

Report From COFE to IAM

At its meeting in Amman, Jordan

On April 2.3.2009

The report covers COFE's activities in the year 2008 and its plan of action in the year 2009.

Financial Year 2008

COFE held (6) meetings on:

January	4 - 5
March	23-25
May	10-11
June	11-12
July	23-24
October	18-19

There were also a number of side meetings with audit teams and executives of various administrations to follow up implementation and clearance of observations raised in previous audit reports.

COFE's activities in 2008 may be summarised as follows:

- 1.1 Preparation of tender documents for the appointment of an independent auditor for DFI and issuance of requests for proposals. Review of responses received, negotiate with the bidding international firms and then submission of recommendations to IAM. After approval, conclusion of an agreement with the selected auditor.
- 1.2 Follow up the works of the audit team assigned with the task ensuring that agreed upon recommendations and observations raised in audit report are implemented diligently and in accordance with preset time frames.

- 1.3 Discussion of contents of audit reports with related parties aiming at clearance of audit observations and agreeing on procedures to address such observations.
 - 1.4 Attendance of IAMB meetings and follow up implementation of its recommendation.
 - 1.5 Posting of all financial statements related to the DFI on COFE's website.
2. **Follow up and clearance of audit observations raised in previous years reports**

The specialized audit team formed for this purpose regularly submits reports to COFE on its findings and recommendations on how to avoid recurrence of deficiencies in the ministries which give rise to adverse audit comments.

It was emphasized upon the team to highlight in their reports the recurring audit observations about the various spending ministries so that remedial action may be focused on them. As a result of this approach most observations were cleared, but still important reservations remained as explained in para 3 below.

COFE's evaluation is that despite all the follow up and measures taken, financial controls, internal audits and management information systems were still below the required standards in the various ministries. Detailed reports have been prepared on all audit observations and the actions taken in respect thereof and separating those that were still outstanding and thus requiring special attention from COFE.

3. **Important matters requiring ongoing treatment and concentration**

In this regard COFE has focused on four basic issues which are constantly being followed up and discussed at all its meetings. These issues are:

- 3.1 **Comprehensive metering systems for oil and oil products.**

Measures for implementation of the metering systems based on the study carried and by shell/BP were followed up continuously including allocations of funds, opening of L/Cs, installation of meters at certain locations and the readings of measurements. COFE gave top priority to this issue, and although some progress was achieved, actual implementation was slow. The Ministry of Oil was asked and agreed to send two oil experts to the next IAMB meeting in Amman to give a complete briefing on this important subject.

3.2 Organization structures and job descriptions in the spending ministries.

This very important issue for internal controls has met with the obstacle of absence of legislation. Due to the overcrowded programs of parliament vital legislations concerning re-organization of the various ministries are still awaiting promulgation. COFE asked for a complete survey of the situation and when the required legislations were likely to be passed. The response received was that the process was likely to take considerable time and may likely to extend beyond the current term of parliament which will end by December 2009. This led COFE to adopt the idea of requesting the council of ministers to direct all ministries to prepare and implement revised organization structures that will strengthen internal financial and administrative controls as interim measures and to be revised as necessary after the passing of the related legislations.

3.3 Information systems

Audit observations concentrated on this matter as most systems were manual and especially the accounting systems.

The BSA audit teams in the ministries carried out surveys to determine the extent of the automated systems applied. The outcome revealed that such applications were very limited in most ministries but with some exceptions such as the accounting department in the Ministry of Finance, Commercial Banks and the government electronic project. Overall assessment is that implementation of effective information systems is below what is required although the level of deficiency varies between the ministries.

COFE intends to ask the Council of Ministers to instruct the ministries to install effective and integrated management information systems with priority given to financial systems and contracting procedures. When this is accomplished COFE will be able to assess the efficiency of the implemented systems.

3.4 Internal Audits

The DFI auditors have repeatedly commented on the weakness of internal audit in almost all the ministries. COFE followed up the actions taken in respect of these comments. Also the BSA carried out an evaluation of the internal control systems in the ministries and submitted specific recommendations to the council of ministers to strengthen internal audit in the ministries. Here below are some of the recommended measures which have actually been applied.

- 3.4.1 Close co-ordination of the works of the BSA, the Integrity commissions and the inspector general in the ministries.
- 3.4.2 Attachment of internal audit departments to the inspectors general in the ministries.
- 3.4.3 Issuance by the BSA of internal audit programs as guidelines to the inspectors general and organize training courses.
- 3.4.4 Reviewing the budget implementation procedures to ensure more effective control and oversight.
- 3.4.5 Issuance of binding instruction for tighten controls over pay in general and specifically over salaries and wages, procurement, stores, fixed assets. BSA audit teams follow up implementation.
- 3.4.6 Establishment of contracting departments in all the ministries with complete procedures for all stages of contracting.
- 3.4.7 The Ministry of Planning to issue model contracts as guidance to other ministries.
- 3.4.8 Authorization to the BSA and the inspectors general to audit payments under contracts before releasing such payments.

The overall assessment is that internal audit is still below the level required and continued efforts, training and developments are needed which may take sometime.

4. Other important issues

4.1 Contracts executed by American agencies.

The files and supporting documents were handed over to the BSA from the previous CPA and the American agencies. Initial vetting revealed financial and legislative irregularities and the BSA and other Iraqi Administrations reserve the right to demand compensation for any resulting financial losses. The BSA is checking with the benefiting ministries from these contracts to ensure proper acceptance of the works and fairness of costs and to make the accounting entries in the books of accounts of the ministries.

4.2 Oil from food program

The program was terminated on But there are still 167 L/Cs outstanding the clearance of which is being followed up by the audit teams with the ministries concerned.

4.3 Barter Transactions

These transactions ceased on 31.12.2007.

4.4 Outstanding L/Cs in the books of TBI and the ministries.

Most of these have been cleared and the remaining L/Cs are being investigated to ascertain reasons for non-clearance.

Financial year 2009

COFE has held four meetings so far in 2009 on the following dates.

January 18 – 19

February 4 – 5

March 14 – 15

April 1

Many side meetings were also held mainly with the DFI auditor for 2008 to discuss and review progress of the audits.

COFE's plan of action for 2009 is to continue as in 2008 and the main tasks will be:

1. Follow the procedure for appointing an independent auditor for 2009.
2. Study the auditor's comments and follow up actions by the various ministries in respect thereof.
3. Continue to press for the early passing through parliament of laws and regulations concerning organization structures, job descriptions and internal control systems.
4. Render consultation and advice to the Government of Iraq on better control over public funds and implementation of the state budget.
5. Apply complete transparency on matters related to COFE's works and the DFI financials including display of all such matters on COFE's website.
6. Preparation to take over IAMB oversight responsibilities at end of its mandate by the end of 2009.

Committee of Financial Experts
2/4/2009