Level	High
Status	New

3. Bank reconciliation: Rafidain Bank – ZwiyeH Branch

Observation	We noted that the reconciliation of the above mentioned bank account for the month of December 2008 included an amount of IQD 419,002,220 related to a check certified and issued on 25 July 2006 that was recorded as missing. A committee was formed to investigate this issue and as of April 2009 it has not been resolved.
Recommendation	We recommend that the ministry takes appropriate action to resolve this issue.
Risk Level	Moderate
Status	New

4. Bank reconciliation: Trade Bank of Iraq (TBI)

Observation	We noted that the ministry has not performed a reconciliation for the above mentioned bank account since 2005. We were informed that a committee was formed to deal with this issue. As of April 2009 this committee has not taken any action. Consequently the ministry has not recorded any entry related to this bank account despite the large economic transactions that are occurring through this account.
Recommendation	We recommend that the ministry takes appropriate action to resolve this issue as the current financial records of the ministry do not reflect the true status of the ministry.
Risk Level	High
Status	New

5. Recording of FMS contracts

Observation	<p>We noted that the ministry has not recorded transactions related to FMS contracts since it joined the FMS program based on a decision # 842 dated 11 October 2006 by the economic committee of the Council of Ministries. There are currently 100 contracts in the amount of approximately USD 4 Billion. The ministry does not record the transactions since it does not have the required supporting documentation. In addition, we noted that the involved personnel has not received adequate training in the dynamics of the FMS program. For example the ministry did not use document # 340-103 (discrepancy report) until 15 February 2009.</p>
Recommendation	<p>We recommend that the ministry performs the following:</p> <ol style="list-style-type: none"> 1. Restructures the accounting department involved in the FMS program and provide it with adequate training so that it may record all the related transaction in the ministry's records. 2. Ensures that the military attaché at the Iraqi embassy in Washington D.C. follows-up on the program. 3. Forms a mobile "Inspection and Acceptance" committee to inspect all equipment being received at the three main drop points and to provide the accounting department with the supporting documentation when applicable. 4. Develops and improves the inspection process to include all different aspects such as labs for testing fuel (related to contract # IQ-D-GAM) 5. Provides the related accounting department with all the necessary documents to record these transactions in the ministry's records so that they reflect the true status of the ministry. 6. Ensures that the contract files held by the accounting department contain all the related supporting documentation such as: the list of requirements; Letters of request (LOR); Letters of Acceptance (LOA); DD465 (Invoice); DD250 (Conformity Report); DD1348 (Letter of Receipt); 340-103 (discrepancy report). 7. Requests that the individuals from the MNSTC-I that are responsible for the FMS program remain for a period of no less than 2 years or have the MNSTC-I ensure that the handover between individuals be complete to insure a smooth transition. 8. Requests that the training provided to the Iraqi staff involved in the FMS program be "In-house" and continuous as opposed to training in Jordan and the U.S.A. 9. Takes adequate action to record all received shipments since the inception of the FMS program by forming a committee to gather all the necessary evidence by obtaining contracts, fixed asset counts, DD 1348, 102 (Iraqi letter of receipt), inspection reports, etc. 10. Widens the scope of review for the FMS program by allowing the Inspector General's office, the Legal counsel, the budgeting department, the internal audit department and the technical departments to inspect and approve all documentation starting from the "specification definition" phase.
Risk Level	High
Status	New

6. Fixed assets

Observation	<p>We noted that the following at the ministry:</p> <ol style="list-style-type: none"> 1. The accounting department does not maintain a fixed asset register. 2. The related departments of the ministry do not perform an annual fixed asset count.
Recommendation	<p>We recommend that the ministry performs a fixed asset count and develops a full fledged fixed asset system to include (asset code numbers, location identifiers, etc.)</p>
Risk Level	High
Status	New

7. Frozen FMS Letters of Acceptance

Observation

We inspected the status of Letters of Acceptance (LOA) related to the FMS program as at 21 April 2009 and noted the following:

Year	Total	Completed	Partially completed	Not completed	Cancelled	Frozen
2005	1	1	0	0	0	0
2006	2	0	2	0	0	0
2007	53	23	17	10	3	0
2008	54	1	8	33	1	11
2009	3	0	0	2	0	1
	<u>113</u>					

We noted that the frozen LOA's were frozen because the appropriated funds were insufficient despite the fact that these LOA's were approved by the Minister of Defence. The 11 LOA's amount to USD 550,597,417.

Recommendation

We recommend that the Ministry ensures that the appropriated funds are sufficient to finance Letters of Acceptance.

Risk Level

Medium

Status

New

8. Competence of human resources of the Budget Directorate

Observation	<p>We noted the following:</p> <ol style="list-style-type: none"> 1. One member holds a degree in Persian Language 2. One member holds a degree in Education/History, another a degree in Education/Physics and another a degree in Education/Mathematics. 3. One member holds a degree in Agriculture, another in Fine arts , another in Mechanical Engineering, and one holds a degree in Physics. 4. One member holds a degree in Petroleum studies, another in Electricity, and another in Chemistry.
Recommendation	We recommend that the ministry devises job descriptions which incorporates the required educational background to meet the required objectives.
Risk Level	Medium
Status	New

9. Automated accounting system

Observation	We noted that the Human Resource department uses an automated system and is updated periodically, but the recording of journal entries and the posting is done manually.
Recommendation	We recommend that the ministry implements an automated accounting system to increase productivity.
Risk Level	Medium
Status	New

10. Work time control

Observation	During our visit to the ministry we noted that the only control on hours worked by employee is done by having employees sign on the entry registered as they enter on a daily basis. There is no automated system to monitors hours worked by employees. This leads to weaknesses in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis
Risk Level	Low
Status	New

Follow up on observations raised by the previous auditor Ministry of Defence

1. Foreign Military Sales

Observation	We noted that the ministry has transferred an amount of U.S. \$ 1,100 million during 2007 to the Foreign Military Sales- FMS account in FBRNY. We were not provided with any information related to the disbursements made out of this account due to the fact that such information is not available at the ministry. The ministry did not record the disbursed amounts during the year as part of its capital expenditure.
Recommendation	We recommend that the ministry shall record all disbursements related to capital expenditure in its records, in addition to preparation of a monthly reconciliation for the Foreign Military Sales account for better control procedures.
Management's Response	Follow up by the related commission indicated that the transfer of this amount is done directly through MOF and not via the Ministry of Defense. Accordingly, no accounting entry was made in the Ministry of Defense's records other than commensurate reduction to funds allocated for FMS program. Adjusting entries for years 2006 and 2007 were not resolved till this date due to delay in contracting in accordance with the referred to program.
Risk Level	High
Status	Old
Follow up	We have rephrased this observation and included it under observations of 2008.

2. Segregation of Duties between Members of Tender Opening and Analyzing committees

Observation	During our review of the contract number (0001-07) to supply winter suits, we noted that a member of Tender Opening Committee is also a member in the Tender Analyzing Committee.
Recommendation	We recommend that the ministry shall comply with budget instructions issued by the Ministry of Finance, which require the segregation of duties between members of Tender Opening and Analyzing committees, for better control procedures over the contracting process.
Management's Response	The related commission did confirm that one member of the Tender Opening Committee is also a member of the Tender Analyzing Committee.
Risk Level	High
Status	Old
Follow up	We did not observe any similar observation for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

Ministry of Foreign Affairs

1. Fixed Asset Register

Observation	<p>We noted during our review of the fixed asset register for 2008 the following:</p> <ol style="list-style-type: none"> 1. The Administrative and Finance department posted the entries for the purchase of fixed assets of 2008 during our review in May 2009. 2. The page of the register related to arms also included ammunition, hence there is no segregation. 3. The quantities recorded in the arms section of the fixed asset register did not agree to the purchases of 2008 both in quantity and description. 4. The fixed asset register does not include sufficient details to identify the asset. For example for vehicles the register did not include chassis numbers or engine numbers.
Recommendation	<p>We recommend that the ministry performs the following:</p> <ol style="list-style-type: none"> 1. Posts the entries for previous years and agrees the books to the register. 2. Segregate the register between items. 3. Have the internal audit department approve the register before using it. 4. Complete the register with all necessary information to easily identify the asset.
Risk Level	Medium
Status	New

2. Vehicle contracts

Observation	<p>We noted while reviewing the contract for the purchase of GMC Yukon XL vehicles in the amount of \$ 692,500 the following:</p> <ol style="list-style-type: none"> 1. The contract was performed through a purchasing committee in contrary to what is stated in paragraph four point b-Purchasing authority of the instructions of the budget by which a tender had to be announced or a direct invitation to bid had to be sent. 2. The ministry did not supply the ministry of Planning with the details of the contract and the supplier. 3. The contract did not include any approvals or seals of the legal department or the address of the supplier. <p>These observations were also noted in the contract for the purchase of Chevrolet Caprice in 2008 in the amount of \$ 806,250</p>
Recommendation	We recommend that the ministry follows the instructions issued by the Ministry of Planning with regards to government contracts.
Risk Level	High
Status	New

3. Payroll

Observation	<p>We noted the following with regards to the diplomatic missions:</p> <ol style="list-style-type: none"> 1. Some employees have instructed other employees to collect their salaries without having any written authorization held at the payroll department. This was noted in payrolls of Manila, Damascus and Tehran for the month of November 2008. 2. Some employees do not sign upon receipt of their monthly salaries. This was noted in the payroll of Sofia for the month of September and November 2008. 3. The payroll department that issues the payroll reports does not classify them in an orderly manner. For example we did not find the payroll listing for Manama, Warsaw and Athena for any month in 2008.
Recommendation	<p>We recommend that the Ministry issues instructions requiring the diplomatic missions to follow the general practices of the ministry. In addition, we recommend that the ministry designates the department required to maintain the payroll listings.</p>
Risk Level	Medium
Status	New

4. Contracts administered outside of Iraq

Observation	<p>We noted the following:</p> <ol style="list-style-type: none">1. A tender was announced for consulting work for the renovation of the embassy in Paris in one local newspaper. Similarly, a tender for the construction of the new consular and living quarters in Dubai was announced in two newspapers. The instructions clearly state that the tender should be announced in three local newspapers.2. The contracting procedures are performed jointly by the technical department and the legal department; the ministry does not have a dedicated department for contracts.
Recommendation	<p>We recommend the following:</p> <ol style="list-style-type: none">1. That the ministry ensures that all the diplomatic missions are knowledgeable when it comes to implementing the instructions related to government contracts.2. That the ministry sets up a department for contracts as stated in article 11 of the instructions related to government contracts.
Risk Level	Medium
Status	New

5. Work time control

Observation	During our visit to the ministry we noted that the only control on hours worked by employee is done by having employees sign on the entry registered as they enter on a daily basis. There is no automated system to monitors hours worked by employees. This leads to weaknesses in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

6. Organization chart

Observation	We noted that the ministry does not have an updated organization chart that defines the lines of authority and responsibilities. The current organization chart does not reflect the reality at the ministry. In addition, we did not find any job descriptions.
Recommendation	We recommend that the ministry updates the organization chart and devises job descriptions for the ministry
Risk Level	Medium
Status	New

7. Consolidated Trial Balance

Observation	We noted that the Consolidated trial balance of 2008 and previous years are not approved by the Ministry of Finance.
Recommendation	We recommend that the ministry follows all instructions related to book-keeping and accounting.
Risk Level	Medium
Status	New

8. Stolen Vehicles

Observation	We noted that there were certain incidents of theft of vehicles after 2003. According to the count performed in 2008, 3 vehicles were identified. We were unable to obtain information as to where the Ministry stands on this issue. The vehicles stolen:		
	<u>Model</u>	<u>License #</u>	<u>Date of theft</u>
	Daewoo	248810	10 January 2007
	Pick-up	470215	24 August 2008
Recommendation	We recommend that the ministry follows-up on this issue and takes all the necessary legal action.		
Risk Level	Medium		
Status	New		

9. Fixed asset count committee – Diplomatic Missions

Observation	<p>We noted for the counts performed for the Diplomatic missions' assets as at 31 December 2008 the following:</p> <ol style="list-style-type: none"> 1. Some diplomatic missions did not form a committee by means of an administrative order for example: Istanbul, Doha and Cairo. 2. Some diplomatic missions did not send the counts up to the date out visit to the ministry (May 2009) for example: London and Dubai 3. The ministry's records related to the Diplomatic Missions' fixed assets did not include enough details for example: <ul style="list-style-type: none"> • The fixed asset register of the Consular in Damascus only included the phrase "old purchase" and did not include an invoice number or date. • The register for vehicles belonging to the embassy in New Delhi did not include the chassis number or any identifying number.
Recommendation	<p>We recommend that the concerned departments form a committee to obtain all the counts and in turn perform a complete reconciliation of physical counts to the ministry's records.</p>
Risk Level	<p>Medium</p>
Status	<p>New</p>

10. Missing weapons

Observation	<p>We noted while reviewing the list of weapons purchased during 2008 that there are weapons missing, for example:</p> <ul style="list-style-type: none">•Kalashnikov Rifles with ID # 26004251-0370-0606 <p>No legal action has been taken.</p>
Recommendation	<p>We recommend that the Ministry takes legal action and directs the responsible departments to follow-up on this issue.</p>
Risk Level	<p>Medium</p>
Status	<p>New</p>

11. Fixed Assets

Observation	<p>We noted while observing the 31 December 2008 physical asset count the following:</p> <ol style="list-style-type: none"> 1. There is no computerized Fixed Assets module for the Head Quarters of the Ministry 2. Fixed assets are not tagged
Recommendation	<p>We recommend that the Ministry performs the following:</p> <ol style="list-style-type: none"> 1. Designs and implements a Fixed Assets module which will facilitate the tracking and counting of the Fixed Assets. 2. Input the last fixed asset count performed in the system implemented.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Foreign Affairs

1. Tender Opening Committees

Observation	We noted that one member of the Tender Opening Committee is not being periodically rotated as required by the budget execution instructions issued by Ministry of Finance that requires rotating members of the committees every six months. The current Tender Opening Committee was formed on 6 May 2007 and was still operative until the date of our visit in February 2008.
Recommendation	We recommend complying with the budget instructions issued by the Ministry of Finance as to the requirement of rotating committees' members every six months for better control procedure and adherence to budget instructions.
Management's Response	The Ministry replied that the Tender Opening Committees are changed every six months, which was confirmed by the related commission as dictated by Ministerial order no. 2762 and 6050 of 6/5 and 17/10/2007 respectively.
Risk Level	Medium
Status	Old
Follow up	<p>We noted that the members were being rotated in 2008 except for the Head of the Committee who held the position in two consecutive terms:</p> <ol style="list-style-type: none"> 1.From 17 October 2007 as per Ministerial Instruction # 6050 2.From 3 March 2008 as per Ministerial Instruction # 2122

2. Contracts Identification Numbers

Observation	During our visit, we noted that all contracts of the ministry are not given identification numbers.
Recommendation	We recommend that a proper contracts indexing system to serially arrange all contracts shall be implemented to avoid duplication, and to facilitate follow-up and review processes for better control procedures and safeguarding public assets.
Management's Response	The Ministry confirmed correctness of this note and this matter was rectified during 2008. Our commission follow up confirmed the Ministry's statements.
Risk Level	Low
Status	Old
Follow up	<p>From the sample selected, we noted that the observation is still valid for example:</p> <p>Contracts Name: Contract for Consultancy for Iraqi embassy in Paris</p> <p>Date of Signature: 23 April 2008</p>

3. Approving of the payroll salaries

Observation	During our visit, we noted that payroll sheets are prepared by the payroll accountant and compared with budget by the internal audit department. Payroll sheets are not being approved by the director general of finance department.
Recommendation	We recommend segregating executive duties and control duties, since the internal audit department is considered a monitoring body and it is not appropriate for controlling body to approve the payroll sheets which is considered as executive duty. The finance department shall be considered as the department responsible for disbursements for better control procedures.
Management's Response	The Ministry advised that the head of administrative and financial section does sign the payroll summary sheet but not the monthly lists, which procedure was confirmed by our commission.
Risk Level	High
Status	Old
Follow up	From the sample selected, none of the above observations came to our attention in 2008.

4. Salaries Committees

Observation	We noted that members of the Committee responsible for receiving salaries from the Finance Department and not being periodically rotated as required by the budget execution instructions issued by ministry of finance which requires rotating members of the committees every six months.
Recommendation	We recommend complying with the budget instructions issued by the Ministry of Finance as to the requirement of rotating committees' members every six months for better control procedure and adherence to budget instructions.
Management's Response	The Ministry replied that members of the committee responsible for receiving salaries from the Finance Department are periodically rotated in accordance with prevailing instructions. The follow up of our commission confirmed the correctness of the Ministry's reply based on the authorization for salary withdrawal orders on 5/2/2007 and a subsequent order on 17/6/2007.
Risk Level	Medium
Status	Old
Follow up	We noted that the salaries in 2008 were being transferred to the employees' accounts held at the Rashid Bank – Ministry of Foreign Affairs Branch.

Observations raised for the year ended 31 December 2008

Common Observation -Sulaimaniyah

1. Fixed Asset Register

Observation	We noted that the fixed asset register held by the Ministry does not contain identifying numbers that enables the ministry to follow up on each item in the register and to identify accountability. In addition identifying numbers facilitate the existence of fixed assets.
Recommendation	We recommend that the Ministry identifies each asset by number. We also recommend conducting a regular fixed asset count.
Risk Level	Medium
Status	New

2. Organization Chart

Observation	The Ministries do not have an Organization Chart or Job Description.
Recommendation	<p>We recommend that the Ministry to develops a formally approved organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

3. Work Schedule Control

Observation	During our visit to the Ministry, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

Follow up on observations raised by the previous auditor

Common Observation -Sulaimaniyah

1. Delegation and Authority Manual

Observation	The ministries and directorates do not have an authorized signatory matrix, signature format and a formal authority matrix to specify the role of each of the ministries' authorized employees and their approved limits to authorize and execute banking transactions and payments from the ministries banks accounts and the authority limits of each function at the ministries.
Recommendation	<p>We recommend developing 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:</p> <ul style="list-style-type: none"> · Initiate · Review · Approve <p>The authorization matrix of the Ministries and Directorates should be reviewed and approved by the appropriate level of the Government of Iraq.</p>
Management's Response	
Risk Level	High
Status	Old
Follow up	Through our follow up we noticed a list of powers and signatures.

2. Authorized Signatory Matrix

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

3. Segregation of Duties over Payroll Process

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

4. Cash Payment of Salaries

Observation	During our review of the Directorates payroll process, we noted that most Directorates pay salaries in cash. Cash payment of salaries directly or through the salaries disbursements committee increase the risk of loss while processing salaries disbursements.
Recommendation	We recommend the Directorates to pay salaries through bank transfers to each employee's personal bank account, in order to avoid risks associated with the cash payment process.
Management's Response	
Risk Level	High
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

5. Supporting Documents Attached to Payment Vouchers

Observation	During our visit of the Directorates, we noted that the supporting documents attached to the payment vouchers were not cancelled with a 'PAID' stamp or otherwise defaced after the payment has been made, which increases the risk of duplicate payments of the same invoice.
Recommendation	All payment vouchers and their supporting documents should be stamped as "PAID" immediately after payment to prevent duplicate payments being made for the same invoice.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

6. Contract Standard Form

Observation	During our visits of the Directorates, we noted that there is no standard contract form for procurement of goods and services. Each Ministry prepares the terms and provisions of procurements and service contracts internally including financial and legal terms and conditions.
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.
Management's Response	
Risk Level	Low
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

7. Control and Administrative Procedures

Observation	<p>During our visit of Kurdistan Region/ Sulaimaniyah, we noted that there is no comprehensive control and administrative procedures manual over operations. For each Ministry management instructions on such procedures are documented in the form of various internal memorandums.</p> <p>In the absence of a consolidated procedures manual, the risk exists that:</p> <ul style="list-style-type: none"> · Operational procedures and controls over segregation of duties, authorizations and approvals, recording, safeguarding and reconciliation are not being effectively recognized by employees. · Accounting policies and accounting procedures are not properly followed. · Compliance with regulatory rules is not being effectively communicated to employees
Recommendation	<p>We recommend the Ministries in Kurdistan Region to prepare and maintain written standard internal controls policies and procedures covering all the ministries financial and operating activities. In addition, detailed monitoring procedures should be carried out by management to ensure effective and consistent implementation of the control and administrative procedures manual.</p>
Management's Response	
Risk Level	Medium
Status	Old
Follow up	<p>We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.</p>

8. Accounting and Management Information Systems

Observation	During our review of Kurdistan Region/Sulaimaniyah, we noted that the implemented accounting system takes the form of manual recording and reporting process. However, the ministries size and activities have expanded significantly over last few years. The current accounting systems, including management information system as well as internal control procedures, are no longer suitable for the current size, structure of the ministries.
Recommendation	<p>We recommend all ministries in Kurdistan Region to undertake a review of the accounting processes and systems of internal control, both at the Accounting Department and the Administrative Departments, with a view to improving efficiency of operations and effectiveness of controls. This should include, as a minimum:</p> <ul style="list-style-type: none"> · Review of the Accounting Department's documentation and back up filing procedures. · Review of the operating departments' systems of internal control. · Establishment of a mechanism for follows up of budget preparation and compliance with such budget.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

9. Expenses Paid Through Checks

Observation	During our review of the Sulaimaniyah Ministries' payment process, we noted that copies of the issued checks are not maintained by the accounting department, nor a copy of the receiving payee identity document (ID) attached. Obtaining a copy of the check, copy of the payee ID and having the signature of the receiving payee on the copy of the check serves as the most powerful evidence of receiving the check and accordingly avoiding possible risks of fraud, errors and litigations.
Recommendation	We recommend the accounting department at each ministry to obtain a copy of the check for each payment transaction processed through check s, a copy of the payee ID, and the signature of the receiver on the check copy. These documents should be filed and documented using a special code, or by means of a filing system within the accounting department, which ensures rapid recovery of the required data when required. We also recommend stamping all check s by "first beneficiary only" for better control procedures.
Management's Response	
Risk Level	High
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

10. Operating Budget

Observation	The operating budget during year 2007 and related to Kurdistan/Sulaimaniyah amounted to IQD 1,847,523,781,100 which represents 68% of the total budget allocated to Kurdistan/ Sulaimaniyah, which is considered very high.
Recommendation	We recommend that a comprehensive study of Sulaimaniyah requirements of capital and operational expenditures shall be conducted based on continuous development and rehabilitation needs.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008. Percentage of the budget of operating expenses during the 2008 rate of 64.5% of the total budget.

11. Reconciliation for Suppliers and Contractors Accounts

Observation	During our visit, we noted that the Directorates of Kurdistan/ Sulaimaniyah Region do not perform reconciliations for suppliers and contractors accounts. 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 and Directorates to obtain confirmations or statements of account from the suppliers and contractors and to perform reconciliations on a monthly basis. Such reconciliations should be documented and confirmed with suppliers and contractors to confirm due balances.
Management's Response	
Risk Level	Low
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

12. Pre-Printed Payment Vouchers

Observation	During our visit of Kurdistan/ Sulaimaniyah Directorates, we noted that payment vouchers are not serially pre-numbered. The used form is photocopied and then manually prepared by the accountant for each payment transaction. Payment vouchers should be pre-numbered, pre-printed and in multiple copies. The copy of payment voucher should be attached to the journal voucher and the second copy to be kept in the book of payment vouchers.
Recommendation	We recommend that the Finance Department use prenumbered, pre-printed and a multiple copy payment voucher to properly control the disbursement process, and ensure completeness of recording of all disbursements and minimize the risk of intentional and unintentional errors.
Management's Response	
Risk Level	Low
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

Ministry of Finance – Sulaimaniyah

1. Contracts Numbering

Observation	We noted that all contracts have no verification numbers.
Recommendation	We recommend the need to develop a system for indexing contracts to all contracts are arranged in series in order to avoid a repetition of the contracts and Tschila for the follow-up and review in order to further control measures and control
Risk Level	Low
Status	New

2. Centralized Contract Files

Observation	Through our visit to the presidency of the University of Sulaimaniyah we noted that there is no central file to file the contracts entered into by the university, the contract files and documentation are distributed between the Directorate and the Directorate of Engineering Services.
Recommendation	We recommend the need to retain all documents relating to contracts or copies within a single file in order to facilitate follow-up action and more control and oversight procedures.
Risk Level	Medium
Status	New

3. Physical Count Committee

Observation	During the review process of the physical count, we noted that the Director of the Department and the inventory custodian are members of the Committee of the physical count committee, This may lead to a lack of independence in the performance
Recommendation	We recommend that the physical count committee be formed from members independent of the management of stock
Risk Level	Medium
Status	New

4. Performance Bonds

Observation	During our visit, and from the sample selected, we noted that the performance bond taken was less than 5% of the contract amount.
Recommendation	We recommend that complying with the provisions of the governmental contract procedures for 2008.
Risk Level	High
Status	New

5. Letter of Credits for Contracts

Observation	During our visit, we noted that the directorate does not ensure from the issuing bank about the validity of the LCs issued to suppliers and contractors.
Recommendation	We recommend ensuring that the LCs issued are valid.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Finance - Sulaimaniyah

1. Financing operations through US Dollars

Observation	During our visit, we noted that the Ministry of Finance\Sulaimaniyah is funding some of its related directorates in US Dollars for the purpose of settling contractual commitments. The funding is done through the purchase of dollar from the local exchange market. Purchasing currency at the local market exchange rate which is usually higher than auction rate at the Central bank of Iraq/Baghdad is resulting in preventable currency losses.
Recommendation	We recommend buying the currency from the Central Bank of Iraq at official price to avoid losses from currency exchange.
Management's Response	
Risk Level	High
Status	New
Follow up	Through our follow up on the subject had been noted during the treatment of the subject in 2008 with the addition of a new contract is the transfer of the dinar to the dollar price on the date of signing the contract.

2. Investment budget allocations

Observation	During our visit, we noted that the Ministry of Finance\Sulaimaniyah transferred an amount of IQD 170,230,741,192 on December 31, 2007 out of 2007 capital budget to the implementing commission of private services at Sulaimaniyah governorate and in accordance with the direction of the Supreme Council of Ministers of Kurdistan Region. The beneficiary committee started its operation during 2008.
Recommendation	We recommend the ministry to comply with the approved capital budget items in its related fiscal year.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	Through our follow up on the topic we noted that in 2008 had been no diversion of funds.

3. No Separate Bank Accounts for DFI Funds

Observation	During our visits, we noted that the Ministry of Finance\Sulaimaniyah does not maintain separate bank accounts for DFI funds. All funds received from Erbil Ministry of Finance and any local revenues are deposited in one bank account, such practice may result in difficulties in identifying the source of funds and preparing monthly reconciliations for both the total funds received from Erbil Ministry of Finance and other sources of revenue.
Recommendation	We recommend maintaining separate bank account for the DFI fund deposits from Erbil Ministry of Finance to facilitate the control process over those deposits and to reconcile with the records of Erbil Ministry of Finance.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	Through our follow up on the subject we noted that he was opening a bank account separate amounts of funding received from the Finance Ministry in Arbil .

4. Budget Variance Analysis

Observation	During our visit, we noted that the Ministry of Finance\Sulaimaniyah does not prepare regular analysis reports for variances between actual and budgeted expenses. Also, we noted that the related directorates do not prepare periodic reconciliations between the received funds and the underlying fund statement of account obtained from Ministry of Finance\ Sulaimaniyah.
Recommendation	We recommend all ministries and directorates in the region to prepare monthly budget analysis reports to properly control and manage received fund and budget resources. Major variances should be properly justified, documented and approved by key personnel. We further recommend all ministries and directorates to prepare periodic reconciliations between the received funds and the Ministry of Finance\Sulaimaniyah statements of account for better control procedures.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

5. Formal Reconciliation with Ministry of Finance

Observation	During our review we noted that the Ministry of Finance\ Sulaimaniyah does not prepare formal reconciliations with Erbil Ministry of Finance. Currently, reconciliations take the form of listing total funds received from Erbil Ministry of Finance on an excel sheet files without reconciling the recorded amounts with the records of ministry of finance in Kurdistan. Absence of such reconciliations may result in misstatements and mismatching of funds received due to time differences in transferring and receiving funds between the ministries of finance in Erbil and Sulaimaniyah. In the absence of monthly reconciliations for funds received from Erbil Ministry of Finance, errors may not be detected and corrected on a timely basis.
Recommendation	<p>We recommend that the Ministry of Finance prepares monthly reconciliations for funds received between:</p> <ul style="list-style-type: none"> · The Ministry of Finance and the receiving Ministries and directorates in Sulaimaniyah. · Both Ministries of Finance in Sulaimaniyah and Erbil. These reconciliations should be independently reviewed and examined by senior levels in the Ministry for additional control procedures.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

Ministry of Finance- Sulaimaniyah

6. Bank Overdrawn Account

Observation	<p>During our visit to Ministry of Finance\ Sulaimaniyah, we noted that the Ministries' bank account was overdrawn.</p> <p>Ministry should allocate and use budgeted resources in accordance with the annual budget; any increase in actual expenses in comparison with the budget will result in deficit and will be on the account of the next year's allocated resources. The Ministry of Finance explained that the increase in actual expenses over the budgeted expenses was mainly due to the fact that budget allocations were transferred after the related month allocations, for example:</p> <p>Transfer order from the ministry of finance in Erbil of IQD 30,000,000,000 to Sulaimaniyah Ministry of Finance dated January, 24 2008 for financing investment expenses for the for the year of 2007.</p> <p>Transfer order from the ministry of finance in Erbil of 43,122,470,000 IQD to Sulaimaniyah Ministry of Finance dated 19 February 2008 for financing part of the operating expenses for the month of December 2007.</p>
Recommendation	<p>We recommend that any excess over budget should be approved by the Minister and the reasons for excess should be properly documented and explained. In addition, budget allocations should be transferred evenly through out the year and specially for financing the operating expenses in order to ensure the continuous implementation of the budget by the ministry within the limits and rules.</p>
Management's Response	
Risk Level	Medium
Status	Old
Follow up	<p>We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.</p>

Observations raised for the year ended 31 December 2008

Ministry of Transportation – Sulaimaniyah

1. Assets register

Observation	We noted that the directorate does not maintain a register of the fixed assets of the ministry. The absence of such a register and its constant update of additions and disposals creates difficulties in following up on the movement of fixed assets.
Recommendation	We recommend the directorate to maintain a fixed asset register that includes a tag number, purchase date, description, cost, depreciation and book value. We also recommend the performance of fixed assets counts and the reconciliation of the results to the ledger on a periodic basis to prevent the miss use of assets.
Risk Level	High
Status	New

2. Asset Count

Observation	We noted that the stock and fixed assets committees include personnel that have custody of the stock and assets.
Recommendation	We recommend that stock and fixed assets committee include independent members of custody of stock or assets.
Risk Level	Medium
Status	New

3. Computer system

Observation	During our visit to the directorate we noted that the payroll system is not protected by a password.
Recommendation	We recommend the use of passwords to access the payroll system to prevent unauthorized personnel to access the system.
Risk Level	Medium
Status	New

4. Disbursement of Salaries

Observation	During our review of salaries disbursement process, we noted that some employees delegate other colleagues to collect their salaries on their behalf, without any authorization or supporting documents available at the Ministry to ensure that the representatives are authorized to collect payments on behalf. We also noted in certain instances where the employees did not sign on the payroll sheet as an evidence of receipt, this was noted in the payroll sheet for the month of October 2008.
Recommendation	We recommend recipient to be formally authorized to receive the salary on behalf of the employee. We also recommend obtaining the signature of employee on the payroll sheet after receiving the cash, and we also recommend that the Ministry implements payment of salaries through direct bank transfer to the employees' accounts for better control procedures over payments.
Risk Level	Medium
Status	New

5. Announcement of Tenders

Observation	During our visit to the directorate, we noted that the contract of repairing and paving the street Zalh – Naw – Horin length 1809 km amounting 5,190,039,000 Iraqi dinar was published in only one local newspaper in contrast to previous instructions which states that such publications must be published in three newspapers.
Recommendation	We recommend that the directorate publishes the public tenders in at least three local newspapers as required in the contracts' instructions for further control measures and control over the contracting process.
Risk Level	High
Status	New

Follow up on observations raised by the previous auditor Ministry of Transportation – Sulaimaniyah

1. Tenders Opening and Analyzing Committees

Observation	We noted that the members of the Tender Opening and Analyzing Committees not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committee members every six months. Also the committee minutes are not signed by all members.
Recommendation	We recommend complying with the budget instructions issued by the MOF which require rotating the Committee members every six months, and signing all committees' minutes by all members for better control procedures.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted that Committee members, opening presentations, the Commission proposal to change the assignment is not all its members for the year 2008 as noted in the survival of members of the Committee for more than a year.

2. Contracts Identification Numbers

Observation	During our visit, we noted that all contracts of the ministry are not given identification numbers.
Recommendation	We recommend the ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.
Management's Response	
Risk Level	Low
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

3. Suspended Projects

Observation	During our visit to the Roads Directorate/Sulaimaniyah we noted that the contract related to the construction of a bridge for an amount of IQD 208,600,000 which was performed by a local company is suspended due to problems in the execution process. No decision was taken about This contract up to our review date in March 2008.
Recommendation	We recommend that the necessary decisions regarding this contract should be taken in order to solve the execution problems.
Management's Response	
Risk Level	High
Status	Old
Follow up	We have not been able to follow-up note, as the former auditor did not specify the subject of the contract did not refer to the name of the company, according to officials of the Directorate that there is no contract in this amount..

4. Tender Procedures

Observation	We noted that in some cases no public tender procedures were used for contracting with construction contractors. Instead, direct awarding was used to execute contract with contractors.
Recommendation	We recommend the ministry to obtain public tenders instead of direct awarding to increase the chance of obtaining more competitive bids with high quality construction specifications for additional accuracy and control procedures.
Management's Response	
Risk Level	High
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

General Directorate of Municipalities - Sulaimaniyah

1. Performance Bond

Observation	Through our visit to the presidency of municipality of Sulaimaniyah, and through our review of the basic construction contract appendix of the city of Sulaimaniyah and the introduction on GIS system amounting to 4,400,000 U.S. Dollars under Master Plan program, we noted that the performance bond presented by the contractor represents a real estate with no estimation of value.
Recommendation	We recommend complying with the provisions of governmental contracts procedures.
Risk Level	High
Status	New

2. Disbursements of Salaries

Observation	During our visit to the presidency of municipality of Sulaimaniyah, we noted in the committees of salaries almost a permanent presence of member for 3 of 4 committees in 2008. With regards to salaries, we have noted that some staff authorize other staff to receive their salaries on their behalf, without a mandate or any supporting document available to the directorate to ensure that the representative is authorized to collect the other employee's salary on his behalf. We identified this weakness in the list of salaries for the month of March 2008.
Recommendation	We recommend changing the committees of salaries, we also recommend that the recipient be formally authorized to receive the salary on behalf of the other employee. We also recommend the need for the employee to sign the payroll after the receipt of salary for more control procedures.
Risk Level	High
Status	New

3. Tenders Opening and Analyzing Committees

Observation	During our visit to the Municipality of Sulaimaniyah, we noted that during the first half of 2008 there was only one committee that opens the bids and processes of the study and analysis of the offers. The absence of segregation between functions of each committee may have an impact on the contractual process.
Recommendation	We recommend the implementation of the budget instructions issued by the Ministry of Finance, which requires the segregation of the functions of the opening and analyzing committee. In addition to the change of their members every six months for more control procedures and in line with the budget instructions.
Risk Level	High
Status	New

4. Payroll System

Observation	During our visit to the directorate we noted that the payroll system is not protected by a password.
Recommendation	We recommend the use of passwords to access the payroll system to prevent unauthorized personnel from accessing the system.
Risk Level	Low
Status	New

5. Contractual Agreement

Observation	Through our visit to the presidency of the municipality of Sulaimaniyah, and our review of the contract to build a building for the presidency of the municipality amounting to 17,788,772,250 Iraqi dinar, we noted that the contract was granted by direct tendering and not through competitive bidding process. This contravenes the with the instructions issued by the Supreme Committee for contracts.
Recommendation	We recommend complying with the instructions of the Supreme Committee for contacts and obtaining competitive bids for all contracts through a formal bidding process.
Risk Level	High
Status	New

6. Performance Bond

Observation	Through our visit to the presidency of municipality of Sulaimaniyah, and our review of the contract to build a building for presidency of the municipality amounting to 17,788,772,250 Iraqi dinar with Jel Jashma Company, we noticed that the guarantee submitted by the contractor is 5% less than the amount of the contract.
Recommendation	We recommend complying with the provisions of governmental contracts procedures.
Risk Level	High
Status	New

Follow up on observations raised by the previous auditor General Directorate of Municipalities - Sulaimaniyah

1. Contracts Identification Numbers

Observation	We noted that all contracts of the ministry are not given identification numbers.
Recommendation	We recommend the ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.
Management's Response	
Risk Level	Low
Status	New
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

2. Tender Announcements

Observation	During our visit to the General Directorate of Municipalities/ Sulaimaniyah, we noted that the contract related to building a wall at Castle Dizah for an amount of IQD 388,512,000 was announced at the Directorate headquarters only. The announcement of the public tenders in several newspapers helps the Directorate to achieve the objectives of public tenders by increasing the publicity of the tender and increasing the chance of obtaining more competitive bids.
Recommendation	We recommend the Directorate to announce the public tenders at least in three newspapers, as required by contracting instructions and for better control procedures over contracting process.
Management's Response	
Risk Level	High
Status	New
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

3. Sub-Ledger Accounts

Observation	We noted that Municipalities Directorate in Sulaimaniyah does not maintain subledger 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 maintaining accounting records include sub-ledger accounts of each project so that the Directorate can control the cost of each project alone. The sub-ledger should link to general ledger through proof the monthly balance for each project for better control procedures over projects in progress.
Management's Response	
Risk Level	Low
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

4. Bank Reconciliations

Observation	We noted that the bank reconciliation as at 31 December 2007 were not performed properly at the Municipalities Directorate in Sulaimaniyah, the bank reconciliations included arithmetical errors. In addition, we noted that reconciling items were not properly controlled and followed up; also we noted that the Finance Department does not prepare a detailed list of outstanding check s not withdrawn from the Ministry bank account..
Recommendation	We recommend preparing bank reconciliations properly, which should be followed up and monitored by an appropriate level in the Ministry. In addition, all reconciling items should be properly controlled. Also we recommend following up and update the information of detailed list for all reconciling items to properly reconcile and monitor bank accounts.
Management's Response	
Risk Level	High
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

5. Tender Announcements

Observation	During our visit, we noted that public tenders at the Municipalities Directorate in Sulaimaniyah are announced in one local newspaper only, and are not announced in several local news papers; in addition, tenders directed to foreign companies are not announced in international newspapers or through internet, as the only media channel used is through the one local newspaper. 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.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

Ministry of Electricity- Sulaimaniyah

1. Contractual Agreement

Observation	During our visit to the General Directorate of Electricity of Sulaimaniyah province, and our review of the contract for renewing the electricity lines of chamchamal power amounting to 1,019,829,910 Irqi dinar, we noted that the directorate has requested the ministry of finance to allocate the amount of the project after signing the contract with the contractor which means entering the obligations and commitments before ensuring the availability of funds to finance the project. The duration of the first and second announcement was less than 15 days which is the minimum duration in accordance with the instructions of government contracts.
Recommendation	We recommend complying with the provisions of governmental contacts procedures.
Risk Level	High
Status	New

2. Disbursement of Salaries

Observation	During our review of salaries disbursement process, we noted that some employees delegate other colleagues to collect their salaries on their behalf, without any authorization or supporting documents available at the Ministry to ensure that the representatives are authorized to collect payments on behalf. We also noted in certain instances where the employees did not sign on the payroll sheet as an evidence of receipt, this was noted in the payroll sheet for the months of October and December 2008.
Recommendation	We recommend recipient to be formally authorized to receive the salary on behalf of the employee. We also recommend obtaining the signature of employee on the payroll sheet after receiving the cash, and we also recommend that the Ministry implements payment of salaries through direct bank transfer to the employees' accounts for better control procedures over payments.
Risk Level	Medium
Status	New

3. Physical count committee

Observation	During the review process of the physical count, we noted that the Director of the Department and the inventory custodian are members of the Committee of the physical count committee, This may lead to a lack of independence in the performance.
Recommendation	We recommend that the physical count committee be formed from members independent of the management of stock.
Risk Level	Medium
Status	New

4. Excess over the budget

Observation	During our visit to the Directorate of the transfer of energy that relates to the General Directorate of Electricity of Sulaimaniyah province, we noted that the directorate signed a contract on 12/8/2008 to link the plant that produces 750 watts in Chamchamal with Zouzk company amounting to 111,873,477,300 Iraqi dinar, while the amount allocated and approved by the Ministry of planning, according to the investment plan of the Directorate, is 100,000,000,000 Iraqi dinar. The Directorate signed the contract without obtaining the approval from the Ministry of Finance for the additional amount.
Recommendation	We recommend not exceeding the existing budget allocations,. In the case of the need to bypass the budgeted amount the approval from the concerned authorities must be obtained.
Risk Level	High
Status	New

5. Performance bonds

Observation	During our visit to the Directorate of the transfer of the electric and during our review of the contract of preparing the raw materials, of the first stage of the plants assigned to the Blan Company amounting to 4,665,302,400 dinars we noted that the letter of guarantee to ensure that good performance is less than 5% of the amount of the contract.
Recommendation	We recommend complying with the provision of governmental contracts procedures.
Risk Level	High
Status	New

6. Extension Period

Observation	During our visit to the Directorate of the transfer of energy and during our review of the contract and inspection of 5 mobile stations assigned to Bowl Company amounting to U.S. \$ 7,053,884 we noticed that the contractor's request to extend the term of the contract was on the 2/4/2009, while the expiration date of the contract was 12/3/2009 which means after more than 40 days of the end of the contractual term.
Recommendation	We recommend ensuring that the suppliers abide by the instructions set in the contract and follow up for contraventions of the terms of this contract.
Risk Level	Medium
Status	New

7. Delay in delivering performance bonds

Observation	During our visit to the Directorate of the transfer of energy and during our review of the contract for the preparation of the new secondary processing mobile plant with power 132/11.5 KV, 25MVA for Chamchamal/ Sulaimaniyah assignee Pauwels International company amounting to 2,175,776 U.S. dollars, signed on 13 November 2008. We noted that the project's implementation did not start due delays from the supplier in providing the letter of guarantee of good performance, in addition the terms of the contract require the existence of the letter of guarantee of good performance in maximum 60 days from the date of signing the contract.
Recommendation	We recommend complying with the provisions of governmental contracts procedures.
Risk Level	High
Status	New

Follow up on observations raised by the previous auditor Ministry of Electricity- Sulaimaniyah

1. Contracts Awarding Authority

Observation	During our visit to the Directorates in Kurdistan / Sulaimaniyah, we noted that some contracts were awarded from Sulaimaniyah directorate and other contracts from Ministry's Headquarters in Erbil without indicating a clear authority matrix.
Recommendation	We recommend the ministry to define and document a clear authority matrix of each party in the contracting process for better control procedures.
Management's Response	
Risk Level	High
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

2. Tender Opening Committees and Analyzing Committees

Observation	We noted that the members of the Tender Opening and Analyzing Committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committee members every six months. Also the committee minutes are not signed by all members.
Recommendation	We recommend complying with the budget instructions issued by the MOF which require rotating the Committee members every six months, and signing all committees' minutes by all members for better control procedures.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

3. Performance Bond

Observation	During our visit to the general directorate of electricity, and during our audit of the contract related to the directorate of electrical power transfer (Electricity Power Transmissions Erection Project for an amount U.S. \$49,303,276 dollars), we noted that the submitted performance bond was less than 5%.
Recommendation	We recommend complying with the local procurement instructions and to ensure obtaining the performance bond amount of 5% of the contract value, either in the form of bank guarantee or certified check for better control procedures and to preserve the rights of the Directorate.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008. We have also noted that the date of the last letter of guarantee was in force until 3 \ 3 \ 2009 has been the renewal of the letter of guarantee after this date.

4. Awarding contracts to local companies

Observation	During our visit to the Directorates, we noted that a number of import contracts were awarded to unspecialized local companies, which processed the outdoor construction of the General Directorate of Electricity.
Recommendation	We recommend that contracts resources shall be evaluated prior to contracting. We also recommend contracting with the direct suppliers directly rather than through intermediaries for better control procedures.
Management's Response	
Risk Level	High
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

5. Compliance with Authorization limits

Observation	During the visit to the General Directorate of Electricity/Sulaimaniyah we noted that the Ministry Headquarters\Erbil awarded the electricity towers supplying contract amounted to IQD 4,799,025,000 to a local company. Considering that the amount of the contract falls within the Council of Ministers\Kurdistan Region authority.
Recommendation	We recommend the Ministry to comply with the approved authority limits of the Directorate and to obtain the necessary approvals and documentation when exceeding these limits in order to maintain additional control and to implement budget instructions.
Management's Response	
Risk Level	High
Status	Old
Follow up	Approval has been taken after the signing of the contract through 2008.

Observations raised for the year ended 31 December 2008

Ministry of Higher Education – Sulaimaniyah University

1. Salaries

Observation	We have noted in some cases, some staff do not sign a list of salaries to prove receipt of salary at the time of receipt, but will be signed at a later time. It has appeared to us that in the lists of the month of June 2008.
Recommendation	We recommend obtaining the signature of the employee on the payroll after the receipt of the employee's salary as a control measure.
Risk Level	Medium
Status	New

2. Performance Bond

Observation	During our visit to the University of Sulaimaniyah and the review of a construction contract to build the Medical Hall in the University of Sulaimaniyah, amounting to 18,999,853 U.S. dollars. We noticed that the contract was signed in U.S. dollars and the currency of the letter of guarantee has been calculated in Iraqi dinar and the exchange rate of the dollar, according to central bank bulletin that day was not attached.
Recommendation	We recommend appending to the exchange rate at the conversion date as a further control measures and supervision.
Risk Level	Low
Status	New

3. Centralized Contract Files

Observation	Through our visit to the presidency of the University of Sulaimaniyah we noted that there is no central file to file the contracts entered into by the university, the contract files and documentation are distributed between the Directorate and the Directorate of Engineering Services.
Recommendation	We recommend retaining all documents relating to contracts or copies within a single file in order to facilitate follow-up action and more control and oversight procedures.
Risk Level	Medium
Status	New

4. Payroll System

Observation	During our visit to the Directorate we noted that the system in place for the calculation of salaries, is not password protected.
Recommendation	We recommend using passwords to access the payroll system to prevent unauthorized personnel from accessing the system.
Risk Level	Low
Status	New

5. Physical Count Committee

Observation	During the review process of the physical count, we noted that the Director of the Department and the inventory custodian are members of the Committee of the physical count committee, This may lead to a lack of independence in the performance.
Recommendation	We recommend that the physical count committee be formed from members independent of the management of stock.
Risk Level	Medium
Status	New

6. Accounting Records

Observation	By reviewing a sample of the accounting records we noted that the financial records are not stamped and nor signed by the preparer nor by the internal Audit Department, for example, the daily record of the current budget and the daily record of the budget plan.
Recommendation	We recommend approving the payroll and advances record by the head of finance department and the internal audit as a control procedure.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Higher Education – Sulaimaniyah University

1. Tenders Opening and Analyzing Committees

Observation	During our visit to Sulaimaniyah University, we noted that the members of the Tender Opening and Analyzing Committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committee members every six months.
Recommendation	We recommend complying with the budget instructions issued by the MOF which require rotating the Committee members every six months for better control procedures and adherence to budget instructions.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

2. Contracts Identification Numbers

Observation	We noted that all contracts of the ministry are not given identification numbers.
Recommendation	We recommend the ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.
Management's Response	
Risk Level	Low
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

3. Performance Bond

Observation	During our visit to Sulaimaniyah University, we noted that the university contracted with a Turkish company and local company for designing and constructing a new university campus for an amount of U.S. \$ 258,946,526. The contract terms did not include the performance bond of 5% of contract value clause, while the terms provided the payment of one million dollars annually and considering the amount as performance bond, however this term was only utilized during the first contractual year.
Recommendation	We recommend that application of contracts' terms should be followed up in addition to periodic evaluation of the contractor's compliance with the contractual terms. We also recommend compliance with Supreme Contracting Committee for better control procedures and safeguarding of university's rights.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008. the work on hold is due to the supplier's request for additional fees.

4. Tender Procedures

Observation	We noted that in some cases no public tender procedures were used for contracting with construction contractors. Instead, direct awarding was used to execute contract with contractors.
Recommendation	We recommend the ministry to obtain public tenders instead of direct awarding to increase the chance of obtaining more competitive bids with high quality construction specifications for additional accuracy and control procedures.
Management's Response	
Risk Level	High
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008. The contract to build a building of the Faculty of Veterinary Medicine, University of Sulaimaniya, the amount of U.S. \$ 18,999,853 contract to build 3 "Elevator to the Faculty of Dentistry and the Faculty of Law at the Faculty of 182,813,438 dinars.

Observations raised for the year ended 31 December 2008

Common Observations - Erbil

1. Fixed Asset Register

Observation	We noted that the fixed asset register held by the Ministry does not contain identifying numbers that enables the ministry to follow up on each item in the register and to identify accountability. In addition identifying numbers facilitate the existence of fixed assets.
Recommendation	We recommend that the Ministry identifies each asset by number. We also recommend conducting a regular fixed asset count.
Risk Level	Medium
Status	New

2. Contract Department

Observation	During our visit to Erbil, we noted that the ministries do not have contracts department. The contracting procedures are distributed on more than one department, this is not in compliance with the provisions of governmental contract procedures.
Recommendation	We recommend establishing a special department for contracts administration and follow up.
Risk Level	High
Status	New

3. Organization Chart

Observation	The Ministries do not have an Organization Chart or Job Description.
Recommendation	<p>We recommend that the Ministry to develops a formally approved organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum:</p> <ul style="list-style-type: none"> - Hierarchy of the Ministry. - Executive responsibility, immediate assistants and approval authorities. - Operational responsibilities of employees, and specific duties to be performed. - Required administrative responsibilities related to the job performance. - Any other duties that the minister deems necessary to be performed at any given circumstance. - Type of reports that must be issued and the timetable for preparing and issuing these reports.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Common Observations - Erbil

1. Contract Supporting Documents

Observation	During our visit to Kurdistan Region\Erbil, we noted that the ministries do not keep copies of files of contracts for its related directorates, as the files on contracts are only kept at the related directorates.
Recommendation	We recommend that all documents related to each contract shall be centrally filed, to facilitate review and for better control procedures.
Management's Response	
Risk Level	Medium
Status	New
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

2. Accounting and Management Information Systems

Observation	During our review of Kurdistan Region /Erbil, we noted that the implemented accounting system takes the form of manual recording and reporting process. However, the ministries size and activities have expanded significantly over last few years. 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	<p>We recommend all ministries in Kurdistan Region to undertake a review of the accounting processes and systems of internal control, both at the Accounting Department and the Administrative Departments, with a view to improve efficiency of operations and effectiveness of controls. This should include, as a minimum:</p> <ul style="list-style-type: none"> · Review of the Accounting Department's documentation and back up filing procedures. · Review of the operating departments' systems of internal control. · Establishment of a mechanism for follow up of budget preparation and compliance with such budget.
Management's Response	
Risk Level	Medium
Status	New
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

3. Operating Budget

Observation	We noted that the operating budget of Kurdistan region\ Erbil amounted to IQD 2.17 trillion, which represents 67% of the total budget granted to Kurdistan Region, which is considered very high.
Recommendation	We recommend that a comprehensive study of Erbil requirements of capital and operational expenditures shall be conducted based on continuous development and rehabilitation needs.
Management's Response	
Risk Level	Medium
Status	New
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008. Percentage of the budget of operating expenses during the 2008 rate of 64.5% of the total budget.

4. Reconciliation for Suppliers and Contractors Accounts

Observation	During our review we noted that Ministries in Kurdistan Region do not perform reconciliation for suppliers and contractors accounts. Reconciliations for suppliers and contractors accounts are essential to avoid the risk of unrecorded liabilities or double recording of invoices and accordingly double payment of those invoices.
Recommendation	We recommend the finance department at all Ministries to obtain confirmations or statements of account from suppliers to perform reconciliations for suppliers and contractors accounts on a monthly basis. Such reconciliations shall be documented and confirmed with suppliers and contractors to confirm due balances.
Management's Response	
Risk Level	Medium
Status	New
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

Ministry of Finance – Erbil

1. Checks overdue over than six months

Observation	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
Recommendation	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and that the accounting records be amended accordingly.
Risk Level	Medium
Status	New

2. Bank Reconciliations

Observation	During our visit, we noted that the accountant prepares the bank reconciliations, but neither the head of finance nor the internal audit approve them.
Recommendation	We recommend approving the bank reconciliations by the Head of Finance and the internal audit.
Risk Level	High
Status	New

3. Work Schedule Control

Observation	During our visit to the Ministry, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

4. Contracts Numbering

Observation	We noted that all contracts have no verification numbers.
Recommendation	We recommend the need to develop a system for indexing contracts to all contracts are arranged in series in order to avoid a repetition of the contracts and Tschila for the follow-up and review in order to further control measures and control
Risk Level	Low
Status	New

5. Performance Bond

Observation	During our visit to the ministry and during our audit of a sample of contracts we have noted that performance bond from the suppliers were less than 5%.
Recommendation	We recommend complying with the governmental contracts procedures for 2008.
Risk Level	High
Status	New

6. Accounts approval

Observation	The Ministry of Finance in Baghdad did not approve the consolidated accounts.
Recommendation	We recommend that the Ministry of Finance approve the consolidated accounts.
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Finance – Erbil

1. Budget Deviation Analysis

Observation	We noted that the Ministries of Finance in Kurdistan Region/ Erbil does not prepare regular analysis reports for variances between actual and budgeted expenses. Also, we noted that a periodic reconciliation between the received funds and the underlying fund statement of account obtained from Ministry of Finance/ Erbil is not prepared.
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.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

Observations raised for the year ended 31 December 2008

Ministry of Municipalities - Erbil

1. Protection of Payroll System

Observation	During our visit to the ministry we noted that the electronic payroll system is not password protected.
Recommendation	We recommend protecting the payroll system by passwords.
Risk Level	Low
Status	New

2. Performance Bond

Observation	<p>During our review of a sample of contracts we noted that the ministry did not comply with the 5% limit for performance bonds, example:</p> <ul style="list-style-type: none"> - Development contract for the main ANKAWA road where the required performance bond is 58,517,500 IQD, while the actual performance bond is 56,000,000 IQD. - Sewage contract BEBRAM second stage where the required performance bond is 693,181,000 IQD while the actual performance bond is 600,000,000 IQD.
Recommendation	We recommend complying with the provisions of the governmental contracts procedures.
Risk Level	High
Status	New

3. Contract Indexing

Observation	We noted that all directorate contracts are not given identification numbers. They are only given export and import numbers.
Recommendation	We recommend establishing a suitable indexing system for contracts where contracts can be placed in order, avoiding any recurrence of contracts to facilitate the follow up and review and to add control procedures.
Risk Level	Medium
Status	New

4. Physical count committee

Observation	During the review process of the physical count, we noted that the Director of the Department and the inventory custodian are members of the Committee of the physical count committee, This may lead to a lack of independence in the performance
Recommendation	We recommend that the physical count committee be formed from members independent of the management of stock
Risk Level	Medium
Status	New

5. Tender Opening Committees

Observation	We noted that the members of the Tender Opening and Evaluating Committees are not being changed for 2007 and 2008. In addition, we noted that there are common members between the bid opening committee and the other analysis committees.
Recommendation	We recommend that the Ministry complies with the budget instructions issued by the MOF which require segregation of duties and rotating the committee members every six months for better control procedures and adherence to budget instructions.
Risk Level	High
Status	New

6. Financial and Accounting Register

Observation	Through our review to a sample of the ministry financial and accounting register, we noted that the plan register for June 2008 was not stamped or signed by the preparer and the internal audit.
Recommendation	We recommend reviewing the monthly plan register and stamping it by the preparer and the internal audit.
Risk Level	Medium
Status	New

Ministry of Municipality-Erbil

7. Payroll Cash Payment

Observation	During our review of the process of payment of salaries in the Ministry we noted that the ministry pays the salaries in cash. The cash payment of salaries directly increasing the risk of loss of cash in the process of distribution.
Recommendation	We recommend the Ministry to pay staff salaries by bank transfer to personal account for each employee in order to avoid risks associated with the cash payments of salaries
Risk Level	Medium
Status	New

Follow up on observations raised by the previous auditor Ministry of Municipalities - Erbil

1. Soran Water Project Contract

Observation	During our review of the Soran Water Project contract for an amount of U.S. \$19,138,825 we noted it was awarded through direct invitation, and not by following the tendering procedures. This contradicts the instructions issued by the Supreme Contracting Committee, which requires the awarding contracts through public tender and not by direct invitation.
Recommendation	We recommend proper compliance with instructions issued by the Supreme Contracting Committee and obtaining public tenders for all contracts for better control procedures and adherence to the instructions of the Supreme Contracting Committee.
Management's Response	
Risk Level	Low
Status	Old
Follow up	During our review of a sample of contracts that the ministry shows us where the note is still there, the ministry signed contracts through direct advocacy has not been followed the procedures for obtaining bids by public advocacy.

2. Receiving Payroll

Observation	During our review of salaries disbursement process, we noted that some employees delegate other colleagues to collect their salaries on their behalf, without any authorization or supporting documents available at the Ministry to ensure that the representatives are authorized to collect payments on behalf. We also noted in certain instances where the employees did not sign on the payroll sheet as an evidence of receipt, this was noted in the payroll sheet for the month of February, 2007.
Recommendation	We recommend recipient to be formally authorized to receive the salary on behalf of the employee. We also recommend obtaining the signature of employee on the payroll sheet after receiving the cash, and we also recommend that the Ministry implements payment of salaries through direct bank transfer to the employees' accounts for better control procedures over payments.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	Through the sample selected from the payroll has not come to our attention any cases similar to the above observation in 2008.

Observations raised for the year ended 31 December 2008

Ministry of Electricity - Erbil

1. The amounts mentioned in the budget

Observation	<p>Through our review of a sample of contracts, we noted that the ministry has contracted with suppliers before obtaining the required financing for the projects. We found some contracts signed but work have not commenced yet due to lack of financing, Example:</p> <table><tr><td><u>Contract No.</u></td><td><u>Contract name</u></td><td><u>Amount IQD</u></td><td><u>Date signed</u></td></tr><tr><td>KRG-MOE/TS-04/2008</td><td>creation of lines and expansion of station ALRA</td><td>39,915,159,264</td><td>20 Aug 08</td></tr><tr><td>KRG-MOE/EDT-10/2008</td><td>project for creation of lines to Erbil Station</td><td>11,015,385,600</td><td>30 Dec 08</td></tr></table>	<u>Contract No.</u>	<u>Contract name</u>	<u>Amount IQD</u>	<u>Date signed</u>	KRG-MOE/TS-04/2008	creation of lines and expansion of station ALRA	39,915,159,264	20 Aug 08	KRG-MOE/EDT-10/2008	project for creation of lines to Erbil Station	11,015,385,600	30 Dec 08
<u>Contract No.</u>	<u>Contract name</u>	<u>Amount IQD</u>	<u>Date signed</u>										
KRG-MOE/TS-04/2008	creation of lines and expansion of station ALRA	39,915,159,264	20 Aug 08										
KRG-MOE/EDT-10/2008	project for creation of lines to Erbil Station	11,015,385,600	30 Dec 08										
Recommendation	We recommend not signing a contract should not be ascertained by the presence of the necessary allocations and the availability of adequate funding												
Risk Level	Medium												
Status	New												

2. Fixed Asset Register

Observation	We noted that the fixed asset register held by the Ministry does not contain identifying numbers that enables the ministry to follow up on each item in the register and to identify accountability. In addition identifying numbers facilitate the existence of fixed assets.
Recommendation	We recommend that the Ministry identifies each asset by number. We also recommend conducting a register fixed asset count.
Risk Level	Medium
Status	New

3. Contract Department

Observation	During our visit to Erbil, we noted that the ministries do not have contracts department. The contracting procedures are distributed on more than one department, this is not in compliance with the provisions of governmental contract procedures.
Recommendation	We recommend establishing a special department for contracts administration and follow up.
Risk Level	High
Status	New

4. Payroll Cash Payment

Observation	During our review of the process of payment of salaries in the Ministry we noted that the ministry pays the salaries cash. The cash payment of salaries directly increasing the risk of loss of cash in the process of distribution.
Recommendation	We recommend the Ministry to pay staff salaries by bank transfer to personal account for each employee in order to avoid risks associated with the cash payments of salaries
Risk Level	Medium
Status	New

5. Work Schedule Control

Observation	During our visit to the Ministry, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

Follow up on observations raised by the previous auditor Ministry of Electricity - Erbil

1. Contracts Awarding Authority

Observation	During our visit to the Directorates in Kurdistan/Erbil, we noted that some contracts were awarded from Sulaimaniyah directorate and other contracts from Ministry's Headquarters in Erbil without indicating a clear authority matrix.
Recommendation	We recommend the ministry to define and document a clear authority matrix of each party in the contracting process for better control procedures.
Management's Response	
Risk Level	High
Status	New
Follow up	During our review of a sample of contracts for the ministry shows us that the note is still in place because the contracts were signed for the province of Sulaimaniyah by the Ministry of Electricity / Erbil in 2008.

2. Segregation of Duties between Members of Tender Opening and Analyzing committees

Observation	We noted that a member of Tender Opening Committee is also a member in the Tender Analyzing Committee.
Recommendation	We recommend that the ministry shall comply with budget instructions issued by the Ministry of Finance, which require the segregation of duties between members of Tender Opening and Analyzing committees for better control procedures over the contracting process.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	We noted through our visit that the above mentioned observation was still valid for the year ended 31 December 2008.

3. Contract for the installation of central power stations

Observation	We noted during our review of contract No. 4 related to the installation of Central Power Stations for an amount of U.S.\$52,430,989 was awarded through direct invitation, and not by following the tendering procedures. This contradicts the instructions issued by the Supreme Contracting Committee, which requires awarding contracts through public tender and not by direct invitation.
Recommendation	We recommend proper compliance with instructions issued by the Supreme Contracting Committee and obtaining public tenders for all contracts for better control procedures and adherence to the instructions of the Supreme Contracting Committee.
Management's Response	
Risk Level	Low
Status	Old
Follow up	During our review of a sample of contracts for the ministry shows us that the observation is still the list was found that many of the contracting process in the ministry has been the invitation was not directly follow the procedures for obtaining bids by advertisement.

Observations raised for the year ended 31 December 2008

Ministry of Housing – Erbil

1. Payroll

Observation	During our visit to the ministry, we noted that the delivery salaries committee member were not changed regularly where we noted the existence of one member in this committee throughout 2008..
Recommendation	We recommend changing the delivery salaries committee regularly as a control procedures,
Risk Level	Medium
Status	New

2. Physical count committee

Observation	During the review process of the physical count, we noted that the Director of the Department and the inventory custodian are members of the Committee of the physical count committee, This may lead to a lack of independence in the performance
Recommendation	We recommend that the physical count committee be formed from members independent of the management of stock
Risk Level	Medium
Status	New

3. Contracts

Observation	During our visit to the Directorate of roads, bridges and reviewing the paving of Zar Karly road and Souran road contract amounting to U.SD 6,550,658 we noted that the commencement date was 15 August 2005 while the contract was signed by the ministry on April 16, 2006 after the commencement date. The contractor has requested the first extension of on 21 November 2006 while the project period ended on 15 15 November 2006 which contradicts the instructions of the implementation of government contracts. This extension was requested several times until the projects were finalized on 28 September 2008
Recommendation	We recommend complying with the governmental contract procedures for 2008.
Risk Level	Medium
Status	New

4. Performance Bond (PB)

Observation	During our visit to the Ministry of Housing in Erbil, we noted that the PB submitted by the contractors for some contracts were less than 5% for example the Construction Laboratory in Dhuk province and the construction contract of Construction Laboratory in Erbil.
Recommendation	We recommend complying with the governmental contract procedures for 2008 in terms abiding by the 5% as PB..
Risk Level	Medium
Status	New

5. Contracting Procedures

Observation	During our visit to the Ministry we noted the same contracts were granted by direct tendering and not through competitive bidding process, for example the Construction Laboratory contract of Dhuke amounting to 1,905,887,300 IQD and Construction Laboratory contract of Erbil amounting to 2,028,725,440 IQD.
Recommendation	We recommend complying with the instructions of the Higher Committee for contracts and obtaining competitive bids for all contracts through a formal bidding process.
Risk Level	High
Status	New

6. Accounting Records

Observation	During our visit to the Ministry and reviewing a sample of accounting records we noted that the payroll and allowances record is not stamped nor signed by the preparer or the internal audit department.
Recommendation	We recommend approving the payroll and advances record by the head of finance department and the internal audit as a control procedure.
Risk Level	High
Status	New

7. Tender Opening Committees

Observation	We noted that the members of the Tender Opening Committee in the road and bridges directorate are not being changed.
Recommendation	We recommend that the Ministry complies with the budget instructions issued by the MOF which require rotating the Committee members every six months for better control procedures and adherence to budget instructions.
Risk Level	High
Status	New

8. Payroll Cash Payment

Observation	During our review of the process of payment of salaries in the Ministry we noted that the ministry pays the salaries in cash. The cash payment of salaries directly increasing the risk of loss of cash in the process of distribution.
Recommendation	We recommend the Ministry to pay staff salaries by bank transfer to personal account for each employee in order to avoid risks associated with the cash payments of salaries
Risk Level	Medium
Status	New

9. Work Schedule Control

Observation	During our visit to the Ministry, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
Recommendation	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
Risk Level	Low
Status	New

Follow up on observations raised by the previous auditor Ministry of Housing – Erbil

1. Contract's identification numbers

Observation	We noted that all contracts of the ministry are not given identification numbers.
Recommendation	We recommend the ministry to develop a proper contracts indexing system that serially arranges all contracts to avoid duplication, and to facilitate follow-up and review processes for better control procedures and better safeguarding of public assets.
Management's Response	
Risk Level	Low
Status	Old
Follow up	During our visit of the Ministry shows us that the observation mentioned above still exist.

2. Contract Standard Form

Observation	During our review of the Ministry's construction contracts, we noted no standard contract form issued for procurement. The Ministry prepared a contract form which does not include all legal terms and conditions included in the unified contract form used by other governmental entities. For example: contract to provide the Ministry with Axial Scales amounted to IQD 136,080,000. The absence of standard and authorized contract's form result in errors and irregularities in the terms used, conditions, and the rights of both the ministry and the contractor.
Recommendation	We recommend using the unified procurement standard form for better control procedures and preserve the ministry's and contractor's rights.
Management's Response	
Risk Level	Low
Status	Old
Follow up	Through the follow-up observation showed us that the note is still there in the department of roads and bridges that are formed from the Ministry of Construction and Housing is not only for decades, but the processing of contracts for consulting and maintenance as well.

3. Salaries Receipts

Observation	We noted that some employees delegate other colleagues to collect their salaries on their behalf, without any authorization or supporting documents available at the Ministry to ensure that the representatives are authorized to collect payments on behalf. We also noted in certain instances where the employees did not sign on the payroll sheet as an evidence of receipt.
Recommendation	We recommend recipient to be formally authorized to receive the salary on behalf of the employee. We also recommend obtaining the signature of employee on the payroll sheet after receiving the cash, and we also recommend that the Ministry implements payment of salaries through direct bank transfer to the employees' accounts for better control procedures over payments.
Management's Response	
Risk Level	Medium
Status	Old
Follow up	Through the sample selected from the payroll shows us that the note was still on the list of where we are in the lists of the pay of the month of April 2008. Draws our attention but not the absence of the signatures of the staff received their salaries.

4. Documentation for Administration Approvals

Observation	During our review, we noted that some exceptions and administration approvals related to the projects are not documented. The Roads Directorate calculated a delay penalty for the maintenance contract of Zarkli Berezor Mezzeh Street based on 24 day of delay while the actual delay was 48 days. Verbal approvals have been obtained for this exception while no documentation has been performed.
Recommendation	We recommend documenting all administrative approvals on exceptions by the appropriate authorized managerial level for better control procedures.
Management's Response	
Risk Level	High
Status	Old
Follow up	Through the follow-up observation showed us that the project is still ongoing and as of the date of our report, the ministry did not recover the value of demurrage and the Ministry is currently working to recover the penalty from the supplier at the end of the project.