

# **Development Fund for Iraq**

## **MANAGEMENT LETTER** *SPENDING MINISTRIES*

**FOR THE PERIOD FROM  
JULY 1, 2005 TO DECEMBER 31, 2005**

July 10, 2006

**Private and confidential**

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

Dear Sirs

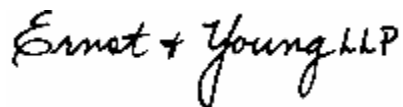
In accordance with our firm's normal practice, we enclose a memorandum of matters arising from our visits of the Iraqi ministries in connection with our audit of the statement of cash receipts and payments of the Development Fund for Iraq for the period from July 1, 2005 to December 31, 2005.

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

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

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

Yours faithfully  
Ernst & Young



**Development Fund for Iraq - Ministries  
Matters Arising During the Ministries Visits  
for the period from 1 July 2005 to 31 December 2005**

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## **Common Observations**

**Development Fund for Iraq - Ministries  
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**1 Financial and Internal Controls – Policies and Procedures**

**Observation**

During our visits of the spending Iraqi ministries (the ministries) we noted that there are no comprehensive financial and internal controls policies and procedures manuals. Some of the ministries have certain instructions on in the form of various internal memoranda.

**Recommendation**

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

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

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

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## **2 Organization Structure and Job Descriptions**

### **Observation**

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

### **Recommendation**

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

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

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### **3 Information Technology – Policies and Procedures**

#### **Observation**

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

The absence of such policies and procedures could lead to misalignment of IT developments compared to the ministries overall strategic plan. Furthermore, it could lead to short term solutions being adopted which could prove to be expensive and ineffective in the long run.

#### **Recommendation**

We recommend that the ministries formulate an IT plan that sets out how the IT resources will be utilized to accomplish the ministries aims and objectives. The IT Plan should at least include the following:

- IT Policies and Procedures
- Assessment of the current IT environment to determine whether current requirements and objectives are being met.
- Identification of both short-term and long-term objectives and the IT resources necessary to meet those objectives.
- Determination of whether short-term objectives are consistent with long-term objectives.
- Periodic review and update process to ensure that the plan addresses the changing needs of the Ministry.

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#### **4 Internal Audit Department**

##### **Observation**

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

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

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

##### **Recommendation**

We recommend the following:

1. Policies and procedures in accordance with the Institute of Internal Audit standards.
2. Developing formal internal audit charter.
3. A formal internal audit plan and work program should be drawn up and agreed upon by the ministry.
4. The ministry should develop clear organizational structure and procedures clarifying authority and responsibility to carry out its duties effectively.
5. The staff employed should be suitably trained and qualified with appropriate levels of experience.
6. No members of staff from the Internal Audit shall be serving on any management committee.
7. Sufficient financial and operational resources should be allocated to the internal audit department to gain maximum benefit from its operation.



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**5 Human Resources Department**

**Observation**

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

1. Some employees' documents were missing such as CV's and certificates.
2. Certain personnel records are not regularly updated or maintained adequately, accordingly, we were unable to trace paid salaries in the salary sheets to approved salary.
3. The staff's files do not include table of content.
4. Some employees' files were missing.
5. All records are kept manually.

**Recommendation**

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

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**6 Reconciliation with Ministry of Finance Records**

**Observation**

During our review we noted that most of the ministries did not prepare monthly reconciliation between the amounts paid by the Ministry of Finance and amounts received by each ministry, to reconcile the Ministry of Finance records with each ministry records.

The main purpose of such reconciliation is to confirm that all amounts received from the Ministry of Finance are recoded by the ministry.

**Recommendation**

We recommend that each ministry prepare reconciliations with the Ministry of Finance on a monthly basis to ensure proper recording of all transactions in each ministry books of account, any differences should be followed up on a timely basis. The reconciliation shall be properly prepared and approved by the appropriate levels at the ministry.

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**7 Authorized Signatory Matrix**

**Observation**

During our review we noted that ministries did not have signature matrix, since several managers in certain ministries, have the authority of signing the checks with no limits or ceiling for the check amount and taking into consideration the frequent rotation of managers between departments.

**Recommendation**

We recommend each ministry to set a signature matrix to specifies ceiling and limits for authorized personnel in each Ministry 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 ministry and according to the size of expenditures. In all cases, at least dual signatories should be required for each check.

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**8 Segregation of Duties over Payroll Process**

**Observation**

During our review of the ministries payroll process we noted that there was inadequate segregation of duties in the payroll system. The employee responsible for maintaining the payroll and preparing the payroll sheets is also responsible for uploading payroll sheet to the system. The accounting records are therefore more vulnerable to errors and fraud as the work of one employee is not being independently checked.

**Recommendation**

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

1. Payroll statements should be prepared by an accountant, reviewed by another independent accountant, reviewed and authorized by the Finance Manager.
2. The employee responsible for preparing the payroll statement should be independent of the employee responsible for uploading the statements to the payroll system.
3. A reconciliation between the payroll records and the accounting records should be prepared on a monthly basis

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**9 Cash Payment of Salaries**

**Observation**

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

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

**Recommendation**

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

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## **10 Manual Preparation of Payroll**

### **Observation**

During our review of the ministries payroll process we noted that ministries were preparing the payroll manually. This is a laborious and time consuming process. In addition,, manual processing of payroll increases the risk of human errors.

### **Recommendation**

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

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

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**11 Issued Checks**

**Observation**

During our review of the ministries payment process we noted that copies of the issued check are not maintained by the accounting department neither a copy of the payee identity card. Obtaining a copy of the check, copy of the payee ID and having the signature of the 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 that the accounting department at each ministry obtain a copy of the check for each payment transaction processed through checks, obtain a copy of the payee ID and obtain the signature of the payee on the copy of the check.

Also, all issued checks should be crossed for payment top the beneficiary only.

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**12 Internal Audit of Related Companies**

**Observation**

As per our review we noted that the ministries internal audit departments do not cover the operations of the companies and entities that are related to the ministries.

**Recommendation**

We recommend that ministries encourage their internal audit departments to visit their related company and to audit all their processes; in addition, the internal audit department shall perform spot checks on the operations of the related companies.



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**13 Supporting Documents Attached to Payment Vouchers**

**Observation**

During our review of the ministries payment process we noted that the supporting documents attached to the payment vouchers were not cancelled with a 'PAID' stamp or otherwise defaced after the payment has been made, which increases the risk of duplicate payments of the same invoice.

**Recommendation**

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

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**14 Reconciliation with Records of Related Companies**

**Observation**

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

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

**Recommendation**

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

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**15 Contract Standard Form**

**Observation**

During our visits of the ministries we noted that there is no standard contract form for procurement of goods and services; each ministry prepares the terms and provisions of procurements and service contracts internally including financial and legal terms and conditions.

**Recommendation**

We recommend that the ministries review the existing standard Contract's Form in consultation with an independent legal and financial experts. Also there should be a standard form of contract used in each ministry to cover the general terms.

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**16 Fixed Assets Identification Numbers**

**Observation**

We noted that the fixed asset register does not include individual asset identification numbers. Assigning an identification number to the individual asset would enable the ministries to trace each particular item to the fixed asset register and improve accountability. Furthermore, this will facilitate the physical verification of property, plant and equipment of the ministries.

**Recommendation**

We recommend that the ministries consider developing identification numbers to be attached to all items of property, plant and equipment and which shall be recorded in the fixed asset register.

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**17 Budget Preparation Manual**

**Observation**

During our review we noted that the budget departments of the ministries have standard forms for budget preparation, but did not have budget preparation manual. The manual would serve as guidance during the budget preparation process and provides basis for preparation of the operating and capital budgets. In addition, the budget preparation manual should be used as guidance for budget implementation and monitoring.

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

**Recommendation**

We recommend that the Ministry of Finance develop a budget preparation manual and held training sessions for the ministries budget departments' staff to get used to the methods, needs and objectives of annual governmental budgets.

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

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**Ministry of Oil**

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**1 Employees Records**

**Observation**

During our visit of the Ministry of Oil, we noticed that the Human Resource department at the ministry delayed sending the employees vacations or unpaid leave notifications to the accounting department, the accounting department prepares the monthly salaries sheet without deducting the unpaid vacations.

**Recommendation**

We recommend that the Human Resource department inform the Accounting department on monthly basis about employee's vacations and unpaid leaves, to deduct those vacations from the salaries and ensure the validity of paid salaries.

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## **2 Capacity of Refineries**

### **Observation**

During our review, we understood that the refineries facilities in Iraq were not working to their full capacity due to issues related to security, sabotage, power cuts, storage capacity, out dated technology and lack of maintenance and investment during the previous regime.

Approximately B/D 0.5 m was being processed mainly for internal consumption. Also approximately 40% to 60% of the processed crude oil is being sold as fuel oil.

### **Recommendation**

We recommend that the Ministry of Oil to assess the capacity of its current refining conversion capacity in order to develop and increase the conversion rate to be in line with modern refining facilities.



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**3 Storage Capacity**

**Observation**

During our visit of the MoO's related companies we noted that insufficient storage capacity available to the Oil production companies, refineries and ports in Iraq

This is considered one of the major factors of the disruptions of the production and distribution of petroleum and petroleum products.

**Recommendation**

We recommend that Ministry of Oil to assess its current storage capacity to undertake appropriate actions of increasing the storage capacity at different locations.

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**4 Operational Loading System at Loading Points**

**Observation**

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

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

**Recommendation**

We recommend that Ministry of Oil follow up and accelerate the installation of the metering systems the loading points, storage facilities and oil wells.

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**5 Reconciliation with Records of Related Companies**

**Observation**

During our review, we noted that Ministry of Oil did not perform reconciliation between Oil Production companies, Refining and Distributions companies. The Technical Department at the ministry obtains report from the related companies, summaries it and report it to the Minister without verifying the accuracy of the data or the reconciliation of the amounts between the companies. We noted differences between the companies such as :

For September 2005, according to the North Oil Company, the quantity of crude oil provided to Kirkuk refinery was 563349 Barrels, while according to the North Refineries Company, the amount received at Kirkuk refinery was 577073 Barrel.

**Recommendation**

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

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**6 Back Up of Accounting Documents**

**Observation**

During our review we noted that the finance department of Ministry of Oil was fired, so most of the accounting data was lost including the back up of accounting data which was stored in the finance department.

Consequently the Ministry of Oil did not have any supporting documents for most of accounting transactions for 2005 year.

**Recommendation**

We recommend that the finance department should use second copy of accounting transactions and get a copy of all supporting documents and store this copy in location other than accounting department location.

Also, a daily backup should be performed for all computerized data bases

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**7 Recording Letters of Credits**

**Observation**

During our visit of the Ministry of Oil we noted that the finance department does not maintain a records of the Ministry's Letters of Credits.

This may lead to inadequate and unreliable records.

**Recommendation**

We recommend the finance department to maintain detailed accounting records for all letters of credit transactions related to the Ministry of Oil.

**Ministry of Oil**

**State Oil Marketing Organization (SOMO)  
Oil Products Imports**

**Development Fund for Iraq - Ministries  
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**1 Internal Control Procedures over Oil Imports**

**Observation**

We noted that the State Oil Marketing Organization (SOMO) had no documented internal control procedures over imports of petroleum products. Senior management instructions on such procedures are documented in the form of various internal memoranda.

**Recommendation**

We recommend SOMO to prepare and maintain written standard internal control procedures over imports of petroleum products.

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## **2 Contracting Procedures**

### **Observation**

During our review of petroleum products import contracts, we noted that contracting and awarding procedures were not followed. Public tenders were not performed to obtain optimum value and quality. In addition, we did not find any written justification describing the justification of none obtaining competitive offers.

### **Recommendation**

We recommend SOMO to comply with the Iraqi procurement regulations regarding contracting procedures in order to assist SOMO in obtaining best prices and quality.

We also recommend SOMO to develop a documented contracting procedure that includes the following main functions:

1. Obtaining at least 3 quotations from accredited vendors shall be required.
2. Appointment of a committee to open received tenders.
3. Appointment of a technical committee to analyze tenders.
4. Performing bids analysis sheets for imports of oil products in order to ensure that the best market price and best quality is obtained before completing a purchase.
5. Details documentation of the basis of vendors selection.



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**3 Measuring Metering System for Imported Petroleum Products**

**Observation**

We noted that the quantity of imported petroleum products delivered from the suppliers to SOMO storage stations has been determined by reference to a dipstick carried at each storage station. SOMO shipping division management were satisfied that the dipstick measurements of imported petroleum products correspond with that of the invoiced quantity. However, we believe that the dipstick is not an accurate measuring device.

**Recommendation**

We recommend that SOMO to implement accurate metering system to be in line with the best market practices 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 be implemented such as installing the meters in a secured chamber, where only authorized personnel are granted the access.

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**4 Reconciliation with Import Ledger for Petroleum Products**

**Observation**

During our review, we noted that there are no monthly reconciliations between SOMO's petroleum products imports ledger and the reported quantities of imports per Sabbro Company (a certified services company that controls the entrance and confirms completeness of delivery of the imported petroleum products in terminals).

Monthly reconciliations between imports ledger and Sabbro Company reports provide a key control over the completeness of the monthly quantities of all types of petroleum products received and provide a mechanism to identify any missing quantities on a timely basis.

**Recommendation**

We recommend that SOMO prepares monthly reconciliation between its petroleum products imports ledger and Sabbro Company reports, in order to monitor and match recorded quantity with a third party confirmation. In addition, we recommend to review and approve the monthly reconciliation by appropriate management level to ensure proper preparation of the reconciliation.

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**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 that SOMO receive confirmations or statement of account from all suppliers of imported petroleum products on a monthly basis. The suppliers' balances should then be reconciled to SOMO records with any differences investigated and resolved.

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**6 Pending Reconciliation Items**

**Observation**

During our review of the reconciliation between SOMO and the Trade Bank of Iraq, we noted that there are many long outstanding items with very high balances since 2004.

**Recommendation**

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

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**7 Review and Approval of Bank Reconciliations**

**Observation**

During our review of the banks reconciliations, we noted that neither the Financial Manager nor the Internal Auditor sign the monthly bank reconciliations. There was no evidence that the reconciliations have been independently checked by any other person other than the preparer. Example of this include:

1. Reconciliation with Trade Bank of Iraq Account # 1084
2. Reconciliation with Trade Bank of Iraq Account # 1029

**Recommendation**

The Financial Manager and the Internal Auditor should evidence their review and approval of the monthly bank reconciliations by signing and dating the reconciliation sheets. This evidence provides a record of the person responsible for the checking process having fulfilled his responsibility.

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**8 Filing System**

**Observation**

As per our review, we noted that documents supporting petroleum product import transactions are distributed within SOMO's marketing, shipping, and finance departments. All documents related to each import transaction such as contracts with suppliers, price calculations, PLATTS Marketscan quotations that are used to calculate imported petroleum products prices, Bill of Lading, Certificate of Imports, Credit Notes, and Bank Transfer Order are not gathered in one file.

Management and auditors might require retrieving data related to imports transactions, and accordingly, supporting documents should be gathered in one lot 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 to develop proper filing system to keep all vouchers and supporting documents related to petroleum products imports to facilitate data retrieval when required.

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**9 Contracts and Supporting Documents**

**Observation**

During our review of imported petroleum products, we noted that contracting division did not provide the shipping and finance departments with full copy of contracts; instead a summary of contracts are provided.

Moreover, the Shipping department does not provide the finance department with copies of the Bill of Lading or Sabbro's reports, instead the shipping department summarizes the quantities as of the Certificate of Import, and sends it to the finance department to prepare invoices and Credit Notes.

Such procedure prevents the Finance department from independently match quantities invoiced with quantities per contract and per the Bill of Lading.

**Recommendation**

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

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**10 Segregation of Duties over Database of Finance Department**

**Observation**

During our review we noted that SOMO's finance department operated an internally developed Access database; the developer was also the data base operator and administrator; with no proper segregation of duties.

Such practice increases the risk of unauthorized changes and data integrity and security.

**Recommendation**

We recommend that the programmer of the database should be segregated from the operator and the administrator duties.



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## **11 Supplier Invoices**

### **Observation**

During our review, we noted that SOMO did not obtain invoices from most 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 to cross reference figures of shipped quantities.

Examples where SOMO did not obtain invoice from suppliers :

<b>Name of Supplier</b>	<b>Type Oil Product</b>	<b>Date</b>	<b>Amount USD</b>
Turkish Petroleum International Co.	Gas OIL	Oct,31,2005	12,997,147
VITOL Co.	Gasoline	Aug,02,2005	5,499,757
Ocean Energy Co.	Kerosene	Sept,30,2005	11,065,900
Kizil Co.	Liquid Propane Gas	Aug, 30,2005	2,739,985

### **Recommendation**

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

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**12 Control over Invoices and Certificates of Imports**

**Observation**

We noted that all the 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.

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**13 Supporting Documents for Payments**

**Observation**

During our review, we noted that SOMO did not attach the bank slip for the payments of invoices related to the suppliers of imported petroleum products nor obtained the supplier's signature and acknowledgment of receipt of payment. Accordingly, payments settled and paid to suppliers could not be traced to evidence of payment and could be claimed once again by the supplier.

**Recommendation**

We recommend SOMO to obtain bank slip upon each transfer of payments to suppliers of imported petroleum products; or obtain confirmation from suppliers upon settlement of any invoice.

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**14 Payment Vouchers and Supporting Documents**

**Observation**

During our review we noted that SOMO did not cancel payment vouchers and their supporting documents after payment has been made with “PAID” stamp, which increases the risk of duplicate payments being made for the same invoice.

**Recommendation**

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

**Ministry of Oil**

**State Oil Marketing Organization (SOMO)  
Oil Products Imports**

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**1 Filing System**

**Observation**

As per our review, we noted that documents supporting sales transactions are distributed within the departments of SOMO, as well as all documents for each sale transaction are not gathered in one lot in a specified department or final destination such as the finance department.

Management and auditors might require retrieving data for sales of oil and oil products, and accordingly, documents supporting sales shall be all gathered in one lot 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 a filing system to keep all supporting documents for sales of oil and oil products to facilitate data retrieval when required.

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**2 Reconciliation with Oil Production Companies**

**Observation**

As per our review, we noted that SOMO does not perform documented reconciliation with Oil Production Companies, despite the fact that SOMO obtains monthly export sales reports from South and North Oil Companies.

Reconciliation between SOMO and Oil Production Companies is crucial for monitoring export sales by matching the records between the two companies, and absence of such reconciliation errors could occur and not detected on a timely basis and reduces the control over the exported quantities.

**Recommendation**

We recommend SOMO to prepare monthly documented reconciliation with Oil Production Companies as soon as possible after the month end; in order to monitor and match exported sales records with production companies' confirmation. Also, we recommend head of shipping department to review and approve monthly reconciliation to ensure proper preparation of the reconciliation.

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**3 Documentation of OSP Committee Meetings**

**Observation**

During our review, we noted that Official Selling Price (OSP) committee meetings are not documented in details. Instead a memo for agreed prices by the committee is signed by SOMO general manager and sent to the Minister of Oil for approval.

As pricing is a very sensitive issue in oil sales, minutes of meetings of the OSPs committee are essential to be documented for discussions and raised issues during meetings.

**Recommendation**

We recommend that SOMO documents all minutes of meetings of OSPs, which could be used to support the committee resolutions and to document the approvals of the committee members.



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**4 Detailed Documentation of Contracts Awarding Committee Meetings**

**Observation**

We noted that the petroleum export sales contracts awarding committee meetings are not documented in details. Instead a memo for contracts awarded signed by SOMO's General Manager is sent to the Minister of Oil for approval.

**Recommendation**

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

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**5 Bidding Procedures for Oil Contracts**

**Observation**

As per our review we noted that sales contracts are mainly awarded to existing customers. No bidding procedures are initiated, where as management evaluates past performance for existing customers as a base for awarding contracts.

**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.

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**6 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 shall be organized in way to obtain a back up of SOMO's data regularly and preferably on 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.

**Recommendation**

We recommend SOMO management to develop and approve a policy for contingencies and a recovery to ensure continuity of operation, and to ensure that SOMO owns a back up for its hard and soft copy records in order to reduce the risk of lose data.

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**7 Certificate of Discharge at Destination Port**

**Observation**

As per our review we noted that SOMO does not obtain neither require the certificate of discharge at port of destination. Considering that SOMO's contractual provisions do not permit the change of the destination or reselling without the prior consent of SOMO, shipping department shall obtain the discharge certificate at destination port to ensure customer compliance with SOMO's contractual provisions.

**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 fulfillment of the signed contracts.

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**8 Contractual Provisions**

**Observation**

During our review of the monthly shipping schedules, we noted frequent shipments are delayed and shifted from scheduled month of loading to next month. Accordingly, Official Selling Prices (OSP) were not the approved OSPs at the loaded month, instead, the OSP was for a prior month due to delay and shifting of the loading schedule to another postponed date. The provisions of the contracts do not include neither specify what procedures shall be followed if loading schedule was delayed or changed by SOMO or due to any other circumstances, such delay affects price quotations and accordingly OSP for the delayed shipments.

**Recommendation**

We recommend that SOMO consults with the internal legal department or its external legal advisory, to review the contractual provisions included in SOMO's standard contract format for sufficiency of those provisions and to the best interest of SOMO.

## **9 Approval of OSP Calculation Formula**

### **Observation**

During our review, we noted that 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 though affect directly 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.

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**10 Proceeds of Fuel Oil Sales**

**Observation**

During our review, we noted that SOMO policy to sell fuel oil is through cash advances made by customers before shipping. We noted that cash advances are deposited at local banks in Iraq which are under the control of SOMO. The advances received are not reconciled with the sales ledger.

**Recommendation**

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

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**11 Sequential Numbering for Used Forms**

**Observation**

We noted that most of the standard forms used by SOMO for export sales transactions do not have a pre-numbered serial number, the following forms are example of forms without a pre-numbered serial number:

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

**Recommendation**

We recommend that all forms used at SOMO shall be pre-numbered in order to improve the control over export sales and to keep proper audit trail.



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**12 Reconciliation Between SOMO's Bill of Lading and Vessel Readings**

**Observation**

As per our review, we noted that in some cases there were differences between SOMO's bill of lading readings and the shipping vessel readings. Such differences were communicated to SOMO through letters of protest signed by the Master of the vessel. Following is an example for communicated discrepancies:

<i>Shipment date</i>	<i>Vessel name</i>	<i>B/L reading Bbls</i>	<i>Ship reading Barrel</i>	<i>Difference</i>
24/8/2005	Arosa	1,887,017	1,886,039	978 Bbls.

**Recommendation**

We recommend SOMO to investigate for the reasons behind those discrepancies to avoid any possible disputes and litigations for discrepancies in readings of loaded shipments.

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**13 Reconciliation of Loading Rates**

**Observation**

As per our review we noted for many instances letters of protest from the Master of the vessel communicated to Basra terminal. Such letters included protests for delay in loading time due to the low loading rate at Basra port in comparison with the protesting vessel loading rate.

Following are examples for this issue:

<i>Shipment date</i>	<i>Vessel name</i>	<i>Delay time</i>	<i>Port loading rate</i>	<i>Vessel loading rate</i>
24/8/2005	Arosa	35 hours	35,700 Bbls/hour	107,000 Bbls/hour

Low loading rate in comparison with vessels loading rates results in increasing demurrage claims and in effect would cause SOMO to suffer additional losses.

**Recommendation**

We recommend SOMO and the Ministry of Oil to investigate the reasons behind low loading rates at Basra port and consult with specialized technical companies to enhance the loading rates up to the optimum rates, in order to avoid or decrease demurrage claims.

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#### **14 Opening of Export Crude Oil Sales LCs**

##### **Observation**

During our review, we noted that contracts terms with customers require that the letters of credit (LCs) shall be opened at least seven days before the loading date. We noted some cases that before two days from loading date of the shipment, the LC was still not opened. No shipment shall 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 might result 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 that the Finance Department concentrates efforts to follow up on export sales LCs opening, and to adhere strictly to the provision of seven days period for opening the LCs before loading date.

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**15 Financial Statements Closing Process**

**Observation**

We noted that SOMO's books of accounts were still not closed and the financial statements were not issued.

**Recommendation**

We recommend that SOMO develops a financial statements closing policy, which includes time frame for closing process and final dates for issuing financial statements.

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**16 Contracts and Supporting Documents**

**Observation**

During our review, we noted that marketing department does not provide shipping and finance departments with full copies of contracts, instead a summary is provided.

**Recommendation**

We recommend that Copies of all contracts shall be provided to all relevant departments to enhance the transparent environment and to perform independent checks between the departments.

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**17 Segregation of Duties over Access Data Base**

**Observation**

We noted that the access data base used at the finance department was developed internally by SOMO. The data base was developed by one of the finance department employees, who owns administrator passwords and source code of the data base.

**Recommendation**

We recommend SOMO to develop a policy for data security and authorization for changes on the access data base. Further more the programmer of the access data shall be segregated from the operator of the data base who owns the administrator password.

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**18 Documentation at Finance Department**

**Observation**

As per our review, we noted that shipping department for oil products submits a loading card to the finance department to authorize loading by the Finance Manager. Oil products are sold through cash advances, and accordingly, finance department computes the authorized quantity to be loaded (based on cash advance paid by the buyer and average price) and obtain the approval of the Finance Manager. Finance department does not attach the computation sheet with the loading card when the approval of the Finance Manager is obtained, which increases the risk of misstatement in authorized quantities for loading.

**Recommendation**

We recommend that all supporting documents shall be attached for all transactions processed by the finance department for management review, cross referencing and independent checks by the internal and external auditors.

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**Ministry of Communication**



**Development Fund for Iraq - Ministries  
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**1 Allocation of Payroll Budget**

**Observation**

During our visit of the Ministry of Communication we noted that there are two payroll budgets, the first one relates to the security guards, and the other budget relates to the ministries regular employees. We also noted that as the ministries regular employees' salaries exceeded their allocated budget, the Ministry of Communication chosen to reallocate some of those employees to the security guards' budget.

**Recommendation**

We recommend that the Ministry of Communication prepares the budget according to past experience, most recent actual expenses and future expected payroll expense.

In addition, we recommend the Ministry of Communication to prepare a variance analysis for the difference between the actual expenses and the budget, this analysis should be documented and should explain the reasons behind the payroll variance.

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**2 Income Tax and Social Security Calculations**

**Observation**

During our visit of the Ministry of Communication we noted that there were no supporting documents to verify the calculation of payroll income tax and social security for the Ministry employees.

**Recommendation**

We recommend that the Ministry of Communication attach the supporting documents of calculation of payroll income tax and social security to ensure the accuracy of all calculations.

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### **3 Inventory Storage**

#### **Observation**

During our visit of the Ministry of Communication we noted that there are no suitable storage areas for storing the assets and equipment purchased by the Ministry of Communication, however the Ministry is sharing the storage areas of Post and Communication Company, which is a related Company located within the ministry.

#### **Recommendation**

We recommend that the Ministry of Communication to establish their own inventory and storage areas to store assets and equipment and develop procedures for recording all received and issued assets to ensure that adequate controls are in place over inventory.

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#### **4 Inventory Cards**

##### **Observation**

During our visit of the Ministry of Communication we noted that the inventory cards are not updated on a timely basis. Late update of inventory records on a timely basis would result in a reduced control over inventory, especially quantity on hand, required order quantity and quantities of issued and received inventories.

##### **Recommendation**

We recommend that the inventory register cards be updated at the time of each transaction to ensure that the stock records reflect the actual quantities on hand

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## **5 Contracting Procedures**

### **Observation**

During our review of the Ministry's contracts; we noted that contracting and awarding procedures were not followed. Public tenders were not performed to obtain optimum value and quality. In addition, we did not find any written justification describing the justification of not receiving competitive offers.

The following contracts were direct invitation and public tenders were not performed.

<b><u>Contract Number</u></b>	<b><u>Amount in \$</u></b>	<b><u>LC Number</u></b>
13-2004	20,026,995	2019
21-2004	10,139,411	2167
55-2003	9,000,000	2138
45-2003	8,700,000	2137

### **Recommendation**

We recommend the Ministry of Communication to conduct its purchases based on competitive public offering in order to assist the Ministry in obtaining optimum prices and quality.

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**Ministry of Housing & Construction**

**Development Fund for Iraq - Ministries  
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**1 Fixed Assets Register**

**Observation**

During our visit of the Ministry of Housing and Construction we noted that there is a delay in recording purchased assets in the fixed assets register.

**Recommendation**

We recommend the Ministry of Housing and Construction to record purchased assets in the fixed assets register on timely basis.

Also, we recommend to reconcile the fixed assets register with the accounting records on a monthly basis.

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**2 Physical Count of Fixed Assets**

**Observation**

During our visit of the Ministry of Housing and Construction, we noted that the Ministry did not conduct physical fixed assets count at year end of 2005.

**Recommendation**

We recommend the Ministry of Housing and Construction to perform a full physical count of property, plant and equipment at year end and on regular basis to safeguard the assets and ensure the accuracy of the reported figures of fixed assets.



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**3 Reconciliation Between Physical Count and Fixed Assets Register**

**Observation**

During our visit of the Ministry of Housing and Construction we noted that there were differences between the physical count of assets and the fixed assets register. We did not receive any documented justifications of these differences.

**Recommendation**

We recommend the Ministry of Housing and Construction to investigate and reconcile differences between physical count of assets and the fixed assets register promptly as they could indicate errors, some of which may cause losses to the ministry.

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**4 Letters of Credit (LCs) Disbursements**

**Observation**

During our visit of the Ministry of Housing and Construction we noted that the imports department was responsible for opening of LCs at the Trade Bank of Iraq as well as the disbursement of LCs payments to contractors and suppliers, both transactions were not recorded in the accounting records. In addition, the imports department does not inform the accounting department about any transaction regarding LCs. Therefore there were no accounting records to trace the transaction of the LCs.

**Recommendation**

We recommend the Ministry of Housing and Construction to review the procedures related to recording of LCs and ensure that all LCs disbursements are recorded in the accounting records on timely basis. In addition, we recommend to perform monthly reconciliation between the import department and the accounting department records.

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**Ministry of Sport & Youth**

**Development Fund for Iraq - Ministries  
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**1 Payment of Employees Salaries**

**Observation**

During our visit of the Ministry of Youth and Sport we noted that certain representatives of the Youth Clubs and organizations related to the Ministry in various cities through out Iraq are assigned to receive the total salaries of their employees. However, we did not get any supporting documents to ensure that the representatives were authorized to collect the salaries on behalf of the employees of the Youth Clubs and organizations.

**Recommendation**

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

The ultimate solution of this issue is the payment of salaries through bank transfers to the employees accounts.

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**2 Payroll Process**

**Observation**

During our visit of the Ministry of Youth and Sport we noted the following in respect of payroll:

1. The payment voucher # 33/46 was not stamped by the Internal Audit Department.
2. The payment voucher # 33/47 was not approved by the Finance Department.
3. The amount of the payment voucher # 33/45 was adjusted without approval.

**Recommendation**

The Financial Manager and the Internal Auditor should evidence their review and approval of the monthly salaries sheets and payment vouchers by signing and dating the salary sheets.

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**3 Comparison Between Budget and Actual Expenses**

**Observation**

During our visit of the Ministry of Youth and Sport and comparative between budget and actual expenses, we noted that the approved budget included large variances in comparison to the actual amounts. In addition, we did not get any documented explanation of these variances.

**Recommendation**

We recommend that the variances should be analyzed and explained in details in order to avoid further excess over budget and investigate expenditures not included as part of the approved budget. Budget variances rehearsal assists in future projections for the next years' budgets in being more realistic.

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**4 Recording of Gifts in Fixed Assets Register**

**Observation**

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

**Recommendation**

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

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**Ministry of Municipality & Public Works**



**Development Fund for Iraq - Ministries  
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**1 Segregation of Duties in Recording Fixed Assets**

**Observation**

During our visit of the Ministry of Municipality & Public Works we noted lack of segregation of duties between the procurements receiving function and the records keeping function as the employee who receive the purchased items, is also responsible for issuing the receipt voucher and recording the transaction in the accounting records.

**Recommendation**

We recommend the Ministry of Municipality & Public Works to segregate the dies of procurement receiving function and records keeping function.

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**2 Recording of Gifts in Fixed Assets Register**

**Observation**

During our visit of the Ministry of Municipality & Public Works, and per discussion with the Ministry Inventory head, we were informed that the Ministry receives donations (e.g. laptops) from external organization, those donations were not recorded in the fixed assets register.

**Recommendation**

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

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**Ministry of Transport**

**Development Fund for Iraq - Ministries  
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**1 Fixed Assets Register**

**Observation**

During our visit of the Ministry of Transport we noted that the ministry does not maintain a register for its fixed assets for the year 2005. Accordingly, there is no readily available record of the ministry fixed assets. Absence of fixed assets register may not detect any intentional and unintentional errors.

**Recommendation**

We recommend that the Ministry of Transport establish and maintain a fixed assets register. This exercise should be undertaken after physical verification of all assets.

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**2 Physical Count of Fixed Assets**

**Observation**

During our visit of the Ministry of Transport we noted that the Ministry did not conduct physical fixed assets count at year end of 2005.

**Recommendation**

We recommend the Ministry of Transport to perform a full physical count of property, plant and equipment at year end and regularly to safeguard the assets and ensure the accuracy of the reported figures of fixed assets. This procedure will also enable management to assess whether there are items appearing in the fixed asset register which are not physically present.

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**Ministry of Labour & Social Affairs**

**Development Fund for Iraq - Ministries  
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**1 Recording of Supporting Documents**

**Observation**

During our visit of the Ministry of Labour and Social Affairs we noted that the employee responsible for recording the purchases of assets in the inventory/fixed assets register does not receive a copy of the invoice related to the purchased assets from the accounting department.

**Recommendation**

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

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**2 Physical Count of Fixed Assets**

**Observation**

During our visit of the Ministry of Labour and Social Affairs we noted that the Ministry did not conduct physical fixed assets count at year end of 2005.

**Recommendation**

We recommend the Ministry of Labour and Social Affairs to perform a full physical count of property, plant and equipment at year end to safeguard the assets and ensure the accuracy of the reported figures of fixed assets. This procedure will also enable the management to assess whether there are items appearing in the fixed asset register which are not physically present.



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**Ministry of Science & Technology**

**Development Fund for Iraq - Ministries  
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**1 Recording Supporting Documents**

**Observation**

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

**Recommendation**

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

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**2 Physical Count of Fixed Assets**

**Observation**

During our visit of the Ministry of Science and Technology property, plant, and equipment we noted that the Ministry did not conduct physical fixed assets count at year end of 2005.

**Recommendation**

We recommend the Ministry of Science and Technology to perform a full physical count of property, plant and equipment at year end and on regular basis to safeguard the assets and ensure the accuracy of the reported figures of fixed assets. This procedure will also enable the management to assess whether there are items appearing in the fixed asset register which were not physically present.

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**Ministry of Defence**

**Development Fund for Iraq - Ministries  
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**1 Supply of Food Contracts**

**Observation**

During our review we noted that the Ministry of Defence were engaged in contracts with contractors to provide food to the military units in various cities through out Iraq. The contracts agreements were based on the number of soldiers in the military units multiplied by the price per person.

There are no sufficient supporting documents to support that the number of soldiers that are used as a basis for the payments of the contractor invoices in each military units receiving the meals is accurately recorded.

**Recommendation**

This needs further investigation; however we recommend to implement proper control procedures to ensure the accuracy of the number of soldiers in the contractors' billings.

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**2 Proposals from Suppliers for Food Contracts**

**Observation**

During our visit of the Ministry of Defence, we were not able to review the suppliers' proposals along with the technical committee awarding of the food contracts. We were informed that all the supporting documents were sent to the Commission of Public Integrity. Therefore, we couldn't identify the methods used in awarding contracts to the food supplier.

**Recommendation**

We recommend that all the original supporting documentation should always be kept in the Ministry.

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### **3 Maintenance Contracts**

#### **Observation**

During our review we noted that the Ministry of Defence were engaged in contracts with contractors to provide maintenance services (Cleaning, Washing etc...) to the military units in various cities through out Iraq. The contracts agreements were based on the number of soldiers in the military units multiplied by the price of maintenance per person.

There was no documented sufficient evidence to ensure that the number of soldiers in the military units was accurately recorded for the purpose of the billings made by the contractors.

#### **Recommendation**

This needs further investigation; however we recommend to implement proper control procedures to ensure the accuracy of the number of soldiers in the contractors' billings. Also, the ministry may consider awarding fixed price contracts.

## **Ministry of Displacement & Migration**



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**1 Members of Bidding Analysis Committee**

**Observation**

We noted that 2 out of the 3 members in the Bidding Analysis Committee are still in their positions for the last two rounds. Such practice is against the Ministry of Finance instructions which emphasis rotation of the members of analysis committee on semi-annual bases.

**Recommendation**

We recommend to comply with the Ministry of Finance instructions which requires the regular rotation of the analysis committee members and the membership for each member in the committee should not last for more than six months..

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**Ministry of Agriculture**

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**1 Budget Transfers**

**Observation**

According to the Iraqi law, the Ministry of Agriculture (MoA) can use the allocated resources of the budget for each year separately. During our discussion with the Director General of the Finance Department, we understood that at the end of 2005, the MoA paid advances to its departments to cover disbursements during the year 2006; this resulted in using the un-disbursed amounts from the year 2005 budget to cover part of the year 2006 expenses.

**Recommendation**

We recommend that the MoA to comply with the Ministry of Finance budgeting guidance.

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**2      Rotation of Purchasing Committee Members**

**Observation**

According to Iraqi regulations, Purchasing Committee should be changed every six months. We noted during our review that the MoA did not adhere to the provisions of the Iraqi regulations, for example: we noted that the purchasing committee formed by order No. 17307 dated December 12, 2004 was changed by order No. 15189 dated August 15, 2005 and approved by the Administrative & Financial General Manager.

**Recommendation**

We recommend that the MoA comply with the Iraqi regulations and rotating the purchasing committee on a regular basis and each committee member shouldn't work for more than six months.

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**3 Identification of Fixed Assets**

**Observation**

We noted that the fixed asset register does not include individual asset identification numbers.

Affixing an identification number to the individual asset would enable the MoA to trace a particular item to the fixed asset register and improve accountability. Furthermore, this will facilitate the physical verification of property, plant and equipment.

**Recommendation**

We recommend to assign identification numbers to all items of property, plant and equipment and that these identification numbers be recorded in the fixed asset register.

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**4 Supplier Invoices**

**Observation**

We noted during our review of the Public Company for Agricultural Equipment that there was two supplier's invoices holding the same No., these invoices are related to LC No. TBI/721/04 for the purchase of DI Ammonium Phosphate from Dalla Group for Manufacturing.

<b>Invoice No.</b>	<b>LC No.</b>	<b>Supplier</b>	<b>Date</b>	<b>Amount U.S. \$</b>
44/EXP/2005	TBI/721/04	Dalla Group for Manufacturing	June 2, 2005	4,119,860
44/EXP/2005	TBI/721/04	Dalla Group for Manufacturing	July 17, 2005	4,991,363

There is therefore a risk of duplicate payments being made for the same invoice.

**Recommendation**

We recommend that the MoA and its related companies to prepare a control sheet to trace invoices received and paid for each Letter of Credit or Contract for each supplier, each invoice shall be reviewed to the supplier's account to inspect possible duplicate invoices and avoid the risk of double payment of such invoices.

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**5 Compliance with Procurement Regulations**

**Observation**

We noted during our review that contract No. DAP/3/2004 signed with Al-Dalla Group for Manufacturing & Trading amounting to U.S. \$ 43,200,000 was approved by the Director of the State Company For Agricultural Supplies and we did not receive the approval of the Economic Committee in the Council of Ministries as required by Iraqi procurement regulations.

Also, we noted that the committee who opened the bids for Contract No. DAP/3/2004 signed with Al-Dalla Group for Manufacturing & Trading was the same committee which analyzed those bids.

**Recommendation**

We recommend that the MoA and all its related companies to follow the Iraqi procurement regulations, and to above all contracts above US \$ 3 million by the Economic Committee of the Council of Ministries.

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**6 Control Procedure over Receipts from Ministry of Finance**

**Observation**

We noted that the MoA disbursed an amount of IQD 12 Billion from the total amount of IQD 46 Billion (according to the letter No. 465 from the MoA to the MoF) that were mistakenly deposited in the MoA current bank account held at the CBI.

We also noted that the MoA does not prepare reconciliation for its bank current account held at the CBI which led to not identifying this deposit on timely basis.

**Recommendation**

We recommend the MoA to prepare regular reconciliations with the MoF and for its current bank account.



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**7 Personnel Files**

**Observation**

We noted that employees personnel files were burned during 2005 and no action was taken to recreate these files.

**Recommendation**

We recommend the MoA to recreate its employees personnel files, the inexistence of such files increases the risk of errors in payroll processing and makes no reference to check employees' salaries to the employees' files during the review of payroll payment sheets.

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**Ministry of Higher Education**

**Development Fund for Iraq - Ministries  
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**1 Fixed Assets Identification**

**Observation**

We noted that the fixed asset register did not include individual asset identification numbers.

Affixing an identification number to the individual asset would enable the Ministry of Higher Education (MoHE) 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 Property, plant and equipment.

**Recommendation**

We recommend that identification numbers be attached to all items of property, plant and equipment and that these identification numbers recorded in the fixed asset register.

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**2 Reconciliation for Transactions with Related Universities**

**Observation**

We noted during our review that the MoHE did not prepare monthly reconciliations with its related universities' to reconcile Letters of Credit and import contracts balances.

This could lead to un-reconciled accounts with the related universities and improper control over the universities disbursements.

**Recommendation**

We recommend the MoHE to prepare regular monthly reconciliations with its related universities; the reconciliation shall be reviewed and approved by the appropriate levels at both the MoHE and the related university.

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**4 Stores Function**

**Observation**

We noted during our audit that some of the purchases were not entered into the stores by stock vouchers; in addition, some of the items were entered to the stores with lower value than the value recorded in the supporting documents.

**Recommendation**

We recommend the stores department to prepare regular control procedures to ensure that the value of the assets entered to the stores agree to the purchase supporting documents.

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**Ministry of Industry & Minerals**

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**1 Fixed Assets Identification r**

**Observation**

We noted that the fixed asset register does not include individual asset identification numbers.

Affixing an identification number to the individual asset would enable the Ministry of Industry and Minerals (MoIM) to trace a particular item to the fixed asset register and improve accountability. Furthermore, this will facilitate the physical verification of property, plant and equipment.

**Recommendation**

We recommend that identification numbers be attached to all items of property, plant and equipment and that these identification numbers recorded in the fixed asset register.

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**2 Controls over Payroll Process**

**Observation**

We noted during our audit the following related to the payroll:

<b>Payment Voucher Number.</b>	<b>Amount IQD</b>	<b>Deficiency</b>
Payment Voucher 2229 approval	2,893,331	No Financial Manager's
Payment Voucher 2227 the receipt	119,515,200	Some employees didn't sign for
Payment Voucher 3061 approval	3,008,333	No Disbursements Manager

**Recommendation**

We recommend the financial department to ensure that all required approvals are obtained before any amount is disbursed.

The internal audit department should review all salaries supporting documents and ensure that all employees have received their salaries by signing the needed form.



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**Ministry of Planning**

**Development Fund for Iraq - Ministries  
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**1 Fixed Assets Identification**

**Observation**

During our review we noted that the fixed asset register does not include individual asset identification numbers.

Affixing an identification number to the individual asset would enable the Ministry of Planning to trace a particular item to the fixed asset register and improve accountability in respect of fixed assets. Furthermore, this will facilitate the physical verification of property, plant and equipment.

**Recommendation**

We recommend that identification numbers be attached to all items of property, plant and equipment and that these identification numbers recorded in the fixed asset register.

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**Ministry of Water Resources**

**Development Fund for Iraq - Ministries  
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**1      Reviews and Approval of Salaries Sheets**

**Observation**

During our visit of the Ministry of Water Resources we noted that salaries sheets were prepared by the payroll accountant and cross referenced with the budget by the internal audit department, but there was no evidence to ensure that the salaries sheets are being reviewed by the Accounts Manager and approved by the General Director of Accounting and Administrative Department.

**Recommendation**

We recommend that the Accounts Manager should review salaries sheets and evidence his review of these sheets by signing and dating the salaries sheets.

Also the General Director should approve the salaries sheets and evidence his approval by signing and dating salaries sheets.

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**2 Segregation of Duties over Check Payments**

**Observation**

During our review we noted that a lack of segregation of duties related to check payments. The employee responsible for maintaining the disbursements was also responsible for keeping the check books, preparing checks and, has the authority to sign the checks with Accounts Manager and General Director of Accounting and Administrative Department.

**Recommendation**

We recommend that segregation of duties should be introduced between the checks custody and preparation function and the checks signing function.

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**3 Pre-Numbering Purchase Orders**

**Observation**

During our review we noted that purchase orders were not pre-numbered, such practice reduces control over purchase orders and the purchasing function.

**Recommendation**

We recommend that purchase orders should be pre-numbered and the number must be printed on payment voucher for proper control and monitoring of the purchase process.

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**Ministry of Interior**

**Development Fund for Iraq - Ministries  
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**1 Contracting Procedures for Military Helmets Contract**

**Observation**

During our visit of the Ministry of Interior we noted that the Ministry agreed with a supplier to provide the ministry with 20,000 helmets in the amount of U.S.\$ 3,200,000.

The following issues were noted:

1. There was direct invitation to the supplier; price quotations from different suppliers were not obtained.
2. The approval letter prepared by the Contract Department was not signed by authorized personnel.
3. Section three of the contract stated that the amount of the contract is US \$3,200,000, however section four of the contract stated that amount of the contract was Iraqi Dinar 3,200,000.
4. Only the month and year of the contract's signing date was listed.
5. The legal department reviewed the contract and issue a memo highlighting issues of concern and recommendation that should be resolved before signing the contract, however these recommendations have not been considered before signing the contract.

**Recommendation**

We recommend that the Ministry to receive competitive biddings for all its purchases, and to properly document the justification of not receiving competitive bidding of the above contract.



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## **2 Contracting Procedures for Weapons Contract**

### **Observation**

During our review we noted that the Ministry contracted a supplier to supply 11,000 NEW Machinegun units amounted to US \$3,950,000. The supplied quantity consisted of two types of machineguns; first type consisted of 10,000 units priced at US \$175/ unit and second type of 1,000 units priced at US \$2,200 / unit.

The following issues were noted:

1. There was direct invitation to the supplier; price quotations from different suppliers were not obtained.
2. On inspection by the ministry, the first received batch of weapons (2,850 unit) were found to be used, consequently the supplier reduced the price by US.\$15 / Unit therefore the unit price for the first type of weapons became US \$160 per unit.
3. The Ministry has a formal Inspection and Receiving committee, but the first received batch of weapons were inspected by a temporarily formed Inspection and Receiving committee.
4. No inspection was carried out on the remainder of the received weapons.
5. As per the contractual provision, the country of manufacture of the second type of weapons (1000 units) shall be from certain countries, however part of the units were manufactured in another country.
6. The Ministry did not receive the 3% of the Letter of Guarantee before signing the contract.
7. Section four in the contract indicated that the unit price of the second type of weapons was US \$2,200, but the written price was one hundred and seventy five USD.

### **Recommendation**

We recommend that the Ministry develop the contracting procedures to provide proper internal controls over procurement contracts.

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**3 Allocation of Budget**

**Observation**

During our visit we noted that the Ministry of Interior prepared the Budget as a lump sum amount for each type of revenues and expenses over the whole year, the approved budget was kept as lump sum for the whole year and did not allocate any budgeted amount over 12 months period.

**Recommendation**

We recommend that the finance department in the Ministry of Interior to allocate the budget over 12 months to enhance the control over the budget. A monthly variance analysis between actual expenses and budget should be prepared and any major differences should be followed up.

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**Ministry of Health**

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**1 Contracting Procedures**

**Observation**

During our review of a sample of closed contracts for importing drugs, medical and geometrical equipments we noted that contract number 95/2005/40, signed on May 15, 2005, the letter of credit opened on September 27, 2005, however the contract stated that the shipment of the products shall commence as soon as possible after the opening date of the letter of credit. The goods were shipped on April 26, 2006.

**Recommendation**

We recommend that the ministry to follow up ordering and receiving its imports within reasonable time.

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## **2 Documentation of Purchase Process**

### **Observation**

We noted that there was some weakness in the documentation of purchase process, as follows:

- The Ministry's internal procedures stipulate that all contracts shall be processed and approved by the Analyzing & Studying and the Importing committees before being officially signed with the suppliers.

However the following contracts were signed without being fully processed or approved by all members of the above mentioned committees:

- Contract number 24\2005\40,
  - Contract number 195\2005\40,
  - Contract number 29\2005\40, and
  - Contract number 614\2005\40.
- Certain contracts were signed by the Ministry's side only, without obtaining the supplier's signature, such as contract number 171\2005\40, 398\2005\16, and 94\2005\40. Some other contracts only the front page of the document was signed by the Ministry's side, such as contract number 614\2005\40.
- Certain contracts were processed by getting either one or two price quotations only, such as contracts number 86\2005\34, 109\2005\40, 398\2005\16, 86\2005\34, 428\2005\50, 411\2005\50 and 122\2005\40. Such practice was against the Ministry's regulations which require the Ministry to obtain at least three price quotations especially in contracts with a total value above Iraqi Dinar 50 million.
- We were not provided with the supporting documents of the following contracts:

<b>Contract type</b>	<b>Contract number</b>	<b>Contract value</b>
External purchases contract	270\2005\77	\$3,744,787
External purchases contract	75\2005\40	\$2,250,000
Internal purchases contract	Supplying Echo Papers	\$10,767,451

- We also noted that the contracts files were stored in unsuitable way, where we noted that most of the files were randomly stored on the employees' desks due to the small available space, the lack of suitable storage place and the absence of contents index for those files. Such arrangement would increase the risk of losing or damaging the contracts files and supporting documents.
- We couldn't obtain documentary evidence to show the Minister approval for excluding some suppliers from providing their company registration certificate. Contract number 29\2005\40 supporting files didn't include the supplier's company certificate. This is against the regulations of the Ministry.

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**2 Documentation of Purchase Process** continued

**Recommendation**

We recommend the followings:

- The purchasing process should be in compliance with the procedures approved by the Minister.
- The Ministry and its suppliers should sign all pages of the contract.
- Contracts files should be maintained in a suitable and safe place.
- The Ministry should file all supporting documents related to the purchase process in the related contracts and LCs files.

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**Ministry of Trade**

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**1 Direct Invitation of Suppliers**

**Observation**

During our review we noted that direct invitations to suppliers were being followed by the Ministry of Trade's Food Supplies Public Trading Company (the Company); furthermore, the Company accepted the suppliers' quotations without carrying out prices and specifications comparison with the prevailing best market standards. Example of such practice was LC number 2005/2140 amounted of US \$ 10,800,000 for soap import contract.

**Recommendation**

We recommend that the Ministry to make all its purchases based on competitive biddings in accordance with the Iraqi regulations.



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**2 Signing of Contract, Opening of LC and Delivery Dates**

**Observation**

During our review we noted that there were long periods of delays between the dates of contracts signing, opening LCs and the actual the date of commencing deliveries of goods. We also noted that the Company did not impose any penalties on suppliers for those delays as per contractual provisions. Examples of such contracts:

<i>LC number</i>	<i>LC amount U.S. \$</i>	<i>Sign contract date</i>	<i>Open LC date</i>	<i>Shipping date</i>
2005/2164	10,300,000	6 September 2005	5 October 2005	2 February 2006
2005/2161	13,000,000	6 September 2005	5 October 2005	2 February 2006

**Recommendation**

We recommend that the Ministry to follow up receiving the purchases based on the contractual terms and enforce penalties arising from delays on deliveries.

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**3 Reconciliation Between Quantity Delivered and Quantity Recorded in Bill of Lading**

**Observation**

During our review we noted that there were differences between the delivery notes and the bill of lading for LC No 2005/1940 amounted of US \$ 24,822,000 as according to the delivery note the shipment was for 63,000 ton, while the bill of lading stated 57,376.5 ton.

**Recommendation**

We recommend that the Ministry investigate the difference and take the necessary measures to resolve it.

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#### **4 Contracting Procedures**

##### **Observation**

We noted during our review of the purchasing process the following:

- Many contracts, of more than Iraqi Dinar 5 million were awarded by direct invitations and no alternative quotations were obtained. Example of cases, LC number 2005/2130 amounted of US \$ 1,005,000; LC number 2005/2164 amounted of US \$ 10,300,000; LC number 2005/1939 amounted of US \$ 17,375,400; LC number 2005/1940 amounted of US \$ 24,822,000. This is considered a non compliance with the ministry's contract awarding procedures.
- There were no specialist committee charged with reviewing and analyzing suppliers' offers.
- Weak contractual terms regarding method of payments, letter of guarantee, timing of payment as shown in the following examples:

<i>LC number</i>	<i>LC amount U.S. \$</i>	<i>Percentage of Guarantee</i>
2005/1939	17,375,400	3%
2005/1940	24,822,000	3%, Not issued by TBI
2005/2172	2,780,000	0%, Goods received before open LC
2005/2146	10,300,000	3%, Not issued by TBI

- LC number 2005/2347 amounted of US \$ 31,500,000 was cancelled due to delayed ship nomination by the supplier;
- LC No 2005/2346 US \$ 31,500,000 shipment content was partly damaged causing an on going dispute with the supplier that have not been resolved yet.
- The Ministry was dealing with four different local representatives of one supplier for cooking oil in violation of the Ministry's regulations which states that the Company should only deal with one representative per any particular supplier or product.
- Imported goods were inspected by the Ministry's Quality Assurance section not by an independent third party.

##### **Recommendation**

We recommend the company to:

- Adherence with the internal controls procedures over Budgeting and Contract Awarding procedures and to set up a committee for reviewing and analyzing bidding and contracting issues.
- Adherence to the internal controls over obtaining letter of guarantee from all contractors/suppliers issued through the Trade Bank of Iraq.
- To review the selection procedures of shipping companies and the evaluating CIF shipping standard in comparison to FOB in order to improve delivery time and scheduling.
- Adherence to the ministry's internal controls procedures over the selection and dealing with suppliers regarding their authorized representatives and investigating suppliers past performance and insuring that all letters of guarantee are recognized by the Trade Bank of Iraq in accordance with the Ministry's regulations
- To use independent third party reputable quality assurance specialists to inspect all imported goods to guarantee contractual compliance.

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**5 Filing in LCs Files**

**Observation**

We noted that not all contracts supporting documents are available in the LCs files such as shipping certificate, copy of letter of guarantee, copy of LC document, bids analysis report and official copy of contract; example of such cases are LCs No. 2005/2172, No. 2005/2243, No. 2005/2450, No. 2005/2451, No. 2005/2140, No. 2005/1956, No. 2005/1949, No. 2005/2130 and No. 2005/1939

**Recommendation**

We recommend the Ministry ensures that all contracts supporting documents are obtained and filed correctly and securely and considers the computerizing of the filing system for more efficient and safe record keeping

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**6      Rotation of Import Committee Members**

**Observation**

We noted that the members of the Import committee have not been changed for more than one year; we also noted that some of those members were serving on the awarding committee.

**Recommendation**

We recommend the adherence with the Company's regulations regarding the rotation of members and the limits imposed on the time of serving on the importing committee

## **Kurdistan Region**

**Development Fund for Iraq - Ministries  
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**1. Control And Administrative Procedures Manual**

**Observation**

During our visit of Kurdistan Region/ Erbil and Asulaymaniyah we noted that there is no comprehensive control and administrative procedures manual over operations. Each ministry management instructions on such procedures are documented in the form of various internal memoranda.

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

- Operational procedures and controls of segregation of duties, authorization and approval, recording, safeguarding and reconciliation are not being effectively recognized by employees.
- Accounting policies and accounting procedures are not properly followed.
- Compliance with regulatory rules are not being effectively communicated to employees

**Recommendation**

We recommend the ministries in Kurdistan Region to prepare and maintain written standard internal controls policies and procedures to cover all the ministries financial and operating activities.

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**2. Accounting and Management Information Systems**

**Observation**

During our review of Kurdistan Region Erbil and Asulaymaniyah, we noted that the present accounting system takes the form of manual recording and reporting process. However, the Ministries size and activities have expanded significantly over the years. The present system relating to accounting procedures including management information system as well as internal control procedures are no longer suitable for the present size and structure of the ministries.

**Recommendation**

We recommend all ministries in Kurdistan Region to undertake a review of the accounting processes and systems of internal control, both at the Accounting Department and the Operating Departments, with a view to improve efficiency of operations and effectiveness of controls. This should include, as a minimum:

- Review of the Accounting Department's documentation and back up filing procedures.
- Review of the operating departments' systems of internal control.
- Establishment of a mechanism for follow up of budget preparation and compliance with such budget.



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### **3. Bank Overdrafts**

#### **Observation**

As per our review we noted that the following Ministries bank accounts were overdrawn:

- Asulaymaniyah Ministry of Finance amounting to ID (49,171,408,896)
- Asulaymaniyah Ministry of Municipalities amounting to ID (8,214,549,588)
- Erbil Ministry of Finance amounting to ID (140,821,295,833)

Ministries shall 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 is mainly due to the resolution of salary increases issued by the Prime Ministry which was not associated by increasing the allocated budget to Kurdistan Region.

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

- Transfer order to the Central Bank of Iraq amounting to ID 150,000,000,000 to Erbil Ministry of Finance dated July 18, 2005 for financing operating expenses of the months May, June and part of July 2005.
- Transfer order to the Central Bank of Iraq amounting to ID 17,000,000,000 to Erbil Ministry of Finance dated July 3, 2005 for financing part of the operating expenses of May 2005.
- Transfer order to the Central Bank of Iraq amounting to ID 20,746,000,000 to Erbil Ministry of Finance dated October 10, 2005 for financing part of the operating expenses of November 2005.

#### **Recommendation**

We recommend that excess over budget shall be approved by the Minister and the reasons for excess shall be properly documented and explained. In addition budget allocations shall be transferred evenly through out the year and specially for financing operating expenses.

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

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**4. Separate Bank Accounts for DFI Funds**

**Observation**

As per our review we noted that Ministries of Finance in Kurdistan Region do not maintain separate bank accounts for DFI funds. Currently, all financing provided from Baghdad Ministry of Finance and any received local revenues are deposited in one bank account. Such practice may result in the difficulty in identifying sources of funds and preparing monthly reconciliation for total financing provided from Baghdad Ministry of Finance.

**Recommendation**

We recommend the Ministries of Finance at Kurdistan Region to assign separate bank accounts for the DFI funds. All transfers from Baghdad Ministry of Finance from the DFI funds shall be deposited in a separate bank account to facilitate monitoring of those funds and reconciliation with Baghdad Ministry of Finance.

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**5. Budget Variance Analysis**

**Observation**

As per our review, we noted that the Ministry of Finance in Asulaymaniyah and Erbil do not prepare regular variance analysis reports for variances between budgeted and actual expenses.

**Recommendation**

We recommend that all Ministries prepare monthly variance analysis reports to properly control and manage budget resources. Ministry of Finance shall require from all Ministries to prepare such reports and to be submitted on monthly basis to the Ministry of Finance, where as the Ministry of Finance shall classify variances by Ministry, budget codes and type of expenditure in order to properly control and monitor budget and actual expenditures.

The justification of all major variances shall be properly documented and approved by key personnel.

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**6. Expenses Paid Through Checks**

**Observation**

During our review of the ministries payment process we noted that no copy of the check was taken by the accounting department neither a copy of the payee identity card.

Obtaining a copy of the check, copy of the payee ID and having the signature of the 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. Copies of checks shall be obtained and properly filed within the accounting records to facilitate the retrieval of information for any payment as required and needed by management and auditors.

**Recommendation**

We recommend the accounting department at each ministry obtains a copy of the check for each payment transaction processed through checks, obtain a copy of the payee ID and obtain the signature of the payee on the copy of the check. The above mentioned documents shall be filed using a unique coding or filing system within the accounting department which ensures the quick retrieval of required data when needed.

All checks issued should be marked to be paid for the beneficiary only.

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**7. Readily Available Data for Expenses by Project**

**Observation**

As per our review, we noted that the Ministry of Municipalities in Asulaymaniyah does not maintain or have readily available data for the breakdown of expenditures by project for the total financing provided by the Ministry of Finance. We had access to the general ledger of the Ministry's bank account and we reviewed excel sheet files prepared by the Ministry's personnel but we could not obtain readily available breakdown of total provided financing by project.

To improve the internal control over projects, breakdown of expenditures by project to tie in figures with total financing provided by the Ministry of Finance and to test large projects. The inexistence of those reports which provide the details and classification of expenditures by project makes it difficult to auditors to select the sample of audit tests to be performed and could result in the delay of the audit until the reports are prepared.

In addition, the absence of such breakdowns in regular monthly reports makes it difficult for management to control spending by project, compare spending to budget by project, identifying financial position and remaining resources for the remaining time of the period.

**Recommendation**

We recommend that the Ministry of Municipalities prepares monthly reports of expenditures; such reports shall be classified and prepared in accordance with the needs of the users of those reports. Basically the monthly expenditure report shall classify expenditures by project which assists management in monitoring expenditures of projects and the remaining cost to complete those projects.

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

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

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**8. Sub-Ledger Accounts**

**Observation**

As per our review we noted that Ministries of Municipalities in Kurdistan Region do not maintain sub-ledger accounts for each project in progress. Instead, accounting records take the form of daily journals for the general ledger of the bank account, which include the classification of expenditures in accordance with the budget classifications. Such practice reduces control over spending, project cost, remaining expected cost and management awareness of completed and in progress projects.

**Recommendation**

We recommend that the finance department at the Ministries of Municipalities shall maintain within the accounting records sub-ledger accounts for each opened project. Such Municipalities have a huge number of projects and in order to properly account for project cost, each and every project shall be assigned a sub-ledger account to be linked to the general ledger of projects in progress. Using sub-ledger accounts assist in classifying projects costs in the most appropriate method and determining accurately the cost of each project.

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**9. Reconciliation for Suppliers and Contractors Accounts**

**Observation**

As per 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 that the finance department at all Ministries shall perform reconciliations for suppliers and contractors accounts on monthly basis. Such reconciliations shall be documented and confirmed with suppliers and contractors to confirm balances due to them. When balances due to suppliers and contractors are known and confirmed, management will be in a better position to prepare and project cash forecasts in the short and medium run and accordingly will be in better position to manage the budget resources up to the remaining period of the fiscal year.

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**10. Formal Reconciliation with Ministry of Finance**

**Observation**

As per our review we noted that Ministries of Finance at Kurdistan Region do not prepare formal reconciliations with Baghdad Ministry of Finance. Currently, reconciliations take the form of listing total financing received from Baghdad Ministry of Finance on an excel sheet file without comparison to the recorded amounts of transfers on Baghdad Ministry of Finance records. Such practice may result in misstatements and mismatching of financing received due to time differences in transferring and receiving funds between Ministries of Finance in Baghdad and Kurdistan Region.

**Recommendation**

We recommend that Finance Departments at Ministries of Finance in Kurdistan Region prepare monthly reconciliations for financing received from Baghdad Ministry of Finance to properly monitor, control and reconcile received funds. The reconciliation shall be prepared, reviewed and approved from the appropriate levels at the Ministry.



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**11. Cash Payment of Salaries**

**Observation**

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

**Recommendation**

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

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**12. Bank Reconciliations**

**Observation**

As per our review we noted that the bank reconciliation as at December 31, 2005 was not performed properly at the Ministry of Municipalities of Asulaymaniyah. The bank reconciliation included mathematical errors. In addition, we noted that reconciling items were not properly controlled and followed up, where we noted that the Finance Department does not prepare a detailed list of outstanding checks not withdrawn from the Ministry bank account.

**Recommendation**

We recommend to properly prepare bank reconciliations, which shall be followed up and monitored by an appropriate level in the Ministry. In addition, all reconciling items shall be properly controlled by preparing, following and updating detailed lists of all reconciling items to properly reconcile and monitor bank accounts.

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**13. Tender Announcements**

**Observation**

As per our review we noted that public tenders at the Ministry of Municipalities are announced in one local newspaper. Public tenders are not announced in several local news papers, in addition, tenders directed to foreign companies are not announced in International newspapers or through internet, the only used media channel is the local newspaper.

Announcing public tenders in several newspapers, international newspapers and using internet assist 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 shall be published and announced in several local and international newspapers and as appropriate. Public tenders shall also be announced in the Government web site and other related market and product websites to increase the chance of obtaining more competitive bids.

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**14. Contract Guarantees**

**Observation**

As per our visit to the Ministry of Municipalities of Asulaymaniyah, we noted that the trust check is inadequate in comparison with the value of the contract, where we noted that contract number 97 trust check amounted to ID 10,000,000, while the contract value amounted ID 6,539,900,000. The percentage of the trust check to the total value of the contract is 0.16%, while the practice is to obtain trust checks not less than 3% of the total value of the contract.

**Recommendation**

We recommend that trust checks shall be proportionate to the value of the contract and that the trust check shall be reasonable in terms of value to satisfy the objectives of the guarantee and to preserve the Ministry's rights against its contractors in case of breach of contract.

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**15. Orders to Form Committees**

**Observation**

As per our visit to the Ministry of Municipalities of Asulaymaniyah, we noted that the orders of forming the committees of tender analysis and tender selection were not available at the Finance Department. Committees' formation letters are an essential part of the required documentation of the tender procedures which shall be properly filed in the accounting department and provided to management and auditors when required.

**Recommendation**

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

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**16. Pre-Printed Payment Vouchers**

**Observation**

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

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

**Recommendation**

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

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**17. Controls Over LCs**

**Observation**

As per our review we noted that Asulaymaniyah Ministry of Finance does not have full records for all opened LCs. During the second half of 2005 three LCs were opened in favor of Ministry of Finance and Ministry of Agriculture amounting to USD 17,857,314. As the Ministry of Finance personnel were mobilizing to a new building we could not obtain the full documents of those opened LCs. Upon our discussion with the Ministry of Finance personnel we understood that Asulaymaniyah Ministry of Finance was not provided by the full documents of those LCs.

**Recommendation**

We recommend that the Ministry of Finance in Baghdad and Asulaymaniyah review the process of LCs and develop a new policy in order to enhance monitoring and control activities over the LCs process. The LC process shall clearly identify and set out authority limits for requesting, opening and payment approval. In addition the LC process shall standardize the components of the LC file, which shall include at least:

- Formal approvals for request of opening the LC.
- Copy of LC draft.
- Amendments of the LC draft.
- Final approved LC.
- Contract with supplier and related supplier information.
- Received LC shipping documents.
- Approval to authorize the bank to pay the supplier on the LC specified date.

All the above documents shall be filed in the LC file at both the Ministry of Finance of Asulaymaniyah and Baghdad to properly keep track and audit trail of LC history and related documents.

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**18. Resolution of Reconciling Items**

**Observation**

During our visit to Erbil Ministry of Finance we noted that some reconciling items in the bank reconciliation as at December 31, 2005 were still not cleared and outstanding for more than six months. Following are examples of outstanding reconciling items:

- Check number 3955 dated July 11, 2005, amounting to ID 23,000,000
- Check number 3998 dated July 10,2005, amounting to ID 50,000,000
- Check number 4012, dated July 11, 2005, amounting to ID 30,270,000
- Check number 4013, dated July 11, 2005, amounting to ID 28,770,000

The above mentioned checks represent transfers to other Ministries financed by Erbil Ministry of Finance. We understood that in some cases transfers to the Ministries are canceled but a copy of the cancellation documents are not provided to the accountant responsible of maintaining the bank account, accordingly the canceled transfer will be held outstanding in the list of outstanding checks and not withdrawn from the bank account.

**Recommendation**

We recommend that reconciling items shall be followed up instantly. To properly control and monitor reconciling items, Ministry of Finance may develop a policy that no reconciling item shall be outstanding for more than two weeks and accountant responsible for maintaining the bank reconciliation shall be accounted for those items if still outstanding for more than the specified period. Such policy makes the accountant follow up on outstanding items, request and search for any missing or not provided documents by other departments.



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**19. Word Document Payroll Sheets**

**Observation**

As per our review we noted that payroll sheets at Erbil Ministry of Finance are prepared using word documents, Ministry of Finance does not implement HR software for payroll processing neither use excel payroll sheets. Such practice increases the risk of misstatements in payroll preparation and the risk of fraud. In addition, using word documents for processing payroll sheets makes the process of review more difficult for personnel involved in the review process.

**Recommendation**

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

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**20. Tender Procedures**

**Observation**

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

- Mid Atlantic Capital Group L.L.C contract for construction of 1008 flats amounting to USD 51,000,000.
- KP-Costain Limited for construction of a central medical laboratory amounting to USD 16,641,513.
- Kudo International and Mak-Yol & Cengiz Joint Venture for construction of Hawler International Airport amounting to USD 50,400,000.

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

**Recommendation**

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

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

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