

The background of the slide is a photograph of an oil rig tower, viewed from a low angle looking up. The tower is a complex metal structure with various beams, ladders, and pulleys. The sky is a clear, bright blue. A semi-transparent blue rectangular box is overlaid on the right side of the image, containing the title and date.

**Development Fund for Iraq**  
Management Letter – Federal Ministries  
31 December 2009

## Disclaimer

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

Dear Sirs,

We have audited the financial statements of the DFI, which comprise of the statements of cash receipts and payments and the statements of proceeds of oil export sales of the DFI for the year ended 31 December 2009 and a summary of significant accounting policies and other explanatory notes. In planning and performing our audit of the financial statements of the Fund in accordance with international standards on auditing, we considered the internal control of the spending ministries as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the spending ministries internal controls. Accordingly, we do not express an opinion on the effectiveness of the spending ministries' internal control. Throughout our audit we have noted some observations and recommendations that we are reporting to you for your kind attention and follow up.

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

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

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

Yours faithfully,

30 October 2010

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## **Common observations throughout the ministries during 2009**

Common observations throughout the ministries

### 1. Organization Chart

<b>Observation</b>	The Ministries do not have an Organization Chart or Job Description.
<b>Recommendation</b>	We recommend the Ministries to develop a formally approved organization structure and job descriptions for all levels. The organization structure and job descriptions should include the following as a minimum: <ul style="list-style-type: none"><li>- Hierarchy of the Ministry.</li><li>- Executive responsibility, immediate assistants and approval authorities.</li><li>- Operational responsibilities of employees, and specific duties to be performed.</li><li>- Required administrative responsibilities related to the job performance.</li><li>- Any other duties that the minister deems necessary to be performed at any given circumstance.</li><li>- Type of reports that must be issued and the timetable for preparing and issuing these reports.</li></ul>
<b>Management's Response</b>	
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministries, we noted that the above mentioned observation is currently being addressed.

Common observations throughout the ministries

2. Work Time Control

<b>Observation</b>	During our visit to the Ministries, we noted that the only control on hours worked by employees is done by having employees sign on the entry register as they enter on a daily basis. There is no automated system to monitor hours worked by employees. This leads to weakness in control and in monitoring the hours worked by employees.
<b>Recommendation</b>	We recommend that an automated system be installed to accurately record the hours worked by employees on a daily basis.
<b>Management's Response</b>	
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministries, we noted that the above observation is still valid throughout 2009 year end for some of the ministries.

### 3. Fixed Assets Identification

<b>Observation</b>	We noted that the fixed asset register does not include identification numbers for fixed assets. Creating identification numbers for each individual asset would enable the Ministries to trace each particular item to the fixed asset register and improve accountability in respect of fixed assets. Furthermore, this will facilitate the physical existence verification of fixed assets at the Ministries.
<b>Recommendation</b>	We recommend that the Ministries creates an identification number for each fixed asset. This should be recorded in the fixed assets register. Furthermore, we recommend periodic independent physical count to ensure existence of fixed assets.
<b>Management's Response</b>	
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministries, we noted that the above mentioned observation is still valid during the year 2009.

Common observations throughout the ministries

**4. War Losses**

<b>Observation</b>	The Ministries did not perform a survey of the losses resulting from the 2003 war to derecognize the lost assets from its records.
<b>Recommendation</b>	We recommend the losses resulted from the 2003 war be estimated and assets derecognized from the Ministry's records after obtaining the appropriate approvals.
<b>Management's Response</b>	
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministries, we noted that the war losses were estimated, and the approval for the write-off of impaired assets is still pending.



### 5. Automation of the Accounting System

<b>Observation</b>	We noted that journal entries are recorded and posted to the general ledger manually. In addition, the extraction of the trial balance and financial reports are also done manually.
<b>Recommendation</b>	We recommend that the Ministries uses an automated accounting software for all accounting transactions, to avoid mistakes that may arise as a result of manual processing and to increase efficiency in the extraction of reports.
<b>Management's Response</b>	
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministries, we noted that the above mentioned observation is still valid during the year 2009.

# **Observations raised for the year ended 31 December 2009**

## **Ministry of Finance**

# 1. Accounting Records and Supporting Documents

<b>Observation</b>	We noted the following: <ol style="list-style-type: none"><li>1. The accounting division at the Ministry does not maintain a register for fixed assets.</li><li>2. The Ministry does not maintain a register for payments of car maintenance expenses despite the size of the amounts spent from this account and the number of cars this account includes.</li><li>3. The finance department records the payment order in a journal and then records the journal entry in another journal without regard to the sequence.</li><li>4. The Ministry does not reverse entries it simply strikes the entry out and writes "VOID".</li></ol>
<b>Recommendation</b>	We recommend that the accounting department maintains the above mentioned accounting records and follows sequential numbering when recording transactions.
<b>Management's Response</b>	The Ministry agreed with point (b) but disagreed with points a, c and d.
<b>Risk level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that observation number 2, mentioned above, is still valid.

**Observations raised for the year ended 31 December 2009  
Ministry of Oil- Marketing Company (SOMO)**

**1. Sales of Petroleum Products/ Nafta**

<b>Observation</b>	We noted that the Oil Marketing Company exported a Nafta product during the first half of 2009 for an amount of USD 602,432.44, which was not deposited in the Development Fund for Iraq (as per UN security council resolution number 1483 for 2003).
<b>Recommendation</b>	We recommend complying with UN security council resolution number 1483 for the year 2003, which states that the Oil Marketing Company should deposit proceeds from the export of Oil Products in the Development Fund for Iraq account.
<b>Risk Level</b>	High
<b>Status</b>	New

**2. Account 20,000,000**

<b>Observation</b>	During our review of the Oil Marketing Company bank accounts, we noted the existence of an account at TBI, which SOMO does not have any information about, and for which TBI does not provide a detailed balance for the reconciliation purposes.
<b>Recommendation</b>	We recommend asking the bank to provide the Company with a monthly detailed balance, for the purpose of preparing monthly Bank reconciliations.
<b>Risk Level</b>	High
<b>Status</b>	New

### 3. Debtors

<b>Observation</b>	During our audit, we noted that there are uncollected debts due from foreign companies in exchange for Crude Oil amounting to USD 360,577,268.22 and oil products for USD 8,321,629 sold in 1998,1990.
<b>Recommendation</b>	We recommend the follow up and deposit of there amounts in the account of the Development Fund for Iraq.
<b>Risk Level</b>	High
<b>Status</b>	New

**4. Differences**

<b>Observation</b>	During our audit of the Oil Marketing Company, we noted that the fuel oil exports as per 2009 records was 14,181,548 tons per SOMO records, while per Petroleum Products Distribution Company records the amount is 1,413,000 tons.
<b>Recommendation</b>	We recommend following up and investigating the differences.
<b>Risk Level</b>	High
<b>Status</b>	New



**5. Accounting System**

<b>Observation</b>	During our visit to the company, we noted that the company uses Microsoft Access Software, which is not suitable given the size of the company’s operations. This system could result in delays in the company’s operations.
<b>Recommendation</b>	We recommend installing a comprehensive accounting software as a complete solution for the quick processing and extraction of financial information.
<b>Management’s Response</b>	SOMO has contracted with the Ministry of Industry and Minerals (State Company for Information Systems) to develop a comprehensive accounting software.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, it appeared that the Company contracted with the Ministry of Industry and Minerals (State Company for Information Systems) to develop a comprehensive accounting software

**6. Fines**

<b>Observation</b>	During our visit to the company, we noted that fines incurred by the company due to delays in loading the carriers amounted to USD 24,470,389 during the year 2008.
<b>Recommendation</b>	We recommend complying with time schedules set for loading in order to avoid fines and preserve public funds.
<b>Management's Response</b>	It appeared that the reasons for the delay are both, a shortage in the storage capacity of the crude oil, and a shortage in the truck loading capacity.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid for the 2009, however, the total fines which resulted from the delay in truck loadings have significantly decreased compared to the 2008, amounting to USD 2,782,677 in 2009.

**7. Change of Destination**

<b>Observation</b>	During our review of crude oil contracts, we noted that the company “Shell” changed the destination of one of its shipments from North America to the Far East resulting in additional dues of USD 26,287,818 which SOMO had demanded. Till the date of our visit on 18 March 2009, “Shell” had not settled this amount, knowing that SOMO has continued to sell to “Shell”.
<b>Recommendation</b>	We recommend taking the appropriate steps against Shell company in order to collect the additional amounts due.
<b>Management’s Response</b>	It appeared to SOMO that the company Shell changed the destination. The Minister of Oil has issued a letter to the above mentioned company dated 4/3/2008 asking them to pay the amount due and noting that the terms of the contract do not allow the importing companies of crude oil to change the point of destination.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our follow up we noted that Shell Co. Changed the destination of another shipment resulting in additional dues of USD 12,395,775 in addition to the unpaid fines on the first shipment amounting to USD 26,287,818. However, we noted that the Minister of Oil has taken the appropriate steps against Shell company in order to collect the additional amounts due.

## 8. Al Ahli Bank of Jordan

<b>Observation</b>	<p>We noted that the following outstanding balances due to the company from Al Ahli Bank of Jordan:</p> <ul style="list-style-type: none"> <li>•USD 7,868,578</li> <li>•Euro 922,704</li> <li>•CHF 6,935</li> <li>•GBP 1,389</li> </ul> <p>SOMO sent a letter to the bank to confirm these balances at 9/2/2009. On 1/3/2009, the above mentioned bank sent a letter to SOMO stating that there are no balances relating to SOMO and that any inquiries regarding this issue should be with the Central Bank of Jordan.</p>
<b>Recommendation</b>	<p>We recommend following up on this issue with the Central Bank of Jordan in order to ensure collection of these amounts and to deposit them in the DFI account.</p>
<b>Management's Response</b>	<p>It appeared that SOMO addressed a letter number 1/1653, dated 27/4/2009, to the Central Bank of Jordan regarding the transfer of funds to the Development Fund for Iraq (DFI). The above mentioned letter was in turn forwarded to the Minister of Finance Chairman of the Management Committee of frozen deposits under letter number 6515, dated 3/5/2009, requesting the transfer of funds to the DFI account. Till the date of the report, the funds were not transferred.</p>
<b>Risk Level</b>	<p>High</p>
<b>Status</b>	<p>Old</p>
<b>Follow up</b>	<p>During our visit to the Company during 2009, we noted that the Ministry of Oil addressed a letter number 557 dated 9/2/2010 to the Jordanian Ministry of Finance/ Chairman of the Frozen Accounts Committee requesting from him to inform them of the procedures taken to transfer the balances of their accounts to the DFI fund to enable them to handle the suspended accounts. Up till the last day of our visit, the Jordanian Ministry of Finance has not replied.</p>

### 9. Outstanding Items in Bank Reconciliations

<b>Observation</b>	During our review of reconciliations between SOMO and the Trade Bank of Iraq (account number 1151 and 1084), we noted that there are old outstanding items with substantial balances from the year 2007.
<b>Recommendation</b>	We recommend that the company follows up on the old outstanding items in order to reconcile the book balances with the Trade Bank of Iraq.
<b>Management's Response</b>	It appeared that SOMO resolved old outstanding items related to the year 2006, and that some items still remain outstanding and are being followed up by SOMO.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid.

### 10. Reconciliation of Crude Oil Sales

<b>Observation</b>	During our visit to the company, we noted that the company performs monthly reconciliations of oil sales with the Central Bank of Iraq and not with the Ministry of Finance.
<b>Recommendation</b>	We recommend performing monthly reconciliations with the Ministry of Finance.
<b>Management's Response</b>	We noted that SOMO performs monthly reconciliations of oil sales with the Central Bank of Iraq and not with the Ministry of Finance.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid.

## 11. Operating and Trade Accounts

<b>Observation</b>	During our visit to the company, we noted that the company prepares two types of accounts: trade accounts, and operations accounts, and does not combine these accounts in presenting the financial position.
<b>Recommendation</b>	We recommend combining the trade and operations accounts in order to present a comprehensive financial position.
<b>Management's Response</b>	It appeared that SOMO is capable of combining the trade and operations accounts, once the accounting system is fully installed and operated.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that a committee formed of the BSA, CBI, MOF and the MoO is developing an accounting system for trade accounts that will allow consolidating the two accounts.

**12. Sales of Oil Products**

<b>Observation</b>	During our visit to SOMO, we noted that the accounting division does not prepare reconciliations between sales of oil products on an accrual basis, and receipts from sales of oil products on a cash basis. The difference between the cash and accrual basis amounted to USD 205,630,000 for the year ended 31 December 2008.
<b>Recommendation</b>	We recommend preparing reconciliations between the accrual basis and cash basis sales. We also recommend opening a separate bank account for sales of oil products to facilitate the reconciliation process.
<b>Management's Response</b>	SOMO clarified that it follows a accrual based policy rather than a cash policy.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid.



**13. Shipment Destinations**

<b>Observation</b>	According to SOMO standard export sales of petroleum contracts, the shipments destinations of each buyer are predetermined in the contract and any change to the destination should be subject to SOMO prior approval. However, we noted that there were 13 petroleum export sales contracts that provide the customers to freely determine the destination. This procedure subsequently affects the Oil Selling Price (OSP), which is calculated based on the shipment destination determined by the customer, and directly has effect on the amount of the export sales revenues.
<b>Recommendation</b>	We recommend SOMO to reconsider these contracts and control the shipments destinations to maximize export sales revenue.
<b>Management's Response</b>	SOMO indicated that the destination is a basic clause in the contract, though some purchasers insist on multiple destinations as they own refineries in different markets. The increase in revenues is not only due to price but also to increases in exports via new additions of markets, and increased volume exports. The related commission stresses the need for reconsidering these contracts to have full control on destinations of shipments in order to maximize revenues of export sales. This note was also mentioned in the Firm's report for the prior year.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

## 14. Certificate of Discharge at Destination Port

<b>Observation</b>	Based on our review, we noted that SOMO does not obtain the certificate of discharge at port of destination. Considering that SOMO's contractual provisions do not permit the change of the destination or reselling without the prior consent of SOMO, the shipping department should obtain the discharge certificate at destination port to ensure customer compliance with SOMO's contractual provisions. Also, per the signed agreement with KARTET KARADENIZ TOPTAN ELEKTRIC COMPANY, SOMO should be provided with certificate of discharge on a monthly basis from this company to confirm the received quantities; however such certificate were not obtained.
<b>Recommendation</b>	We recommend SOMO's shipping department to obtain certificate of discharge at the destination port for each shipment, to ensure the proper execution and compliance with the signed contracts and ensure receipt of certificate of discharge from KARTET KARADENIZ TOPTAN ELEKTRIC COMPANY on a monthly basis.
<b>Management's Response</b>	<p>SOMO indicated that paragraph 3 of clause 11 of section 2 of the standard contract stipulate that the purchaser undertakes to provide the seller with an offloading certificate for each shipment, if requested by the sellers, which certificate shall be approved by a representative of Iraq or any other party accepted by it in the country of final destination. The reasons behind making the request for this offloading certificate an option for and not an obligation on our company are:</p> <ul style="list-style-type: none"> <li>-Responsibility of the shipment and its ownership is transferred to the purchaser as of the date of issuance of the loading certificate. The imposition of an offloading certificate as an obligatory condition on the purchaser would extend our responsibility for the shipment until it's offloading, thus providing the purchaser with opportunity to exploit this time-extended responsibility to request compensation for differences that could arise between quantities offloaded and those originally loaded in addition to changes that could affect the quality.</li> <li>- In many instances, the companies are not able to provide an offloading certificate signed in ink and stamped by our embassies in certain countries due to the non-availability of such embassy.</li> <li>-It is possible to trace the movement of all tankers' loaded at our terminals to various markets by referring to Lloyd's site on the internet. In case of any doubt as to the final destination of an oil; tanker and the exact port of discharge, Lloyd's register will here be considered an important alternative to the offloading certificate. This note was also mentioned in the Firm's report for the prior year.</li> </ul>
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid for 2009. As for the Turkish Agreement (Petroleum Products), reconciliations are prepared on an annual basis as at 31/12/2009. We recommend they are prepared on a monthly basis.

## 15. Sequential Numbering for Standard Forms and Vouchers

<b>Observation</b>	<p>We noted that most of the standard forms and vouchers used by SOMO for export sales transactions do not have a pre-numbered serial number. The following forms are example of forms without a pre-numbered serial number:</p> <ul style="list-style-type: none"> <li>- Loading cards.</li> <li>- Bills of lading.</li> <li>- Certificate of quantity and quality.</li> <li>- Ullage reports.</li> <li>- Export cargo manifest.</li> </ul>
<b>Recommendation</b>	<p>We recommend that all forms used by SOMO should be pre-numbered in order to improve the control over export sales and to keep proper audit trail.</p>
<b>Management's Response</b>	<p>SOMO replied as follows:</p> <p>First: A sequential Code No. is used by SOMO and oil extracting companies for the preparation of loading manifest until actual loading where the sequence changes to a Shipment No. which is determined at the terminal, and is the basis indicated on all shipping documents and commercial bills.</p> <p>Second: Initial pre-numbering could be implemented in case an overall comprehensive export system is adopted (starting with the signature of contract and until the terminal).</p> <p>Third: As relates to sales of fuel oil, Shipment Nos. are utilized for bills of lading which are determined at the export terminal and are also indicated in the commercial bills and other shipping documents. This number is considered the basis for numbering exported shipments. Certificates of quantity and quality have a numbering series controlled by the shipping department. This note was also mentioned in the Firm's report for the prior year.</p>
<b>Risk Level</b>	<p>Low</p>
<b>Status</b>	<p>Old</p>
<b>Follow up</b>	<p>Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.</p>

**16. Opening of Export Crude Oil Sales LC's**

<b>Observation</b>	During our review, we noted that contract terms with customers require that the letters of credit (LC's) should be opened at least seven days before the loading date. In certain cases, we noted that the LC's were not opened during the determined period. No shipment should be authorized to be loaded without the existence of a confirmed opened LC, and accordingly, delays in opening the LC's might result in delays in loading shipments and in changes of the scheduled plan for shipments. All subsequent operational cycles depends on the issuance of the LC and accordingly, compliance with the seven days period is necessary in order not to disrupt other cycles of SOMO's operations.
<b>Recommendation</b>	We recommend the Finance Department to follow up and ensure timely opening of export sales LC's, and to adhere with the provision of seven days period for opening the LC's before loading date
<b>Management's Response</b>	SOMO stated that follow up on opening of the documentary credit with the purchaser takes place in case of realization of the 7-day period in which is usually a result of banking channels, holiday periods, and disruption of internet services at CBI. This note was also mentioned in the Firm's report for the prior year.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	We noted through our visit to the Company that the above mentioned observation is still valid for some LC's during the year 2009.

## 17. Reconciliations with Syrian Government

<b>Observation</b>	According to the barter agreement between SOMO and the Syrian Government which is renewed on January 20, 2007, the two parties should meet on a monthly basis to settle the outstanding amounts due to each other. However, no final reconciliation has been prepared for 2006 and 2007 transactions. Moreover, according to the agreement, when the due amount exceeds USD 10 million for more than three months, 75% cash payment of the due balance should be transferred to the other party. However, the due amount from the Syrian Government exceeded USD 10 million from the last year, but no cash transfer has been made to SOMO from the last year until the end of 2007. The due amount to Iraqi side was increased during the year of 2007 which amounted to USD 302 million.
<b>Recommendation</b>	We recommend SOMO to prepare monthly reconciliations with the Syrian Government records; this will minimize any disputes that may arise with respect to pending quantities. In addition, we recommend SOMO to follow up collection of the due amount and to control these transactions in accordance with the agreement.
<b>Management's Response</b>	<p>Re the collection of the difference in the trade balance arising from the Iraqi/Syrian agreement, SOMO stated that follow up continues for collection of this amount. The Syrian party fails to transfer the amount due to the American penalties imposed on it and its fear of expropriating the funds.</p> <p>Lately, MOF/ Foreign Development Fund were referred to for arranging transfer of this amount noting that the said agreements were canceled during December 2007 as per SOMO's letter No. M/34/29 dated 28/12/2007 addressed to the head of Syrian Council of Ministers (office of marketing of Syrian oil). This note was also mentioned in the Firm's report for the prior year.</p>
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	No barter transactions have occurred during 2009 with the Syrian government knowing that the Iraqi government is requesting the amount of USD 302,391,000, from the Syrian government. We are still following up on a regular basis to collect this amount so long; however, the Syrian side is still failing to transfer the funds up till the date of the report.

**18. Quantities of Oil Products Received**

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

**19. Internal Control Procedures Over Oil Imports**

<b>Observation</b>	During our review, we noted that SOMO does not have documented internal control procedure manual over the import of petroleum products. Senior management instructions on such procedures are documented in the form of various internal memoranda. In this case, the risk exists that procedures may be applied in an inconsistent manner and new staff may not be aware of the approved policies and procedures.
<b>Recommendation</b>	We recommend developing and maintaining written standard internal control procedures over the import of petroleum products. In addition, detailed monitoring procedures should be followed by key management to ensure effective and consistent implementation of the internal control procedures.
<b>Management's Response</b>	The related commission confirms the above note together with the need for preparation and completion of internal audit procedures on petroleum products import. This note was also mentioned in the Firm's report for the prior year and SOMO did not take any action thereon.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

Ministry of Oil-Oil Marketing Company (SOMO) Oil Products Imports  
**20. Measuring Metering System for Imported Petroleum Products**

<b>Observation</b>	During our review, we noted that the quantities of the imported petroleum products delivered by suppliers to SOMO storage tanks have been determined by reference to a dipstick carried for each storage tank. SOMO's shipping division management are satisfied that the dipstick measurements of imported petroleum products correspond with that of the invoiced quantity.
<b>Recommendation</b>	We recommend implementing accurate metering systems to be in line with the best practices and to ensure effectiveness of control over misappropriation of quantities of imported petroleum products. Upon receiving of each petroleum product shipment, the quantity received per bill of lading should be compared with the readings of SOMO metering system by independent authorized personnel. We also recommend that appropriate safeguarding policy of the metering devices should be implemented, such as installing the meters in a secure area, where only authorized personnel are granted the access.
<b>Management's Response</b>	We in this respect point out that SOMO does not have stations for petroleum products storage, as these stations are for the petroleum products distribution company and Pipelines Company. The application of a detailed monitoring system on quantities of imported products is subject to the note in respect of the over-all monitoring system on all phases of the oil industry. This note was also mentioned in the Firm's note for the prior year.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.



**21. Monthly Reconciliation With Suppliers of Petroleum Products**

<b>Observation</b>	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.
<b>Recommendation</b>	We recommend requesting confirmation or statements of account from all suppliers of imported petroleum products on a monthly basis. The suppliers' balances should then be reconciled to SOMO records with any differences being investigated and resolved on a time basis.
<b>Management's Response</b>	The marketing company stated that its financial section was not provided with statements by suppliers of petroleum products for its reconciliation with the records. Only a monthly reconciliation of quantities supplied, was prepared between the records division and products export section. The company providing the petroleum supplies was requested at the end of year 2007 to provide the marketing company with statements of account for reconciliation with records of the finance department. The monitoring commission confirms the need for performing the mentioned reconciliation periodically. This note was also mentioned in the Firm's report for the prior year.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009. We recommend the reconciliations are prepared at least on an annual basis.

## 22. Pending Reconciliation Items

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

**23. Control Over Invoices and Certificates of Imports**

<b>Observation</b>	We noted that all manual documents such as credit notes, invoices, and the Shipping Department’s certificates of import were manually numbered.
<b>Recommendation</b>	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.
<b>Management’s Response</b>	<p>The company stated that the pre-numbering procedure for credit advices could not be done as they are serially numbered on issuance. It is also difficult to pre-number part of the documents.</p> <p>The related committee indicated that serial pre-numbering should be done at all times and pre-printed on the important documents such as price lists, receipts, etc.</p> <p>This note was also mentioned in the Firm’s report for the prior year.</p>
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

**24. Exchange Rate**

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

# **Observations raised for the year ended 31 December 2009**

## **Ministry of Oil**

# 1. Group Transportation Contract

<b>Observation</b>	Contrary to the governmental contracts instructions (Article 7/18), the opening and analyzing committee does not verify all the documents presented by Al Morouj Company before the awarding. Since the Company presented a fraudulent stamped document of the amount of initial guarantees, and the fraud case was discovered after awarding, the committee cancelled the awarding, and redirected it to another contractor Nahr Al- Rawafed Company.
<b>Recommendation</b>	We recommend verifying authenticity of the documents presented by contractors, such as personal documents and the documents related to contracting such as letters of guarantee and the General Commission Clearance for taxes.
<b>Risk Level</b>	High
<b>Status</b>	New

## 2. Al- Hafr Company (The Excavation Company) –Company Contract

<b>Observation</b>	During our review of the contract number IDC1/2008/ (RF), we noted that the Excavation Company had adjusted the cost estimates of the bid after opening the tenders, since the cost estimates presented by the company were not the same as those presented by the bidders.
<b>Recommendation</b>	We recommend the readjustment of cost estimates according to accurate technical and scientific studies.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 3. Oil Drilling Company –Suspended Balances with the Trade Bank of Iraq

<b>Observation</b>	We noted that there exists outstanding LCs opened at the Trade Bank of Iraq that the company has no details of.
<b>Recommendation</b>	We recommend following – up and settling these balances.
<b>Risk Level</b>	Medium
<b>Status</b>	New



### 4. Burning Condensed Petroleum Products

<b>Observation</b>	During our visit to the Ministry, we noted that the North Oil Company burns quantities of petroleum condensates products from the Ajil fields due to the lack of outlets. The burnt quantity during 2008 amounted to 1,391,230 barrels.
<b>Recommendation</b>	We recommend that the Ministry finds outlets for the condensed petroleum products instead of burning them in order to preserve public funds.
<b>Management's Response</b>	SOMO responded, and is taking direct action to renovate some of the crude oil products from the fields and mix several condensates with it.
<b>Risk level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	During the first quarter of the year 2009, it appeared to us that the company burned 416,208 barrels.

Ministry of Oil  
**5. Wasted Barrels**

<b>Observation</b>	During our visit to the Ministry, we noted that there are 698,083 <u>wasted</u> barrels during the year 2008 from North Oil Company due to terrorist activities.
<b>Recommendation</b>	We recommend that the Ministry increase its security procedures to preserve public funds.
<b>Management's Response</b>	The company replied that the amount wasted and the surplus of crude oil refineries in 2008 that resulted from the damaged pipe (due to acts of sabotage), was mostly during the first quarter of the year and then declined significantly as a result of the improved security situation.
<b>Risk level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	During the year 2009, it appeared to us that there were 616,889 barrels <u>wasted</u> .

Ministry of Oil  
**6. Injection of Oil**

<b>Observation</b>	During our visit to the Ministry, we noted that the North Oil Company injected back 605,392 barrels of crude oil into the oil fields during 2008 causing damage to the oil fields.
<b>Recommendation</b>	We recommend preventing the injection of oil back into the oil fields to prevent damage to oil fields.
<b>Management's Response</b>	The company has injected (462 392) barrels of crude oil and (124,000) barrels from surplus refineries in the wells during 2008 (for the months of January and March only) as this oil was unable to be exported due to few problems on the Iraq – Turkish line, acts of vandalism being one of them. Another reason behind the injection of this oil is the fact that it would contribute to the continuity of crude oil production and associated gas, and the production of liquid gas for domestic consumption.
<b>Risk level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that 135,000 barrels were injected back into the oil fields during the year 2009.

## 7. General Strategic Budget for the Iraqi Government for the Year 2008

<b>Observation</b>	During our visit to the Ministry, we noted that the Ministry prepared an annual plan for the year 2008 on 23/1/2008. The quantities to be produced according to the budget were 585,000 barrels of oil per day by the North Oil Company and 2,135,000 barrels of oil per day by the South Oil Company. The actual quantities produced per day in the North Oil Company were 577,000 barrels per day, and the South Oil Company were 1,703,000 barrels per day. Comparing the actual with the budget, we noted a difference of 440,000 barrels per day relating to the South Oil Company.
<b>Recommendation</b>	We recommend that the Ministry fully coordinates with the oil companies in the preparation of the budget.
<b>Management's Response</b>	The Company replied that there are still many production problems facing the extraction sector. These problems have been presented and addressed in many conferences and seminars and the ministry has put its future plans to increase production and has determined the required actions to achieve this production increase.
<b>Risk level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 8. Method of Measurement of Quantities Exported

<b>Observation</b>	During our visit to the Ministry, we noted that the North Oil Company uses the quantities shipped till 12 midnight when preparing the Budget and reconciliation quantities of crude oil and oil products report. As for the reconciliation with SOMO, the North Oil Company reconciles the quantities according to the bill of lading of vessels. Applying this method could lead to differences in the quantities exported in the budget report and the reconciliation of crude oil. The instructions issued by the Ministry to all companies is to use the bill of lading as the measurement basis.
<b>Recommendation</b>	We recommend that the North Oil Company adheres to the Ministry's instructions.
<b>Management's Response</b>	The Ministry responded that the monthly budgets of discharge and delivery and stockpiling in the port of Ceyhan, is subject to a strict mechanism in conformity with the context that is universally adopted. The monthly budgets, are prepared according to the actual total till the last minute of the last day of the month, whereas the actual shipments account (based on the shipping documents) is issued for the purpose of financial settlement with foreign supervisory authorities and contracting parties with the oil marketing company for the purchase of Iraqi oil, knowing that the total quantities and net charged by bill of lading in the case of termination (or absence) of loading of tankers or the processing of the Kercla Turkish refinery before (2400) hours of the last day of the month, the calculation of its budget is required to, bearing in mind that our actions in this regard continue with the Internal Control Department in the Ministry and Company to determine the calculated time (zero) in the case of a complete load at the beginning of the new month. Our follow-up has also shown that the North Oil Company adopts (12)-hour night from the end of each month in calculating the total amount charged to the vessel at the port of Ceyhan and on this basis calculates the total monthly shipments where already in some cases it may happen that the vessel that is shipped on the last day of the month may extend to the next day of the following month causing an interruption and delay in loadings for about half an hour after (12) o' clock for the night and resumes again where the quantities are calculated on next month and shipping documents are prepared for the total quantity shipped to that vessel. This method has been used for a long time in order to avoid problems of changes in selling prices that occur every month and to prepare more than one shipping document for one cargo ship and there are no differences registered in the corresponding monthly and yearly reconciliations between the North Oil Company and Oil Marketing Company in this regard. There have been numerous discussions at the headquarters of the ministry in this regard, the presence of all parties concerned has not reached any alternative that is better than the current method.
<b>Risk level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 9. Excavation Company – Tenders Opening Committee

<b>Observation</b>	During our visit to the company, we noted that the name of one member of the Tender Opening Committee was included in more than one committee from 25/7/2007 to 31/12/2008.
<b>Recommendation</b>	We recommend that the Ministry complies with governmental contracts instructions issued by the MOF which requires that members of the Tender Opening Committee be changed every six months.
<b>Management's Response</b>	The company replied that the administrative orders related to the formation of a committee to open bids for the years 2007 and 2008, have been issued within a short time period because of vacations taken or other duties some members of the Committee had to commit to.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

### 10. Excavation Company – Performance Bond

<b>Observation</b>	During our review of the company’s contracts, we noted that the companies that deal with the Excavation Company do not adhere to the period specified in the contract for submitting the performance bonds. Following are examples: Contract number IDC4/B/2006 and contract number IDC/100/2008.
<b>Recommendation</b>	We recommend that the Ministry adheres to the terms of the contract with regard to obtaining performance bonds on time.
<b>Management’s Response</b>	The Ministry responded that the reason for the delay in submitting the performance bond was due to the mail and correspondence process, which are needed in all cases. Moreover, any guarantee does not become effective, until a performance bond is submitted.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid such as IDC5/B/2006/Castle.

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

<b>Observation</b>	The Ministry of Finance has not approved the consolidated register that includes a summary of accounts for the financial year 2008.
<b>Recommendation</b>	We recommend that the Ministry obtains the approval of the consolidated register from the Ministry of Finance.
<b>Management's Response</b>	The Ministry has responded that the required procedures are being taken to combine its accounts with those of the Ministry of Finance in 2008, which are identical, but did not stamp the register as per the Ministry of Finance request. The MOF also requires to conduct reconciliations for prior years, which has been performed for the years 2005 and 2007 but are still ongoing for the purpose of the 2006 reconciliation. The reason for the delay is due to the fire in the accounting department which greatly delayed the 2006 reconciliation because of the burning and destruction of documents.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.



## 12. Ministry Headquarters - Stolen Vehicles

<b>Observation</b>	During our visit to the Ministry, we noted that before 2008, a known party had stolen vehicles from the Ministry’s headquarters. Although the person involved is known, these vehicles have not been recuperated yet. The General Secretary of the Council of Ministers requested the recuperation of the stolen vehicles.
<b>Recommendation</b>	We recommend that the Ministry follows up on this issue and recuperates the stolen vehicles.
<b>Management’s Response</b>	The ministry has indicated that legal proceedings are continuing to regain the vehicles owed by other parties to the ministry, or stolen cars belonging to the ministry.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

### 13. Ministry Headquarters – Legal Contracts Division

<b>Observation</b>	During our visit to the contracts division at the Ministry, we noted the following: 1.The division does not have a list of tenders and contracts for 2008 or of contracts signed before 2008 and are still valid. 2.The division does not use a system to index and number contracts. 3.The division does not maintain a centralized file that includes all contract supporting documents.
<b>Recommendation</b>	We recommend that the Ministry prepares a list of all tenders and contracts, indexes and numbers contracts, and mains a centralized file for all contracts.
<b>Management’s Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

## 14. Completeness of Petroleum and Petroleum Products Extracted

<b>Observation</b>	The IAMB recommended in March 2004 the expeditious installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices. Oil metering is a key factor to achieve financial transparency and accountability over oil resources in Iraq. While the Iraqi government supports oil metering, a letter has been addressed by the Oil Minister informing the head of COFE on 4/2/2008 that a comprehensive oil metering system will be installed by 31/12/2009. During our follow up, we were informed that the percentage of completion of installation is around 33% till 31/12/2008. The estimated time to complete installation of oil meters will be in year 2011 based on a letter addressed from the metering and measuring division on 16/3/2009.
<b>Recommendation</b>	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.
<b>Management's Response</b>	The Ministry responded that hopefully the installation of oil meters and transfer of ownership will take place within the prescribed period, but there are reasons beyond our control causing setbacks, which include the lack of available funds, or the installation of oil meter system by foreign firms in terms of installation and usage, and issuance of certifications.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we were informed that the percentage of completion of installation is around 44% till 31/12/2009. The estimated time to complete the installation of oil meters will be in year 2012 based on a letter from the metering and measuring division on 18/4/2010.

### 15. Contracts' Supporting Documents

<b>Observation</b>	We noted that the Ministry does not maintain a copy of the contract files related to the Ministry's directorates, while the contract files are being maintained only in Ministry's Directorate.
<b>Recommendation</b>	We recommend that copies of the contracts' original documents related to the Ministry's Directorates should be kept within Ministry's Headquarter for better control procedures.
<b>Management's Response</b>	The Ministry does not find it necessary to keep the contracts' original documents related to the Ministry's Directorates within Ministry's Headquarter.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

**16. Operational Loading System at Loading Points**

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

# **Observations raised for the year ended 31 December 2009**

## **Ministry of Telecommunications**

### 1. General Company for Telecommunications and Postage – Purchasing Cars

<b>Observation</b>	We noted that the Company during 2009 bought cars for the Minister from its investment budget which violates the budget execution instructions (section 2, Article 12). These cars were not recorded by the Company and not included in the Ministry’s assets register.
<b>Recommendation</b>	We recommend compliance with the budget execution instructions and that the cars be recorded in the records of the General Company for posts and telecommunications.
<b>Risk Level</b>	High
<b>Status</b>	New

## 2. General Company for Telecommunications and Postage – Tender Opening Committees

<b>Observation</b>	Through our review of the contracts, we noted that there was no full attendance by the members of the Tenders Opening Committees, which is against the contract execution instructions for 2008 (Article 6/ Tender Opening Committees formations and their functions). Examples of such instances were noted in the contract to supply processing requirements of the work of networks and supply and installation of wireless towers (Talaafar) and extending optical cables – Al Namaniyah.
<b>Recommendation</b>	We recommend compliance with contract execution instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New



### 3. General Company for Telecommunications and Postage – Announcement Period

<b>Observation</b>	We noted through our review of a sample of contracts, that in contract number 11/ purchases/ 2009, the announcement period is 13 days which contradicts contract execution instructions (Article 5 – Tender Announcement / J- 1) where the announcement period in the contract should be 21 – 60 days.
<b>Recommendation</b>	We recommend complying with the governmental contract procedures.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 4. General Company for Web Information Services - Authority

<b>Observation</b>	Contrary to the budget instructions, point 22 in the Minister’s Authority, we noted that the Minister of Telecommunications granted financial and administrative authority to the General Manager of the Company without informing the Ministry of Planning and Development Cooperation noting that the General Manager of the Company granted authority to his assistant prior to obtaining the Minister’s approval.
<b>Recommendation</b>	We recommend complying with the governmental contract procedures.
<b>Risk Level</b>	High
<b>Status</b>	New

## 5. Approved of Accounts by the Ministry of Finance

<b>Observation</b>	Till 28 February 2008 the Ministry of Finance had not approved the combined register, which includes summary of 2007 and 2008 accounts till 28 February 2008.
<b>Recommendation</b>	We recommend that the combined register be approved by the Ministry of Finance for the years 2007 and 2008.
<b>Management's Response</b>	The Ministry responded that the final accounts of the ministry in 2008 submitted on 28/2/2009, lack the Ministry of Finance approval of a consolidated Register. Moreover, and because the financial statements have been amended, there has been a delay in the approval of financial statements for the year 2007. Hopefully, they will be issued with the financial statements for the year 2008.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid for the year s 2008 and 2009.

### 6. General Company for Posts & Telecommunications – Balance Sheet

<b>Observation</b>	We did not find opening journal entries in the records of the company for the years 2004 till 2008.
<b>Recommendation</b>	We recommend following up on this matter and completing opening journal entries at the beginning of each year.
<b>Management's Response</b>	The Ministry responded that they submitted the Company's financial statements to the Court of Auditors, and was accepted as an initial draft and returned due to the existence of an overlap between the investment plan and normal plan and not completing the required tests. These mistakes will be avoided when the final copy of financial statements is submitted to the Office of Financial Supervision.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

## 7. General Company for Posts & Telecommunications – Bank Reconciliations

<b>Observation</b>	During our visit on January 2009, we noted that bank reconciliations have not been prepared for the years 2007 and 2008.
<b>Recommendation</b>	We recommend preparing bank reconciliations regularly and following up on reconciling items, we also recommend that these reconciliations be reviewed by an independent employee in the accounting division.
<b>Management's Response</b>	The company replied that this is due to the existence of (59,400) dinars in the February 2007 bank account statement. This amount has not been recorded by the bank and the bank will be contacted to address the situation and the work is currently in progress to complete the 2007 reconciliation.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

### 8. General Company for Posts & Telecommunications – Contracts Files

<b>Observation</b>	During our visit to the Ministry, we noted that contracts’ supporting documents are not properly organized which makes it difficult to retrieve these documents. The documents are distributed across the Accounting Department, Legal Department, Importing Department, and Planning Department. This leads to difficulties in following up of some contracts and obtaining related supporting documents.
<b>Recommendation</b>	We recommend developing a proper filing system to keep each contract together with its related supporting documents separately, and to properly organize these contracts in order to facilitate the retrieval and review process.
<b>Management’s Response</b>	The Ministry responded that the Company lacks a department to collect the contracts at different stages in the future. However, as part of the new structure of the Ministry, a contracts department will be formed at the Ministry headquarters.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

**9. General Company for Posts & Telecommunications – Fees for Protection and Rent of Towers Locations**

<b>Observation</b>	During our visit to the Ministry, we noted that audit committees in the office of the inspector general found that the fees for the protection of towers for mobile phone companies and the rent of their locations have not been claimed by the Ministry nor paid by mobile phone companies. The fees and rent amounted to USD 8.2 million till 30/10/2008.
<b>Recommendation</b>	We recommend following up on this matter and collecting these fees and rent due.
<b>Management’s Response</b>	The Ministry responded that the claim is paid to protect the towers by the Ministry of Communications / established Protection Authority established. An ongoing follow-up for the purpose of payment is taking place as well as the rent for these sites. The receivable balance has been reduced due to recent payments made.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our follow up of the dues to be paid by the mobile phone companies to the General Company for Posts and Telecommunications, we noted that the above mentioned observation is still valid during the year 2009 and that only a part of the amount was settled.

### 10. General Company for Posts & Telecommunications - Contracts

<b>Observation</b>	We noted cases of non-compliance with the contracting procedures since some of the contracts were awarded without obtaining competitive offers nor documenting proper justification for awarding. Example: Contract no. 28/2008 amount to USD 13 million.
<b>Recommendation</b>	We recommend complying with governmental tendering procedures for awarding contracts.
<b>Management's Response</b>	The Ministry responded that competitive bids existed as invitations were addressed to five companies, and three offers have been received from three companies. The offers have been studied by the study and analysis committee. Alfacunet Co was selected as the preferred company and the minutes of the meeting have been approved by the Central Contracts Committee.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009 such as Bid number 13/2009 21/2009.



**11. General Company for Posts & Telecommunication - Memorandum of Understanding**

<b>Observation</b>	During our visit to the Ministry and review of the financial position of the contracts relating to the Memorandum of Understanding for the General Company for Posts & Telecommunications, we noted that the financial position for some contracts do not agree with the financial position of the Central Bank.
<b>Recommendation</b>	We recommend follow up of these differences with the Central Bank.
<b>Management's Response</b>	The Ministry responded that a committee was formed under the chairmanship of Deputy Director-General of the Department of Planning and follow-up in the ministry, but the Committee is still working to resolve the financial position of the contracts under the memorandum of understanding.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	During our visit to the Ministry, we noted that the Ministry addressed the Office of the Deputy Prime Minister with their letter number 8/1094 dated 6/4/2010 concerning the report of the Office of Financial Supervision related to the contracts of the Memorandum of Understanding which do not address the Ministry of Communications contracts to show their opinion in order to close the file related to the contracts of the Memorandum of Understanding.

## 12. General Company for Posts & Telecommunications – Fixed Assets

<b>Observation</b>	During our visit to the company, we noted the existence of obsolete fixed assets that should be derecognized from the Company’s records.
<b>Recommendation</b>	We recommend derecognizing all obsolete fixed assets from Company’s records.
<b>Management’s Response</b>	The Ministry responded that a committee was formed for the purpose of writing-off impaired or obsolete fixed assets, these assets are to be presented to the higher committee within the ministry, for review and approval of write off.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our follow up, we noted that the company gathered the obsolete assets and submitted them to the writ off committee at the Ministry and has not obtained an approval to write these assets off up till the date of our visit in 21/4/2010.

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

<b>Observation</b>	No reconciliations are prepared for Trade Bank of Iraq (TBI) because statements of accounts of the said Bank were not received.
<b>Recommendation</b>	We recommend that TBI statements of accounts be obtained to prepare monthly bank reconciliations and to follow up on any outstanding balances.
<b>Management's Response</b>	The Ministry responded that our relationship with the Trade Bank of Iraq is confined to the opening of letters of credit related to the investment plan projects. We are following up with the Banks on a regular basis to obtain the payment notices related to opening the letter of credits.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

**14. General Company for Post & Telecommunications – 2006 Robberies**

<b>Observation</b>	During the year 2006, some of the company’s assets were stolen. These stolen assets were not estimated and derecognized from the accounting records.
<b>Recommendation</b>	We recommend a list of all stolen items be prepared and derecognized from the accounting records.
<b>Management’s Response</b>	The Ministry responded that it has estimated part of the inventory in 2007 and another part in 2008.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our follow up we noted that the Finance Department at the company estimated the value of stolen items, and wrote them off under voucher number 260 and 363 without obtaining proper approval.

### 15. General Company for Post & Telecommunications – Receivables and Payables Balances

<b>Observation</b>	Through our review of the trial balance we noted that there are old outstanding receivables and payables balances from previous years.
<b>Recommendation</b>	We recommend that the company follows up, and analyze these accounts and settle them by either paying, collecting or derecognizing from records.
<b>Management's Response</b>	The Ministry responded that it would approach the concerned authorities in 2009.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

### 16. General Company for Post & Telecommunications – Capital of the Company

<b>Observation</b>	Through our review of the trial balance we noted that the cumulative losses have exceeded the company’s capital.
<b>Recommendation</b>	We recommend this matter be addressed in compliance with Public Companies Act.
<b>Management’s Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

# **Observations raised for the year ended 31 December 2009**

## **Ministry of Youth and Sports**

# 1. The Awarding Through Direct Invitation

<b>Observation</b>	During our review of a sample of contracts, we noted that some contracts were awarded through direct invitation, although these contracts are not of a specialization type (as implied by the government contracts instructions). For example, the contract of maintenance of Al-Samawa Olympic playground, the contract to build the gates of the Basra Sports Stadium, and a contract to remove the rubble from Kirkuk Stadium.
<b>Recommendation</b>	We recommend compliance with contracts execution instructions, and that contracting takes place through bidding procedures instead of direct contracting. Bidding procedures increase the opportunity for having more competitive offers with high standards.
<b>Risk Level</b>	High
<b>Status</b>	New



## 2. Analyzing Committees

<b>Observation</b>	Contrary to contract execution instruction number 1 for 2008 article 7, paragraph 13, the analyzing committee did not prepare a detailed schedule that shows all the details of the tenders with its evaluation of technical, financial and legal aspects. Examples of such contracts are the following: <ul style="list-style-type: none"><li>•The contract to remove the rubble from the Kirkuk stadium.</li><li>•The contract to renovate the Olympic stadium.</li></ul>
<b>Recommendation</b>	We recommend compliance with contract execution instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 3. Payroll Committees

<b>Observation</b>	We noted that the Payroll Committee for disbursement of salaries receives cash from the bank and pays the salaries to Ministry employees, and that the members of this committee are not being rotated periodically. We also noted a lack of segregation of duties in the salaries department and noted that the authorized personnel from each department receive cash from the treasury and sign on the payroll statement on behalf of their departments' employees.
<b>Recommendation</b>	We recommend complying with the budget instructions issued by the Ministry of Finance requiring rotation of committee members every six months for better control procedures. We also recommend the formation of two separate committees where one committee receives salaries and the other pays them to the employees, and the employee receiving the salary finally signs on his salary statement.
<b>Risk Level</b>	High
<b>Status</b>	New

### 4. Checks Overdue More than Six Months

<b>Observation</b>	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
<b>Recommendation</b>	We recommend the follow up on all reconciliation items. As for checks with maturities exceeding 6 months, we recommend that they be cancelled and that the accounting records be adjusted accordingly.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 5. Payment Vouchers

<b>Observation</b>	We noted that the Ministry did not cancel payment vouchers which were stamped "PAID", along with their supporting documents after payment had been made; this increases the risk of duplicate payments being made for the same invoice.
<b>Recommendation</b>	All payment vouchers and their supporting documents should be stamped "PAID" immediately after payment to prevent duplicate payments being made for the same invoice.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 6. Ministry Employees

<b>Observation</b>	Through our review of the Payroll Department, we noted the following: <ol style="list-style-type: none"><li>1. There was no approval from the Ministry of Finance on the Ministry's employees for 2009.</li><li>2. Appointments were made for 322 permanent employees, 375 contractual employees; this is in violation of the budget instructions of the Federal Republic of Iraq for the year 2009, and the Council of Ministers Resolution 442.</li></ol>
<b>Recommendation</b>	We recommend complying with the budget execution instructions and ministerial resolutions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

Ministry of Youth and Sports  
**7. Physical Count Committee**

<b>Observation</b>	We noted that the Director of the Inventory Department and the inventory custodian are members of the Committee of the physical count committee. This may lead to a lack of segregation of duties.
<b>Recommendation</b>	We recommend that the physical count committee be formed from members independent of the management of stock for better control procedures.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 8. Contracts Administered by US Agencies

<b>Observation</b>	We noted that the Ministry does not maintain records of 146 contracts administered by U.S. agencies during 2003 and 2004.
<b>Recommendation</b>	We recommend that the Ministry coordinates with the Ministry of Finance and US. Agencies to obtain all records and documents.
<b>Management's Response</b>	The Ministry responded that there were no documents related to the contracts at the ministry.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 9. Storage Facilities

<b>Observation</b>	We noted that the Ministry has no adequate storage facilities. The Ministry is storing its fixed assets and supplies in open air at Al Zawraa Park.
<b>Recommendation</b>	We recommend that the Ministry takes steps to provide adequate storage facilities, that will ensure the safeguarding of assets.
<b>Management's Response</b>	The BSA agrees with the observation.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.



## 10. Contract Payments

<b>Observation</b>	We noted that the letters in respect of Contract no. YS/10/6 on 1/11/2001 signed between the Board of Youth and Sports of Iraq and ITI of Jordan (Intl Trade and Inv) in the amount EUR 10,055,865 +10% for the constructions of 3 sport halls. This contract was put on shelf for two years until the first payment was made on 18/12/2003. Up until 11/5/2005 the amount of EUR 9,848,225 was paid, which represents 89% of the total contract value. According to the resident engineer's office reports the percentage of completion is about 35%. ITI has stopped work on the contract and the Ministry of Youth has filed a lawsuit against the company.
<b>Recommendation</b>	We recommend that a committee be set to determine percentages of completion of work in order to settle amounts accordingly.
<b>Management's Response</b>	The ministry did not respond.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	During our follow up to the Ministry, we were not provided with the information related to the above mentioned contract.

# **Observations raised for the year ended 31 December 2009**

## **Ministry of Transportation**

# 1. Salaries

<b>Observation</b>	<p>Through our review of payment of salaries, we noted the following:</p> <ol style="list-style-type: none"><li>1. Salaries are paid before they are reviewed and approved by the Internal Audit Department.</li><li>2. The automated system being used is not protected with a password.</li><li>3. The Ministry pays the salaries in cash.</li><li>4. Lack of segregation of duties as the employee who prepares and organizes the salaries to be paid, also distributes the salaries.</li><li>5. Some employees delegated other employees to collect their behalf without any authorization or supporting documents available at the Ministry to ensure that the representatives are authorized to collect payments on behalf of other employees.</li></ol>
<b>Recommendation</b>	<p>We recommend that the Ministry:</p> <ol style="list-style-type: none"><li>1. Audit the vouchers before payment.</li><li>2. Encrypting a password to guarantee denial of access from unauthorized personnel.</li><li>3. Paying salaries via direct bank transfer.</li><li>4. The person responsible for preparing the salaries must be independent of the person paying the salaries.</li><li>5. We recommend that the receipt is authorized to receive a formal salary on behalf of an other employee for better internal control procedures.</li></ol>
<b>Risk Level</b>	High
<b>Status</b>	New

## 2. Supplying Cars

<b>Observation</b>	<p>The Ministry paid USD 2,996,750 as an advance to the Ministry Council to purchase 92 cars, we noted that:</p> <ul style="list-style-type: none"><li>• No funds were allocated for the purchase at the time.</li><li>• The procurement instructions were not followed.</li><li>• The supplier was not mentioned.</li><li>• The monetary value of the purchased cars was not specified.</li></ul>
<b>Recommendation</b>	<p>We recommend complying with the mechanisms of the procurement process and the annual budget execution instructions as issued by the Ministry of Finance.</p>
<b>Risk Level</b>	<p>High</p>
<b>Status</b>	<p>New</p>

### 3. Consolidated Register

<b>Observation</b>	We noted that the Ministry of Finance has not approved the consolidated register at the Finance and Administration Directorate in the Ministry of Transportation/ the Accounting Department for 2009.
<b>Recommendation</b>	We recommend approving the consolidated register by the Ministry of Finance.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 4. Contract to Supply a Vessel With a Capacity of 17,500 Tons of Various Items

<b>Observation</b>	We noted that the contract between the General Company for Maritime and Transportation and the Sweden co. was done through a direct award on 24/10/2009. This violates the criteria set for invitations to be sent to manufacturers of vessels or owners of vessels, which the Swedish Company does not meet.
<b>Recommendation</b>	We recommend complying with the governmental contracts execution instructions and the budget instructions issued by the Ministry of Finance.
<b>Risk Level</b>	High
<b>Status</b>	New

### 5. Preparing and Awarding the Projects

<b>Observation</b>	During our review of preparation and awarding procedures, we noted that Tender Opening and Analyzing Committees are not abiding by the time schedule specified to complete its duties.
<b>Recommendation</b>	We recommend complying with the time schedules issued by the Ministry, and accomplishing the committees missions within the specified period.
<b>Risk Level</b>	Low
<b>Status</b>	New

### 6. Loans and Advances Account

<b>Observation</b>	During our review and audit of the Finance Department, we noted that some old balances in the loans and advances accounts were not settled.
<b>Recommendation</b>	We recommend settling the loans and advances accounts, and for it to be reviewed periodically.
<b>Risk Level</b>	Medium
<b>Status</b>	New



## 7. Increase in Project Costs

<b>Observation</b>	We noted that the cost of some of the investment plan projects had been double that of the budgeted cost at times. Examples of such projects are the Sabouniyah Rabihiya railway project and the Baghdad railway project.
<b>Recommendation</b>	We recommend that the overall costs of the projects be valued based on realistic plans and studies.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 8. Financial and Administrative Authorities

<b>Observation</b>	We noted that the Minister allowed the general manager of the Finance and Administrative Department to grant his assistant financial and managerial authority without informing the Ministry of Planning about it.
<b>Recommendation</b>	We recommend complying with the budget execution instructions.
<b>Risk Level</b>	High
<b>Status</b>	New

9. Employees

<b>Observation</b>	When reviewing the administrative instructions of the HR Department, we noted existence of orders related to appointments made for permanent employees, which is in violation of both the budget instructions of the Federal Republic of Iraq for the year 2009, and the Council of Ministers Resolution 442, which both require that appointments are to be stopped.
<b>Recommendation</b>	We recommend complying with the budget execution instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 10. Decline in Percentage of Completion

<b>Observation</b>	We noted that the percentage of technical completion for a number of contracts is relatively low although the contracting period is over.
<b>Recommendation</b>	We recommend complying with the contract terms and budget execution instructions which state that the projects' management responsible for execution is held accountable when the percentage of completion is low.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 11. The General Company for Railways – Adhering to the Allocations

<b>Observation</b>	We noted that the company had cancelled some contracts that were signed with suppliers or contractors due to the lack of allocated funds such as contract numbers 174 and 107. This procedure subjects the Company to commitments and obligations in the supplier’s favor, and violates the federal budget and governmental contract instructions that require the allocation of required funds to the contracting party.
<b>Recommendation</b>	We recommend that no contracts be signed before securing funding and complying with budget execution instructions and governmental contracts execution instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 12. The General Company for Railways – Letters of Credit

<b>Observation</b>	During our review of the letters of credit that were opened during 2009, we noted that the procedures for opening the letters of credit for supply contracts, were late relative to the dates of the contracts, and relative to the specified period for opening the letter of credit in the contracts, such as contract numbers 198 and 202.
<b>Recommendation</b>	We recommend that the letters of credit are opened in a timely manner to avoid additional costs.
<b>Risk Level</b>	High
<b>Status</b>	New

**13. Review of Contracts**

<b>Observation</b>	During our review, we noted a contract to purchase 4 boats amounting to USD 18,800,000 from “Wazef” Company dated and signed on 6/12/2004. The letter of credit was opened in 2008 instead of 2004, only 2 boats were purchased at USD 18,800,000.
<b>Recommendation</b>	We recommend the opening of letters of credit in time to avoid additional expenses and to preserve public funds. We also recommend an inquiry about the reasons for the increase in the purchase price of 100%.
<b>Management’s Response</b>	The Ministry responded to the observation related to the General Company for Ports of Iraq, that the delay was because of the security situation in Basra Governorate during the years 2004 -2007 and that the reason for the rise in prices was due to an increase in prices globally due to high oil prices, which climbed dramatically during the first half of 2008. Moreover, the ministry also responded that there is approval from the Commission on Affairs Economic Council of Ministers, and the contract’s percentage of completion was 75%.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009. for example, the general Company for Railways signed on 13/12/2009 the appendix to a contract to supply 8 railway vehicles equipped with a crane. The contract’s original date is 9/1/2005, where the appendix includes an increase in the original contract’s value by 36% equivalent to USD 2,072,000.

### 14. The General Company for Railings – Receivable Balances

<b>Observation</b>	During our visit to the " General Company for Railings", we noted that several receivable balances from prior years relating to government institutions have not been followed up and resolved.
<b>Recommendation</b>	We recommend the follow up on these accounts to determine whether the amounts are collectable. If the amounts are determined to be not collectable, we recommend they be written off.
<b>Management's Response</b>	The Ministry agrees with the observation.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.



### 15. The General Company for Railways – Inventory Count

<b>Observation</b>	During our visit to the “General Company for Railways”, we found that the Company has not established a committee responsible for performing inventory counts in Biji, Al Qaem, Al ramadi, Al Haklaniah and Kirkuk, and only performs counts that are sent by its stations for reconciliation purposes.
<b>Recommendation</b>	We recommend that the Company establishes committees to supervise inventory counts in all districts including Biji, Al Qaem, Al ramadi, Al Haklaniah and Kirkuk.
<b>Management’s Response</b>	The Ministry made clear that the deteriorating security situation led to the delay in the preparation of the inventory reconciliation reports.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

## 16. Contracting and Contracts' Supporting Documents

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

## **Observations raised for the year ended 31 December 2009 Ministry of Labour and Social Affairs**

### 1. Tender Opening Committee

<b>Observation</b>	We noted that the members of the Tender Opening and Analyzing Committees are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the committee members every six months; for example committee members since 29/05/2008 till the date of our visit have not been rotated.
<b>Recommendation</b>	We recommend complying with the budget instructions issued by the Ministry of Finance which require rotating the Committee members every six months for better control procedures and adherence to budget instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**2. Salaries**

<b>Observation</b>	During our review of the salary disbursement process, we noted the following: <ol style="list-style-type: none"><li>1. The members of the salaries disbursement committees at the Ministry headquarters are not periodically rotated.</li><li>2. Some employees requested other employees to collect their salaries without any authorization or supporting documents available at the Ministry.</li></ol>
<b>Recommendation</b>	We recommend that the Ministry rotates the members of the salaries disbursement committees and we recommend that the recipient is authorized to receive the salary on behalf of an other employee for better internal control procedures.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 3. Contract to Build the Motasam Vocational Center

<b>Observation</b>	We noted that the performance bond for this contract was not renewed, hence the Ministry was no guarantee. In addition, the work is behind schedule.
<b>Recommendation</b>	We recommend following up on the performance bond and its renewal or extension before its date of expiry.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 4. Suspended Projects

<b>Observation</b>	Through our visit to the Ministry, we noted suspended projects resulting from problems in the execution process where a decision still has not been taken to resolve the issue, such as the following projects: <ol style="list-style-type: none"><li>1.Project to renovate the vocational training in Abi Al- Akhasib.</li><li>2.Studying, designing, building a vocational training center in Karbala.</li><li>3.Project to build a complex for the orphans and elderly.</li></ol>
<b>Recommendation</b>	We recommend that the Ministry takes appropriate actions and procedures in order to solve the execution problems.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 5. Supplying a System of Surveillance Cameras

<b>Observation</b>	We noted that the supplier provided cameras made in China which does not conform with the agreement that states that the cameras should be made in Japan. The cameras were inspected by the Inspection and Receipt Committee which was later rotated as per the suppliers' request. The cameras were installed without the committee's approval.
<b>Recommendation</b>	We recommend complying with the terms of the contract and that the Inspection and Receipt Committee performs its duties as required by inspecting the condition of the products and ensuring that they meet the required specifications.
<b>Risk Level</b>	Medium
<b>Status</b>	New



### 6. Contract for the Completion Works of a Complex for the Orphans and Elderly

<b>Observation</b>	While reviewing the above mentioned contract for the amount of IQD (1,054,230,000), we noted a significant decline in the percentage of completion, such that the date of completion is 4/4/2010 and as at the date of our visit in March 2010 only 3% of the work was completed.
<b>Recommendation</b>	We recommend abiding by the contract terms and complying with the budget execution instructions which state that the project administrators are responsible for the execution of projects when there is a decline in the percentage of completion.
<b>Risk Level</b>	High
<b>Status</b>	New

### 7. Maintenance of Assets

<b>Observation</b>	We noted that the Ministry does not prepare a time schedule for the periodic maintenance of fixed assets. This contradicts Article 10, Caption (4) of the Iraqi Federal budget instructions for the year 2009.
<b>Recommendation</b>	We recommend preparing a time schedule for the maintenance work containing procedures for the periodic maintenance of fixed assets in order to preserve and guarantee its continuing and to preserve public funds.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 8. Ministry's Purchases

<b>Observation</b>	We noted purchases of various kinds of furniture which is in violation of the Council of Ministers' Resolution (442), and the "general publication" of the Ministry of Finance (Authorization of payments), that states that purchases of various kinds of furniture should be reduced by 80 %.
<b>Recommendation</b>	We recommend complying with the instructions and resolutions issued by the Council of Ministers and the Ministry of Finance, specifically instructions related to the procurement process.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 9. Consolidated Financial Statements

<b>Observation</b>	We noted that the Ministry does not compile consolidated financial statements to include all related directorates and the Ministry.
<b>Recommendation</b>	We recommend that the Ministry compiles consolidated financial statements as it will give a more complete view of the Ministry's financial status.
<b>Management's response</b>	The Ministry made it clear that the delay in compiling the financial statements for September 2007 was due to the delay in the Social Welfare Department (protection network) to provide the statements required, being a new department and its branches spread in all provinces, it will be working to consolidate the financial statements in the future.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 10. Physical Stock Taking Committee

<b>Observation</b>	We noted when revising order # 1849 on 24/12/2008 regarding the appointment of the physical stock taking committee for weapons and arms inventory that Mr. Khalil Ibrahim, the custodian, was appointed as a member of the committee. This may raise questions regarding the committee's independence.
<b>Recommendation</b>	We recommend that the committee be made up of members independent of the custodian of the weapons and arms.
<b>Management's response</b>	The Ministry noted that the inventory of weapons has been performed by the Physical Stock Take Committee related to the physical count of weapons and audited by the Higher Commission for the physical count of assets, and will be working on disallowing the custodian of the weapons and arms to be present during the count.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Agriculture**

## 1. Analysing Committees

<b>Observation</b>	The Analyzing Committee has not organized a detailed schedule for all tenders showing details related and any shortcomings if any, along with a comparison and evaluation from a technical, legal and financial aspect. We noted this deficiency in the contract to build modern homes in the Muthna Province and the contract to build modern homes in the Diwaniyi Province. This is in violation of instruction 1 for 2008, Article 7, paragraph 13.
<b>Recommendation</b>	We recommend complying with the budget execution instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 2. Qualifications of the Workforce

<b>Observation</b>	During our review of the qualifications of the Ministry’s employees, we found 4 participants within the Ministry with degrees that do not fit the job title and the job degrees.
<b>Recommendation</b>	We recommend considering and adopting job descriptions which specify qualifications required when making appointments to ensure that only properly qualified personnel are recruited.
<b>Risk Level</b>	Medium
<b>Status</b>	New



### 3. Appointments

<b>Observation</b>	We noted that orders related to appointments made for permanent employees, and others in the form of temporary contracts exist. This is in violation of both the budget instructions of the Federal Republic of Iraq for the year 2009, and the Council of Ministers Resolution 442, which both state that appointments are forbidden.
<b>Recommendation</b>	We recommend complying with the budget instructions of the Federal Public to Iraq for the year 2009, and Council of Ministers resolution (442).
<b>Risk Level</b>	Medium
<b>Status</b>	New

**4. Maintenance of Assets**

<b>Observation</b>	We noted that the Ministry does not prepare a time schedule for the periodic maintenance of fixed assets. This contradicts Article 10, Caption (4) of the Iraqi Federal budget instructions for the year 2009.
<b>Recommendation</b>	We recommend preparing a time schedule for the maintenance work containing procedures for the periodic maintenance of fixed assets in order to preserve and guarantee its continuing and to preserve public funds.
<b>Risk Level</b>	Medium
<b>Status</b>	New

5. Grants

<b>Observation</b>	Through our review of the allocated grants from the General Secretariat of the Council of Ministers for projects (agricultural initiative, desertification, support for dates, revitalization of Al- Ahwar), recorded as payables, we noted that the Ministry of Agriculture disbursed funds from the grants for the operating budget without replenishing the above mentioned account which led to delays in the execution process of the above mentioned projects.
<b>Recommendation</b>	We recommend spending these allocated grants on the above mentioned projects in order to achieve full completion at the specified dates.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 6. Checks Overdue Over than Six Months

<b>Observation</b>	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
<b>Recommendation</b>	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and the accounting records amended accordingly.
<b>Management's Response</b>	The ministry responded to have cancelled all overdue checks.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 7. Contracts of the Engineering Department

<b>Observation</b>	We noted that the engineering department does not have the contracts and the supporting documentation relating to the construction of 3 “Modern Villages” in Karbala in 2007 for the amount of 10.4 billion IQD, in Simawah in 2008 for 13.8 billion IQD and in Diwaniyah in 2008 for 13.5 billion IQD.
<b>Recommendation</b>	We recommend that the engineering department keeps all original contracts and supporting documentation that have been signed as this department holds both technical and administrative responsibilities related to the contracts signed.
<b>Management’s Response</b>	The Ministry made it clear that it had handed over copies of the files and the contracts referred to above for review purposes and that the engineering insurance is not filed in the Engineering Department and has clarified that the engineering insurance is filed in the Department of Finance.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Higher Education and Scientific Research**

### 1. Contracting Procedures

<b>Observation</b>	Through our review of the contract to supply two electricity generators by the Al- Dafaf el Metmowji Company for Trade and Contracting for the amount of IQD 280,314,000 we noted that the contract was awarded by direct invitation without obtaining comparative offers.
<b>Recommendation</b>	We recommend complying with the contract execution instructions and that contracts be awarded through competitive bids rather via direct invitation.
<b>Risk Level</b>	High
<b>Status</b>	New

**2. Salaries**

<b>Observation</b>	We noted that some employees delegated other employees to collect their salaries on their behalf without any authorization or supporting documents found at the Ministry to ensure that representatives are authorized to collect payments on behalf of other employees.
<b>Recommendation</b>	We recommend that the recipients are officially authorized to receive a salary on behalf of another employee for better internal control procedures.
<b>Risk Level</b>	Medium
<b>Status</b>	New



### 3. Consolidated Financial Statements

<b>Observation</b>	We noted that the Ministry does not consolidate with the universities and its directorates as they are considered to be financially and administratively independent. We believe that having financial independence is not a valid reason for not consolidating financial figures.
<b>Recommendation</b>	We recommend that the Ministry consolidates its accounts with the universities and affiliated directorates in order to obtain a more complete view of the Ministry's financial position.
<b>Management's Response</b>	The Ministry responded that the observation is currently being resolved where action was taken starting 1/1/2009.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 4. Archiving System

<b>Observation</b>	We noted that the archiving system in the accounting and audit departments needs more care and especially with regard to contracts documentation.
<b>Recommendation</b>	We recommend the development of the archiving system and ensure continuous maintenance of this system.
<b>Management's Response</b>	The Ministry responded that the observation is currently being resolved where action was taken starting 1/1/2009.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 5. Recording U.S. Agencies Contracts

<b>Observation</b>	We noted that a contract amounted to U.S. \$ 99,980 of the contracts managed by the U.S. Agencies on behalf of the Ministry without notifying the Ministry with any details related to the contract. However, the contract is recorded in the DFI as part of the Ministry's expenditures.
<b>Recommendation</b>	We recommend to maintain a continuous coordination between the Ministry and the U.S. Agencies through determining a mechanism for exchanging information and documents related to the contracts managed by the U.S. Agencies in order to be updated in the Ministry's accounting records for better control procedures.
<b>Management's Response</b>	The Ministry replied in its memorandum dated 26/12/2007 that this contract was not within contracts' signed by the Ministry and accordingly, no data in this respect is available. Follow up by the commission revealed the correctness of this note since the records did not reveal any amounts relating to the above contract. This note did not specify the details of this contract.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

# **Observations Raised for the year ended 31 December 2009**

## **Ministry of Planning**

1. Daily Journal

<b>Observation</b>	Through our review of the daily journal, we noted that the payment voucher dates do not agree with the sequence of the documents in the journal.
<b>Recommendation</b>	We recommend that the payment voucher dates agree with the sequence of the payment vouchers.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## **Observations Raised for the year ended 31 December 2009 Ministry of Water Resources**

### 1. Low Percentage of Completion

<b>Observation</b>	We noted that the percentage of completion for some contracts are low, such as the contract for the Diwaniyah shore, contract to supply, install, operate, and test a three mega watt generator station for the Great Damn Project, and the contract to build a rest home in the Misan Province.
<b>Recommendation</b>	We recommend complying with the terms of the contract and adhering to the budget instructions that state calling to account the responsible project administrations when there is a decline in the percentage of completion.
<b>Risk Level</b>	Medium
<b>Status</b>	New

2. Letters of Credit

<b>Observation</b>	Through our review of the letters of credit at the Ministry and as of the date of our visit on 14/01/2010, we noted delays in the opening of some letters of credit for contracts that were signed, such as (the contract to supply 20 medium sized bulldozers with spare parts in 7/05/2009, and the contract to supply spare parts for petroleum generators signed on 10/06/2009).
<b>Recommendation</b>	We recommend coordinating with the concerned authorities in order to avoid any delay in the opening of letters of credits, which could lead to an increase in prices or other commitments.
<b>Risk Level</b>	High
<b>Status</b>	New



### 3. Salaries

<b>Observation</b>	We noted the following: <ol style="list-style-type: none"><li>1. Some employees receive their salaries without signing the payroll.</li><li>2. Salaries were prepared manually.</li></ol>
<b>Recommendation</b>	We recommend that persons collecting salaries on behalf of other employees be authorized in writing as we also recommend the employee receiving his salary signs on the payroll after receiving his salary. We also recommend an advanced automated system is installed for payment of salaries directly through bank transfer to the employee's personal account for better control procedures in order to preserve public funds.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 4. Appraised Cost

<b>Observation</b>	We noted differences between the cost of appraisal prepared by the Engineering Department and the assigned amount, for example: conversion of the Diwaniyah shore, supplying 15 lawn mowers, and building the premises of the Fallujah Damn Administration.
<b>Recommendation</b>	We recommend that a thorough and detailed study of the preparation of the appraised cost in order to preserve public funds.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**5. Contract Number (20)**

<b>Observation</b>	Through our review of the above mentioned contract that has a specified execution period of 6 months from the contract's date, 20/08/2008, we noted that the supplier is not following the specified execution period.
<b>Recommendation</b>	We recommend complying with the terms of the contract and also recommend following up on the materials that have not been supplied.
<b>Risk Level</b>	Medium
<b>Status</b>	New

6. Fixed Asset Count

<b>Observation</b>	We noted that the stock and fixed assets committees include personnel that have custody of the stock and assets.
<b>Recommendation</b>	We recommend that stock and fixed assets committee include independent members.
<b>Management's response</b>	The Ministry responded that the inventory custodian's name was mentioned in the records of inventory counts for presentation purposes. The ministry has vowed to make no mention of the names of custodians of the stores in the records of inventory counts in the future.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 7. Recording U.S. Agencies Contracts

<b>Observation</b>	During our visit to the Ministry of Water Resources, we noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. As a result, the Ministry does not have any information related to such contracts and the contracts costs are not yet being recorded in the Ministry’s accounting records.
<b>Recommendation</b>	We recommend that coordination shall be maintained between the Ministry and the U.S. Agencies and procedures are jointly developed to exchange the information and documents related to the contracts managed by the U.S. Agencies and in order to update the Ministry’s accounting records on a timely basis.
<b>Management’s Response</b>	The related commission confirmed the non-existence of data or information at the Ministry in respect of said contracts. This note was also mentioned in the Firm’s report for the prior year.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Interior**

**1. Letters of Credit**

<b>Observation</b>	We noted during our review of the contract to purchase HD-1 robots, and as a result of the delay in opening the letter of credit, the supplier requested an increase in prices and a change in the terms of the contract.
<b>Recommendation</b>	We recommend opening the letters of credit at the suitable time to avoid additional expenses and preserve public funds.
<b>Risk Level</b>	High
<b>Status</b>	New

## 2. Decline in the Percentage of Completion

<b>Observation</b>	We noted a decline in the percentage of technical completion for a number of projects since the end of the contractual period such as the following: the contract to supply 155 rescue boats and the contract to supply 124 mobile caravans.
<b>Recommendation</b>	We recommend complying with the contract terms and the budget instructions that state the accountability of the project managers in the event of a decline in the percentage of completion.
<b>Risk Level</b>	Medium
<b>Status</b>	New



### 3. Salaries of Ministry Employees in the Provinces

<b>Observation</b>	The process of paying salaries to Ministry employees in the provinces is audited in the provinces and the amounts are paid from the treasury of the provinces. A CD that contains the names and information for each month is sent to the department responsible for auditing the salaries in the Ministry. The auditing department uses the Access Computer software to audit the recurring name only for which each month recurring names are discovered and a memorandum is sent to the province to recover the amounts from employees paid more than once.
<b>Recommendation</b>	We recommend that Ministry audits the names of the Ministry employees and their salaries and reconcile between the Ministry records and the province records before paying salaries.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Despite the fact that the Ministry issued instructions to all department s and directorates in the provinces stating the approval of salaries by the General Directorate of the Personnel Department/ Director of the Personnel Department before payment, and despite the fact that the Ministry of Finance/ Offers Directorate was addressed under letter number 12669 in 1/4/2009 not to spend any funds without proper approval, the Access System is still being applied, and recurring names are discovered.

### 4. Organizational Restructuring

<b>Observation</b>	We noted that the Ministry’s law and internal regulations and procedures are outdated. The Ministry developed new jobs and canceled others that were present without proper approval and without preparation of a job description for each new job.
<b>Recommendation</b>	We recommend that the Ministry obtains the required approval from the parties concerned for restructuring and prepares a job description for every new job.
<b>Management’s Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 5. Weapons Inventory

<b>Observation</b>	The Coalition Forces provided the Directorate of Baghdad police with 6951 “Glock pistols”, which were not entered into the inventory and there is no information about their location to date.
<b>Recommendation</b>	We recommend that the Ministry includes these pistols in the weapons inventory and gives them identification numbers and upon withdrawing them, they should be recorded in a private record including the name and signature of the person receiving the weapon.
<b>Management’s Response</b>	The ministry responded by stating that the “Glock pistols” are recorded in the records of the Mira Directorate and were delivered to those concerned with proper documentation.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 6. Auditing the U.S. Embassy Contracts

<b>Observation</b>	During our visit to the Ministry of Interior, we found that the Directorate of audit – the department of the Ministry general inspector is auditing 1317 contracts with the U.S. embassy. Serious irregularities were identified in these contracts.
<b>Recommendation</b>	We recommend a follow-up with the U.S. embassy.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	A resolution was issued by the Council of Ministries number (444) in 18/12/2008 to accept all projects as they are without any financial obligations on the Iraqi government, as a gift from the American government. The Ministry accepted these projects based on this resolution.

## 7. Foreign Military Sales

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

### 8. Recording U.S. Agencies Contracts

<b>Observation</b>	During our visits to the Ministry of Interior, we noted that several contracts are managed by the U.S. Agencies without full coordination between the U. S. Agencies and the Ministry. As a result, the Ministry does not have any information related to such contracts and the contracts costs are not yet being recorded in the Ministry’s accounting records.
<b>Recommendation</b>	We recommend coordination shall be maintained between the Ministry and the U.S. Agencies and procedures are jointly developed to exchange the information and documents related to the contracts managed by the U.S. Agencies and in order to update the Ministry’s accounting records on a timely basis.
<b>Management’s Response</b>	Our monitoring commission at the Ministry indicated that follow-up continues with MOF in respect of these contracts. This note was also mentioned in the Firm’s report for the prior year.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 9. Allocation of Budget

<b>Observation</b>	During our visit, we noted that the Ministry’s budget has been prepared based on lump sum amounts for each type of revenues and expenses during the year 2007. The Ministry did not allocate any budgeted amount over the 12 months period as required by the budget guidance.
<b>Recommendation</b>	We recommend that the Ministry allocate the approved budget over 12 months to enhance the controls over the budget. A monthly variance analysis between actual expenses and budget should be performed and any major differences should be investigated and followed up.
<b>Management’s Response</b>	Our monitoring commission at the Ministry indicated that computations of the budget are done on gross basis and a re-analysis of monthly expenditures is done. This note was also mentioned in the Firm’s report for the prior year.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Health**



1. Employees

<b>Observation</b>	We noted that the instructions related to appointments of both permanent and contractual employees, of which (240) are not specialized in medicine, which are in violation of the budget instructions of the Federal Republic of Iraq for the year 2009 and the Council of Ministers Resolution 442 that state that new hirings be terminated.
<b>Recommendation</b>	We recommend complying with the budget instructions of the Federal Republic of Iraq for the year 2009, and Council of Ministers resolution (442).
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 2. Ministry's Purchases

<b>Observation</b>	We noted purchases of various kinds of furniture which is in violation of the Council of Ministers' Resolution (442), and the "general publication" of the Ministry of Finance (Authorization of payments), that states that purchases of various kinds of furniture should be reduced by 80 %.
<b>Recommendation</b>	We recommend complying with the instructions and resolutions issued by the Council of Ministers and the Ministry of Finance, specifically instructions related to the procurement process.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**3. Tenders**

<b>Observation</b>	We noted that the Contracts Division at the Ministry did not have the required documentation for the tender of purchasing furniture and stationary at the beginning of 2009.
<b>Recommendation</b>	We recommend maintaining the original copies of the tender at the Contracts Division that organized it and followed upon it.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**4. Contract Date**

<b>Observation</b>	Through our review of the main contract items, we noted that some of the contracts lack dates within the contract disclosures.
<b>Recommendation</b>	We recommend including the contract date within the contracts' terms.
<b>Risk Level</b>	Low
<b>Status</b>	New

### 5. Appraised Cost

<b>Observation</b>	Through our review of the terms of contracts, we noted that the Company does not prepare appraisal costs for the contacts of drugs and medical appliances.
<b>Recommendation</b>	We recommend complying with the government contract instructions which state that an updated study of the appraisal costs should be conducted for the project or contact required to be executed in order to be used as a benchmark during the analysis of tenders.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 6. Salaries Committees

<b>Observation</b>	Through our review of the salaries statements related to the Ministry and the Company in particular, we noted the following: 1.That one committee receives cash withdrawn from the bank and also pays the employees their salaries. 2.That most of the salaries paid are not received and signed by the employee himself.
<b>Recommendation</b>	We recommend complying with the budget instructions issued by the Ministry of Finance that requires the periodic rotation of committee members every six months for better control procedures. We also recommend the formation of two separate committees where one committee receives salaries, the other pays them to the employees and the employee receiving the salary finally signs on his salary statement.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**7. Trial Balances**

<b>Observation</b>	Through our review of the trial balances related to the Ministry and the Company, we noted the following: <ol style="list-style-type: none"><li>1. They were not completed on the specified date.</li><li>2. They were not audited by the Internal Audit Department.</li></ol>
<b>Recommendation</b>	We recommend the closing of Trial Balances periodically and on time. We also recommend that the internal Audit Department audits the Trial Balances after being completed and stamped.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**8. Maintenance of Assets**

<b>Observation</b>	We noted that the Ministry does not prepare a time schedule for the periodic maintenance of fixed assets. This contradicts Article 10, Caption (4) of the Iraqi Federal budget instructions for the year 2009.
<b>Recommendation</b>	We recommend preparing a time schedule for the maintenance work containing procedures for the periodic maintenance of fixed assets in order to preserve and guarantee its continuing and to preserve public funds.
<b>Risk Level</b>	Medium
<b>Status</b>	New



**9. Charges for Issuing Documentary Credit**

<b>Observation</b>	We noted that the charges for issuing documentary credit are being withheld by the TBI and have accumulated since 2003 and the amount has reached approximate of USD1.5 million. The Ministry has been trying to follow up this issue with the TBI but to date there has been no progress.
<b>Recommendation</b>	We recommend that a committee be formed to deal with this issue directly with TBI.
<b>Management’s response</b>	The Company stated that it sought to pursue this matter and resolve it with TBI, but to date there has been no progress in this regard and that the TBI was instructed to return the amount of commission deducted from the account of the company, especially those in private banks.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our follow up of the above mentioned observation, we noted that the company is working to solve the issue.

## 10. Inventory Management

### Observation

We noted the following:

1. Unrealistic supply forecasting. Hence the public warehouses (public clinics) are required to set their inventory levels 18 months before the required date.
2. The concerned committee does not incorporate in their quantity ordering process the inventory that has been previously ordered and that is being shipped.
3. With the receipt of medication the management of the public warehouses find it difficult to disburse the quantities due to the fact that they are close to the expiry date.
4. The Ministry obliges the public warehouses to receive the excess quantities which are usually close to the expiry date.
5. The received quantities are distributed to the warehouses at the divisions without taking into consideration the expiry date.
6. The public warehouses have raised concerns regarding the manufacturers of the medications.
7. We noted that large quantities of medication are expired that are being disposed.

Medicine	No. of Pills	Pack Size	Units	Unit Price IQD	Total IQD
Aldomet Tab.	7,602,330	30	253,411	1,730	438,401,030
Becotide Inh.	91,960	1	91,960	3,311	304,479,560
Mestion Tab.	298,950	50	5,979	5,950	35,575,050
					778,455,640

### Recommendation

We recommend that:

1. The company puts in place a committee to follow up on the expiry of medication and follows on inventory management system.
2. The company sets new policies in forecasting expected quantities to avoid disposing of expired goods.
3. The company upgrades the role of the public warehouses.

### Management's Response

The Ministry agrees with the observation except for point 2.

### Risk Level

High

### Status

Old

### Follow up

Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 11. Firearms and Ammunition

<b>Observation</b>	We noted that firearms and ammunition that belong to the Ministry are in the possession of individuals that are not part of the Ministry's cadre.
<b>Recommendation</b>	We recommend that the personnel department makes sure that all assets in the possession of individuals be returned when they are transferred or resign.
<b>Management's Response</b>	The Ministry (Department of individuals) made it clear that the clearance is completed after receiving the weapons of these people.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

**12. War Losses**

<b>Observation</b>	The Ministry did not estimate the losses resulted from the 2003 war to derecognize the lost assets from its records.
<b>Recommendation</b>	We recommend the losses resulting from the 2003 war be estimated and derecognized from the Ministry’s records after obtaining the appropriate approvals.
<b>Management’s Response</b>	The company has estimated the losses to be removed from the final accounts of 2003 and recorded the differences in cash and inventory. The Company is awaiting instructions of the Ministry of Finance to remove the lost assets from its records.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 13. Consolidated Financial Statements

<b>Observation</b>	We noted that the Ministry does not compile consolidated financial statements to include all related directorates and the Ministry.
<b>Recommendation</b>	We recommend that the Ministry compiles consolidated financial statements as it will give a more complete view of the Ministry's financial status.
<b>Management's Response</b>	The Ministry has responded that it lacks consolidated financial statements.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

**14. Reconciliation of the Transactions with Related Companies**

<b>Observation</b>	We noted that the Ministry did not perform monthly reconciliations with the records of the related companies to reconcile Letters of Credit and import contracts balances. The main purpose of the reconciliations is to ensure that all recorded amounts in the companies’ accounting records have been recorded by the Ministry.
<b>Recommendation</b>	We recommend preparing regular reconciliations with the related companies records, to ensure proper matching of all transactions between the Ministry and related companies’ records, and to identify and clear differences permanently. Reconciliations should be reviewed and approved by the appropriate levels at both the Ministry and the related companies to maintain additional accuracy and control procedures.
<b>Management’s Response</b>	The commission confirmed the above note since the Ministry did not keep records showing details and balances of contracts, other than the register that shows the payments made for financing certain contracts which are reconciled with the schedule sent to the Ministry by the General Company for Marketing of Medicines and Medical Supplies. This note was also mentioned in the Firm’s report for the prior year.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	The above mentioned observation is still valid during the year 2009.

### 15. Contract Supporting Documents

<b>Observation</b>	We noted that the contracts are not properly filed; the contracts' related supporting documents are distributed over the Ministry departments which make it difficult to obtain and follow up some of the contracts and its related supporting documents.
<b>Recommendation</b>	We noted that the contracts are not properly filed; the contracts' related supporting documents are distributed over the Ministry departments which make it difficult to obtain and follow up some of the contracts and its related supporting documents.
<b>Management's Response</b>	The related commission confirmed the above. Similarly this note was also mentioned in the Council's report no. 9578 of 19/11/2007, and also has been mentioned in the Firm's report for the prior year. The Ministry did not take any measures in this respect.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	The above mentioned observation is still valid during the year 2009.

## 16. Delay in Purchasing and Contracting Processes

<b>Observation</b>	We noted delay in purchasing and contracting procedure during 2007.
<b>Recommendation</b>	We recommend conducting a study of the current purchasing and contracting process, in order to properly follow up the contracts in progress and identify reasons for delay in signing contracts with a view of increasing the efficiency of purchasing and contracting department and ensure timely execution of the Ministry's annual budget.
<b>Management's Response</b>	The related commission confirmed delays by the company in the purchasing and contracting process of certain contracts. The commission has previously noted this delay in its reports no. 9578, 7686 and 8120 of 19/3, 11/10, 19/9 and 2/10/2007 respectively. This note was also mentioned in the Firm's report for the prior year.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	The above mentioned observation is still valid during the year 2009.



## **Observations Raised for the year ended 31 December 2009 Ministry of Trade**

**1. Cash Purchase Contract 16,000 Tons of Washing Detergent**

<b>Observation</b>	Through our review of the above mentioned contract in the amount of USD 15,520,000, we noted the following: 1.Only 24% of the goods requested were delivered as at 15/12/2009. the date of delivery specified in the contract was 12/12/2009. 2.Inspection revealed that half of the goods received that amount to (1,612) Tons do not conform to specifications.
<b>Recommendation</b>	We recommend abiding by the terms of the contract and complying with the budget instructions that state calling to account the responsible project administrations in the case of a decline in the percentage of completion.
<b>Risk Level</b>	High
<b>Status</b>	New

## 2. Withholding Suspended Materials

<b>Observation</b>	We noted that most of the warehouses related to the Company are retaining suspended materials that do not conform with stated specifications causing a delay in the waste process of the materials. This leads to utilizing large areas of warehouses and the Company incurring significant storage costs in addition to being exposed to legal liabilities as a result of retaining these materials.
<b>Recommendation</b>	We recommend destroying these materials in the event they fail laboratory tests, so that the Company does not incur additional storage costs and become exposed to legal issues as a result of storing the materials.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 3. Qualifications of the Workforce

<b>Observation</b>	We found 4 employees within the Ministry without adequate qualifications.
<b>Recommendation</b>	We recommend considering and adopting job descriptions which specify qualifications required when making appointments to ensure that the Directorate is implementing its duties to the fullest.
<b>Risk Level</b>	Medium
<b>Status</b>	New

#### 4. Inventory Status Including the Supply, Deficit, and Surplus Levels

##### Observation

Through our review of the status of inventories, the supply, deficit and surplus of these inventories which were counted by the Planning and Review Division as of 31/12/2009, we noted a deficit in all materials supplied except 2 items; fats which showed a large surplus, and infant's milk which showed a relatively lower surplus. We also noted the following:

	<u>Gross Amount of Supplies Demanded</u>	<u>Deficit (tons)</u>	<u>Surplus (tons)</u>
Sugar	345,462	338,409	0
Tea	55,741	38,442	0
Children's Milk	5,137	0	995
Adult's Milk	16,139	11,814	0
Fats	0	0	211,190
Powders	70,170	67,410	0
Soap	54,181	44,934	0
Legumes	46,871	32,531	0

##### Recommendation

We recommend that the Company prepares a balanced strategic plan for the above mentioned items, based on actual requirements for these materials and the participation of all divisions, in collaboration with the personnel of the Imports Division.

##### Risk Level

High

##### Status

New

**5. Trial Balances**

<b>Observation</b>	Through our review of trial balances, we noted that the opening entry was not posted at the beginning of the fiscal year, and that the TB was not audited by the Internal Audit Department, and not completed at the required date.
<b>Recommendation</b>	We recommend posting the opening entry at the beginning of the fiscal year to give a clear picture of the sufficient financial data at the suitable time. We also recommend the completion of Trial Balances periodically and on time and that the Internal Audit Department audits the trial balances after being completed and stamped.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**6. Maintenance of Assets**

<b>Observation</b>	We noted that the Ministry does not prepare a time schedule for the periodic maintenance of fixed assets. This contradicts Article 10, Caption (4) of the Iraqi Federal budget instructions for the year 2009.
<b>Recommendation</b>	We recommend preparing a time schedule for the maintenance work containing procedures for the periodic maintenance of fixed assets in order to preserve and guarantee its continuing and to preserve public funds.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**7. Contract Date**

<b>Observation</b>	Through our review of the main contract items, we noted that some contracts lack dates in the contracts disclosures, such as, the contract for the cash purchase of 5000 tons of adult milk, and the contract to supply 3000 tons of canned black tea.
<b>Recommendation</b>	We recommend including the contract’s date in the contract’s disclosures.
<b>Risk Level</b>	Low
<b>Status</b>	New



### 8. Performance Bonds

<b>Observation</b>	Through our review of a sample of contracts, we noted that there was a delay in submitting the performance bond for some contracts, which include the contract for the cash purchase of 5000 tons of adult milk, and the contract to supply 3000 tons of canned black tea.
<b>Recommendation</b>	We recommend that the Company follows up on the performance bonds and obliges the suppliers to submit the performance bonds on time as specified in the contract.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 9. Analysing Committees

<b>Observation</b>	The Analyzing Committee has not organized a detailed schedule for all tenders showing details related and any shortcomings if any, along with a comparison and evaluation from a technical, legal and financial aspect. We noted this deficiency in the contract to build modern homes in the Muthna Province and the contract to build modern homes in the Diwaniyi Province. This is in violation of instruction 1 for 2008, Article 7, paragraph 13.
<b>Recommendation</b>	We recommend complying with the budget execution instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**10. Appraised Costs**

<b>Observation</b>	We noted differences between the cost of appraisal prepared by the Engineering Department and the assigned amount, for example: conversion of the Diwaniyah shore, supplying 15 lawn mowers, and building the premises of the Fallujah Damn Administration.
<b>Recommendation</b>	We recommend that a thorough and detailed study of the preparation of the appraised cost in order to preserve public funds.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 11. Execution of one hangar in Sawmaat Al Rifai

<b>Observation</b>	We noted that the Company was disqualified as per the minutes of the analysis meeting due to the fact that it submitted the initial guarantee in cash. The company claims it provided a check number 1464717 issued on 28/06/2009 by the Rashed Bank, Nasiriyah Branch, and holds a receipt number 82614. The Company was rated first in both the opening and the analysis committee. No action has been taken.
<b>Recommendation</b>	We recommend complying with the awarding of projects in accordance with an analytical and objective study and verifying the documents submitted.
<b>Risk Level</b>	High
<b>Status</b>	New

## 12. Re-Announcement of Tenders

<b>Observation</b>	During our review we noted that the Ministry re-announces some awards after opening the offers, this reveals the prices offered by the bidders to the committee thus compromising the secrecy of bidding process.
<b>Recommendation</b>	We recommend the necessity to oblige the bidders to offer two proposals as follows: Technical proposal: this involves the technical standards of the subject of the contract, delivery date and other technical matters. Financial proposal: this involves the prices list and the dates and method of payment on the condition that the financial proposal will only be opened after the technical proposal have been approved. We also recommend the necessity to investigate precision when the awarding is published, and making sure it involves all the conditions and standards related to the contract, in order to increase controls on the buying operation.
<b>Risk Level</b>	High
<b>Status</b>	New

**13. Imports Division**

<b>Observation</b>	We noted that although there is an internal audit program for all departments and sections in place, the procedures included are not precise. As for the import department the audit program does not include specialized procedures on the imports of grains. The audit of the import cycle requires knowledge of the permitted working days, actual working days and how to compute demurrage and dispatch.
<b>Recommendation</b>	We recommend that the Ministry develops an internal audit program specialized for the import department and provide adequate training for audit staff.
<b>Management's Response</b>	The Ministry responded that the observation did not specify the nature of the specialized procedures for cargo and ships and therefore can not ignore them, and that the company has an internal audit program integrated across the company, including the Import Department. The Ministry also informed us that the Company has many procedures and methods to control the work starting from the shipments of materials, wheat and rice, to their arrival at the port of discharge with all the details pertaining to contracts.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

**14. Consolidated Financial Statements**

<b>Observation</b>	We noted that the company has 13 branches related to Baghdad and 3 related to KRG. The consolidation process is performed manually which gives rise to human errors and is very time consuming. In addition, statements of accounts and trial balances are sent monthly but not consolidated until year end.
<b>Recommendation</b>	We recommend that the company implements an automated accounting system to facilitate the consolidation of accounts and the extraction of reports.
<b>Management's Response</b>	Currently, all Trial Balances(branches and Baghdad) are automated. Work is underway to automate all statements knowing that all documents (the output and input, processing and reconciling) have been previously and are currently automated.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

**15. Accounts Receivable that Have been Aging for More than 3 years**

<b>Observation</b>	We noted that there are accounts receivable older than 3 years totaling in excess of 3 billion Iraqi Dinar. These accounts receivable are related to governmental Agencies.
<b>Recommendation</b>	We recommend that the company follows up on these receivables and if their collection is unlikely, we propose that the accounts receivable be written off.
<b>Management's Response</b>	The Company indicates that, as per the report of the audit company, these accounts belong to the discontinued departments and can not be removed from the records. Moreover, there is follow-up on behalf of the Ministry of Trade with the Ministry of Finance.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.



**16. Checks Register**

<b>Observation</b>	We noted that there are discrepancies between the issued checks register extracted by the IT department and the records of the finance department and the import department.
<b>Recommendation</b>	We recommend that the checks register extracted by the IT department be reviewed on a daily basis to ensure that there are no discrepancies.
<b>Management's Response</b>	The Company agrees with the observation.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

### 17. Doubtful Debts

<b>Observation</b>	We noted that there are doubtful debts in the excess of 2.3 billion Iraqi Dinar that are related to 60 dissolved governmental bodies.
<b>Recommendation</b>	We recommend that these doubtful debts be written off.
<b>Management's Response</b>	The Company agreed with the observation and addressed the matter to the Board of Directors of the Company during their last meeting, and was referred to the legal department for necessary action.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

### 18. Checks Overdue Over than Six Months

<b>Observation</b>	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
<b>Recommendation</b>	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and the accounting records amended accordingly.
<b>Management's Response</b>	The Company agrees with the observation and the recommendation.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Company, we noted that the above mentioned observation is still valid during the year 2009.

## 19. Overdrawing the Bank Account

<b>Observation</b>	During our review we noted that the bank account of the State Company for Food Supplies at the Trade Bank of Iraq was overdrawn. Overdrawing current accounts is considered a weakness in bank accounts management, since the governmental financial management uses the cash basis for its transactions, in addition to weakness in the management of the annual budget of the government entity where the payments are done before the existence of an allocation.
<b>Recommendation</b>	We recommend following up the company's bank accounts on a daily basis and not to perform a payment of any amount without prior existence of funding for better control procedures over governmental entities assets.
<b>Management's Response</b>	The State Company for Food Supplies justified this purchase and the provision of food materials as a result of an agreement between the Ministry of Trade, TBI and the Economic Affairs Committee so that TBI provide the financial facilities to cover bills up to U.S. \$ 250 million to guarantee the non-interruption of the in-flow of food supplies. Our monitoring commission at the State Company for Food Supplies confirmed the company's reply.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	The above mentioned observation was still valid for the year 2009.

## 20. Tracking Budget Allocations for the Ministry

<b>Observation</b>	The Ministry of Finance approves the budget allocation of the letters of credit for each Ministry and sends a copy of this approval to the respective ministries and to the CBI. Based on this approval, the ministries then open their letters of credit at Trade Bank of Iraq. During our visit, we noted that the Ministry issued requests for payments exceeding their allocated budget approved by the Ministry of Finance. This indicates that the Ministry does not maintain sufficient records of the budget amounts approved by the Ministry of Finance, nor the amounts paid by the Ministry and the remaining balance to be paid by the Ministry.
<b>Recommendation</b>	The Ministry should create an authoritative budget monitoring system to monitor the budget amounts approved by the Ministry of Finance and the amounts paid and the remaining balance, in order to prevent or detect any payment requests that exceed the budget allocations. If exceptions are approved, any payments in excess of budget allocations should be formally documented as approved by the authorized authority or officer.
<b>Management's Response</b>	The Ministry replied that excesses on allocated budgets took place with the approval of the related authorities and was due to the insufficient amounts annually allocated for the provision of items on the food provision list for year 2006, but allocations for year 2007 were not exceeded. We, in this respect, indicate that MOF has deposited the amount of U.S. \$ 250 million at TBI in favor of the Ministry of Trade for opening Letters of Credit for the purchase of items of the food provisions list. Accordingly the Ministry of Trade possesses enough facilities to enable it to open the LC's without exceeding allocated amounts for such important matter. As to the records maintained by the Ministry that do not reflect all approved allocated budgets and amounts paid out, we confirm that said records are not maintained, noting that the budget section at the Ministry of Trade does enter this data to the computer and provides a report of amounts received from MOF in U.S. Dollars and Iraqi Dinars that were transferred to each of TBI and other banks relating to allocations for food procurement, flour production costs, settlements to farmers and transportation fees per activity of each of the Ministry of Trade companies, knowing that other bodies related to the Ministry maintain records for allocated amounts received from MOF and payments there from. This note was also mentioned in the Firm's report for last year.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	The above mentioned observation was still valid for the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Electricity**

### 1. Contract to Import Gas Oil 3/2009

<b>Observation</b>	During our review of the above mentioned contract, we noted that the period between the study and analysis, and the awarding of the contract is long, where the date of the Study and Analysis Committee was 7/5/2009 and the awarding date was 15/10/2009.
<b>Recommendation</b>	We recommend the need to comply with instructions of government contracts for 2009.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 2. Contract to Supply Pipelines for the Boilers of Al Hartha Station

<b>Observation</b>	Through our review of the above mentioned contract mentioned above, we noted that the contract that is in the amount of USD 2,224,932 has been re-announced four times and that the re-announcing process reveals the bids offered.
<b>Recommendation</b>	We recommend that bidders be required to submit two offers as follows: The technical offer: which includes the technical specifications such as the contract subject, date of submission, and other technical specifications. Also, this offer includes the prices schedule, settlement date, and the payment method such that the financial offer is not opened unless the technical offer mentioned above is approved. We also recommend the need for accuracy when the tender contract is published and ensuring that it includes all the related specifications and conditions for more control and audit procedures on the procurement process.
<b>Risk Level</b>	High
<b>Status</b>	New



### 3. TAVANIR Contract

<b>Observation</b>	<p>Through our review to TAVANIR contract amounting to USD 34,956,982 we noted the following:</p> <ol style="list-style-type: none"><li>1.The absence of a precise scale from the Iraqi side to measure the electric power entering Iraq (scales used give readings higher than the Iranian readings).</li><li>2.The delay in linking the scales for Khankeen station as linked for the Sarbeel Zhab station.</li><li>3.There is a breach by the Iranian side in adhering to the contract terms such as supplying the Iraqi side with MW200 instead of MW300 as mentioned in the contract.</li><li>4.The Iranian side disconnected the line without prior notice for the purpose of forcing the Iraqi side to reduce energy from MW 200 to MW150.</li><li>5.The absence of any objection from the Iraqi side of the work carried out by the Iranian side, which led to a breach of the terms of the contract.</li><li>6.There is a difference between the amount in the book numbered 23435 on 27/7/2009 and the amount included in the tables; the errors were detected by the Trade Bank of Iraq after receiving it from the Ministry of Electricity.</li></ol>
<b>Recommendation</b>	<p>We recommend the need to link precise and high-efficiency scales and compel the Iranians to adhere to the terms of the contract. We also recommend the need for accuracy when preparing the financial statements and auditing it by the Audit Department.</p>
<b>Risk Level</b>	<p>High</p>
<b>Status</b>	<p>New</p>

### 4. Authority

<b>Observation</b>	Through our review of the Ministry of Electricity, we noted that the General Manager of the Finance and Economics division granted authority to delegate signing for some employees, although it contradicts budget instructions and that the approval from the Minister or Governor is required. Moreover, the Ministry of Planning and Development Cooperation must be informed to study and approve it.
<b>Recommendation</b>	We recommend adhering to the budget instructions.
<b>Risk Level</b>	High
<b>Status</b>	New

### 5. Contract to Supply a Modern Station (400) KV

<b>Observation</b>	The General Directorate for the Transfer of Energy ( Upper Euphrates) executed the contract without having the allocated funds.
<b>Recommendation</b>	We recommend adhering to the instructions of government contracts.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 6. Approval of Settlement of Old Debt

<b>Observation</b>	We noted that the Ministry paid a total amount of U.S. \$ 34,000,000 for an old outstanding contract, without having an approved budget and without prior approval from the Ministry of Finance. This payment is related to a contract to supply electrical appliances by a Jordanian company which was signed on 21 May 2001 for U.S. \$ 100 million. Based on the contract terms, the first payment was due after two years on 21 May 2003. We noted that, based on the Ministry records, the Jordanian company supplied materials amounting to U.S. \$ 77,418,321 up until 15 September 2004 and requested the settlement of its billings.
<b>Recommendation</b>	We recommend that this issue needs further investigation by the Government of Iraq, as the above contract was signed in 2001 and during this period all contracts should be made in accordance with the United Nations' Memorandum of Understanding (MOU) signed on 20 May 1996 between the Secretariat of the United Nations and the Government of Iraq on the implementation of Security Council Resolution. We further recommend the Ministry of Electricity to comply with its budget allocations for each year and to seek the Ministry of Finance approval for any exceptions.
<b>Management's Response</b>	<p>The Ministry in its above letter stated that the Council of Ministries, per letter no. 1103 of 27/11/2004 was approached and approval obtained per the Council's letter no. 9/1/1775 of 28/2/2005, and settlement was made at the end of 2005 as no settlement was done at the earlier time.</p> <p>Our related commission confirmed the correctness of the Firm's note relating to the Jordanian Company (AI-HADAF ENGINEERING). This note was also mentioned in the Firm's report for the prior year.</p>
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	The case has been presented to the Ministry's legal division and the government general security council for discussion. Till 5 March 2009 there has been no outcome.

## 7. Recording and Reconciliation of LC's Payments

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

## **Observations Raised for the year ended 31 December 2009 Ministry of Justice**

# 1. Contract to Supply Cars

<b>Observation</b>	Contrary to the provisions of section 5 of the Revolution Command Council Resolution 222 for the year 2000 that identifies 7% of the net share of the independent account for the purchase of supplies, devices and equipment, we noted that the Ministry has purchased 18 vehicles by more than 48% of the net share of the independent account.
<b>Recommendation</b>	We recommend the need to comply with laws and regulations.
<b>Risk Level</b>	High
<b>Status</b>	New

## 2. Contract to Supply Clothes

<b>Observation</b>	Through our review of the contracts to supply uniforms for the guards to the Iraqi Reform Department, we noted a contract with an amount of IQD 1,406,000,000 and a contract amounting to IQD 800, 000,000 that lack a centralized procurement plan specifying the actual requirements to avoid a fragment of the auction and rather obtaining competitive bids.
<b>Recommendation</b>	We recommend complying with budget instructions in order to preserve public funds.
<b>Risk Level</b>	High
<b>Status</b>	New



### 3. Overtime

<b>Observation</b>	Through our review of a sample of contracts, we noted that the overtime worked by the contractor on the contract to renovate the Municipalities Prison of the Iraqi Reform Department required additional funds that were received without the approval of both the Ministry and the stakeholders of the job.
<b>Recommendation</b>	We recommend adhering to government contracts.
<b>Risk Level</b>	High
<b>Status</b>	New

### 4. Re-Designing Projects

<b>Observation</b>	The Ministry has re-contracted some of the projects to design its departments in Al-Aziziyi, Al-nehmeniyi, Al-Basra, and Al-Najaf where we noted that the Ministry spent funds on projects that were cancelled.
<b>Recommendation</b>	We recommend a study and plan is carried out in advance to avoid spending extra funds in order to preserve public funds.
<b>Risk Level</b>	High
<b>Status</b>	New

## 5. Analysis Committees

<b>Observation</b>	Contrary to the instructions of execution of contracts no. (1) for the year 2008, article (7) paragraph (13), the Analysis Committee didn't organize a detailed schedule of all offers showing all its related details and deficiencies if found, and didn't compare and evaluate the technical, legal and financial aspects, such as contracts for establishing departments of justice in the province of Al Najaf – Al Zohour Area/ Baghdad.
<b>Recommendation</b>	We recommend the need to comply with instructions of implementing the governmental contracts.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 6. Decline in the Percentage of Completion

<b>Observation</b>	During our review we noted that the percentage of technical completion for a number of contracts is relatively low, although the contracting period is over. Some of the contracts were executed by governmental companies, such as the contracts to build compounds for the Ministry of Justice in Maysan – Al Zohour Area/ Baghdad.
<b>Recommendation</b>	We recommend compliance with the contract terms and budget execution instructions which states that the project’s management responsible for execution, is held accountable when the percentage of completion is low.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 7. Contract to Build the Ministry of Justice Departments in the Najaf Province

<b>Observation</b>	We noted the amount of the contract to build the departments that was IQD 563,653,000, increased during the year 2009 by 25% mainly due to the delay in the analysis and awarding process.
<b>Recommendation</b>	We recommend the Ministry sets a time schedule specifically for the resolution of issues related to tenders starting from the opening of the tender till the awarding and signing of the contract in order to avoid additional expenses and to preserve public funds.
<b>Risk Level</b>	High
<b>Status</b>	New

### 8. Contract to Supply Food for the Prisoners

<b>Observation</b>	Through our review of contract No. 38 to supply the prisoners with food, we noticed that the governor has cancelled the contract with the Company and has signed a contract with Company which is excluded by the referral commission knowing that the Ministry of Justice is the only official side that can cancel the contract.
<b>Recommendation</b>	We recommend the Ministry to abide by the instructions of implementing government contracts.
<b>Risk Level</b>	High
<b>Status</b>	New

## 9. Legal Claims Outside Iraq

<b>Observation</b>	During our visit to the Ministry we noted that the legal department receives via email, compensation requests from lawyers outside Iraq for expenses relating to claims outside Iraq. The funds spent on these claims during 2008 was estimated at around ID 567,357,575. The finance department does not maintain sufficient information regarding these claims.
<b>Recommendation</b>	We recommend that the Ministry obtains a list of all the claims and names of all lawyers outside Iraq from relevant parties and provide the finance department with copies.
<b>Management's Response</b>	The Ministry responded that the approval by the General Secretariat of the Council of Ministers was obtained on the recommendations of the Office of Legal Counsel.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 10. Registration of Contracts

<b>Observation</b>	In 2008 the contracts division was established where all contracts relating to 2008 were filed, whereas the contracts relating to years prior to 2008 still remain in the Investments division. There is no coordination between the two divisions which is needed because there are contracts found in the investments division relating to years prior to 2008 but were settled in 2008.
<b>Recommendation</b>	We recommend full coordination between the Contracts Division and Investment Division and the registration of all contracts settled during 2008 in the contract division.
<b>Management's Response</b>	The Ministry responded that it had been working and coordinating between the Investments Division and the Department of Contracts in the ministry in order to keep the contracts prepared in 2007, which were settled in 2008 after the formation of the contracts department in the Ministry.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.



## 11. Iraqi Maintenance Division

<b>Observation</b>	The maintenance division in the Ministry which is responsible for all Iraqi prisons does not coordinate with its related divisions in the districts in matters relating to inventory counts of warehouses and assets.
<b>Recommendation</b>	We recommend coordination between the Iraqi maintenance division and its related divisions in the districts with respect to the stock count procedures of warehouses and assets.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

Ministry of Justice  
**12. FMS Contracts**

<b>Observation</b>	We noted that during the year 2007, an amount of sixty four billion Iraqi Dinars was transferred without the Acknowledgment or authorization of the Ministry of Justice to the special account. (FMS: Foreign Military Sales) relating to the Federal Reserve Bank in the foreign military contracts department in New York. The Ministry does not have any information about the reason for this transfer and the Ministry did not record the amount disbursed from the account during the year as part of its expense. We were informed that the Ministry had received only 300 thousand liters of gas for a price of 750 Iraqi Dinars per liter for a total of 225,000,000 Iraqi Dinars form 21/10/2007 till 22/11/2007.
<b>Recommendation</b>	We strongly recommend coordination between the Ministry of Justice, the Ministry of Finance and the related U.S. Agencies in order to keep the Ministry informed of all expenses incurred and relates to U.S. Agencies.
<b>Management's Response</b>	The Ministry responded that no records or bills exist in the Iraqi Corrections Service showing payment of the sum mentioned above as the amount was disbursed by the U.S. party. It also claims that a committee has been formed to audit the documents referred to above and will perform the necessary action once the committee has finished its work.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Culture**

# 1. National Theatre Completion Project

<b>Observation</b>	Through our review of the above mentioned contract, we noted that the members of the Contracts Review and Approval Committee met on 11/3/2009, as mentioned in the minutes of their meeting, while the date the contract was signed on, was on 22 and 23/3/2009.
<b>Recommendation</b>	We recommend that all members sign on the minutes of the meeting and seal the meeting on the same day.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 2. Fixed Assets Register

<b>Observation</b>	<p>Through our review of the Fixed Assets Register of vehicles, we noticed the following:</p> <ol style="list-style-type: none"> <li>1.The register includes only the vehicles that were purchased during 2008 and 2009 and not all of the Ministry’s vehicles knowing that there are vehicles donated to the Ministry that were not priced before entering it to the inventory register.</li> <li>2.There were vehicles not valid for use that were not written off and other vehicles that were missing, where no legal action was taken regarding these missing vehicles, and other vehicles owed by former officials that have not been returned.</li> </ol>
<b>Recommendation</b>	<p>We recommend limiting the Ministry’s vehicles and entering it to a regular register that includes all information. Moreover, we recommend pricing the donated vehicles before entering it to the registers and we also recommend removal of vehicles unfit for use and taking legal actions for missing vehicles and restoring vehicles that are owned by former officials.</p>
<b>Risk Level</b>	<p>Medium</p>
<b>Status</b>	<p>New</p>

### 3. Operating Budget

<b>Observation</b>	During reviewing the daily journal register of the operating budget we noted a number of manual corrections and erasing without evidence of approval of the head of accounting and internal audit.
<b>Recommendation</b>	We recommend obtaining the approval and signature of the Head of Accounting and the Internal Auditor on all corrections and erasing.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

#### 4. Checks Overdue Over than Six Months

<b>Observation</b>	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
<b>Recommendation</b>	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 5. Contracting and Contracts' Supporting Documents

<b>Observation</b>	During our review we noted the lack of a centralized file for each contract to maintain a copy of all its related documents. Rather, documents are filed across the related departments.
<b>Recommendation</b>	We recommend that all documents related to each contract shall be centrally filed, to facilitate review and for better control procedures.
<b>Management's Response</b>	We confirm this note since all documents relating to contracts or copies thereof are not kept in a centralized file to facilitate referring to them and to strengthen internal controls.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.



# **Observations Raised for the year ended 31 December 2009**

## **Ministry of Education**

## 1. Follow Up with the Ministry of Education General Directorate

<b>Observation</b>	<p>During our visit, we noted that the Ministry does not have any statements of accounts or information related to the amounts transferred from Ministry of Finance directly to the Ministry's general directorates due to financial independency of these Directorates.</p> <p>The independency of Directorates is aimed to facilitate the funding process; however, it does not eliminate the Ministry's essential role in controlling the related directorates' expenditures.</p>
<b>Recommendation</b>	<p>We recommend that monthly statements from the Ministry's general directorates should be obtained. Additionally, monthly reconciliations between the amounts transferred from the Ministry of Finance directly to these Directorates should be performed.</p>
<b>Management's Response</b>	<p>Our follow up revealed the correctness of this note and that the financial system adopted by the Ministry induced each General Directorate of Education prepare ending financial statements that are sent to the accounting department in Baghdad and those pertaining to Directorates of the Municipalities, sent to the treasuries. Accordingly, the financing process was done directly with the related directorates. Revenues and expenditure of each directorate was done with the accounting department and the treasuries. The Financial Monitoring Council did comment on the budget for the Ministry of Education and recommended in its letter no. 8665 of 21/10/2007 to MOF re the coordination with the Ministry of Education to list said directorates as sections of the current budget with related trial balances. Our commission did not confirm this recommendation for providing the Ministry with monthly statements from the general directorates due to the fact that said directorates are not linked within the Ministry's headquarters through a joint financing.</p>
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	The above mentioned observation was still valid for the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Human Rights**

1. Employees

<b>Observation</b>	40 employees were appointed as permanent staff without the Ministry of Finance’s approval, along with 24 contractual employees, contrary to the budget instructions for the year 2009/3 <sup>rd</sup> division (employees) – 1 – appointments A.
<b>Recommendation</b>	We recommend adhering to the budget instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 2. Checks Overdue Over than Six Months

<b>Observation</b>	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
<b>Recommendation</b>	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Migration and Displaced**

1. Contracts

<b>Observation</b>	We noticed in both the Al Orjowan contract (project for establishing the Ministry’s branch in Babel) and Al Khotwa al Thabita Contract (project for establishing the Ministry’s branch in Al Diwaniyah) the existence of errors in the design of the Ministry’s branch in Babel which was adopted in the Ministry’s branch in Al Diwaniyah and led to halting the work.
<b>Recommendation</b>	We recommend the need to prepare the designs and drawings accurately and to use advisory offices in order to avoid errors and preserve public funds.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 2. Project for Establishing the Ministry’s Branch in Al Diwaniyah

<b>Observation</b>	Through our review of the Al Khotwa al Thabita Company contract (project for establishing the Ministry’s branch in Al Diwaniyah), we noticed that the date of delivery of the work site to the Company was 17/12/2009, while the date of the awarding was 31/12/2009.
<b>Recommendation</b>	We recommend the need to abide by the confidentiality of analysis and awarding procedures and to abide by the instructions of implementing the government contracts.
<b>Risk Level</b>	Medium
<b>Status</b>	New



### 3. Ministry By-Laws

<b>Observation</b>	We noted that the Ministry's by-laws describing the Ministry's mission, have not been issued by a law.
<b>Recommendation</b>	We recommend that the Ministry follow-up with the concerned parties in order to issue a law stating the incorporation of the Ministry and setting its by-laws.
<b>Management's Response</b>	The Ministry responded by stating that the ministry's code has not been passed by parliament, therefore the ministry has not developed its by-laws. The BSA agrees with the ministry.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 4. Bank Reconciliations

<b>Observation</b>	We noted that the bank reconciliation for a/c # 11200 does not contain enough information regarding the reconciling items that appeared within the reconciliation.
<b>Recommendation</b>	We recommend that employees should be given adequate training in accounting tasks. In addition, we recommend that all reconciliations be reviewed.
<b>Management's Response</b>	The Ministry responded that with regards to the bank reconciliations, the reason behind the observation is due to the failure of banks to provide the ministry with debit advices. The Ministry will also take action by asking for the details of the outstanding balances and resolving them.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

# **Observations Raised for the year ended 31 December 2009**

## **Ministry of Technology**

# 1. Ministry Establishment Law

<b>Observation</b>	We noted that the law for establishing the Ministry has not been approved by relevant governmental bodies.
<b>Recommendation</b>	We recommend that an effort be made to obtain the required approvals on the Ministry's Establishment Law
<b>Management's Response</b>	The BSA agrees with the observation.
<b>Risk Level</b>	The Ministry has not responded.
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Environment**

## 1. Contract for Supplying Equipment and Furniture to the Environment Directorate of Kirkuk

<b>Observation</b>	Through our review of the contract mentioned above amounting to IQD 87,625,000, we noticed that the supplier presented a letter of guarantee for performing the execution 13 days after the expiry of the contractual period which violates the instructions and terms of the contract. Moreover, the Tenders Opening Committee didn't seal and sign on all pages of the supplier's offer and the Tenders Analyzing Committee didn't include one legal and financial member on the committee. We also noted that not all of the committee members signed on the minutes of the meeting.
<b>Recommendation</b>	We recommend the need to comply with instructions of implementing the government contracts.
<b>Risk Level</b>	High
<b>Status</b>	New

## 2. Salaries

<b>Observation</b>	<p>Through our review of payment of salaries we noted the following:</p> <p>Lack of segregation of duties as the employee who prepares and organizes the salaries to be paid, also distributes the salaries.</p> <p>Some employees delegated other employees to collect their salaries on their behalf without any authorization or supporting documents available at the Ministry to ensure that the representatives are authorized to collect payments on other employees behalf.</p> <p>The payroll is prepared manually. This process is laborious and time-consuming and may lead to human errors.</p>
<b>Recommendation</b>	<p>We recommend the Ministry that the person responsible for preparing the salaries must be independent of the person paying the salaries. We also recommend that the recipient is officially authorized to receive a salary on behalf of another employee for better internal control procedures. We also recommend the automation of the payroll system and the completion of employees database with all relevant information. This will organize and facilitate the extraction of payroll sheets and will increase accuracy.</p>
<b>Risk Level</b>	High
<b>Status</b>	New

### 3. Suspended Projects

<b>Observation</b>	Through our visit to the Ministry, we noted suspended projects resulting from problems in the execution process where a decision still has not been taken concerning these contracts.
<b>Recommendation</b>	We recommend the Ministry takes appropriate action to solve the executional problems.
<b>Risk Level</b>	Medium
<b>Status</b>	New



**4. Stock Count**

<b>Observation</b>	Through our review of the stock count performed, we noted that the Ministry has not reconciled the stock count to the books up till the day of our visit in 25/3/2010.
<b>Recommendation</b>	We recommend preparing a reconciliation between the assets count and records at year end.
<b>Risk Level</b>	High
<b>Status</b>	New

### 5. Segregation of Duties

<b>Observation</b>	Through our review of the bank reconciliations, we noted the Internal Audit Department prepares and audits the bank reconciliations, knowing that the Finance Department approves the reconciliations.
<b>Recommendation</b>	We recommend the Finance Department prepares the bank reconciliations, and the Internal Audit Department audits the reconciliations to ensure segregation of duties.
<b>Risk Level</b>	High
<b>Status</b>	New

## 6. Contract to Build the Environment Directorate Premises of Al Anbar

<b>Observation</b>	Through our review of the contract with the Gulf Coast Company amounting to IQD 1,013,926,500, we noticed that the Ministry, prior to the contract, didn't get the approvals of related parties on the project site and it didn't eliminate the legal and material problems as a part of its preparation procedures of the tender documents despite its knowledge of the existence of abuses on the site which led to delays in the functioning of the project. Work has been halted due to the emergence of a new landowner.
<b>Recommendation</b>	We recommend the need to comply with the preparation procedures of the tender documents within the instructions of implementing the government contracts.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 7. Contractual Employees

<b>Observation</b>	During our review of HR procedures relating to contractual employees, we noted that the contractual employees file disclose their names only with no reference to their salaries. We also noted that their files are incomplete.
<b>Recommendation</b>	We recommend that the Ministry records all information relating to contractual employees full detail including the names, salary amounts, and grades
<b>Management's Response</b>	The Ministry responded that the administrative orders for the appointment of contractual employees are issued by the Human Resources department, and determine the amount of the contract in accordance with certain controls. Moreover, there is no intervention from the Human Resources department on the subject. Moreover, their files are updated and complete to include the official procedures for contracting.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 8. Employee Files

<b>Observation</b>	We noted that the Ministry does not keep copies of files of its companies' and directorates' employees. These files are kept only in companies and directorates.
<b>Recommendation</b>	We recommend that the Ministry maintains files for all its employees working at the Head Office and at its related companies and directorates.
<b>Management's Response</b>	The Ministry responded that it gave orders to those responsible in the administration divisions in the environmental directorates since 2008. Action has been taken and a system has been developed where original files and copies of the files for employees are being properly stored.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 9. Coordination Between Ministry's Departments

<b>Observation</b>	During our visit to the Ministry we noted insufficient coordination between the Contracts Department and Finance Department, where the Finance Department does not notify the Contracts Department regarding obtaining performance bonds; which caused Contracts Department to proceed in contracting process without ensuring that the supplier adhered to contract terms and conditions.
<b>Recommendation</b>	We recommend that the Ministry issues and implements a documented mechanism to coordinate between all departments and divisions in the Ministry, to ensure that the exchange of all information related to the contracting process and its relating reimbursements is properly communicated, for better control procedures over contract execution.
<b>Management's Response</b>	The Ministry responded that during the contracting process, the contracting company submits a performance bond to ensure proper implementation. Moreover, when a contract is issued, a copy is provided to the finance department, and at the end of the contract, all obligations contained therein are returned for lack of need.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

**10. Financial and Internal Controls – Policies and Procedures**

<b>Observation</b>	During our visit to the Ministry, we noted that there are no policies and procedures manuals to set out comprehensive financial and internal controls processes.
<b>Recommendation</b>	We recommend that the Ministry prepares and maintains written policies and procedures manuals for internal controls, that should cover all Ministry’s financial and operating activities. The manual should be reviewed on a periodic basis to ensure that it is updated and relevant to providing accounting and operational guidance to staff. In addition, detailed monitoring procedures should be followed by key management to ensure proper and consistent implementation of the policies and procedures manual.
<b>Management’s Response</b>	The ministry clarified that there's a comprehensive guide to the procedures and control policies and that the internal audit covers most of the activities of the Ministry. All activities will be covered after the department is fully equipped with staff and after the auditors have gain the required experience.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 11. Contracts' Supporting Documents

<b>Observation</b>	During our review we noted the lack of a centralized comprehensive file for each contract that maintains a copy of all its related documents, such as letter of guarantee and bank guarantee as these documents have been separated and placed in one file that includes all letter and bank guarantees. Maintaining supporting documents in this way increases the contracts division's duties and complicates the follow-up and audit procedures related to the contracts.
<b>Recommendation</b>	We recommend that all documents relating to each contract be centrally filed, to facilitate review and for better control procedures.
<b>Management's Response</b>	No response
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.



**12. Contract No. 121**

<b>Observation</b>	During our review of the contracts, we noted in contract number 121 (contract to install surveillance equipment to observe phase 2 and air quality) that the primary guarantee was in the form of a certified bond valued at ID 14,000,000 representing less than 1% (ID 14,560,000) of the total contract value (ID 1,456,000,000) leaving a difference of ID 560,000.
<b>Recommendation</b>	We recommend that the Ministry complies with governmental instructions with respect to performance bonds.
<b>Management's Response</b>	The Ministry responded that the primary guarantee of 1% of the total contract value is offered when entering the auction, and these procedures are the responsibility of the tenders analysis committee. The Company submits a performance fee of 5% of the contract value which means that the 1% primary guarantee falls under the work of the analysis company rather than the contract department as the winning Company has an obligation to pay the 5% performance fee.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009 such as the contract to build a laboratory in Baghdad and the provinces.

### 13. Checks Overdue Over than Six Months

<b>Observation</b>	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
<b>Recommendation</b>	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
<b>Management's Response</b>	The Ministry made it clear that, due to the failure of the beneficiaries to withdraw these checks, the checks will be canceled as per the law requirement. It is noteworthy that these checks were withdrawn during this period, leading to delays in the processing of these checks which will require appropriate action and procedures in the future.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## **Observations Raised for the year ended 31 December 2009 Ministry of Housing and Construction**

# 1. Employees

<b>Observation</b>	We noted that the Ministry appointed employees as permanent staff without the Ministry of Finance’s approval contrary to the budget instructions 3 <sup>rd</sup> division/ 1 - appointments A.
<b>Recommendation</b>	We recommend adhering to the budget instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 2. Procurement Committees

<b>Observation</b>	Through our review, we noted that the members of the Procurement Committee are not rotated periodically as per budget instructions issued by the Ministry of Finance which states that the members of the Procurement Committee should be rotated every 6 months.
<b>Recommendation</b>	We recommend compliance with the budget instructions issued by the Ministry of Finance which states the rotation of the committee members should take place every 6 months for better control procedures in accordance with the budget instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 3. Physical Count Committees

<b>Observation</b>	Through our review of the physical count process, we noted that the director of the department and the inventory custodian are members of the Physical Count Committee which may lead to a lack of independence in the performance.
<b>Recommendation</b>	We recommend that the Physical Count Committee be formed of members independent of the management of the stock.
<b>Risk Level</b>	High
<b>Status</b>	New

## 4. Financial and Administrative Authority

<b>Observation</b>	We noted through our review of the Financial and Administrative Authorities that the Minister delegated the Assistant General Manager of the Administrative and Financial Department the adequate financial and administrative authority of the General Manager of the Department in case the General Manager is absent for a period of no more than 10 days. The Assistant General Manager was granted this authority without informing the Ministry of Planning, contrary to the budget instructions for the year 2009.
<b>Recommendation</b>	We recommend adhering to the budget instructions.
<b>Risk Level</b>	High
<b>Status</b>	New

## 5. Tenders Analysis Committees

<b>Observation</b>	We noted through our review of the contracts at the Ministry’s premises that the analyzing committees didn’t prepare a detailed schedule of all the tenders, contrary to contract execution instructions ( Article – 7 – 13).
<b>Recommendation</b>	We recommend compliance with governmental contracts execution.
<b>Risk Level</b>	Medium
<b>Status</b>	New



## 6. Internal Audit

<b>Observation</b>	Through our review of the bank reconciliations, we noted that the Internal Audit Department did not audit the reconciliations.
<b>Recommendation</b>	We recommend the Internal Audit Department audits the bank reconciliations.
<b>Risk Level</b>	High
<b>Status</b>	New

## 7. Overdue Checks

<b>Observation</b>	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
<b>Recommendation</b>	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 months, we recommend that they are cancelled and that the accounting records be amended accordingly.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 8. Initial Guarantees

<b>Observation</b>	We noted during the announcement of bids that the amount of the initial guarantee is not mentioned, contrary to the instructions of governmental contracts for the year 2008 (Article 5 – Announcement of Bids - H - ).
<b>Recommendation</b>	We recommend the need to comply with instructions of implementing the government contracts.
<b>Risk Level</b>	Low
<b>Status</b>	New

## 9. Overdue Checks

<b>Observation</b>	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
<b>Recommendation</b>	We recommend the follow up on all reconciliation items. As for checks with maturities exceeding 6 months we recommend that they be cancelled and that the accounting records be adjusted accordingly.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 10. Segregation of Duties

<b>Observation</b>	We noted that the Payroll Department prepares payroll statements, receives the cash of the payroll payments and pays the salaries to the Ministry employees. As a result, there is no proper segregation of duties in the payroll department functions. Also, we noted that the payroll records are not updated on a timely basis as a result of delay in receiving the information from the Human Recourses Department.
<b>Recommendation</b>	We recommend that the Ministry maintains adequate segregation of duties between the payroll processing, approval and payment functions.
<b>Management's Response</b>	The Ministry agrees with the observation and claims that there are not enough employees.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 11. Contract Files

<b>Observation</b>	We noted that authorities and not the contract division in the Ministry are responsible for the preparation of the tender process and of the awarding of contracts. The contracts division's responsibility is limited to evaluation of the bid. Also the contract division does not maintain an archive of contract files relating to 2008 and previous years.
<b>Recommendation</b>	We recommend coordination between the authorities and the contract division where the contracts division performs its role in the preparation of tenders, announcing and identification of its results and the authorities' participation in these processes.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 12. Donations from Foreign Organizations

<b>Observation</b>	During our review, we noted that the Ministry received donations from foreign organizations. A significant amount of these donations were not recorded in the accounting records or store records.
<b>Recommendation</b>	We recommend the registration of all donations in the accounting records and store records of the Ministry.
<b>Management's Response</b>	The Ministry responded that the donations are to be included as assets and all organizations and their records are stored properly in the Ministry.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 13. Arms Stores

<b>Observation</b>	<p>As a result of stock count relating to arms, we noted that the 2008 physical counts of arms do not reconcile to records.</p> <p>Example:</p> <table border="1"> <thead> <tr> <th>Type</th> <th>Inventory number</th> <th>Records number</th> <th>difference</th> </tr> </thead> <tbody> <tr> <td>Beretta pistol</td> <td>72</td> <td>260</td> <td>188</td> </tr> <tr> <td>Brunek pistol</td> <td>3</td> <td>10</td> <td>7</td> </tr> <tr> <td>Kalashnikov</td> <td>104</td> <td>139</td> <td></td> </tr> </tbody> </table>	Type	Inventory number	Records number	difference	Beretta pistol	72	260	188	Brunek pistol	3	10	7	Kalashnikov	104	139	
Type	Inventory number	Records number	difference														
Beretta pistol	72	260	188														
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<b>Recommendation</b>	We recommend that the Ministry follows up on these differences between the physical count and the records as a control procedure of the stock of arms.																
<b>Management's Response</b>	The Ministry agrees with the observation.																
<b>Risk Level</b>	Medium																
<b>Status</b>	Old																
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.																



## 14. Vehicles Warehouse

<b>Observation</b>	As a result of our review in the assets division we noted that some vehicles exist in the were not but not found in the physical count. Example: - Peugeot ROA - Dodge Chrysler - Proton salon - Kia Saphia - Pequot 306
<b>Recommendation</b>	We recommend that the Ministry follows up on these differences between the physical count and the records as a control procedure of the stock of vehicles.
<b>Management's Response</b>	The Ministry agrees with the observation.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 15. Vehicles and Machinery Stock

<b>Observation</b>	As a result of our review in the department of finance and trade we noted that 49 private vehicles and other equipment of the Ministry have been lost or stolen. The legal department was informed of this fact but until now the issue has not been resolved.
<b>Recommendation</b>	We recommend that the Ministry follows up this issue to discover the reason behind the loss of these vehicles and equipment and make the necessary accounting adjustments. We also recommend a stock count of all vehicles and machinery every six months and follow up any differences as a control procedure.
<b>Management's Response</b>	The ministry had responded that it has addressed the General Traffic Directorate regarding the 49 stolen cars and notified the department of finance and trade.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the required legal procedures with regards to the stolen vehicles were not taken, such as informing the concerned authorities and investigation committees.

## 16. Daily Journal of Current Operational Budget

<b>Observation</b>	Through our review of the accounting records at the Ministry we noted that the daily journal of the current operational budget is free from stamps or signature of the accountant and the Internal Audit Department in the Ministry.
<b>Recommendation</b>	We recommend a review of the daily journal of the current operational budget on a monthly basis and that it be stamped by the accountant and the Internal Audit Department.
<b>Management's Response</b>	The Ministry responded that it has begun working to resolve the observation where the months that lacked stamps are being approved, signed by the accountant, and reviewed by the internal audit department at the Ministry. This process is to continue on a monthly basis.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 17. Outstanding Balances

<b>Observation</b>	<p>Through our review of the financial records of the Ministry of housing and construction, we found outstanding balances since 9/4/2003.</p> <table border="1"> <thead> <tr> <th data-bbox="363 277 793 302">Account description</th> <th data-bbox="804 277 2041 302">Amount in IQD</th> </tr> </thead> <tbody> <tr> <td data-bbox="363 318 793 342">Debtors for projects</td> <td data-bbox="804 318 2041 342">1,546,259,574</td> </tr> <tr> <td data-bbox="363 358 793 383">Other debtors</td> <td data-bbox="804 358 2041 383">136,000,000</td> </tr> <tr> <td data-bbox="363 399 793 423">Fiduciary accounts</td> <td data-bbox="804 399 2041 423">1,522,167,915</td> </tr> <tr> <td data-bbox="363 440 793 464">Creditors</td> <td data-bbox="804 440 2041 464">4,979,291,559</td> </tr> </tbody> </table>	Account description	Amount in IQD	Debtors for projects	1,546,259,574	Other debtors	136,000,000	Fiduciary accounts	1,522,167,915	Creditors	4,979,291,559
Account description	Amount in IQD										
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Creditors	4,979,291,559										
<b>Recommendation</b>	We recommend reviewing and analyzing the above accounts and making the necessary adjustments.										
<b>Management's Response</b>	The Ministry responded that action is being taken to resolve the outstanding balances.										
<b>Risk Level</b>	Medium										
<b>Status</b>	Old										
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.										

# **Observations Raised for the year ended 31 December 2009**

## **Ministry of Municipalities and Public Works**

# 1. Contract to Build the Sewerage in AI – Hindiya Karbala

<b>Observation</b>	We noted that the contract to build the sewers of AI – Hindiya Kerbala in the amount of IQD 276,955,816 increased during the year 2009 by 106%, mainly due to a delay in delivering the worksite to the executing company.
<b>Recommendation</b>	We recommend delivering the worksite at a suitable time to avoid additional expenses and preserve public funds.
<b>Risk Level</b>	High
<b>Status</b>	New

## 2. Re-Announcing Tenders Requests

<b>Observation</b>	During our review, we noted that the Ministry has re-announced some bids after opening the bids for different reasons, this would uncover the prices submitted by the bidders to the committees' members and therefore the confidentiality of tenders presented would be breached.
<b>Recommendation</b>	We recommend obliging the bidders to provide two offers and as follows: Technical offer: This offer shall include the technical specifications of the contract subject matter, the date of delivery, and other technical matters. Financial offer: This offer shall include price schedule, payment dates and method of payment. The financial offer should not be opened unless the technical offer is accepted. We also recommend maintaining accuracy when announcing tenders and ensuring that the announcement includes all required specifications and conditions related to the contract for better control over the procurement process.
<b>Risk Level</b>	High
<b>Status</b>	New

### 3. Contract to Build a Multi – Level Car Park in Karbala

<b>Observation</b>	Through our review of the contract to build a car park in the amount of IQD 4,436,112,704, we noted that the Directorate had consensual avoidance of the contract for payment to the contractor an amount of IQD 650,000,000 for the reason of unfit soil at the site. The Directorate signed a contract for a commercial compound on the same site on 14/11/2009 amounting to IQD 7,567,196,400.
<b>Recommendation</b>	We recommend the need to assign experienced consulting firms to study the project and the nature of the soil in order to avoid all the problems before they occur and to preserve public funds.
<b>Risk Level</b>	High
<b>Status</b>	New



## 4. Contract to Build a Sewerage System in the Abbas Neighborhood - Karbala

<b>Observation</b>	Through our review of the contract to build the sewerage system, we noted that the contract amount is IQD 4,919,570,000 and is 60% greater than the appraised cost.
<b>Recommendation</b>	We recommend obtaining approval from the concerned authorities of the contract amounts that exceed the appraised cost, and complying with the governmental contract instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 5. Physical Count Committee

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

## 6. Contracts Division

<b>Observation</b>	<p>From the results of our review of the ministry's divisions, we found weaknesses in the performances and duties of the contracts division, these weaknesses are described below:</p> <ol style="list-style-type: none"> <li>1.The division does not hold any position in tenders and contracts of its directorates for at least the year 2008. It is either the committee's responsibility to review and approve the contracts, or the responsibility of the directorates General Manager.</li> <li>2.The division's activities have been confined to only the review of the tender, and to then submit the tender's supporting documents to the central committee within the ministry.</li> <li>3.The division has no knowledge about the contracts signed before 2008, neither on the amendments of these contracts in 2008 with respect to the increase and extent of progress.</li> </ol>
<b>Recommendation</b>	<p>We recommend the complete coordination between the directorates and the contracts division, so that the contracts division can perform its duty in terms of preparing the tenders, announcing them, and determining their results.</p>
<b>Management's Response</b>	<p>The Ministry has not responded.</p>
<b>Risk Level</b>	<p>Medium</p>
<b>Status</b>	<p>Old</p>
<b>Follow up</b>	<p>Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.</p>

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

<b>Observation</b>	During our review of financial records, we noted that the finance division does not record and classify the guarantees in its records according to number, amount, and the date of opening and closing of the guarantee. We also noted that only the trade division is maintaining the Records of the guarantees.
<b>Recommendation</b>	We recommend coordination between the finance and trade division in order to check the proper recording and follow up of the guarantee.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Directorate, we noted that the above mentioned observation is still valid during the year 2009.

## 8. General Directorate for Sewage – Checks Overdue Over than Six Months

<b>Observation</b>	Overdue checks were found in the bank reconciliation reports with maturities exceeding 6 months.
<b>Recommendation</b>	We recommend the follow up on all reconciling items. As for checks with maturities exceeding 6 month we recommend that these be canceled and accounting records amended accordingly.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Directorate, we noted that the above mentioned observation is still valid during the year 2009.

## 9. General Directorate for Sewage – Goods Receipt Voucher

<b>Observation</b>	During our visit to the directorate, it appeared to us that there is a difference in the inventory records of IQD 2,526,914,752 due to the lack of recording on time. This difference goes back to 2008 and previous years.
<b>Recommendation</b>	We recommend the directorate maintains the storage documents once goods are entered into the warehouses.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Directorate, we noted that the above mentioned observation is still valid during the year 2009.

## 10. General Directorate for Sewage – Najaf Sewage System Contract

<b>Observation</b>	From our review of the contract amounting to IQD 85,350,053,450 at the general directorate for sewerage to supply and install the Najaf sewerage system, we noted that the Ministry signed the contract without the approval of the Central Contracting Committee of the Ministry council that clarified it is not responsible for the awarding procedures after the contract has been signed.
<b>Recommendation</b>	We recommend the ministry adhere to the approach of the central contracting committee of the ministry council with respect to the contracts that are not within the authority of the Ministry to comply with Article 7-20-A
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Directorate, we noted that the above mentioned observation is still valid during the year 2009.

## 11. Activity of Directorates Related to Ministry

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



## 12. Contracts Supporting Documents

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

### 13. Tenders Opening Committees

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

## 14. Payroll Committees

<b>Observation</b>	We noted that the payroll committee members responsible for receiving the salaries are not being periodically rotated as required by the budget instructions issued by the Ministry of Finance, which requires rotating the Committee members every six months.
<b>Recommendation</b>	We recommend the Ministry to comply with the budget instructions issued by the Ministry of Finance which require rotating the committee members every.
<b>Management's Response</b>	The related commission has confirmed the correctness of the above note, which was also mentioned in the Firm's report for the prior year.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## **Observations Raised for the year ended 31 December 2009**

### **Ministry of Industry and Minerals**

# 1. Approved Employees

<b>Observation</b>	We noted that the actual employees working exceed the number of employees approved by the Ministry of Finance for the 1 <sup>st</sup> , 4 <sup>th</sup> , 7 <sup>th</sup> , 8 <sup>th</sup> and 10 <sup>th</sup> levels.
<b>Recommendation</b>	We recommend compliance with Ministry of Finance instructions for the year.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 2. Reconciliation Between Trial Balance and Payroll Listing

<b>Observation</b>	We noted that the Internal Audit department does not perform a monthly or quarterly reconciliation between the trial balance and the payroll listing.
<b>Recommendation</b>	We recommend that the Internal Audit department performs a monthly reconciliation between the payroll listing and the trial balance and follow up on any variances if any.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 3. Vehicle Maintenance Disbursement

<b>Observation</b>	We noted that the ministry does not reconcile the balances for vehicle maintenance as per the financial records to the maintenance cards maintained by the Vehicle Department,
<b>Recommendation</b>	We recommend that the accounts department compiles a journal for vehicle maintenance and reconciles it to the cards maintained by the Vehicle Department,
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

## 4. Recording U.S. Agencies Contracts

<b>Observation</b>	We noted a contract amounted to U.S. \$ 15,735,200 of the contracts managed by the U.S. Agencies on behalf of the Ministry, U.S. Agencies did not inform the Ministry of its details; accordingly the Ministry did not record it knowing that this contract is recorded in the funding accounts as Ministry expenses.																												
<b>Recommendation</b>	We recommend coordination is maintained between the Ministry and the U.S. Agencies and procedures are jointly developed to exchange the information and documents related to the projects managed by the U.S. Agencies in order to update the Ministry's accounting records.																												
<b>Management's Response</b>	The Ministry replied per its above letter that no information about this contract is available and pursuant to what was stated in the memorandum from the committee for rehabilitation of the Ministry's headquarters No. 218 of 1/4/2008 whereby this project was awarded to an American company which its subcontracted it to a local company. This said local company completed the works without the Ministry having any say as to the subcontracting, price and execution of the contract, noting that no minutes of handover were prepared for completed works between the Ministry and the contractor. This note was also mentioned in the Firm's report for the prior year.																												
<b>Risk Level</b>	High																												
<b>Status</b>	Old																												
<b>Follow up</b>	<p>We were unable to check the above mentioned contract. As per the Assistant General Manager of the Economic Division at the ministry the amount stated is inaccurate.</p> <p>We noted the ministry received a memo from the Ministry of Planning and Development Cooperation # 1/5/19 dated 4/1/2009 attached is a CD provided by the U.S. Embassy. This CD includes all projects funded by U.S. grants. The Ministry responded in memo # 5803 dated 12/2/2009 as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;">No.</th> <th style="width: 55%;">Description</th> <th style="width: 15%;">Cost in USD</th> <th style="width: 25%;">Ministries observations</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Medical Ward &amp; Pharmacy Equipment</td> <td>185,551.92</td> <td>No supporting documentation at the Ministry.</td> </tr> <tr> <td>2</td> <td>Ministry of Industry and Minerals, Remodel 4th &amp; 8th Floor (Terminated)</td> <td>370,614.67</td> <td>Renovation committee has reservations over the work performed.</td> </tr> <tr> <td>3</td> <td>PPA Remodel 4th Floor at Ministry Building to Cafeteria</td> <td>250,102.00</td> <td>Work performed by the Ministry.</td> </tr> <tr> <td>4</td> <td>TAPA Market Sewage renovation</td> <td>14,862</td> <td>No supporting documentation at the Ministry.</td> </tr> <tr> <td>5</td> <td>ACID storage tanks construction</td> <td>1,280,684.00</td> <td>No supporting documentation at the Ministry.</td> </tr> <tr> <td>6</td> <td>Restore Ministry of Industry and Minerals Building</td> <td>14,843,531</td> <td>Renovation committee has reservations over the work performed.</td> </tr> </tbody> </table>	No.	Description	Cost in USD	Ministries observations	1	Medical Ward & Pharmacy Equipment	185,551.92	No supporting documentation at the Ministry.	2	Ministry of Industry and Minerals, Remodel 4th & 8th Floor (Terminated)	370,614.67	Renovation committee has reservations over the work performed.	3	PPA Remodel 4th Floor at Ministry Building to Cafeteria	250,102.00	Work performed by the Ministry.	4	TAPA Market Sewage renovation	14,862	No supporting documentation at the Ministry.	5	ACID storage tanks construction	1,280,684.00	No supporting documentation at the Ministry.	6	Restore Ministry of Industry and Minerals Building	14,843,531	Renovation committee has reservations over the work performed.
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# **Observations Raised for the year ended 31 December 2009**

## **Ministry of Defence**

## 1. Contracts

<p><b>Observation</b></p>	<p>We noted during our review of the below contracts the following:</p> <p><b>T/2/2005:</b> Four armoured vehicles that were received did not have the form 102 (receipt voucher) filled. Receipt is only evidenced by the signature of the General Secretary of the Ministry of Defence. Two remaining vehicles have not been received as of the date of our visit on 17 June 2010 although the entire appropriated funds were spent.</p> <p><b>T/8/2005:</b> This contract signed in the amount of US Dollars 9,962,000 for the furnishing of 18,000 wooden rifles and 12,000 metal rifles did not meet specifications according to letter # 26/1920 of 5/3/2006. 5,600 rifles were received on 22/1/2006 and the same number of rifles were received on 28/6 2006.</p> <p><b>T/26/2004:</b> This contract signed on the 24/11/2004 in the amount of US Dollars 38,281,500 with an execution period of 6 months. To date of our visit the company has not supplied the ministry with 29 armoured transport vehicles costing US Dollars 333,000 per vehicle. Letters from the directorate of arms and supplies A/8/K/3/6584 dated 5/10/2009 state that the cost of supplies not furnished and penalties amount to US Dollars 15,777,540. The appropriations of this contract have been spent entirely and no performance bond was provided.</p> <p><b>T/22/2004:</b> The terms related to manufacturing and period of execution of the contract in the amount of US Dollars 34,500,000, were amended by the deputy general secretary of the ministry. This is out of his authority. The arms provided were made in China while the contract stipulated that the arms should be made in Russia, ex-soviet countries or Eastern European Countries. The receipt voucher did not have enough information to identify the arms received,</p> <p><b>T/8/2004:</b> This contract has not been executed fully yet and article 7 of the contract was not met. Article 7 states that supplies have to be inspected before being shipped to Iraq,</p> <p><b>T/4/2004:</b> This contract has not been executed fully yet and article 7 of the contract was not met. Article 7 states that supplies have to be inspected before being shipped to Iraq,</p> <p><b>T/6/2004:</b> This contract has not been executed fully yet and article 7 of the contract was not met. Article 7 states that supplies have to be inspected before being shipped to Iraq,</p>
<p><b>Recommendation</b></p>	<p>We recommend that the instructions for implementation of government be followed and that any pending contracts be resolved.</p>
<p><b>Risk Level</b></p>	<p>Medium</p>
<p><b>Status</b></p>	<p>New</p>

## 2. Contracting

<b>Observation</b>	<p>We noted that 13 contracts signed with oneCompany have had their appropriations spent in full while the contract terms have not been fulfilled. Examples of these contracts are:</p> <table border="1"><thead><tr><th><b>Contract #</b></th><th><b>Year</b></th><th><b>Duration</b></th></tr></thead><tbody><tr><td>T/M/3/2005</td><td>2005</td><td>5 months</td></tr><tr><td>T/39/2004</td><td>2004</td><td>18 months</td></tr><tr><td>T/M/2/2005</td><td>2005</td><td>3 years</td></tr></tbody></table>	<b>Contract #</b>	<b>Year</b>	<b>Duration</b>	T/M/3/2005	2005	5 months	T/39/2004	2004	18 months	T/M/2/2005	2005	3 years
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T/M/3/2005	2005	5 months											
T/39/2004	2004	18 months											
T/M/2/2005	2005	3 years											
<b>Recommendation</b>	<p>We recommend that the ministry deals with credit worthy entities that have the financial, technical and legal qualifications that allow them to perform the work at hand.</p>												
<b>Risk Level</b>	<p>High</p>												
<b>Status</b>	<p>New</p>												

### 3. Low Rates of Completion

<b>Observation</b>	<p>We noted through our sample of contracts that most of them have low rates of completion. For example:</p> <table border="1"><thead><tr><th><b>Name of contract</b></th><th><b>Date of Completion</b></th><th><b>Rate of Completion</b></th></tr></thead><tbody><tr><td>Building of Oil Pipes Protection Company</td><td>21/1/2008</td><td>10%</td></tr><tr><td>Supply Warehouse Karakosh</td><td>22/3/2010</td><td>15%</td></tr><tr><td>Supply Warehouse Al Diwaniyeh</td><td>19/3/2010</td><td>30%</td></tr></tbody></table>	<b>Name of contract</b>	<b>Date of Completion</b>	<b>Rate of Completion</b>	Building of Oil Pipes Protection Company	21/1/2008	10%	Supply Warehouse Karakosh	22/3/2010	15%	Supply Warehouse Al Diwaniyeh	19/3/2010	30%
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<b>Recommendation</b>	<p>We recommend that government instructions be followed and that any pending contracts be resolved.</p>												
<b>Risk Level</b>	<p>High</p>												
<b>Status</b>	<p>New</p>												

### 4. General Hospital for Armed Forces

<b>Observation</b>	<p>We noted for the contract awarded to the Turkish company for the amount of IQD 147.5 Billion on 29/12/2009 the following:</p> <ul style="list-style-type: none"><li>● The delivery of the site to the company was delayed by 3 months which may result in financial losses to the ministry.</li><li>● The 1<sup>st</sup> payment of 20% was paid before the delivery of the site.</li><li>● The contract was signed prior to receiving the approval from General Secretary of the Council of Ministers.</li></ul>
<b>Recommendation</b>	<p>We recommend that the ministry properly plan and ensure that all issues are settled before committing to contractors. In addition, all approvals must be obtained before committing.</p>
<b>Risk Level</b>	<p>High</p>
<b>Status</b>	<p>New</p>

### 5. Performance Bond

<b>Observation</b>	<p>1. We noted through our review of the contract, KH/09/007, that the performance bond was not submitted within the required time frame of 15 to 30 days of the signature date.</p> <p>2. The ministry did not request the 5% performance bond, this is in violation of article 15 of the instructions of government contracts, for example:</p> <table border="1"><thead><tr><th>Contract Number</th><th>Amount (USD)</th></tr></thead><tbody><tr><td>KH/09/0006</td><td>95,690</td></tr><tr><td>KH/09/0008</td><td>300,000</td></tr><tr><td>KH/09/0005</td><td>801,225</td></tr></tbody></table>	Contract Number	Amount (USD)	KH/09/0006	95,690	KH/09/0008	300,000	KH/09/0005	801,225
Contract Number	Amount (USD)								
KH/09/0006	95,690								
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KH/09/0005	801,225								
<b>Recommendation</b>	We recommend that government instructions be followed and that any pending contracts be resolved.								
<b>Risk Level</b>	High								
<b>Status</b>	New								

## 6. Filing of Contracts

<b>Observation</b>	We noted that documents related to contracts are not filed in a centralized department. Documents are dispersed between the tender department, the tender analyzing department, the foreign contracts department and the financial related documents are found at the general directorate for budgets and programs.
<b>Recommendation</b>	We recommend that the ministry file the contracts in a centralized department.
<b>Risk Level</b>	Medium
<b>Status</b>	New

## 7. Awarding Process

<b>Observation</b>	We noted that contract, KH/08/0001, was delayed due to a slow awarding process. The Tender Opening Committee met on 21/11/2007 but the approval of the central committee and the minister's approval was granted on 29/11/2008. The contract was signed on 19/11/2008 before the minister's approval then an addendum was issued and signed on 12/11/2009.
<b>Recommendation</b>	We recommend that the awarding process be more efficient.
<b>Risk Level</b>	High
<b>Status</b>	New



### 8. Sports Arena for the Army

<b>Observation</b>	We noted that the contract for the construction of a sports arena for the Iraqi Army in the amount of IQD 661,772,135 has discrepancies between the plans and quantity of work submitted by the ministry and what has been contracted for. The contractor performed work at times as per the ministry's figures and at times performed work as per the contract's figures. A court case has been filed by the contracting company since the ministry is not paying the dues. Work has been halted and as of the date of our visit the issued had not been resolved.
<b>Recommendation</b>	We recommend that the plans and quantities of work be clear and well documented in order to prevent potential disputes.
<b>Risk Level</b>	High
<b>Status</b>	New

## 9. Bank Reconciliation: Rafidain Bank – Head Office

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

## 9. Bank Reconciliation: Rafidain Bank – Head Office (continued)

### Follow up

Our follow-up of the above observations has revealed the following:

- The ministry has written to Rafidain Bank and the Central Bank of Iraq several times where the last two letters numbered 3937 and 5957 dated 9 March 2010 and 13 April 2010 respectively, requested that the ministry be supplied with all the details of amounts withdrawn from the ministry's account. The ministry was provided with some of the information and as at 30 April 2010 the amount of checks was IQD 2,388,382,128.
- The reconciliation included amounts that appeared in the bank statement but the ministry has no knowledge of the details which is due to delays in sending the supporting documents from the various units to the directorate of budgeting and programs. The amounts as at 30 April 2010 was IQD 717,796,480.
- The ministry has written to Rafidain Bank and the Central Bank of Iraq a number of times where the last two letters numbered 3937 and 5957 dated 9 March 2010 and 13 April 2010 respectively, requested that the ministry be supplied with all the details of amounts withdrawn from the ministry's account. As of the date of our visit 17/6/2010, the ministry had not received a response.
- The reconciliation included amounts recorded without supporting documentation totalled as at 30 April 2010 IQD 3,531,602,771.
- The error was corrected and no similar instance was noted in 2009.

## 10. Bank Reconciliation: Rafidain Bank – Ministry’s Branch

<p><b>Observation</b></p>	<p>We noted, when reviewing the reconciliation of the above mentioned account for the month of December 2008, the following:</p> <ol style="list-style-type: none"> <li>1. The reconciliation included amounts that appeared in the bank statement but the ministry has no knowledge of the details. Amounts related to 2006 are IQD 470,174,127. Amounts related to 2007 are IQD 1,391,551,931. Amounts related to 2008 are IQD 7,722,912,844. In total IQD 9,584,638,902.</li> <li>2. The reconciliation included amounts recorded in the Ministry’s records but did not appear in the bank statement. Amounts related to 2006 are IQD 403,241,447. Amounts related to 2007 are IQD 214,958,258. Amounts related to 2008 are IQD 411,982,096. In total IQD 1,033,960,601. In addition to an amount of IQD 3,778,800 related to 2009</li> <li>3. The reconciliation included amounts recorded without supporting documentation totalling IQD 16,884,155.</li> <li>4. We noted that the list mentioned in point 1 contains an error in addition amounting to IQD 62,450 and the list mentioned in point 2 contains an error in addition amounting to IQD 4.</li> </ol>
<p><b>Recommendation</b></p>	<p>We recommend that the ministry performs the following:</p> <ol style="list-style-type: none"> <li>1. Obtains supporting documentation for the amounts mentioned in points 2.</li> <li>2. Follows up on amounts mentioned in points 1 and 3 above with the bank to obtain all the supporting documentation.</li> <li>3. To check that the reconciliations do not include amounts related to different periods. Refer to point 2.</li> <li>4. Has the internal audit department review all reconciliations.</li> </ol>
<p><b>Management’s Response</b></p>	<p>The Ministry has not responded.</p>
<p><b>Risk Level</b></p>	<p>High</p>
<p><b>Status</b></p>	<p>Old</p>
<p><b>Follow up</b></p>	<p>Our follow-up of the above observations has revealed the following:</p> <ul style="list-style-type: none"> <li>• The reconciliation included amounts that appeared in the bank statement but the ministry has no knowledge of the details; as at 30 April 2010 the amount was IQD 9,281,398,690.</li> <li>• The reconciliation included amounts recorded in the Ministry’s records but did not appear in the bank statement. The ministry has written to the Rafidain Bank as per letter # 3877 on 3 March 2010, as of the date of our visit on 17 June 2010 no reply was received; as at 30 April 2010 the amount was IQD 1,003,795,404</li> <li>• The reconciliation included amounts recorded without supporting documentation; as at 30 April 2010 the amount was IQD 36,380,204.</li> <li>• The error was corrected and no similar instances were noted in 2009.</li> </ul>

## 11. Bank Reconciliation: Rafidain Bank – ZwiyeH Branch

<b>Observation</b>	We noted that the reconciliation of the above mentioned bank account for the month of December 2008 included an amount of IQD 419,002,220 related to a check certified and issued on 25 July 2006 that was recorded as missing. A committee was formed to investigate this issue and as of April 2009 it has not been resolved.
<b>Recommendation</b>	We recommend that the ministry takes appropriate action to resolve this issue.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Moderate
<b>Status</b>	Old
<b>Follow up</b>	The ministry wrote to Rafidain Bank – ZwiyeH Branch on 12 April 2010 letter # 5798. The bank replied on 14 April 2010 letter # 174/2206 that the amounts would be resolved after 2 months which is the allowed period as per the bank's instructions. As of the date of our visit 17 June 2010 the amounts had not been resolved.

## 12. Bank Reconciliation: Trade Bank of Iraq (TBI)

<b>Observation</b>	We noted that the ministry has not performed a reconciliation for the above mentioned bank account since 2005. We were informed that a committee was formed to deal with this issue. As of April 2009 this committee has not taken any action. Consequently the ministry has not recorded any entry related to this bank account despite the large economic transactions that are occurring through this account.
<b>Recommendation</b>	We recommend that the ministry takes appropriate action to resolve this issue as the current financial records of the ministry do not reflect the true status of the ministry.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	High
<b>Status</b>	Old
<b>Follow up</b>	The ministry wrote to the Ministry of Finance, letter # 10534 and 8/22/6408 dated 8 June 2009 and letter # 7550 dated 14 May 2009, and to the Central Bank of Iraq and Rafidain Bank letter # 2954 dated 17 February 2010, in order to resolve the above observation. As of the date of our visit 17 June 2010 this issue had not been resolved.

### 13. Recording of FMS Contracts

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

### 13. Recording of FMS Contracts (continued)

**Follow up**

A committee was formed and 14 entries in the amount of IQD 49,227,868,247 were recorded as of the date of our visit on 17 June 2010. Involved personnel is still not receiving adequate training in the workings of the FMS program, but none involved personnel are being trained. Document 340-103 (discrepancy report) was being used in 2009.



**14. Fixed Assets**

<b>Observation</b>	<p>We noted that the following at the ministry:</p> <ol style="list-style-type: none"> <li>1. The accounting department does not maintain a fixed asset register.</li> <li>2. The related departments of the ministry do not perform an annual fixed asset count.</li> </ol>
<b>Recommendation</b>	<p>We recommend that the ministry performs a fixed asset count and develops a full fledged fixed asset system to include (asset code numbers, location identifiers, etc.)</p>
<b>Management's Response</b>	<p>The Ministry has not responded.</p>
<b>Risk Level</b>	<p>High</p>
<b>Status</b>	<p>Old</p>
<b>Follow up</b>	<p>The above observation was still valid for the year ended 31 December 2009.</p>

## 15. Frozen FMS Letters of Acceptance

<b>Observation</b>	<p>We inspected the status of Letters of Acceptance (LOA) related to the FMS program as at 21 April 2009 and noted the following:</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Total</th> <th>Completed</th> <th>Partially completed</th> <th>Not completed</th> <th>Cancelled</th> <th>Frozen</th> </tr> </thead> <tbody> <tr> <td>2005</td> <td>1</td> <td>1</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>2006</td> <td>2</td> <td>0</td> <td>2</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>2007</td> <td>53</td> <td>23</td> <td>17</td> <td>10</td> <td>3</td> <td>0</td> </tr> <tr> <td>2008</td> <td>54</td> <td>1</td> <td>8</td> <td>33</td> <td>1</td> <td>11</td> </tr> <tr> <td>2009</td> <td>3</td> <td>0</td> <td>0</td> <td>2</td> <td>0</td> <td>1</td> </tr> <tr> <td></td> <td style="text-align: center;"><u>113</u></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>We noted that the frozen LOA's were frozen because the appropriated funds were insufficient despite the fact that these LOA's were approved by the Minister of Defence. The 11 LOA's amount to USD 550,597,417.</p>	Year	Total	Completed	Partially completed	Not completed	Cancelled	Frozen	2005	1	1	0	0	0	0	2006	2	0	2	0	0	0	2007	53	23	17	10	3	0	2008	54	1	8	33	1	11	2009	3	0	0	2	0	1		<u>113</u>					
Year	Total	Completed	Partially completed	Not completed	Cancelled	Frozen																																												
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	<u>113</u>																																																	
<b>Recommendation</b>	We recommend that the Ministry ensures that the appropriated funds are sufficient to finance Letters of Acceptance.																																																	
<b>Management's Response</b>	The Ministry has not responded.																																																	
<b>Risk Level</b>	Medium																																																	
<b>Status</b>	Old																																																	
<b>Follow up</b>	The central contracting committee headed by the Minister of Defence convened as per order # 3001 dated 6 May 2009 and resolved to cancel all frozen LOA's. No similar instances were noted for the year ended 31 December 2009.																																																	

## 16. Competence of Human Resources of the Budget Directorate

<b>Observation</b>	<p>We noted the following:</p> <ol style="list-style-type: none"> <li>1. One member holds a degree in Persian Language</li> <li>2. One member holds a degree in Education/History, another a degree in Education/Physics and another a degree in Education/Mathematics.</li> <li>3. One member holds a degree in Agriculture, another in Fine arts, another in Mechanical Engineering, and one holds a degree in Physics.</li> <li>4. One member holds a degree in Petroleum studies, another in Electricity, and another in Chemistry.</li> </ol>
<b>Recommendation</b>	<p>We recommend that the ministry devises job descriptions which incorporates the required educational background to meet the required objectives.</p>
<b>Management's Response</b>	<p>The Ministry has not responded.</p>
<b>Risk Level</b>	<p>Medium</p>
<b>Status</b>	<p>Old</p>
<b>Follow up</b>	<p>No action was taken during 2009 with regards to the above observation.</p>

## **Observations Raised for the year ended 31 December 2009 Ministry of Foreign Affairs**

## 1. Performance Bond

<b>Observation</b>	During our visit to the Ministry and through our review we noted that the performance bond paid by some contractors is less than 5%, such as the contract to renovate the Iraqi Embassy in Madrid.
<b>Recommendation</b>	We recommend compliance with the instructions of governmental contracts execution for the year 2009.
<b>Risk Level</b>	High
<b>Status</b>	New

## 2. Contract to Renovate the Iraqi Embassy in Paris

<b>Observation</b>	Through our review of the contract to renovate the Iraqi Embassy in Paris, we noted that the contract amount of €12,000,000 is 50% greater than the appraised cost.
<b>Recommendation</b>	We recommend obtaining approval from the concerned authorities of the contract amounts that exceed the appraised cost, and complying with the governmental contract instructions.
<b>Risk Level</b>	Medium
<b>Status</b>	New

### 3. Maintenance of Assets

<b>Observation</b>	We noted that the Ministry did not prepare a time schedule for the maintenance work containing a procedure for the periodic maintenance of movable and immovable assets. This contradicts Article 10, Caption (c) of the Iraqi Federal budget instructions for the year 2009.
<b>Recommendation</b>	We recommend preparing a time schedule for the maintenance work containing a procedure for the periodic maintenance of movable and immovable assets in order to preserve and guarantee its continuing and to preserve public funds.
<b>Risk Level</b>	Medium
<b>Status</b>	New

**4. Fixed Asset Register**

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



5. Vehicle Contracts

<b>Observation</b>	<p>We noted while reviewing the contract for the purchase of GMC Yukon XL vehicles in the amount of \$ 692,500 the following:</p> <ol style="list-style-type: none"><li>1.The contract was performed through a purchasing committee in contrary to what is stated in paragraph four point b-Purchasing authority of the instructions of the budget by which a tender had to be announced or a direct invitation to bid had to be sent.</li><li>2.The ministry did not supply the ministry of Planning with the details of the contract and the supplier.</li><li>3.The contract did not include any approvals or seals of the legal department or the address of the supplier.</li></ol> <p>These observations were also noted in the contract for the purchase of Chevrolet Caprice in 2008 in the amount of \$ 806,250</p>
<b>Recommendation</b>	<p>We recommend that the ministry follows the instructions issued by the Ministry of Planning with regards to government contracts.</p>
<b>Management's Response</b>	<p>The Ministry has not responded.</p>
<b>Risk Level</b>	<p>High</p>
<b>Status</b>	<p>Old</p>
<b>Follow up</b>	<p>Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.</p>

### 6. Consolidated Trial Balance

<b>Observation</b>	We noted that the Consolidated trial balance of 2008 and previous years are not approved by the Ministry of Finance.
<b>Recommendation</b>	We recommend that the ministry follows all instructions related to book-keeping and accounting.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

**7. Stolen Vehicles**

<b>Observation</b>	<p>We noted that there were certain incidents of theft of vehicles after 2003. According to the count performed in 2008, 3 vehicles were identified. We were unable to obtain information as to where the Ministry stands on this issue. The vehicles stolen:</p> <table border="1"> <thead> <tr> <th><b>Model</b></th> <th><b>License #</b></th> <th><b>Date of theft</b></th> </tr> </thead> <tbody> <tr> <td>Daewoo</td> <td>248810</td> <td>10 January 2007</td> </tr> <tr> <td>Pick-up</td> <td>470215</td> <td>24 August 2008</td> </tr> </tbody> </table>	<b>Model</b>	<b>License #</b>	<b>Date of theft</b>	Daewoo	248810	10 January 2007	Pick-up	470215	24 August 2008
<b>Model</b>	<b>License #</b>	<b>Date of theft</b>								
Daewoo	248810	10 January 2007								
Pick-up	470215	24 August 2008								
<b>Recommendation</b>	We recommend that the ministry follows-up on this issue and takes all the necessary legal action.									
<b>Management's Response</b>	The Ministry has not responded.									
<b>Risk Level</b>	Medium									
<b>Status</b>	Old									
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.									

**8. Fixed Asset Count Committee – Diplomatic Missions**

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

### 9. Missing Weapons

<b>Observation</b>	We noted while reviewing the list of weapons purchased during 2008 that there are weapons missing, for example: <ul style="list-style-type: none"><li>•Kalashnikov Rifles with ID # 26004251-0370-0606</li></ul> No legal action has been taken.
<b>Recommendation</b>	We recommend that the Ministry takes legal action and directs the responsible departments to follow-up on this issue.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

**10. Fixed Assets**

<b>Observation</b>	We noted while observing the 31 December 2008 physical asset count the following: 1. There is no computerized Fixed Assets module for the Head Quarters of the Ministry. 2. Fixed assets are not tagged.
<b>Recommendation</b>	We recommend that the Ministry performs the following: 1. Designs and implements a Fixed Assets module which will facilitate the tracking and counting of the Fixed Assets. 2. Input the last fixed asset count performed in the system implemented.
<b>Management's Response</b>	The Ministry has not responded.
<b>Risk Level</b>	Medium
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.

### 11. Contracts Identification Numbers

<b>Observation</b>	During our visit, we noted that all contracts of the ministry are not given identification numbers.
<b>Recommendation</b>	We recommend that a proper contracts indexing system to serially arrange all contracts shall be implemented to avoid duplication, and to facilitate follow-up and review processes for better control procedures and safeguarding public assets.
<b>Management's Response</b>	The Ministry agrees with the observation.
<b>Risk Level</b>	Low
<b>Status</b>	Old
<b>Follow up</b>	Through our visit to the Ministry, we noted that the above mentioned observation is still valid during the year 2009.