



Development Fund for Iraq Management Letter

Governorates

31 December 2009

Disclaimer

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

Dear Sirs,

We have audited the 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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OBSERVATIONS RAISED FOR THE YEAR ENDED 31 DECEMBER 2009 GOVERNORATE OF SALAH EDDINE

1. SALARIES

Observation	<ol style="list-style-type: none">1. During our review relating to the employees of the governorate, we noted the nonconformity of the job titles specified in the permanent file validated in 2008 with the current positions held.2. During our review of the personnel files, we noted the lack of supporting documents required for employment such as graduation certificate, biography and approval for recruitment.
Recommendation	We recommend to commit to the staffing regulations validated by the Ministry of Finance and to develop an appropriate archiving system for personnel files to ensure the availability of documentation for each staff member in order to meet the needs of all the departments of the governorate.
Risk Level	Medium
Status	New

2. PERFORMANCE GUARANTEE

Observation	We have noted that the accounting department of the governorate is not following up on performance guarantees relating to operating advances granted from contractors in coordination with the contracts' unit and is not checking its amounts and its proper issuances. Moreover, we noted the lack of a register detailing the amounts, numbers and the expiry date of the performance guarantees for any project or municipality.
Recommendation	We recommend to establish a validated mechanism for coordinating among all departments and units of the governorate, which ensures the exchange of information related to the contract process and the development of data records that include the related amounts. This will lead to the existence of an effective oversight mechanism to enforce contracts with processors.
Risk Level	Medium
Status	New

3. PAST DUE RECONCILING ITEMS FOR MORE THAN SIX MONTHS

Observation	During our review of bank reconciliations, we noted the existence of past due reconciling items for more than six months from the date of issuance.
Recommendation	We recommend to follow-up on all reconciling items. In addition, we also recommend to clear all past due reconciling items for more than six months from the maturity date as required by law.
Risk Level	Medium
Status	New

4. ADVANCES ON PURCHASES

Observation	<p>As a result of the of advances on purchases, we noted the following:</p> <ol style="list-style-type: none">1. The lack of a centralized plan for the procurement process that specifies the actual requirements for fixed assets purchase during the period.2. The existence of receipts within the disbursement vouchers not signed by the procurement committee (example 23/06/2009 for a purchase from Al-Shourouq store). It is to be noted that this receipt was included with the receipts relating to the month of October.
Recommendation	<p>We recommend the governorate to prepare a centralized plan for the procurement process and to monitor purchases against the budget.</p>
Risk Level	<p>Medium</p>
Status	<p>New</p>

5. OPERATING BUDGET

<p>Observation</p>	<p>Contrary to the requirements relating to the execution of the general federal budget of Iraq for year 2009 (that entails the submission of budget review along with the report to the Ministry of Finance / Accounting Department no later than ten days from the end of each month), we noted the following delays of submitting the budget reviews to the ministry of finance:</p> <table border="1"> <thead> <tr> <th data-bbox="365 331 884 358">Accounting schedule:</th> <th data-bbox="909 331 1650 358">Submission date to Ministry of Finance / accounting department</th> </tr> </thead> <tbody> <tr> <td data-bbox="365 370 884 397">Month of July</td> <td data-bbox="909 370 1650 397">23/08/2009</td> </tr> <tr> <td data-bbox="365 409 884 436">Month of August</td> <td data-bbox="909 409 1650 436">30/09/2009</td> </tr> <tr> <td data-bbox="365 448 884 475">Month of October</td> <td data-bbox="909 448 1650 475">22/11/2009</td> </tr> </tbody> </table>	Accounting schedule:	Submission date to Ministry of Finance / accounting department	Month of July	23/08/2009	Month of August	30/09/2009	Month of October	22/11/2009
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Month of July	23/08/2009								
Month of August	30/09/2009								
Month of October	22/11/2009								
<p>Recommendation</p>	<p>We recommend the submission of the budget review along with the financial reports in a timely manner and to abide by the implementation of the budget instructions issued by the ministry of finance.</p>								
<p>Risk Level</p>	<p>High</p>								
<p>Status</p>	<p>New</p>								

6. FIXED ASSETS

Observation	<p>During our review relating to the fixed assets department, we noted the following:</p> <ol style="list-style-type: none">1.the absence of a consolidated register to record the fixed assets of all the divisions of the governorate,2.the used registers do not include the book value of the fixed assets but only the quantities,3.the fixed assets registers are not updated by input and output vouchers which make it very difficult to monitor the movement of fixed assets from the said registers,4.the absence of reconciliation between the physical count and the registers, and5.the said register does not include the identification numbers of fixed assets.
Recommendation	<p>We recommend to consolidate the fixed assets’ registers for all the departments of the governorate to enhance controls on:</p> <ol style="list-style-type: none">1.recording fixed assets and following up on changes continuously.2.developing a system to record the quantities of fixed assets and the cost of procurement and the need to update those registers with any input and output voucher.3.the fixed assets’ registers to be signed by the preparer and by the head of the department, as well as to be audited and signed by the internal audit department.4.Allocating identification numbers to each fixed asset item, which should be included in the fixed asset register. In addition, a periodic independent fixed asset physical count should be conducted to ensure the existence of fixed assets.
Risk Level	High
Status	New

7. ORGANIZATIONAL CHART AND JOB DESCRIPTION

Observation	We noted the lack of a formal organizational structure and job description specifying levels of responsibility and accountability.
Recommendation	We recommend that the governorate develop and prepare a formal organizational structure and job description for all levels of the governorate that should include the following: <ul style="list-style-type: none">- the hierarchy in the governorate and lines of authority.- Responsibilities and lines of reporting.- operational responsibilities for staff and specific duties to be implemented.- responsibilities related to performance.- any other duties to be executed under any circumstance as defined by the governor.- types of reports to be issued and the timeframe for preparing and issuing these reports.
Risk Level	Medium
Status	New

8. SEGREGATION OF DUTIES

Observation	We noted that the majority of employees perform several tasks and duties, for example, the presence of one accountant responsible for the accounts of the investment and operational plans as well as one staff member responsible for recording and clearing and pending entries.
Recommendation	We recommend to segregate the duties relating to the budgeted accounts between the investment and operational plans and to segregate other duties for better controls.
Risk Level	High
Status	New

9. PROJECT FOR BUYING ARMORED VEHICLES

Observation	<p>As a result of our review relating to the project for equipping armored vehicles amounting to 575 million Iraqi Dinars, we noted the following:</p> <ol style="list-style-type: none">1. Not following the instructions and controls relating to the procurement process.2. A committee was formed to implement the project to acquire armored vehicles, contrary to the governorate council letter No. 421 dated 11/06/2009 that entails sending direct invitations.3. Nothing has been mentioned in the supporting documents of the project concerning the supplier.4. The governorate did not approach the General Company for Car Trading from which it will buy the armored vehicles for the purpose of preparing the vehicles.
Recommendation	<p>We recommend to follow the mechanisms used for any purchase and to abide by the implementation of the annual budget instructions issued by the Ministry of Finance.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

10. CONTRACT NO. 3 TO DEVELOP SAMRAA ELECTRICITY NETWORK

Observation	<p>As a result of our review over the contract related to processing a variety of materials to develop Samraa electricity network amounting to 710,359,250 Iraqi Dinars; we noted:</p> <p>Bids Initiation Committee</p> <ol style="list-style-type: none">1.The absence of the committee stamps and signatures of its members on all the pages of the bids submitted by the contractors and on all the pages of the bill of quantities showing the prices offered to the contractor.2.The minutes of meetings do not include the comments relating to each bid in a clear and transparent manner.3.The minutes are not signed by all the members of the committee. <p>Bids Analysis Committee</p> <ol style="list-style-type: none">1.The minutes of meeting are not clear as to the analysis of the bids, the comparison and assessment procedures of the technical, financial and legal aspects of the competing companies.2.The minutes of meeting do not include the reasons for excluding 20 bids.3.The minutes of meeting were not finalized on the same as some members of the committees signed the minutes on different dates.
Recommendation	We recommend the implementation of the instructions relating to government contracts with respect to committees and their functions.
Risk Level	High
Status	New

11. CONTRACT NO. 1 FOR THE RESTORATION OF THE COUNCIL BUILDING

Observation	<p>During our review of the contract relating to the restoration of the Council building of Salah Eddine governorate along with the construction of a restaurant and a guesthouse amounting to 1,604,692,000 Iraqi Dinars, we noted :</p> <ol style="list-style-type: none">1. Referral of the project by direct invitation without stating the justifying reasons and without obtaining competitive bids.2. Consent with respect to the referral with a condition that the second party will not provide additional disclosures in the future since he has already submitted additional disclosure s which have already been approved.
Recommendation	<p>We recommend that the governorate follows the contracting procedures set forth in the instructions for the implementation of government contracts of year 2009 and to abide by the approvals and orders issued by the general manager of the contracting entity.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

12. PROJECTS ON HOLD

Observation	<p>As a result of our review of a sample of contracts, we noted that some contracts with were terminated for different reasons. These projects currently are on hold and the governorate did not perform any follow-up nor take any decision until the end of our visit on 26/11/2009. As an example:</p> <ol style="list-style-type: none">1. Complete the implementation of district Al Saleh station to lift the secondary heavy water / country2. Complete the deficiencies in the station streams with respect to the rainwater behind the existing first Mqame along with establishing a fence relating to No. (1) country
Recommendation	<p>We recommend contracting with companies that have financial, technical and legal capabilities that qualify them to complete the project and allow the governorate to follow up on the projects on hold and to benefit from the annual allocations.</p>
Risk Level	<p>Medium</p>
Status	<p>New</p>

13. WITHDRAWAL FROM WORK

Observation	<p>As a result of our review over a sample of contracts, we noted for different reasons the withdrawal of some contractors from work for a number of projects. In addition we noted that the governorate is signing new contracts with other contractors. For example:</p> <ol style="list-style-type: none">1.The sewage network of the Jamhourieh district.2.The implementation of sewage for Al Wehda district.
Recommendation	<p>We recommend contracting with companies that have financial, technical and legal capabilities that qualify them to complete the project and allow the governorate to follow up on the projects on hold and to benefit from the annual allocations.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

14. ANNOUNCEMENT OF PROJECTS

Observation	<p>The governorate announced some projects more than once, without having the necessary financial allocation for each project. The announcement did not refer to the budget and the governorate received several bids without initiating and analyzing them, for example:</p> <p>Project</p> <ol style="list-style-type: none">1.Study and preparation of designs with the related bill of quantities required to rehabilitate Al Hamidiya and Al Khamisiyah2.Establishment of industrial forests in the area of Al-Ishaki3.Construction of a building for the Division of Water Resources / science4.Rehabilitation of Department of Education Al-Tuz / Tuz / Center
Recommendation	<p>We recommend that the instructions for the implementation of government contracts be complied with whereby allocations were made to execute the contract that represents a part of the setup procedures of the tender documents and to commit to the preparation of the announcements' versions, as indicated per the instructions.</p>
Risk Level	Medium
Status	New

15. REFERRING PROJECTS

Observation	<p>As a result of our review of a sample of contract files related to the governorate, we noted that the chairman of the bids analysis committee awarded the project to a particular company prior to the committee finalizing its tasks in that respect and prior to the approval and signature of the minutes by the chairman and all the members of the committee; for example:</p> <table border="1"> <thead> <tr> <th><u>Contract</u></th> <th><u>Amount in Iraqi Dinars</u></th> <th><u>Date of referral by the Chairman</u></th> <th><u>Date of approval of the minutes</u></th> </tr> </thead> <tbody> <tr> <td>Processing a variety of materials to upgrade Samraa electricity network</td> <td>710,359,250</td> <td>15/09/2009</td> <td>19/10/2009</td> </tr> <tr> <td>Public library in Tuz</td> <td>500,872,000</td> <td>15/09/2009</td> <td>30/09/2009</td> </tr> <tr> <td>Relaying electricity to Al-Riyach/ Baiji</td> <td>216,252,100</td> <td>15/09/2009</td> <td>30/09/2009</td> </tr> </tbody> </table>	<u>Contract</u>	<u>Amount in Iraqi Dinars</u>	<u>Date of referral by the Chairman</u>	<u>Date of approval of the minutes</u>	Processing a variety of materials to upgrade Samraa electricity network	710,359,250	15/09/2009	19/10/2009	Public library in Tuz	500,872,000	15/09/2009	30/09/2009	Relaying electricity to Al-Riyach/ Baiji	216,252,100	15/09/2009	30/09/2009
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Recommendation	We recommend compliance with the instructions for the awarding of government contracts, which set the responsibilities of the analysis committee to be followed in order to ensure selection of the best offers whereby the analysis process is conducted in a clear and transparent manner.																
Risk Level	High																
Status	New																

16. EXPENDITURES FOR DEVELOPMENT PROJECTS OF TERRITORIES

Observation	<p>As a result of our review of a sample of disbursement vouchers for development projects of territories, we noted certain disbursements not related to the development projects but are related to operational spendings, such as:</p> <p>Number and date of disbursement voucher:</p> <p>1438 on 13/09/2009</p> <p>1558 on 13/10/2009</p>
Recommendation	<p>We recommend complying with the instructions for the implementation of the budget issued by the Ministry of Finance, which prohibits the use of funds allocated to projects exploitation for operational spending without necessary approvals.</p>
Risk Level	<p>Medium</p>
Status	<p>New</p>

17. MISSING CARS

Observation	As a result of our review of the property and assets of the governorate and our visit to the administrative services department and the legal department, we noted that 32 cars and machines owned by the governorate are missing (either stolen or lost). The legal department had not taken any action in that respect until the completion of our visit to the governorate. The history of these missing cars relates to the years prior to year 2009.
Recommendation	We recommend that the legal department follows up on this issue.
Risk Level	High
Status	New

18. CLEANING CONTRACT FOR THE CITY OF TIKRIT

Observation	<p>As a result of our review over the cleaning contract for the city of Tikrit amounting to 425,000,000 Iraqi Dinars per month for a period of 5 months signed with "Al-Janaen company for City Cleaning Services", we noted the following:</p> <ul style="list-style-type: none">•Awarding of the project by direct invitation contrary to the instructions of government contracts number 1 of year 2008 which specifies the instances when contracts may be awarded without competitive bidding.•As confirmed in the record of the opening of tenders, the bidder did not provide the identity of categorization issued by the Ministry of Planning, in addition the company did not disclose its actual address.•Deficiency between the amounts incurred to clean up the city of the city of Tikrit amounting to 425,000,000 Iraqi Dinars per month along with the amounts incurred to clean 7 districts for a total amount of 530,234,460 Iraqi Dinars.•The contract stipulates that the contractor send a number of engineers, administrators and a supervisory committee in training sessions out of Iraq but we did not find any proof that the company honored its commitments.
Recommendation	<p>We recommend that the governorate follows the contracting procedures set forth in the instructions for the implementation of government contracts of year 2009 and to adhere to the implementation of the terms of the contract.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

19. PROJECT FOR BUILDING 10 SCHOOLS

Observation	<p>As a result of our review of the contract to build schools in the governorate, we noted the following:</p> <ul style="list-style-type: none">• The project for building 10 schools was asserted by direct invitation without a credible justification for such referral.• Although the direct invitation approach was followed, 3 companies instead of 5 were invited contrary to the instructions.• The minutes of the bids initiation and bids analysis committees were not signed by all members.• The project to build schools was asserted to Al Sahwa company. We noted that the governorate subdivided the schools into several contracts and copies were attached with the same priorities (as the minutes of the bids initiation and bids analysis committee, the identity of classification of contractors and letter of referrals) with each contract without making an announcement or invitation to other contractors.• Al-Sahwa assigned 3 schools to the Masar Al Barq Company despite the fact that this latter was not part of the list of the companies as documented in the minutes of the bids initiation and bids analysis committee.• As per the memorandum issued by Al Sahwa company number 75 dated 19/7/2009 addressed to the Governor, we noted that a waiver margin was paid amounting to one hundred and ten thousand dollars to Al Sahwa company.
Recommendation	<p>We recommend compliance with the instructions relating to the implementation of government contracts and with the terms of the contract.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

20. CONTROLLING ATTENDANCE

Observation	We noted that the control of the attendance is through signature on a paper by the employees upon showing up in the morning and that there is no monitoring of attendance by the end of the day. The absence of a control system over attendance (finger-scan) may lead to deficiencies in controlling attendance.
Recommendation	We recommend the use of an automated control the attendance of the employees.
Risk Level	Low
Status	New

OBSERVATIONS RAISED FOR THE YEAR ENDED 31 DECEMBER 2009 GOVERNORATE OF BABEL

1. SALARIES

<p>Observation</p>	<ol style="list-style-type: none"> 1. During our review of the process of salary disbursements, we noted that some staff ask other employees to collect their salaries on their behalf, without authorization or any supporting document for the governorate to ensure that those employees are authorized to collect payments on behalf of others. 2. During our review of the personnel files, we noted the lack of supporting documents required for employment such as graduation certificate, biography and approval for recruitment. 3. We noted that the payroll of the governorate are prepared manually. This process is inefficient and time consuming. In addition, the manual processing of salaries increases the risk of human errors.
<p>Recommendation</p>	<p>We recommend that the recipient the authorized formally to receive the salary on behalf of another employee. We also recommend that the employee signs on the pay slip after receiving the salary in cash. We also recommend that the governorate considers paying salaries through direct bank transfers to the employees’ bank accounts to better monitor and control disbursement operations.</p> <p>We recommend to develop an appropriate archiving system for personnel files of the governorate to ensure the availability of documentation for each staff member in order to meet the needs of all the departments of the governorate.</p> <p>We recommend that the Ministry uses an accounting information system for all accounting transactions in order to avoid errors that could result from the operations carried out manually and to increase efficiency in the extraction of financial information and the possibility of developing a database for all accounting transactions.</p>
<p>Risk Level</p>	<p>Medium</p>
<p>Status</p>	<p>New</p>

2. FIXED ASSETS

Observation	<p>During our review of the warehouses of the governorate of Babel, we noted the following:</p> <ol style="list-style-type: none">1. The site used by the governorate as a warehouse is not a suitable one to store its assets.2. The warehouses include material that are not the property of the governorate.3. We noted unused material that can be used in the projects of the governorate.4. The warehouse contains sensitive electronic devices that require special storage conditions. It is to be noted that the warehouses used are not valid for the storage of such materials, because of the cracks in the ceilings and humidity. This might lead to the damage of these materials.5. The absence of an electronic system to ensure control of the stored assets and fixed assets of the governorate.6. The fixed assets register does not include identification numbers of the fixed assets. The identification number for each asset helps maintain track of each item in the fixed asset register and offers the possibility of accountability for fixed assets, in addition, it facilitates the process of verifying the actual existence of these fixed assets.
Recommendation	<p>We recommend erecting warehouses for storing materials according to type and expiration period of each item and not to leave excess materials unused and to adopt an electronic system that will ensure control over all assets. We also recommend allocation identification numbers to each fixed asset item, which should be included in the fixed asset register. In addition, a periodic independent fixed asset physical count should be conducted to ensure the existence of fixed assets.</p>
Risk Level	High
Status	New

3. SEGREGATION OF DUTIES

Observation	We noted that the payroll division prepares the pay slips, receives the cash from the bank and pays the salaries to the staff of the governorate. Accordingly, there is no sufficient segregation of duties in the payroll division.
Recommendation	We recommend improving the processing and payment of salaries of the governorate so that sufficient segregation of duties between the preparation, processing, validation and payment of salaries are put in place. We also recommend that the governorate considers transferring monthly employees' salaries to their personal bank accounts to enhance control procedures.
Risk Level	High
Status	New

4. PROJECTS OF THE HIGHER COUNCIL FOR CONSTRUCTION

Observation	During our review of the contracts of the Council’s projects relating to the construction of schools for the education sector / governorate of Babel until 01/11/2009 we noted a drop in the projects’ percentage of completion ratios despite the expiry of their underlying. Examples are: School of Jaafar Al-Tayyar, Al Saiid, Ambassador Al-Hussein, Al-Ghazali, and Al-Diyar.
Recommendation	We recommend expediting the execution of the projects and to commit to the timeframe mentioned in the terms of the contract and to comply with the instructions of the implementation of government contracts.
Risk Level	High
Status	New

5. COMMITTEES FOR INTIATING AND ANALYSING BIDS

Observation	<p>As a result of our review of a sample of the governorate’s contracts, we noted that in the pre-awarding and contracting procedures, the minutes of meetings of the bid opening and bid analysis committees are carried out without the presence of all the members of the Committees for example:</p> <p><u>Bid opening committee</u></p> <ul style="list-style-type: none"> •Contract for paving the streets of Moustapha Ragheb district amounting to 2,317,000,000 Iraqi Dinars. •Contract for constructing a documentary library building in the Directorate of the Shiite Waqf amounting to 242,580,000 Iraqi Dinars. •Contract for refurbishing Babel Police Academy amounting to 104,834,900 Iraqi Dinars. •Contract for completing the building of citizenship and civil status in the area of Abi Gharak amounting to 38,858,200 Iraqi Dinars. <p><u>Bid analysis committee</u></p> <ul style="list-style-type: none"> •Contract for supplying and installing a 1000 KVA generator at Hillah education hospital amounting to 260,350,000 Iraqi Dinars. •Contract for paving a road along Al-Bidaa village with a length of 7,90 km / Al-Mahaweel amounting to 1,169,181,750 Iraqi Dinars. •Contract for constructing a documentary library building in the Directorate of the Shiite Waqf amounting to 242,580,000 Iraqi Dinars. •Contract for providing electric power for the district of Hour Hejab/ Al-Mathatia residential area amounting to 412,563,000 Iraqi Dinars.
Recommendation	<p>We recommend that all members of the bid opening and bid analysis committees attend the committee meetings, approve the minutes of meetings and sign on the minutes of meetings on the same day as stipulated by the instructions relating to the execution of contracts.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

GOVERNORATE OF BABEL
6. CONTRACTS' DIVISION

Observation	<p>As a result of our review over the division of public governmental contracts of the governorate, we noted the following:</p> <ul style="list-style-type: none">• No rotation of the members of both the bid opening and bid analysis committees from the end of year 2008 to the end of year 2009.• The division does not use a system for numbering and indexing the contracts.• There is no central file including all the documents relating to a contract or bid.
Recommendation	<p>We recommend that the governorate adheres to the instructions of the budget issued by the Ministry of Finance, which requires the rotation of committee members every six months, and the development of a system for indexing contracts so that all contracts are sequentially filed to avoid duplication of contracts and to retain all documents relating to contracts or a copy to be filed in one file in order to facilitate follow-up procedures and to enhance controls.</p>
Risk Level	High
Status	New

7. MISSING CARS

Observation	As a result of our review over the property and assets of the governorate, we noted that 28 cars and machines were missing or are being used outside the context of the governorate. The history of these missing cars relates to the years prior to year 2009 and the issue was not resolved by the end of our visit to the governorate.
Recommendation	We recommend a follow up on this issue and more cooperative with the parties concerned and to work on tracing missing cars.
Risk Level	High
Status	New

8. PROJECTS ON HOLD WITH NO CONTRACT

Observation	As a result of our review, we noted the presence of 3 projects that were put on hold on 24/1/2009 as noted in the minutes of meeting of the bid analysis committee for which no contracts were signed by the end of our visit to the governorate on 10/11/2009 due to lack of financial resources required for each project; for example: installation of units of water.
Recommendation	We recommend adherence to the budget and ensuring the availability of financial allocations approved by the authorized parties before entering into any commitment and to comply with the instructions relating to the implementation of government contracts.
Risk Level	High
Status	New

9. CONTRACT FOR 50 CARAVANS for the DIRECTORATE OF THE POLICE of BABEL

Observation	<p>As a result of our review of the contract for a total amount of 850,000,000 Iraqi Dinars, we noted the following:</p> <ul style="list-style-type: none">•The adoption of the minutes of meeting of the bid opening committee in the absence of almost half of the committee members.•The minutes of meeting of the bid analysis committee did not reflect the basis used by the committee to select the supplier and the reasons for excluding four offers including one from a governmental company.•The period has been fixed to 90 days not more and not less as per the terms of the contract and that the company started in February 2009, however, the supplier only equipped 20 caravans out of 50 as of 20/10/2009.
Recommendation	<p>We recommend that all committee members attend the meetings held for assigning the offers and to draft the minutes in a way to ensure that the basis and reasons for choosing an offer clearly stated. We also recommend abiding by the contracted timeframe and to liability the supplier account for any delays and adhering to the instructions relating to the implementation of government contracts.</p>
Risk Level	High
Status	New

10. CANCELLED CONTRACTS

Observation	As a result of our review of a sample of the governorate’s contracts, we noted that the governorate, cancelled contracts for projects signed with third parties for different reasons. This action puts the governorate under obligations and commitments towards the suppliers and contractors, for example: - to expand the water Musayyib and project for delivery of electricity power to the area of Hoor, paving the street linking the intersection of Ishtar and the Corniche Road.
Recommendation	We recommend eliminating errors in the preparatory phase of the project by relying on prior studies and research and not to enter any contract prior to ensuring that the sufficient funds have been have been allocated and that adequate funding is available.
Risk Level	High
Status	New

11. UNPLANNED PROJECTS

Observation	During our review of the contract relating to the restoration of Babel Police Academy executed with Al-Amaken Al-Amina Company for a total amount of 104,834,900 Iraqi Dinars, we noted that on 27/01/2009 the governorate executed a contract before listing the project in the plan scheduled for year 2009. This resulted in the governorate failing to pay the contractor despite the authentication by the beneficiary on the advance on the project which has reached 42% of completion supported by the directorate of public engineering works for the directorate of Babel governorate police, causing the suspension of work by the contractor for the period from 29/03/2009 until 26/04/2009 and the claiming of his dues.
Recommendation	We recommend adhering to the approved project plan and not to enter into contracts for projects not approved, and to abide by the instructions relating to the budget execution and to the instructions of the implementation of government contracts.
Risk Level	High
Status	New

12. MINUTES OF THE GRANTS ANALYSIS COMMITTEE

<p>Observation</p>	<p>As a result of our review of a sample of projects and contracts of the governorate, we noted the following with respect to the grant analysis committee:</p> <ul style="list-style-type: none"> •The minutes do not indicate the weighting percentages for the financial and technical offers granted to the various offers or the method or reasoning for short listing offers or for selecting winning offers. •The committee and as per its minutes of meetings does not prepare a detailed schedule listing of all submitted offers for most of the contracts. •The tasks of the bid analysis committee is to ensure the validity of the issuance of the required documentation in the bid for each grant before any action is taken and not subsequent to the awarding decision of the committee. As noted in most of the minutes of meetings, the legal committee should investigate these documents. •We noted in some of the minutes of meetings of the bid analysis committee differing signing dates of the committee members. This leads to the conclusion that the minutes of meetings were not approved on the same day and in the presence of all committee members for the analysis process. This was the case for the contract relating for supplying and installing a 1000 KVA generator at Hillah education hospital amounting to 260,350,000 Iraqi Dinars.
<p>Recommendation</p>	<p>We recommend abiding by the government instructions relating to the execution of contracts.</p>
<p>Risk Level</p>	<p>High</p>
<p>Status</p>	<p>New</p>

GOVERNORATE OF BABEL
13. CLEANING PROJECTS

Observation	As a result of the process of review and audit, we noted the inclusion of clean-up projects that are within the operating expenses as part of the investment plan where the total amount of clean-up projects for the governorate amounted to 8,692,180,000 Iraqi Dinars for the year 2009. Most of these clean-up projects were carried out through direct implementation and the role of the governorate in these projects is limited to disbursements and controlling reports received from the municipality responsible for the project without the involvement of the committees and the continuous follow-up on the project.
Recommendation	We recommend compliance with the budget issued by the Ministry of Finance, which prohibits the use of funds allocated to certain projects for financing operational expectations without approval to enhance controls and to better monitor the implementation of the budget process.
Risk Level	High
Status	New

14. PROJECTS' PERCENTAGES OF COMPLETION

Observation	<p>As a result of our review of expenditures of projects during the year 2009 and their comparison with the percentages of technical completion, we noted for some projects the percentage of payment is not in line with the percentage of completion for example:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Project</u></th> <th style="text-align: center;"><u>Financial percentage of completion</u></th> <th style="text-align: center;"><u>Technical percentage of completion</u></th> </tr> </thead> <tbody> <tr> <td>Streets' maintenance of Shawi district</td> <td style="text-align: center;">98.00%</td> <td style="text-align: center;">20.00%</td> </tr> <tr> <td>Electricity power delivered to villages and neighborhoods in Shomali</td> <td style="text-align: center;">83.55%</td> <td style="text-align: center;">20.00%</td> </tr> <tr> <td>Electricity power delivered to Abi Gharak and Al-Kafal</td> <td style="text-align: center;">57.85%</td> <td style="text-align: center;">14.00%</td> </tr> <tr> <td>Reconstruction of the Mosque Osama Bin Zeid – Al-Iskandaria</td> <td style="text-align: center;">85.52%</td> <td style="text-align: center;">15.00%</td> </tr> </tbody> </table>			<u>Project</u>	<u>Financial percentage of completion</u>	<u>Technical percentage of completion</u>	Streets' maintenance of Shawi district	98.00%	20.00%	Electricity power delivered to villages and neighborhoods in Shomali	83.55%	20.00%	Electricity power delivered to Abi Gharak and Al-Kafal	57.85%	14.00%	Reconstruction of the Mosque Osama Bin Zeid – Al-Iskandaria	85.52%	15.00%
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Recommendation	<p>We recommend that payments be in line with percentage of completion. We also recommend adhering to the instructions relating to the implementation of government contracts.</p>																	
Risk Level	<p>High</p>																	
Status	<p>New</p>																	

15. REPETITION OF ADVERTISEMENT

Observation	We noted during our review that the governorate re-announces some offers after being unsealed for several reasons. Thus, the price presented by the offerors become known to committee members and therefore confidentiality relating to offers will be lacking.
Recommendation	We recommend require bidder to submit two offers, as follows: <ul style="list-style-type: none">•Technical offer: This includes the technical specifications of the contract, the date of delivery and other technical matters.•Financial offer: This includes the schedule of prices, the repayment schedule and the method of payment. This part should only be presented upon the approval of the technical offer mentioned above. We also recommend the need to ensure accuracy for any advertisement and to ensure that it includes all the specifications and conditions of the contract, so as to further enhance control procedures and to monitor the procurement process.
Risk Level	Medium
Status	New

16. ACCOUNTS OF THE INVESTMENT PLAN

Observation	The accounting unit of the governorate of Babel did not submit the final trial balance for the budgeted investment account for year 2008 as part of the requirements for preparation of financial statements, contrary to the letter of the General Secretariat of the Council of Ministers No. 27398 dated 27/10/2008 to the financial control unit of the governorate.
Recommendation	We recommend submitting the final accounts for each fiscal year on time.
Risk Level	High
Status	New

GOVERNORATE OF BABEL
17. OPERATING BUDGET

Observation	Contrary to the requirements relating to the execution of the general budget of Iraq for year 2009 (that entails the submission of budget review along with the report to the Ministry of Finance / Accounting Department no later than ten days from the end of each month), we noted several delays in submitting the budget reviews to the ministry of finance.
Recommendation	We recommend the submission of the budget review along with the financial reports on time and adhering to the implementation of the budget instructions issued by the ministry of finance.
Risk Level	High
Status	New

18. ORGANIZATIONAL STRUCTURE

Observation	We noted the absence of a formal organizational chart and job description showing levels of authorities and responsibilities.
Recommendation	We recommend that the governorate to develop and prepare a formal organizational chart and job description for all levels of the governorate that should include at least the following: <ul style="list-style-type: none">- the hierarchy of the governorate.- execution responsibilities, the direct reports and the related authorizations.- operational responsibilities for staff and specific duties to be implemented.- administrative responsibilities related to performance.- any other duties to be executed under any circumstance as defined by the governor.- types of reports to be issued and the timeframe for preparing and issuing these reports.
Risk Level	Medium
Status	New

19. CONTROLLING ATTENDANCE

Observation	We noted that the control over attendance is through signature on a paper by the employees upon showing up in the morning and that there is no monitoring of attendance by the end of the day. The absence of a control system over attendance may lead to deficiencies in controlling attendance.
Recommendation	We recommend the use of an automated system to control the attendance of the employees.
Risk Level	Low
Status	New

20. WARNINGS

Observation	During our review of the general contracts' unit of the governorate, we noted an increasing number of warnings addressed to the contractors during years 2008 and 2009 as compared to the number of contracts of the governorate. We noted that both parties did not adhere to the contractual period for several projects of the governorate and as a result, contracts are behind and the percentages of completion are low. We also noted that some contractors have received warnings on most of their projects. This situation was noted in year 2008 and was repeated in year 2009.
Recommendation	We recommend contracting with companies having financial technical and legal capabilities that qualify them to execute the project and the governorate should follow-up on the projects that are falling behind and to take strict measures against companies concerned.
Risk Level	High
Status	New

21. WITHDRAWAL FROM WORK

Observation	During our review of a sample of the governorate’s contracts, we noted that contractors have withdrawn from work for several projects for years 2006, 2007, 2008 and 2009 for different reasons. Repetition of such situations will result in delaying the governorate meeting its investment plan and will lower the rates of achievement. This shows clearly that the selection and awarding procedures followed need strengthen. For example: Processing asphalt plant and equipment and installation of assembled units.
Recommendation	We recommend contracting with companies that have technical capacity, and that are working on the completion of similar projects in order to complete the projects as per the adopted plan.
Risk Level	High
Status	New

OBSERVATIONS RAISED FOR THE YEAR ENDED 31 DECEMBER 2009 GOVERNORATE OF AL-BASRA

1. DIRECT INVITATION METHOD

Observation	As a result of our review of a sample of contracts awarded through direct invitation, we noted the presence of more than a contract that were awarded using this method. We further noted that these contracts not meet the set out government bids as for example (Contract/ Water/ 2006, contract number M/1 Office of the governorate for processing light equipments model 2008, contract for supply of reserve materials for the warehouses of the governorate and contract for installing and arranging a water pipeline network in the street 14 Tammouz).
Recommendation	We recommend to abide by the instructions relating to the implementation of contracts and that contracts be made based on bidding procedures and collecting offers rather than contracting directly. The bidding procedures will increase the chance of getting competitive offers with high standard specifications, and that is to enhance control and monitoring procedures.
Risk Level	High
Status	New

2. CONTRACT (15/ MUNICIPALITY/ 2007)

Observation	As a result of our review of the contract mentioned above, we noted the awarding of the contract to the company Al-Achikaa for contracting, this contract is the highest bid, has the highest period for implementation and has a performance bond that does not cover the required percentage.
Recommendation	We recommend adhering by the procedures of awarding contracts and the instructions for the implementation of government contracts.
Risk Level	High
Status	New

3. SUPPLY CONTRACTS NON-CONFORMING TO SPECIFICATIONS

Observation	As a result of our review of a sample of supply contracts of the governorate, we noted a variance in the specifications of the material received with what is mentioned in the contract for example, (3 – contract (27) / water / 2006, whereby pumps for extraction were equipped and not submersibles; contract for supplying, installing and operating medical devices as some existing material are disabled).
Recommendation	We recommend the inspection of the material received by the inspection and acceptance committees and adherence to the terms of the contract and to the instructions of government contracts.
Risk Level	High
Status	New

4. RENEWAL OF PERFORMANCE GUARANTEE

Observation	<p>As a result of our review of letters of guarantee relating to ongoing contracts, we noted that letters of guarantee relating to these contracts are not being renewed and are left with no coverage in case of any delay by the contractor or in case of problems in the contract, for example:</p> <ul style="list-style-type: none">•Contract / 1/ Distribution/ Constructing, supplying and installing equipments for the stations in Al-majdiya / Al-Hartha.•Contract/ 23/ Water/ Supplying, installing and operating a water unit/ Al-Hussein district.•Bid M/105/ Municipalities/ Contract for supplying cars number 16.
Recommendation	<p>We recommend that follow-up on letters of credit and performance guarantees for renewal or extension before the expiry of the duration.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

5. PERFORMANCE GUARANTEE

Observation	During our audit of a sample of contracts, we noted that performance guarantees provided by the suppliers or contractors were less than 5%, for example: <ul style="list-style-type: none">•Contract 15/ Municipality/ Agricultural work for the development of intermediate between the associations and Al-Hussein district.•Contract 27/ Water/ Supplying and installing a combined water unit in Chafiya/ Al-Deir.
Recommendation	We recommend adhere to the instructions relating to the awarding 5 of government contract of year 2008.
Risk Level	High
Status	New

6. BID NUMBER M/1 OFFICE OF THE GOVERNORATE

Observation	<p>As a result of our review of a sample of contracts relating to projects, we noted with respect to the contract of processing light equipments model 2008 for a total amount of 1,31,0,625,000 Iraqi Dinars the following:</p> <ul style="list-style-type: none">•The project is not included as part of the regional development projects.•The governorate did not notify the Government bodies as the General Company for Trading Cars to obtain a bid.•The payment of the supplier was processed before confirming the validity of a clearance form from the tax authorities.
Recommendation	<p>We recommend adhering to the mechanism used for any purchase and to follow the instructions relating to the implementation of the annual budget issued by the ministry of finance.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

7. SOURCE OF MATERIAL FOR INSTALLATION CONTRACTS

Observation	<p>As a result of our review of a sample of installation contracts, we noted the non-specification of the source of materials requested for installation as part of the terms of the contract signed between the governorate and the supplier, for example:</p> <ul style="list-style-type: none">•Installing and arranging a pipeline network in the streets of Manawi Basha and Al-Istiklal amounting to 1,610,000,000 Iraqi Dinars.•Supplying and installing a combined water unit in the neighborhood of Al-Imam Al-Sadek for a total amount of 1,147,676,000 Iraqi Dinars.
Recommendation	<p>We recommend to identify the specifications of the requested material to be installed, to include that in the terms of the contract and to adhere to the instructions relating to the implementation of government contracts.</p>
Risk Level	High
Status	New

8. CONTRACT FOR SUPPLY OF RESERVE MATERIALS

Observation	<p>During our review of the above mentioned contract for a total amount of 8,380,000,000 Iraqi Dinars and signed on 28/12/2008, we noted the following:</p> <ul style="list-style-type: none">•The supplier started the work on 18/12/2008; this is different from the minutes of meetings of the bid initiation and bid analysis committees issued on 24/12/2008.•Some receipts relating to the purchase of materials by the supplier are dated before the date of the contract’s signature.•Contrary to the terms of the contract which stipulate the deduction of an amount of 10% over the value of the contract for maintenance and warranty purposes, the governorate reduced the ratio to 2.5% and obtained the approval of the head of the contracting entity to pay the difference in the amount to the supplier amounting to 628,500,000 Iraqi Dinars.
Recommendation	<p>We recommend that the governorate to abide by the referral procedures.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

9. CONTRACT FOR A WATER PIPELINE NETWORK IN THE STREET 14 TAMMOUZ

Observation	<p>As a result of our review relating to the above mentioned contract signed on 15/10/2008, we noted the following:</p> <ul style="list-style-type: none">• The offer of the chosen company that entered into the bidding process as per the minutes of meetings of the bid initiation committee amounted to 2,903,800,000 Iraqi Dinars (the lowest bid) however and according to the minutes of meetings of the bid analysis and referral committee it amounted to 3,163,800,000 Iraqi Dinars (the highest bid).• The third advance has been disbursed for the contractor despite the non-completion of the of screening procedures for the fitted pipes.• The governorate formed an investigative committee relating to the execution of the project despite the lack of proper screening.
Recommendation	<p>We recommend the examination of the material received by the inspection and acceptance committees and to follow up on the issue relating to the Investigation Committee in order to preserve public funds.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

10. CLAIMS

Observation	<ul style="list-style-type: none">• We noted a number of complaints filed by the governorate against companies and suppliers for providing false documents or fraudulent statements and also the presence of claims relating to certain projects of the governorate with violations for example, (a fraudulent letter of guarantee sent by Fayed El-Amin Company, clearance form sent by Al-Inwan Company, despite the deficiencies noted in the main pumping station, the amounts have been paid to the company.)• As a result of our review over the property and assets of the governorate, we noted that some cars are missing or used outside the governorate. The history of these missing cars relates to the years prior to year 2009 and this issue was not sorted until the end of our visit to the governorate.
Recommendation	We recommend follow-up on the claims raised against the companies by the governorate in terms of forgery transactions and to approach the concerned authorities for the purpose of clearing the issue of the missing cars.
Risk Level	Medium
Status	New

11. ALLOCATIONS

Observation	As a result of our review relating to the investment budget and contractual obligations for the projects of the governorate for year 2009, we noted that the contractual obligations amounting to 334,487,054,599 Iraqi Dinars exceed the funds allocated amounting to 237,135,565,788 Iraqi Dinars; this is in violation of article (7) paragraph (a) of the implementation regulations of the General Federal Budget for the year 2009.
Recommendation	We recommend adherence to the instructions relating to the implementation of the budget referred to above.
Risk Level	High
Status	New

12. EXPENSES FOR REGIONAL DEVELOPMENT

Observation	We noted that the governorate is making disbursements from the account allocated for regional development expenditures for expenses not related to this account, for example bonus payments.
Recommendation	We recommend to use the budget for the purpose for which it has been allocated and not to spend it for other purposes.
Risk Level	High
Status	New

13. EMPLOYEES

Observation	We noted that the temporary employees of the governorate of 497 contractors exceed the number of permanent employees of 477 employees. This might impact negatively on the performance of the governorate through the involvement of some of them in important divisions like accounting, auditing, and contracts.
Recommendation	We recommend that the governorate develops a grading for permanent employees for the purpose of promoting better performance.
Risk Level	Medium
Status	New

14. PROJECTS ON HOLD

Observation	We noted that some projects for regional development and for speeding up reconstruction and rehabilitation relating to years 2006 – 2007 - 2008 were put on hold and have not yet been completed by the end of our visit on 29/03/2010 despite the end of their contractual periods.
Recommendation	We recommend speeding up the implementation of projects according to the periods stipulated in the contract and abide by the instructions relating to the implementation of government contracts.
Risk Level	Medium
Status	New

15. ADVANCES ON WORK COMPLETED

Observation	As a result of our review of a sample of disbursement vouchers, we noted the disbursement of two advances on the same day or the following day contrary to the instructions relating to the implementation of contracts for example, (disbursements relating to the contract for supply of reserve materials for the warehouses of the governorate for a total amount of 7,085,936,000 Iraqi Dinars in favor of the supplier through two disbursement vouchers issued on the same day on 31/12/2008 amounting to 5,279,400,000 Iraqi Dinars and 1,806,536,000 Iraqi Dinars/ contract for installing and arranging a water pipeline network in the street 14 Tammouz where the governorate made two disbursements for the contractor 30 and 31/12/2008.
Recommendation	We recommend adherence to the instructions relating to the awarding of government contracts which stipulate that the payment of advances shall be made based on the completion of work and for periods not less than one month and to adhere to the implementation of the terms of the contract.
Risk Level	High
Status	New

16. MINUTES OF BID INTIATION AND BID ANALYSIS COMMITTEES

Observation	As a result of our review of a sample of minutes of meetings of the bid initiation and bid analysis committees, we noted the adoption of the minutes in the absence of half of the members of the committee or absence of the chairman of the committee. For example, contract (27 / water / 2006, bidder M / office of the governorate).
Recommendation	We recommend that all members of the committees sign the minutes of meetings of the bid opening and bid analysis committees as stipulated by the instructions relating to the execution of government contracts.
Risk Level	High
Status	New

OBSERVATIONS RAISED FOR THE YEAR ENDED 31 DECEMBER 2009 GOVERNORATE OF WASET

1. ORGANIZATIONAL CHART AND JOB DESCRIPTION

Observation	We noted the lack of a formal organizational chart and job description illustrating levels of responsibility and accountability.
Recommendation	We recommend the governorate to develop and prepare a formal organizational chart and job description for all levels of the governorate that should include at least the following: <ul style="list-style-type: none">- the hierarchy of the governorate.- execution responsibilities, the direct reports and the related authorizations.- operational responsibilities for staff and specific duties to be implemented.- administrative responsibilities related to performance.- any other duties to be executed under any circumstance as defined by the governor.- types of reports to be issued and the timeframe for preparing and issuing these reports.
Risk Level	Medium
Status	New

2. PURCHASES OF THE GOVERNORATE

Observation	As a result of our review of the expenditures of fixed assets for the year 2008 – 2009, we noted a higher level of purchases of furniture of different kinds and of cars and this is contrary to the decision of the Council of Ministers No. (442), as well as contrary to the "general publication" of the Ministry of Finance (authority of expenditures), that requires the reduction of approved allocations for cars and furniture expenditures of different kinds by 80%.
Recommendation	We recommend adherence the instructions of the ministry of finance.
Risk Level	Medium
Status	New

3. PERMANENT EMPLOYEES OF THE GOVERNORATE

Observation	The ministry of finance has not approved the staffing of the governorate for 2009.
Recommendation	We recommend that approved should be obtained.
Risk Level	Medium
Status	New

4. ADVANCES

Observation	We noted balances outstanding since year 2004 not cleared as of the date of the termination of our visit on 20/5/2010.
Recommendation	We recommend clearing the advances account.
Risk Level	Medium
Status	New

5. DISBURSEMENT VOUCHERS

Observation	During our review of a sample of disbursement vouchers, we noted that some vouchers are not stamped and signed by the accountant and by the internal audit department.
Recommendation	We recommend that the accountant along with the auditor review the disbursement vouchers in addition to stamping and signing the vouchers before disbursement in order to enhance internal control procedures.
Risk Level	Medium
Status	New

6. WITHDRAWAL FROM THE BANK CLEAN OVERDRAFT

Observation	We noted that the bank accounts of the governorate were overdrawn.
Recommendation	We recommend to get the approval of the ministry of finance in the case of any excess over the budget, in addition, the reason of the excess should be properly documented in detail. In addition, the budget allocated for a month should be used in that month, especially for the expenditures relating to operating expenses, in order to ensure the continuity of the work of the governorate over the implementation of the budget within the policies and regulations.
Risk Level	Medium
Status	New

7. MAINTENANCE OF ASSETS

Observation	We noted that the governorate did not prepare a timetable for maintenance work in order to conduct periodic and preventive maintenance for its asset, contrary to article (10), paragraph (c) of the instructions of the implementation of the General Budget for the Federal of Iraq for year 2009.
Recommendation	We recommend the preparation of a timetable for the planned periodic and preventive maintenance of its assets in order to preserve its assets and to ensure their continuity as well as to preserve public funds.
Risk Level	Medium
Status	New

8. AUTOMATION OF THE ACCOUNTING SYSTEM

Observation	We noted that the process of posting accounting entries, the booking in the daily journal and the posting to the general ledger along with the extraction of the trial balance and financial reports are carried out manually.
Recommendation	We recommend that the governorate uses an automated accounting information system for all accounting transactions in order to prevent any error that can result from the operations being carried out manually and in order to speed up the extraction of financial information and the possibility of maintaining a database including all accounting transactions.
Risk Level	Medium
Status	New

9. CONTROLLING ATTENDANCE

Observation	We noted that the control of the attendance is through signature on a paper by the employees upon showing up in the morning and that there is no monitoring of attendance by the end of the day. The absence of a control system over attendance may lead to deficiencies in controlling attendance.
Recommendation	We recommend the use of a automation in order to control the attendance of the employees.
Risk Level	Low
Status	New

10. SALARIES

Observation	<p>During our review of the process of salary disbursements, we noted the following:</p> <ul style="list-style-type: none">• The members of the salary distribution committee of the governorate are not being changed periodically.• Some staff ask other employees to receive their salaries on their behalf, without authorization.• Salaries of the governorate are prepared manually. This process is inefficient and time consuming. In addition, the manual processing of salaries increases the risk of human errors.• The lack of proper segregation of duties as the employee responsible for the preparation of salaries is also responsible for the distribution process.
Recommendation	<p>We recommend the governorate to change on a regular basis the members of the salary disbursement committee, we also recommend that the recipient be authorized formally to receive the salary on behalf of other employees. In addition, we recommend to automate the payroll system whereby a database will be maintained for all the employees which will facilitate and regulate the process of extracting payslips and that will ensure more accuracy. Moreover, the employees who is responsible for the preparation of the payroll must be independent from the employee responsible for the distribution of salaries.</p>
Risk Level	High
Status	New

11. PROJECTS ON HOLD

Observation	We noted that the contract No. 185/7/2008 is on hold due to problems in the execution process, no decision has been taken in this respect by the date of our visit in May 2010 noting that the contract was signed in 2008.
Recommendation	We recommend the governorate to take appropriate decisions and actions to resolve the problems relating to execution.
Risk Level	High
Status	New

12. CENTRAL FILING FOR CONTRACTS

Observation	We noted that there is no central file for storing signed contract files as the contract files and documentation are distributed between the Directorate of Accounts and the Directorate of Engineering Services.
Recommendation	We recommend retaining all documents relating to contracts or in a single file in order to facilitate follow-up action and to enhance internal control procedures.
Risk Level	Medium
Status	New

13. NUMBERING OF CONTRACTS

Observation	We noted that the contracts entered by the governorate are not being given identification numbers.
Recommendation	We recommend introducing a system for indexing contracts so that all contracts are arranged sequentially to avoid repetition of contracts and to facilitate the process of monitoring and review. That is to enhance control procedures.
Risk Level	Medium
Status	New

14. DECREASING PERCENTAGES OF COMPLETION

Observation	As a result of our review, we noted the low level of technical achievement for several projects, despite the expiry of their contractual periods. For example, projects for the main modernization design of the cities of Al-Souaira, Badra, Al-Dbouni referred to the Office of Emaar Maysan and the preparation of design studies for transportation near Sheikh Saad, Al-Hofriya, and Al-Zubaydiah referred to the Office of Al-Khaddmal.
Recommendation	We recommend contracting with companies with financial or technical that allow them to execute the projects.
Risk Level	Medium
Status	New

15. REPETITION OF ADVERTISEMENT

Observation	We noted during our review that the governorate re-announces some offers after being unsealed for several reasons. Thus, the price presented by the offerors will be known and therefore confidentiality relating to offers will be lacking.
Recommendation	We recommend to require offerors to submit two offers, as follows: <ul style="list-style-type: none">•Technical offer: This includes the technical specifications of the contract, the date of delivery and other technical matters.•Financial offer: This includes the schedule of prices, the repayment schedule and the method of payment. This part should only be presented upon the approval of the technical offer mentioned above. We also recommend the need to ensure accuracy for any advertisement and to ensure that it includes all the specifications and conditions of the contract, so as to further enhance control procedures and to monitor the procurement process.
Risk Level	High
Status	New

16. EQUIPPING CARS

Observation	On 16/09/2009 the governorate awarded a contract for equipping 16 cars to the office of the governorate without notifying the government bodies as the General Company for Trading Cars and Machineries.
Recommendation	We recommend to identify the need of cars of the governorate according to the centralized plan and to approach the General Company for Trading Cars and Machineries. We also recommend to abide by the instructions relating to the budget implementation.
Risk Level	Medium
Status	New

17. NON-CONFORMING MATERIALS TO SPECIFICATIONS

Observation	As a result of our review over a sample of contracts, we noted that there is nonconformity with the specifications mentioned in the contract. We also noted an inconsistency in the country of origin. For example: contract for developing equipments for heart tests, developing laboratory tests at the Technical Institute in Al-Souaira.
Recommendation	We recommend contracting with the originating companies and not with intermediary companies.
Risk Level	Medium
Status	New

18. MINUTES FOR RECEIPT OF PROJECTS

Observation	We noted some cases whereby not all members of the final receipt committee signed on the related minutes of meetings and recommendations as in the construction project contract Appendix 4 in Rif El-Kout.
Recommendation	We recommend that all committees' members commit to signing on all the records to ensure transparency of work.
Risk Level	Medium
Status	New

OBSERVATIONS RAISED FOR THE YEAR ENDED 31 DECEMBER 2009 GOVERNORATE OF AL-QADSIYAH

1. ORGANIZATIONAL STRUCTURE AND JOB DESCRIPTION

Observation	We noted the lack of a formal organizational structure and job description illustrating levels of responsibility and accountability.
Recommendation	We recommend the governorate to develop and prepare a formal organizational structure and job description for all levels of the governorate that should include at least the following: <ul style="list-style-type: none">- the hierarchy of the governorate.- execution responsibilities, the direct reports and the related authorizations.- operational responsibilities for staff and specific duties to be implemented.- administrative responsibilities related to performance.- any other duties to be executed under any circumstance as defined by the governor.- types of reports to be issued and the timeframe for preparing and issuing these reports.
Risk Level	Medium
Status	New

2. PURCHASES OF THE GOVERNORATE

Observation	As a result of our review over expenditures relating to fixed assets for the year 2008 – 2009, we noted a raise in the purchases of the different types of furniture and cars. This is contrary to the decision of the Council of Ministers No. (442), as well as contrary to the "General Publication" of the Ministry of Finance (authority of expenditures), that requires the reduction of approved allocations for the accounts relating to cars and the different types of furniture by 80%.
Recommendation	We recommend to adhere to the controls and instructions.
Risk Level	Medium
Status	New

3. MAINTENANCE OF ASSETS

Observation	We noted that the governorate did not prepare a timetable for maintenance work in order to conduct periodic and preventive maintenance for its movable and immovable asset, this is contrary to article (10), paragraph (c) of the instructions of the implementation of the General Budget for the Federal of Iraq for year 2009.
Recommendation	We recommend the preparation of a timetable for the planned periodic and preventive maintenance of its movable and immovable assets in order to preserve its assets and to ensure their continuity as well as to preserve public funds.
Risk Level	Medium
Status	New

4. SALARIES

<p>Observation</p>	<p>During our review of the process of salary disbursements, we noted the following:</p> <ul style="list-style-type: none"> • The members of the salary distribution committee of the governorate are not being changed periodically. • Some staff ask other employees to receive their salaries on their behalf, without authorization. • Salaries of the governorate are prepared manually. This process is inefficient and time consuming. In addition, the manual processing of salaries increases the risk of human errors. • The lack of proper segregation of duties as the employee responsible for the preparation of salaries is also responsible for the distribution process.
<p>Recommendation</p>	<p>We recommend the governorate to change on a regular basis the members of the salary disbursement committee, we also recommend that the recipient be authorized formally to receive the salary on behalf of other employees. In addition, we recommend to automate the payroll system whereby a database will be maintained for all the employees which will facilitate and regulate the process of extracting payslips and that will ensure more accuracy. Moreover, the employees who is responsible for the preparation of the payroll must be independent from the employee responsible for the distribution of salaries.</p>
<p>Risk Level</p>	<p>High</p>
<p>Status</p>	<p>New</p>

5. CONTROLLING ATTENDANCE

Observation	We noted that the control of the attendance is through signature on a paper by the employees upon showing up in the morning and that there is no monitoring of attendance by the end of the day. The absence of a control system over attendance (fingerscan) may lead to deficiencies in controlling attendance.
Recommendation	We recommend the use of a finger scan in order to control the attendance of the employees.
Risk Level	Low
Status	New

6. AUTOMATION OF THE ACCOUNTING SYSTEM

Observation	We noted that the process of posting the accounting entries, the booking in the daily journal and the posting to the general ledger along with the extraction of the trial balance and financial reports are carried out manually.
Recommendation	We recommend the governorate to use an automated accounting information system for all accounting transactions in order to prevent any error that can result from the operations being carried out manually and in order to speed up the extraction of financial information and the possibility of maintaining a database including all accounting transactions.
Risk Level	Medium
Status	New

7. PENDING ITEMS FOR MORE THAN SIX MONTHS FROM MATURITY

Observation	During our review of bank reconciliations, we noted the existence of past due reconciling items for more than six months from the date of issuance.
Recommendation	We recommend to follow-up on all reconciling items. In addition, we also recommend to clear all past due reconciling items for more than six months from the maturity date as required by law.
Risk Level	Medium
Status	New

8. LETTERS OF CREDIT

Observation	As a result of our review relating to letters of credit opened by the governorate, we noted delays in opening letters of credit whereby the period between the date of signing the contract and the date of opening the letter of credit exceeds 8 months.
Recommendation	We recommend that letters of credit be opened a timely manner to avoid additional charges in order to preserve public funds.
Risk Level	Medium
Status	New

9. INVENTORY COUNT

Observation	As a result of our review over the results of the inventory count for the year 2009, we noted variances between the count and the registers.
Recommendation	We recommend follow up on the variances between the inventory count and the registers as a tool to enhance internal controls.
Risk Level	High
Status	New

10. PERMANENT EMPLOYEES

Observation	As a result of our review relating to the permanent employees of the governorate, we noted that the governorate did not adhere to the permanent employees' regulations approved during year 2009.
Recommendation	We recommend adherence to the permanent employees' regulations approved by the ministry of finance in order to preserve public funds.
Risk Level	Medium
Status	New

11. ADVANCES

Observation	As a result of our review of the advances account, we noted balances outstanding since year 2003 not cleared by the date of our visit on 20/5/2010.
Recommendation	We recommend to clear the advances account and to do the necessary in this respect.
Risk Level	Medium
Status	New

12. REPETITION OF ADVERTISEMENT

Observation	We noted during our review that the governorate re-announces some offers after being unsealed for several reasons. Thus, the price presented by the offerors will be known to the committee members and therefore confidentiality relating to offers will be lacking.
Recommendation	We recommend to require offerors to submit two offers, as follows: <ul style="list-style-type: none">•Technical offer: This includes the technical specifications of the contract, the date of delivery and other technical matters.•Financial offer: This includes the schedule of prices, the repayment schedule and the method of payment. This part should only be presented upon the approval of the technical offer mentioned above. We also recommend the need to ensure accuracy for any advertisement and to ensure that it includes all the specifications and conditions of the contract, so as to further enhance control procedures and to monitor the procurement process.
Risk Level	High
Status	New

13. PRELIMINARY SUPPLY

Observation	As a result of our review relating to contracts, we noted in the contract relating to the supply of electrical power amounting to 1,486,445,000 Iraqi Dinars (a contract for the supply of electrical power) that the preliminary supply does not represent 1% of the total supply.
Recommendation	We recommend that the governorate abides by the contracting procedures covered by the instructions relating to the implementation of government contracts.
Risk Level	Medium
Status	New

14. PROJECT FOR BUILDING A SCHOOL IN GHAMAS

Observation	<p>As a result of our review of the above mentioned contract signed on 04/05/2008 amounting to 1,095,000,000 Iraqi Dinars and having a timeframe for execution of 10 months, we noted the following:</p> <ul style="list-style-type: none">•On 21/07/2008, the governorate changed the location of the project because of the problems and obstacles preventing the project to be conducted on the assigned and contracted location.•The new location does not fit the nature of the project having very loose soils as per the report of the chairman of the committee for buildings dated 27/04/2009, prompting the parties to terminate the contract.•Some amounts have been disbursed as operational advances to the contractor who had not even started the work. Noting that the contract did not include in its terms preliminary payments and there is no actual completion of technical work on the land requiring any payment to be made.
Recommendation	<p>We recommend to sort out the legal and financial issues as part of the preparation procedures of the bid documents and that payments be made to the contractor based on the completed work and to comply with the instructions relating to the implementation of government contracts with the need to inform the Ministry of Planning and Development of changes to contracts.</p>
Risk Level	High
Status	New

15. EQUIPPING CARS

Observation	<p>As a result of our review of the contract relating to equipping cars amounting to 579 million Iraqi Dinars, we noted the following:</p> <ul style="list-style-type: none">• The project is not included within the regional development projects and the expenditures relating to this project were charged to administrative expenses for the account of projects' development.• The governorate did not approach government bodies for the purpose of equipping the cars.• Some equipped cars do not meet the specifications mentioned in the bid; for instance some cars have different chassis number than the one on the identification papers.
Recommendation	<p>We recommend to follow the mechanism used for any purchase and to follow the instructions relating to the implementation of the annual budget issued by the ministry of finance and to match the items received to the terms of the contract.</p>
Risk Level	<p>High</p>
Status	<p>New</p>

16. PROJECTS ON HOLD

Observation	We noted that some projects relating to years 2005 – 2006 were put on hold and have not yet been completed by the date of the termination of our visit despite the end of their contractual periods. Disbursements have been made for some of these projects such as bids No. 21/2005, 7/2005, 24/2005, 119/2006 and 9 / 2006.
Recommendation	We recommend speeding up the implementation of projects according to the periods stipulated in the contract and to abide by the instructions relating to the implementation of government contracts.
Risk Level	Medium
Status	New

17. CONTRACTS NON-CONFORMING TO SPECIFICATIONS

Observation	As a result of our review over a sample of contracts, we noted that there is nonconformity with the specifications mentioned in the contract. We also noted an inconsistency in the country of origin. For example: Contract for processing materials and different devices for the laboratory, and contract for the implementation, processing and installation of pumps, for the main station for houses.
Recommendation	We recommend contracting with the originating companies and not with intermediary companies.
Risk Level	Medium
Status	New

18. PROJECT RELATING TO SEWERAGE

Observation	<p>As a result of our review relating to the contract mentioned above referred to Turkish Company for Contracting for a total amount of 5,130,000,000 Iraqi Dinars dated 23/9/2007 and with a timeframe for execution of 180 days, we noted the following:</p> <ul style="list-style-type: none">•Turkish Company is not registered with the Iraqi government.•The specifications of the work executed do not match with the specifications mentioned in the contract and with the bill of quantities for some areas.•Non-completion of the project until the completion of our visit.•Even though the case of falsification of the Company relating to the basis of classification of contractors was proven and that the company is not registered or classified with the Ministry of Planning and Development as per the memo dated 19/5/2008, the governorate has only excluded the company from working on the above mentioned project without taking action against it as to the projects' contracts to establish schools signed with the Company for a total amount of 3,690,000,000 Iraqi Dinars.
Recommendation	<p>We recommend to abiding by the instructions relating to the implementation of government contracts of year 2008. We also recommend adherence to the instructions relating to the budget implementation which provide holding accountable the departments responsible for the implementation of projects incases where there is a decline in the rates of implementation, and to take legal action against the companies that presented forged documents within the contract.</p>
Risk Level	High
Status	New