

Development Fund for Iraq

Management Letter – Audit for
31 December 2010

New and Prior Year Unresolved MLPs



International Advisory and Monitoring Board
Committee of Financial Experts
Government of Iraq
Baghdad – Iraq

22 June 2011

Dear Sirs,

We are pleased to submit to you our Management Letter containing our observations and recommendations concerning the internal control structure and other matters resulting from our audit of Development Fund for Iraq for the year ended 31 December 2010. Our audit uncovered certain conditions that, although not considered by us to be material weaknesses in relation to the Association's financial position, are matters for which corrective action should be considered.

In planning and performing our audit we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control, therefore, we are not required to search specifically for fraud and therefore cannot be relied upon to disclose all such matters. Accordingly our audit may not have identified all weaknesses within your systems. The observations and recommendations as listed in the accompanying table of contents therefore may not be a comprehensive record of all weaknesses that may exist.

This report is intended solely for the information and use of the IAMB, COFE and the Government of Iraq and is not intended to be and should not be used by anyone other than these specified parties. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties (except the addressee's professional advisers acting in that capacity provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) unless so required by court order or a regulatory authority, without our prior consent in writing. We assume no responsibility whatsoever in respect of or arising out of or in connection with the contents of this presentation to parties other than the Addressees. If others choose to rely in any way on the contents of this presentation they do so entirely at their own risk.

We would be pleased to discuss these recommendations with you further and to assist you in implementing them.

Yours sincerely,

PricewaterhouseCoopers "Jordan"

PricewaterhouseCoopers "Jordan" Jabal Amman-3rd Circle, 14 Hazza' Al Majali St., P.O. Box 5175 Amman 11183 Jordan
T: +962 (6)500 1300, F:+962 (6) 461 0880, www.pwc.com/me

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Ending Cash and Cash Equivalentents and Treasury Bills Balances	Old	High
Policies and procedures manual	Old	High
Accounting Systems	Old	High
DFI Accounting Records	Old	High
Reporting and Financial Statements Preparation	Old	High
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Access to Source Code	Old	High
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Summery of Management Letters

	Status	Risk
Central Bank of Iraq		
Reporting the Recovered and Refunded Amounts	Old	High
DFI Records at the Central Bank	Old	High
Classification of DFI's Cash Receipts and Cash Payments	Old	Low
Interest Received on Letters of Credit on Cash Margins	Old	High
U.S. Agencies		
Outstanding contractual commitments	Old	High
Projects handover to the Government of Iraq	Old	Medium
Cash on hand and disbursements limits	Old	High
Hand over of U.S. Agencies documents to the BSA	Old	High
Oil Marketing Company (SOMO)		
Immunity	Old	High
Completeness of Petroleum and Petroleum Products Sales	Old	High
Barter Transactions	Old	Medium

Ministry of Finance

Observations Raised for the year ended 31 December 2010

Ministry of Finance

1. Ending Cash and Cash Equivalents and Treasury Bills Balances

Observation:

We noted that the monthly reports of the DFI balances for the year 2008, contain errors relating to the ending balances of treasury bills and cash and cash equivalents.

Recommendation:


We recommend that the accounting system used be revised and that all reports be reviewed.

Follow up:

The note is still valid, since the DFI monthly reports for year 2010 included errors regarding the treasury bills and cash ending balances.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

2. Policies and procedures manual

Observation:

We noted that DFI does not have formal detailed policies and procedures manual to cover all areas of its operations. The MOF periodically issues accounting instructions to set out the procedures to be applied in performing certain tasks. However, these instructions are not comprehensive as they do not cover all the aspects of the DFI's operations. Furthermore, these instructions have not been formally codified in the form of a comprehensive policies and procedures manual, which is readily available for reference by the staff involved in the DFI activities.

Recommendation:


We recommend that the DFI develops a comprehensive policies and procedures manual to cover all DFI operational, administrative, accounting and financial activities. The manual should also be reviewed on a periodic basis to ensure that it is updated and relevant for providing operational, administrative, accounting and financial guidance to the DFI's staff. In addition, detailed monitoring procedures should be developed and applied by the DFI to ensure proper and consistent implementation of the policies and procedures manual.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

3. Accounting Systems

Observation:

The current governmental accounting system relating to accounting procedures, including management information systems and internal control procedures, are no longer suitable for the current size and structure of the DFI, and have not been updated in line with the modern technologies and best practices available. The Iraqi Government is currently undertaking an overall change in the computerized accounting system of the Accounting Department.

Recommendation:

We recommend that the DFI undertakes a review of the accounting systems and processes and internal controls related to the DFI at MOF, CBI, SOMO and related ministries; with a view to improving efficiency of operations and effectiveness of controls. This should include, as a minimum:

- Policies and procedures manual.
- Control procedures in connection with the other divisions of the accounting department.
- Review of the accounting department's documentation and filing procedures.
- Review of the operating departments' system of internal controls.
- Consider providing online access to automated system to the internal audit department.
- Establishment of procedures for follow up of budget preparation and compliance.

Given the above, we recommend that the DFI consider developing or sourcing an integrated Accounting and Reporting Package together with Management Information Systems (MIS) and Financial Information Systems (FIS) which fully meet the requirements of the DFI operations at all locations.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	●
Medium	
Low	

Ministry of Finance

4. DFI Accounting Records

Observation:

We noted that the DFI's accounting records are based on information obtained from the CBI, and monthly statements sent by the CBI to the MOF. This information is limited to the transactions of the DFI's main account at the FRBNY. As a result, the DFI does not maintain a complete set of accounting records to support the financial statement and the related disclosure notes for the year ended 31 December 2007. The statement of cash receipts and payments is compiled from the monthly statements of cash receipts and payments of the DFI's main bank account managed by the CBI, the DFI's subaccount maintained by the U.S. Agencies, the FRBNY bank statements, other financial information maintained by the Ministry of Finance, and confirmations received from other parties. During 2007, the MOF has established a designated database for DFI to collect all transactions and accounting records in. MOF is working on reconciling DFI opening balances.

Recommendation:


We recommend that the MOF keeps complete set of accounting records to account for all DFI approved transactions that are reconciled with bank statements obtained from the CBI. In addition, periodic reconciliations should be performed between the MOF and CBI. Differences should be investigated, reported and resolved on a timely manner. Also, we recommend that COFE follows up on development and enhancement of the DFI accounting records to be separately maintained from MOF records, which are maintained in accordance with the government accounting system. The DFI's accounting records should be maintained in accordance with the cash basis under International Public Sector Accounting Standards. At the same time, the MOF shall continue to develop the DFI's database to support all figures reported in the financial statements and related disclosures. Staff should also receive appropriate training to carry out the preparation of the DFI's financial statements in accordance with the cash basis under International Public Sector Accounting Standards.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

5. Reporting and Financial Statements Preparation

Observation:

During the course of our audit, we noted that the MOF and the CBI do not prepare a complete set of DFI's statement of cash receipts and payments as part of the monthly management reporting process. The CBI currently prepares a monthly report including the cash receipts and cash payments of the main DFI account only, excluding the sub-account managed by the U.S. Agencies. In addition, we noted that there are no formally documented policies and procedures for the preparation of the DFI's financial statements and the related disclosures. Moreover, the MOF does not maintain records for all financial information that should be reported and disclosed in the DFI's statement of cash receipts and cash payments as required by the International Public Sector Accounting Standards /Financial Reporting on Cash basis. During 2007, The MOF has established a designated database for DFI to collect all transactions and accounting records in. MOF is working on reconciling DFI opening balances.

Recommendation:


We recommend that the COFE shall follow up with both the CBI and the MOF to prepare a full set of the DFI's statement of cash receipt and cash payments in accordance with the cash basis under International Public Sector Accounting Standards. We further recommend that a formally documented policies and procedures to be developed for the preparation of the DFI's financial statement and its related disclosures.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

6. Cash Margin at Corresponding Banks

Observation:

During our audit, we noted that the CBI and the MOF do not maintain any records of the outstanding cash margins paid from the DFI on behalf of the Iraqi ministries. According to the confirmations received from JP Morgan Chase and Citibank; the outstanding cash margin balances at these banks were U.S. \$ 2,474,616 thousand and Euro 140,883 thousand U.S. \$ 412,943 thousand and Euro 86,873 thousand respectively as of 31 December 2007. The letters of credit cash margins at the corresponding banks are not included as part of the DFI cash balances as they are not controlled by the DFI and restricted for the payment of the outstanding letters of credit to the suppliers. However, the cash margins are considered DFI assets and any extra cash at the end of the letter of credit is to be refunded to the DFI account.

Recommendation:


We recommend that the DFI maintain complete records of the cash margin transfers to the TBI's corresponding banks and all related transactions, as these cash margins are considered as part of the DFI assets until being paid to suppliers.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

7. Letters of Credit Issued for Self-Financing Entities

Observation:

We noted that self-financing governmental entities reporting to some ministries are transferring funds to the MOF current account at the CBI, and the letters of credit (LCs) are then being opened from the DFI funds at the FRBNY. During the year ended 31 December 2007, payments were made from the DFI funds to cover letters of credit for certain self-financing government entities that are not covered by the federal state budget, which is financed by the DFI, amounting to U.S. \$ 890,824 thousand. Conversely, the MOF received advance payments from these ministries to fund the payments of their letters of credit amounting to U.S. \$ 1,169,524 thousand, which have not been deposited in the DFI accounts. These advances were deposited in the MOF account at the CBI account number (301116).The following are examples of these institutions:

- General Company for Irrigations/Ministry of Industry.
- General Company for Agricultural Supplies/ Ministry of Agriculture.
- South Oil Company / Ministry of Oil.

Recommendation:


We recommend that arrangements to be made for the self financing entities to open their letters of credit directly through the Trade Bank of Iraq or other banks and maintain its data related to receipts and payments in electronic form to facilitate controlling them. During 2008, MOF issued instructions to all self financing entities to open their letter of credit directly.

Follow up:

The note is still valid during the year 2010, since we noted that the MoF finances the self finance oil companies from the DFI balances held with the FRBNY.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

8. DFI Transfers to the MOF's Current IQD Account

Observation:

During the course of our audit, we noted that there is currently no written agreement between the MOF and the CBI related to the arrangements of financing the MOF's Iraqi Dinar current account at the CBI from the DFI. The CBI is financing the MOF's current account, held at the CBI, by withdrawing the amounts from the DFI account at the FRBNY in U.S. \$ and then transferring an equivalent amount in Iraqi Dinar to the MOF's current account at the CBI. The exchange rate used is the CBI formal exchange rate on the date of transfer minus IQD 15 for each U.S. \$ 1 as commission charged by the CBI.

Recommendation:

We recommend the MOF and the CBI to reach an agreement setting out the arrangements to be followed to finance the MOF's current account in Iraqi Dinars. This agreement shall also include the date of exchange rate to be applied by the CBI to purchase the U.S. Dollar from DFI and basis of commission to be charged to MOF.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	●
Medium	
Low	

Ministry of Finance

9. Collection of Amounts Restricted Abroad

Observation:

During the course of our audit, we noted that an amount of U.S. \$ 10,886,400 of the petroleum export sales was seized based on a seizure order issued by Court of Roma – Italy on 23 March 2006 as a result of a lawsuit against the Iraqi Ministry of Planning. The Government of Iraq believes that the court order violates UNSCR 1483 (2003).

Recommendation:


We recommend the MOF coordinate with the Ministry of Justice and the Ministry of Foreign Affairs to follow up on this matter and take whatever action required and justified to recover this seized amount.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

10. Password Security Not Implemented

Observation:

We noted that there is no main menu to access the Accounting Database Application of the DFI at the Accounting Department of Ministry of Finance; moreover, the only way to access the Application is by running the source code through Microsoft Access 2003. Furthermore, unauthorized users can access and run the Application because the password control has not been implemented, and all users have unrestricted access to application.

Recommendation:


We recommend suitable security controls be implemented immediately to ensure access to data is restricted to authorized users only.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

11. Segregation Of Duties

Observation:

We noted that the programmer has unrestricted access to Accounting Database Application, and therefore; the programmer is in a position to make unauthorized or erroneous changes to data files.

Recommendation:

We recommend to constantly review the segregation of duties in IT department and separate incompatible duties where possible. In our view, the current lack of segregation arose as initially IT was the only department with skills and knowledge to operate the Application. However, Programmers access to update data should be restricted. In addition, any data files needed for program testing should be copied into the test area.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	●
Medium	
Low	

Ministry of Finance

12. Program Documentation Procedures

Observation:

We noted that the Accounting Department at MOF does not document any changes made into their Application. Also, the process of locating information about the programmed code is not efficient. To find a certain change, the whole program must be reviewed, and finding details of the latest change is time consuming.

Recommendation:


We recommend detailing of all changes made to the Application be recorded in a block of narrative at the top of the program code as well as in the relevant part of the code itself. This step will provide quick and easy reference to work previously carried out and its position in the program, which will increase the efficiency of the programming function. We suggest also using a control form, displaying the history of revisions made to Application's programs within the Application, and be maintained as part of the System documentation. This form should include the programmer name, the program number, the date and purpose of the modification, the user request number to which it relates, and a description of the modification.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

13. User Program Change Request Procedures

Observation:

We noted no standard procedures for users to follow when initiating and controlling requests for Application development and maintenance; such requests are often verbally communicated. Without formal written Application development and maintenance procedures, there is a risk that, some program changes may not be valid, or some program changes may not be adequately tested before being implemented. To help ensuring these control objectives are met, documented evidence of users' requirements and written authority for program changes should be developed.

Recommendation:

We recommend designing forms to provide standard documentation for all user requests. These forms should be pre-numbered and include, at a minimum, the following details:

- Name of the user initiating the request.
- Date of the request.
- Specifications of changes required.
- Required completion date for request.
- Authorization of request by user department head.
- Authorization of request by data processing management; the completed user request forms should be filed in numerical sequence. Periodic checks of the sequence would enable data processing management to identify any requests not completed for follow up by management. Management shall ensure that standard documentation is used across all changes in order to provide evidence for change requests with the required authorization, testing, and approvals.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	●
Medium	
Low	

Ministry of Finance

14. Access to Source Code

Observation:

We noted that the programmer has access to an Application's source code. Where administrative, development and support functions are not segregated; there is a risk that the programmer could make unauthorized changes to program parameters or process data without being detected.

Recommendation:


We recommend prohibiting programmer access to source code to minimize the risk of unauthorized changes. Access to source code should be monitored under close supervision of Management.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

15. Computer Security

Observation:

In reference to direct access devices on the end user computer, the following was noted:

- Floppy drives are enabled.
- CD-ROM drives are enabled.
- USB ports are enabled.
- End user has administrator privileges on his/her computer.

With the uncontrolled use of external media as well as administrative privileges, the Department risks increasing the potential for the spread of viruses. Furthermore, installation of unauthorized programs as well as the copying of sensitive and confidential information may occur.

Recommendation:


We recommend considering disabling all direct access devices on user workstations. Moreover, user should not be given administrator privileges on computer. Additionally, should a solid business case exist based on a formal risk assessment, Management should consider enabling certain drives / ports and granting power user privileges on computers exclusively to those justified in the business case. In such a case, approvals and authorizations should be obtained from the appropriate level of Management.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Ministry of Finance

16. Operating System Update

Observation:

We noted that Application's computer operating system is not updated with the most recent operating system update patches. Therefore, it will lead to the risk of exploitation of known security vulnerabilities in systems which are not sufficiently protected by updated operating system patches.

Recommendation:

We recommend following up, test, and deploy most recent operating system update patches in order to safeguard the Application's computer assets regularly.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	●
Low	

Central Bank of Iraq (CBI)
Observations Raised for the year ended 31
December 2010

Central Bank of Iraq

1. Reporting the Recovered and Refunded Amounts

Observation:

During our audit of the DFI’s statements in the CBI’s records, we noted that some of the deposited amounts in the DFI account at the FRBNY do not have sufficient supporting documents, except for the SWIFT confirmation from FRBNY. The deposited amounts mainly are recovered from letters of credit cancellation, interest on cash margins or excess of funding over the required amount. These recovered amounts were included in other receipts in the DFI statement of cash receipts and payments. As the recovered amounts include refundable cash margins, recording the recovered amounts in other receipts, rather than offsetting against related letter of credit payments in the same period, overstates the cash receipts and payments balances.

Recommendation:


We recommend also that all deposited amounts are adequately supported to assist in determining the nature of the receipts in order to properly classify these amounts in the financial statement.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Central Bank of Iraq

2. DFI Records at the Central Bank

Observation:

The DFI's Bank accounts at the FRBNY are managed by the CBI on behalf of the MOF and included as part of the CBI's accounting records. As of 31 December 2007, there is an un-reconciled difference of U.S. \$ 4.025 million between the balance recorded by the DFI and the related balance (maintained for control purposes) in the CBI records. This difference does not affect the DFI's statement of cash receipts and payments, as this statement was compiled directly from the Excel sheets database maintained by the CBI, the FRBNY statement and other external sources.

Recommendation:

We recommend that the CBI maintains separate records for the DFI with complete and detailed documentation for each transaction. These records should then be reconciled with the FRBNY bank statement and the MOF records on a timely basis and any differences should be investigated, reported and resolved.

Once this process is properly established, the DFI financial statement should be prepared directly from the DFI accounting records, rather than the current Excel sheets database maintained by the investment directorate at the CBI.

We recommend also that the CBI properly reconciles the remaining difference of U.S. \$ 4.025 million and arranges for the appropriate adjustments to be made to resolve this difference.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	●
Medium	
Low	

Central Bank of Iraq

3. Classification of DFI's Cash Receipts and Cash Payments

Observation:

During the course of our audit, we noted that the CBI maintains an Excel database for all the DFI cash receipts and cash payments, where we noted the following:

- Cash payments are not classified in the CBI database in accordance with the presentation of each category of cash receipts and cash payments in the DFI financial statement.
- The CBI database is missing clarification information such as the MOF's payment order number, letter of credit number, beneficiary's name, the destination account number where the money was transferred and the description of each transaction.

Recommendation:

We recommend that the CBI develop procedures to ensure the DFI cash receipts and cash payments are properly recorded and classified in accordance with the presentation of the DFI annual financial statement, which has been prepared in accordance with International Public Sector Accounting Standards / Financial Reporting on Cash basis.

Follow up:

During our follow up, we noted that this observations is still valid.

Status: Old

Risk Status

High	●
Medium	
Low	

Central Bank of Iraq

4. Interest Received on Letters of Credit on Cash Margins

Observation:

During our audit on cash receipts, we noted that interest payments received from JP Morgan Chase on funds deposited as cash margins against opened Letters of Credit amounted to U.S. \$ 128,379 thousand during year 2007 and the cash margin balances were U.S. \$ 2,474,616 and Euro 140,883 as of 31 December 2007, as stated in the confirmation received from JP Morgan Chase.

Interest payments are transferred to the DFI on a quarterly basis. However, there is no documented evidence that the interest received is recalculated to ensure the accuracy and reasonableness of the amount of interest received. These interest payments are recorded in the monthly statement of cash receipts and payments prepared by the CBI, although the source of these payments is not documented. In addition, we noted that no interest was recorded in the DFI cash receipts against the cash margins.

Recommendation:

We recommend that the CBI re-computes all interest received from the correspondent banks on timely basis to ensure the amount is fairly stated. Additionally, we recommend that CBI has to follow up with Citibank in order to clarify the reasons behind not booking interest on the cash margin held with.

Follow up:

During our follow up, we noted that this observation is still valid, since we noted some balances in the over receipts in which the Bank is unable to determine its source.

Status: Old

Risk Status

High	
Medium	
Low	●

U.S. Agencies

Observations Raised for the year ended 31
December 2010

U.S. Agencies

1. Outstanding contractual commitments

Observation:

We noted that the U.S. Agencies did not maintain a complete database of outstanding contractual commitments for contracts signed by the former CPA.

During our audit for the year ended 31 December 2006, we received Excel sheets extracted from the database showing detailed contracts information (i.e. contract number, contractor name, awarded date, date of completion, closeout date, contract value, amount paid, outstanding balance, contract status, related Ministry, etc). During or audit of these contracts, we noted the following:

- Certain contracts closing dates are in 2007 but they are shown as completed contracts as of 31 December 2006 (i.e. DFIWAT-06-C-0021).
- U.S. Agencies did not furnish us with contracts database as at 31 December 2007.

Based on the above, the controls to ensure the completeness of the contract database and the commitments outstanding balance at 31 December 2007 need to be improved.

Recommendation:


We recommend that the U.S. Agencies whom responsible for administering and closing DFI funded contracts should ensure that the database contains all DFI funded contracts signed by the former CPA, together with any other new contracts, and that the status of all contracts are fairly stated in the contracts

Follow up:

During our follow up, we noted that this observation is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

U.S. Agencies

2. Projects handover to the Government of Iraq

Observation:

The U.S. Agencies have been performing an administrative function on behalf of the Government of Iraq or the beneficiary ministry and following up payments to contractors. For this purpose, the U.S. Agencies use the DD250 form as a control to ensure receiving and inspection of materials or services.

However, we noted that this form is not being signed by the representative of the Government of Iraq or the beneficiary ministry. During the progress of the projects, U.S. Agencies issue letters to the Ministry of Finance to settle the due balance to each contractor. After the completion of the projects, the U.S. Agencies hand over the projects to the beneficiary ministry. We note that the beneficiary ministry does not sign any formal documents to confirm receiving the projects from the U.S. Agencies.

Recommendation:

We recommend that the U.S. Agencies inform the Government of Iraq representatives of the progress of the contracts to ensure all contracts and services administered by the U.S. Agencies are appropriately handed over to the Government of Iraq. This will help the Government of Iraq to have more information about the status of the projects made for the benefit of the ministries. The DD250 form should be signed by the representative of the Government of Iraq or the beneficiary ministry to confirm this control is being carried out. Also, the beneficiary ministry should sign the project hand over letter from the U.S. Agencies to confirm receipt of the projects, thus increasing the documented controls over completed projects administered by the U.S. Agencies.

Follow up:

During our follow up, we noted that this observation is still valid.

Status: Old

Risk Status

High	
Medium	●
Low	

U.S. Agencies

3. Cash on hand and disbursements limits

Observation:

We noted that the U.S. Agencies have no ceiling limits for either cash on hand and held in the U.S. Agencies vault or for cash payment transactions. During our audit, we noted certain high value cash payments transactions, e.g. payment of U.S. \$ 10 million on 1 January 2006 to one U.S. Agency in order for that U.S. Agency to pay its suppliers and contractors. We requested but did not receive the supporting documents for the amounts paid to the suppliers and contractors.

Recommendation:


No payment transaction has been performed out of cash on hand held with U. S. Agencies during 2007. However, during March 2008 the U. S. Agencies transferred all cash on hand to MOF's account at the CBI.

Follow up:

During our follow up, we noted that this observation is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

U.S. Agencies

4. Hand over of U.S. Agencies documents to the BSA

Observation:

During the course of our audit, we noted that on 11 December 2006, the U.S. Agencies submitted the contracts files and other supporting documents of the former CPA and the U.S. Agencies to the Iraqi Board of Supreme Audit (BSA). According to the BSA letter dated 25 February 2007 to the U.S. Agencies, the BSA informed the U.S. Agencies that they found financial and legislative violations, which lead the BSA to review all the submitted documents. As a result of these findings, and the Government of Iraq has retained its right to request compensation for any financial damage to the Iraqi budget due to any financial or administrative actions taken by the U.S. Agencies during the execution of the contracts.

Recommendation:


We recommend the findings of the BSA are followed up to determine what action is required to be taken.

Follow up:

During our follow up, we noted that this observation is still valid.

Status: Old

Risk Status

High	
Medium	
Low	

Oil Marketing Company (SOMO)
Observations Raised for the year ended 31
December 2010

Oil Marketing Company (SOMO)

1.Immunity

Observation:

In accordance with UNSCR 1483 (2003), certain Member States have taken legal steps, as considered necessary, to ensure immunity from legal proceedings for the purchase of petroleum and petroleum products originating in Iraq, until title passes to the initial purchaser, so as not to be subject to any form of prior judicial, administrative or arbitral lien or judgment. This immunity expires on 31 December 2008 unless the United Nations Security Council decides otherwise

Recommendation:


We recommend the Government of Iraq to consider what action is required to ensure the continuity of the immunity over the petroleum and petroleum products or to find out and assess any alternative procedures to protect the Member States.

Follow up:

The immunity has been extended until 31 December 2011 as per UNSCR 1905 (2009)..

Status: Old

Risk Status

High	
Medium	
Low	

Oil Marketing Company (SOMO)

2. Completeness of Petroleum and Petroleum Products Sales

Observation:

The IAMB recommended in March 2004 the expeditious installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices. Oil metering is a key factor to achieve financial transparency and accountability over oil resources in Iraq. While the Iraqi Government supports oil metering, progress has been slow. Some metering has been installed at oil terminals, but there continues to be no metering in the oil fields. Because of the absence of an overall comprehensive system of controls over oil, there are un-reconciled differences between oil extraction, production, export sales and internal usage. During January 2007, we noted that new metering systems were installed at the loading points only, but still no metering systems have been installed at the oil wells, storage facilities and refineries. These systems need to be calibrated in accordance with Committee of Calibration and measurement.

Recommendation:

We recommend installation of Comprehensive metering systems for all oil industry related entities and expeditious installation and calibration processes for entities already received the metering systems.

Follow up:

The overall metering system installation percentage was around 39% as at 31 December 2010, noting the complete meters installation at the loading ports in Basrah Oil Terminal and Khur Al Umayah Oil Terminal.

Status: Old

Risk Status

High	●
Medium	
Low	

Oil Marketing Company (SOMO)

3. Barter Transactions

Observation:

During the course of our audit, we noted that SOMO engaged in barter transactions with the Syrian Government for exports of petroleum and petroleum products. Barter transactions consist mainly of exports of fuel oil in exchange for petroleum products, and exports of petroleum in exchange for electricity and petroleum products. The total barter transactions during 2007 amounted to USD. \$ 217,391,457. According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI accounts. As these were non-cash transactions, these barter transactions are not recorded in the DFI's statement of cash receipts and payments. Also, according to the agreement between SOMO and the Syrian Government, when the amount due from the Syrian Government exceeds USD. \$ 10,000,000 for more than three months, a cash payment covering 75% of the due amount should be transferred to the other party. However, during the year, we noted that the amount due from the Syrian Government exceeded USD. \$ 10,000,000 for more than three months and no cash transfer was received during 2007. Total amount due from the Syrian Government as of 31 December 2007 according to SOMO's records amounted to USD. \$ 302,390,176. This amount has not been confirmed by the Syrian Government.

Recommendation:

We recommend SOMO to send a statement of barter transactions on a monthly basis to the Syria Government, in order to minimize any disputes that may arise with respect to any amounts relating to exchanged products. In addition, we recommend SOMO to request a confirmation of the balance outstanding from the Syria Government on a monthly basis and reconcile this confirmation to SOMO's records. Any reconciling differences should be investigated, reported and cleared on a timely basis.

Follow up:

Barter sales with the Syrian government amounting to USD. Dollars 750,865 thousand from inception till 31 December 2008 and with private companies amounting to USD. Dollars 348,815 thousand from inception till 31 December 2008 were not recorded in the financial statements. These amounts were not confirmed by the barter partners. No barter transactions were done during the year ended 31 December 2010.

Status: Old

Risk Status

High	
Medium	●
Low	

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