

To,  
International Advisory and Monitoring Board

Sub. DFI Audit

Dear Sirs,

Our review to KPMG audit report on DFI, for the period 01.01 – 31.12.2008, observations related to the ministries, visited by KPMG's auditors, and our follow up of these ministries showed the following:

### **1. Metering System**

The report mentioned that Ministry of Oil lacks fully operational metering system in the extraction and loading points, accordingly, it is not possible to ensure that all oil and oil products export sales are accounted for or determine the volume of exported quantities. The follow up of export sales confirms that all export sales are accounted for in DFI and the metering devices are working in parallel with (Ullage) approach.

Ministry of Oil started to provide metering devices as a first stage. Through our follow up to the status of metering system with the Ministry's related companies, we noticed that there are some meters out of order, and there are some orders to purchase a number of those meters in order to install them, and to install radar meters to measure the volume of the liquid inside the tanks, besides that some companies have no meters for received and used gas flow, below some examples:

#### **A. Extraction Companies**

##### **First. North Oil Company**

Number of sites	Numbers of meters	Functional and calibrated meters
21	34	2

The company's letter no. 9610 dated 08.01.2009 noted that a metering system will be installed in majority of the sites, recalibrate the tanks and install radar metering devices in the last quarter of 2009. Upon the follow up the orders with letters of credit section we found out that all orders are in the stages of announcement and collecting offers.

##### **Second. North Gas Company**

Through the follow up the status of L/Cs related to meters purchase during 2007 and 2008 we noted the existence of 23 order for which

14 contracts were signed and 5 L/Cs were opened during 2008 and 2009 yet goods for only one contract were received while the other orders still in the stage of announcement or signing contract, bearing in mind that the proposed dates for completion fall between 24.01.2009 and 30.04.2010

**Third. South Oil Company**

Contracts were organized for import meters, the goods of some of them did not arrive yet, and some others are in phase of L/C opening.

**Forth. South Gas Company (SGC)**

Meters for measuring movement of used and received gas are not available, instead, (SGC) depends on joint minutes with Pipelines Company by applying flow average, according to estimation of the committee; this method lacks accuracy. Purchase orders are still in correspondences stage and there is no L/Cs for purchasing meters to measure gas movement in 2008.

**Fifth- Missan oil company**

There are no meters install on pumping pipelines to export terminals; however, there are orders in stage of announcement, awarding and contracting.

**B- Manufacturing Companies**

**First- South Refineries Company**

Meters for measuring outputs and inputs quantities between depots, production departments, and the beneficiaries are not available. Instead, the company uses radar-metering system to control quantities. Besides, there are no meters to measure crude oil quantities supplied to Thi Qar refinery, but these quantities are measured by metric measurement or depth bar. Missan refinery does not have any meters to measure inputs of crude oil; a committee established for this purpose decides measurement. Until now, there are no L/Cs to purchase meters. The company stated that (4) orders are still in process; these orders have not reached stage of L/Cs opening. The required meters are (59).

**Second- North Refineries Company**

In its letter No (147) on 25/1/2009, the company stated that it has (9) purchase orders; only (3) are received and installed during 2007- 2008, the rest are still in process of announcement and awarding.

**Third- Midland Refinery Company**

Functional	Calibrated and in order	Non functional	worn	total
76	28	5	1	110

### **C- Distribution Company**

#### **First- Oil Products Distribution / Al-Anbar**

Depots	meters	functional	Depots status
4	24	6	(3) depots are non functional since 2003

#### **Second- Oil Products Distribution/North Region**

Our audit team's follow up has shown that (5) meters have been installed in Hamam Al-A'aleel depot during May-July 2008, and (2) meters are still in process.

#### **Third- Pipelines Company**

Station type	sites	meters	Non functional
Pumping	17	25	1 expected to operate in March 2009
Receiving	17	53	1 expected to operate in April 2009
Loading arms		148	38

Concerning the status of installing loading platforms for tankers:

Platforms to install	Completion date	Platforms actually installed
50	May- September 2008	54

As for oil products supplied to electricity power plants, the ministry supplies these plants with oil products by tankers or pipes of Pipelines Company. The company depends on the received quantities by power plants according to their consumption. This mechanism is applied although meters are installed; since MoE refuses to admit meters readings. MoO informed us in its letter that a joint committee has been established to finally settle this matter.

### **2- Statement of cash receipts and payments**

During KPMG's audit and reconciliation, DFI statements submitted by the State Directorate for Investments in Central Bank of Iraq, and the records of Ministry of Finance for 1/1/2008 to 31/12/2008, differences in the received amount appeared. These differences resulted either from not establishing accounting entries to measure erroneously recorded amounts, or non-existence of complete records of frozen assets, or unofficially maintained records to verify the validity of frozen assets amounts in the financial statement, as only deposited amounts in DFI are recorded or wrongly recording amounts that belong to other parties in DFI account.

The aforementioned parties have been notified by BSA notification no.w 6/35 to address this issue. Follow up of audit team indicates to amending some of these erroneous entries during the period of the follow-up report.

As for the reconciliation of cash payments, there is a difference of between the records of the Ministry of Finance and KPMG's report related to transfers to MoF and L/Cs amounts in favor of other ministries, or amounts of repaying Iraq external debts, as well as an overlap between invested amounts recorded in other payments account and L/Cs.

KPMG report notes that MoF doesn't have any information about payable, due, and the remaining balances of Compensation Fund, as well as the date of last due payment. Thus, the role of the Ministry of Finance was limited to registering the data mentioned as monthly totals in accounting entries in irregular records without conducting detailed reconciliation of data sent by CBI with SOMO oil sales details or DFI account movement.

KPMG report has referred to handing over to BSA the US agencies contracts file. BSA informed these agencies on 25/2/2007 that there are financial and legislative irregularities, thus the Iraqi administrations reserve the right to seek compensation for any financial damage to the Iraqi treasury, due to any financial or administrative misconduct in the implementation of these contracts.

Concerning Oil for Food Program, arrangements to conclude the operations of Program by minimizing unpaid L/Cs and follow up outstanding delivery orders.

BSA has addressed letters to CBI, MoF and Ministry of foreign affairs stressing on the status of credits that had not been identified until 31/12/2007, and the remaining balances from oil for food program and the total due amounts from the mentioned L/Cs to resolve the issue of contracts. The number of the latest BSA letters are 6023, 6024 on 17/6/2008 to CBI and MoF respectively.

### **3- KPMG report of 2008**

#### **A- Common observations**

Through our review of KPMG report, a number of common observations among ministries appeared:

#### **First- Working hours control**

Working hours are controlled by using ordinary papers or record maintained by administrative department or information to be signed daily in the morning and when official working hours end as in the following ministries (Electricity, Environment, Communications, Transport, Defense, Foreign Affairs). The non-existence of automated system to control working hours leads to weakness in the control over employees' working hours, taking into consideration that Ministries of Environment and Communications will apply the automated system after procuring the system hardware. Our audit team has confirmed the validity of this observation.

#### **Second- Accounting System Automation**

The processes of editing accounting entries, registering in general journal, and posting them to general ledger; and extracting trial balance, and financial reports are done manually; as in the following ministries: (Telecommunications, Agriculture, Higher Education, Water Resources, Health, Food staff trading Company for,

Electricity, Culture, Human Rights, Migration and displaced, directorates of water, sewage and municipalities, Defense, State Company for Telecommunications and Post). Hereunder a table of Ministries' replies to this observation and the opinion of our audit team:

institution	Ministry opinion	BSA opinion
Communications	Accounts will be automated 2009.	The audit team confirmed.
Labor & Social Affairs	Automation will be done when software is completed.	The audit team confirmed: our report 9936 dated 27 <sup>th</sup> Aug 2008.
Agriculture	The Ministry is working on automating the accounts during 2009.	The audit team didn't not confirm.
Education	The ministry is coordinating with programmers to automate the accounts.	The audit team confirmed.
Water Resources	FMIS is applied and still in testing phase.	The audit team confirmed.
Health	There is a study to prepare automation system.	The audit team confirmed.
Food stuff trading company	There is a study to prepare automation system Branch Stocks, salaries, and sales accounts are all automated.	The audit team confirmed: our report 9936 dated 27 <sup>th</sup> Aug 2008.
Electricity	Recording entries, trial balance, and posting entries are all matched with computerized records.	The audit team confirmed.
Culture	The ministry has not replied.	The audit team confirmed: our report 9990 dated 28 <sup>th</sup> Aug 2008.
Human Rights	The ministry has not replied.	The audit team confirmed.
Migration & displaced	FMIS of 2006 has been stopped. It has resumed operation in August 2008.	_____
Directorates of Water, Sewage, and Municipalities	The ministry has not replied.	The audit team confirmed: our report 10162 on 1 <sup>st</sup> Sept. 2008.
Defense	The ministry has not replied.	The audit team confirmed.

State Company for Communications & post	Accounts will be automated.	The audit team confirmed.
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**Third. Organizational Structure, Job description, by-law, and constitution law**  
Organizational structure and official job description clarifying levels of responsibility and accountability do not exist in the following ministries (communications, transport, Labor, Agriculture, Planning, Environment, Housing, Foreign Affairs, Water Resources, Culture, Education, Human Rights, and Immigration). Hereunder a table of Ministries' replies to this observation and the opinion of our audit team:

Ministry	Ministry opinion	BSA opinion
Communication	The observation is not correct as there is an unapproved organizational structure, and there is a committee to review it.	The audit team confirmed: our report 1006 on 28 <sup>th</sup> Aug. 2008.
Transport	The structure is available, but waiting for the legislation of the ministry new law.	The audit team confirmed: our two reports: 8976 on 11 <sup>th</sup> Aug 2008, 10008 on 28 Aug 2008.
Labor & Social Affairs	Job description is from 1983; the ministry is working on updating it.	The audit team confirmed: our report 14908 in 2007
Agriculture	Job description is from 1983 before separating the ministry. It will be updated after the new ministry law is legislated.	The audit team confirmed the existence of organizational structure, and non-existence of job description.
Planning	The ministry has not replied.	The audit team confirmed the inaccuracy of the observation as there is unapproved structure, and the ministry is applying the old job description. Our two reports 9917 on 27 <sup>th</sup> Aug 2008, and 9493 on 14 <sup>th</sup> Nov 2008.
Environment	A central committee is assigned, work is continuous, and procedures of preparing internal system will be finalized.	The audit team confirmed: our report 10142 on 1 <sup>st</sup> Sept 2008.
Housing	A committee is	The audit team confirmed:

	established to prepare a guide and the structure upon approving the project of new law.	our report 7688 16 <sup>th</sup> July 2008.
Foreign Affairs	The ministry has not replied.	The audit team confirmed.
Water Resources	There is an outdated description since 1988, a new one has been formulated and is under finalization.	The audit team confirmed: our report 10085 on 31 <sup>st</sup> Aug 2008.
Interior	The ministry has not replied.	The audit team confirmed. The ministry new law in pending approval.
Culture	The ministry has not replied.	The audit team confirmed. Our report 9990 on 28 <sup>th</sup> Aug 2008.
Education	A committee is established to develop job description.	The audit team confirmed.
Human Rights	The ministry has not replied.	The audit team confirmed the observation and stated that there is an applied structure and guide until issuing the new law.
Migration and displaced	The ministry new law in pending legislation and a statute will be prepared	The audit team confirmed.
Science and technology	The constitution law is in draft version and it is not approved by the concerned authorities.	The audit team confirmed. Our report 4436 on 27 <sup>th</sup> Nov.2008.

Committee of Financial Experts in its letter no. 11 dated on 14<sup>th</sup> April 2009 requested Council of Ministers to apply functional administrative structures approved by the council, until issuing legislation by the Parliament to organize these structures.

**Forth- due checks for more than (6) months**

Upon reviewing the reconciliations, we observed the existence of due checks for more than (6) months in the following ministries (Agriculture, Higher Education, Interior, Grain Trade, Culture, Human Rights, Science and Technology, Environment, State Directorate of sewage). Hereunder replies of the concerned ministries and our audit team's confirmation.

Ministry	Ministry opinion	BSA opinion
Agriculture	These checks have been	The audit team

	settled.	confirmed..
Higher Education	The ministry will follow up these checks and conceal them.	The audit team confirmed.
Interior	The ministry has not replied.	The audit team confirmed, and the proper actions have been taken during 2009.
Grain trade	The ministry has confirmed and the procedures are continuous to deal with these checks.	The audit team confirmed. Our report 736 on 29 <sup>th</sup> Jan.2009.
Culture	The ministry has not replied.	The audit team confirmed.
Human Rights	The ministry has not replied.	The audit team confirmed.
Science and Technology	The ministry has confirmed and it will handle these checks.	The audit team confirmed.
Environment	The proper actions will have been taken.	The audit team confirmed. Our two reports 1923 on 6 <sup>th</sup> Mar.2008, and 11783 on 12 <sup>th</sup> Oct. 2008.
State Directorate of Sewage	The ministry has not replied.	The audit team confirmed.

#### **Fifth- War Damages**

Some ministries did not calculate the war damages or estimated their value or writing them off from the records, the other ministries calculated these damages but the process of writing off has not been done. Hereunder a table of Ministries' replies to this observation and the opinion of our audit team:

Ministry	KPMG observation	Ministry opinion	BSA opinion
Transport	The ministry did not calculate the damages.	The ministry has established a new committee on 23 <sup>rd</sup> Feb. 2009 to calculate the damages and it keeps on working.	The audit team confirmed. Our two reports 5192 on 27 <sup>th</sup> Jun.2006 and 5574 on 6 <sup>th</sup> Jul.2006.
Labor and Social Affairs	The ministry calculated and	The damages have been sent to MoF	The audit team confirmed.



	estimated the damages but it didn't write them off.	to obtain approvals and sent finally to ministry of Planning.	
Agriculture	The ministry didn't calculate and estimate the damages.	The ministry's headquarters has already prepared the bills, but they have not been sent to MoP.	The audit team confirmed.
Water Resources	The ministry calculated the damages but it didn't write them off.	The bills have been prepared and they will be sent to MoP after auditing them.	The audit team confirmed and the bills have been checked.
Grain Board of Iraq	The ministry didn't calculate the damages.	The proper procedures have been taken; committees have been established for this purpose.	The audit team confirmed. Our two reports 1374 on 22 <sup>th</sup> Feb. 2006 and 6308 on 30 <sup>th</sup> Jun. 2008.
Culture	The ministry established a committee but it hasn't reached a result yet.	The ministry has not replied.	The audit team confirmed. Our report 6832 on 3 <sup>th</sup> Mar.
State Directorate of Sewage	The ministry established a committee during 2008; since the old committee didn't reach a result.	The ministry has not replied.	The audit team confirmed. Our report in 2006 .
Industry and Minerals	A committee has been established but it hadn't prepared lists till 17/4/2009.	The ministry has not replied.	The audit team confirmed.
State Company for Marketing Drug	The company calculated the damages and transferred to account of cash and store differences until		The audit team confirmed; because the damages have been written off by central decision.

	writing them off by central decision.		
State Company for International Network Services	The company calculated and estimated the damages but it didn't write them off.	The damages forwarded to Higher Committee to write them off.	The audit team confirmed. Our report in 13347 dated on 10 <sup>th</sup> Nov. 2008.

### **Sixth- L/Cs opening and analysis committees**

L/Cs opening and analysis committees haven't been changed periodically; this observation appeared in the following ministries (Science and Technology, Ministry of Oil, Iraqi Digging Company).

### **Seventh – segregation of control tasks**

We observed that the official, who is responsible for preparing payroll, participates in the committees of salaries. This observation appeared in the following ministries (Construction and Housing, State Directorate of Municipalities and Public Works, Industry and Minerals, Culture).

### **Eighth- accounts approval by Ministry of Finance**

the unification record hasn't been approved by the Ministry of Finance in the following ministries (Communications, Oil, Foreign Affairs); as a result of that BSA requested ,upon auditing these accounts, submitting confirmations from MoF concerning these balances and funds to match them with the ministry's records.

### **Ninth- salaries**

Hereunder we enlisted KPMG observations, replies of the concerned Ministries and the opinion of our audit team concerning the method of calculating the employees' salaries.

ministries	KPMG observation	Reply of Ministries	BSA opinion
Agriculture	Salaries are calculated; according to an equation has been formulated by the ministry, but it is different from the equation of MoF.	The observation has been confirmed and salaries have been recalculated since 31 <sup>th</sup> Aug. 2008.	The audit team confirmed the observation and the applied procedures.
Interior	The employees' salaries have been audited in the provinces, by the ministry's headquarters, for the repeated names only.	The ministry has not replied.	The audit team confirmed the observation and it will be checked by the treasuries in 2009.
Culture	Salaries are prepared manually, and that leads	The ministry has not replied.	The audit team confirmed and

	to commit errors.		stated that in its report no.(6832) on 3 <sup>rd</sup> Jul.2008.
State Directorate of water, sewage and municipalities	Salaries are prepared manually, and that leads to commit errors.	The ministry has not replied.	The audit team confirmed the validity of this observation.

### **Tenth- Accounting Records and Documents**

Hereunder, we enlisted details of KPMG observations, opinion of the concerned ministries and the opinion of our audit team concerning the records and accounting documents.

institution	KPMG observation	Opinion of the concerned ministry	BSA opinion
Ministry of Finance	Fixed asset's record has not been kept.		The audit team didn't confirm.
	Disbursement record for car's maintenance is not kept.		The audit team confirmed.
	The registration in general journal has not been done chronologically.	The ministry has not replied.	The audit team didn't confirm.
	The cancelled entries are marked by writing (invalid) without establishing accounting entries to cancel them.		The audit team didn't confirm.
Communications	The record of fixed assets does not include the identification serial numbers to assist in tracking each entry and provide the possibility of conducting accountability and making sure of the assets.	The ministry has confirmed the observation and the proper action will be taken during 2009.	The audit team confirmed. Our audit (10006) on 28 <sup>th</sup> Aug.2008.
Youth and Sport	- There is general ledger. - The accounting records of engineering department. -the chassis number isn't	The observation is not accurate; because the decentralized government accounting system has been	The audit team confirmed the ministry's reply.

	registered in the assets record.	applied. The ministry hasn't replied.	The audit team confirmed. Report no. 417 in 2007.
Higher Education	There are many scrubs and strokes in the record of allocations, loans and trusts.	The ministry has confirmed the validity of this observation, and has directed to avoid that.	The audit team confirmed the observation.
Interior	The record of fixed assets doesn't include the identification serial numbers for each asset.	The ministry has not replied.	The audit team confirmed the validity of this observation.
State Company for Marketing Drugs	The company has delayed in registering the opening entry of 2008 until Nov.2008 that causes inaccuracy of the financial reports, which had been issued before this date.	The company has confirmed; for not completing the audit of final accounts and establishing entries.	The audit team confirmed that.
Electricity	the record of fixed assets doesn't include the identification numbers for fixed assets	The record includes the identification serial numbers; according to computerized system.	The audit team confirmed the validity of this observation
Human Rights	The record of fixed assets doesn't include chassis numbers.	The ministry hasn't replied.	The audit team confirmed the validity of this observation
Justice	The numbers of entries have not been registered in the general journal of operational budget; beside the record doesn't include the seal and signature of the accountant and the internal audit; as well as using correction fluid and existence of stroke and amendments.	The ministry stated that all numbers are registered in the record and it will avoid other observations.	The audit team confirmed the observation.
Culture	Many corrections in balance sheet journal, the use of correction fluid,	The ministry has not replied	The audit team confirmed the observation (our

	many scrubs and strokes, absence of official signature.		reports NO. 6832 on 3 <sup>rd</sup> July 2008)
Migration & displaced	Maintaining irregular records for registering fixed assets, registering more than one type of assets in single record, weapons have no identification serial numbers; vehicles chassis numbers are not mentioned.	The observation has been remedied in 2009	The audit team sustained the observation, and confirmed taking remedial actions
Environment	Assets record does not contain identification numbers	The ministry applies accounting record no.13; stock cards is to be applied	The audit team sustained the observation: report no. 10142 on 1 <sup>st</sup> Sept 2008
Housing & Reconstruction	Operating balance daily journal lacks signature and stamp	Necessary actions has been taken	The audit team sustained the observation
Directorate general of water	daily journal lacks signature and stamp of audit department	The ministry has not replied	The audit team sustained this
Directorate general for sewage system	Investment plan record does not bear audit department stamp and signature	The ministry has not replied	The audit team sustained this
Defense	Fixed assets record is not maintained, stock inventory for the Directorate of Balance and Programs assets is not conducted	The ministry has not replied	The observation is sustained report no.2056 on 24 <sup>th</sup> March 2007
Foreign Affairs	Accounting record no. 13 is not used for fixed assets; chassis and engine serial number of some vehicles are not recorded; quantities recorded in weapons page do no match with weapons procurement statement of 2008; entries of assets	The ministry has not replied	The audit team sustained this

	purchase are not made till May 2009		
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**B- Special notes:**

**First: Ministry of Finance**

- 1- Through reviewing procurement disbursement vouchers, we have noticed that procurement committee presents 3 offers, 2 of which belong to the same party; or procurements are conducted without a specialized committee, our audit team sustained the observation; however, it is exceptional.
- 2- There are some errors in relation to final balance of treasury bills and cash balance. The ministry has not replied yet. Moreover, our audit team could not follow up the observation because KPMG has not determined whether the errors are in treasury bills or in the cash balances.
- 3- There is an over statement??? in other receipts and payments items during several months of 2008. The ministry has not replied; our audit team has sustained the observation as these amounts represent amounts drawn from DFI account for immediate investment, and returned plus the interest which is the only real revenue.

**Second: Ministry of Oil/ SOMO**

- 1- We have not received 2008 trial balance till the date of preparing this report on 18<sup>th</sup> March 2009. Our audit team sustains this observation.
- 2- SOMO has sustained fines as a result of delays in loading tankers; some of these fines belong to previous years. Thus, Iraqi Ports Company, and oil extraction companies should pay these fines and not SOMO. Our audit team has sustained this and included it in our report.
- 3- Shell Company has not paid an amount incurred by it as a result of changing the destination of a shipment in spite of SOMO's claims. SOMO has not replied. Our audit team has confirmed this and stated that contracts terms of reference do not permit importing companies to change the destination.
- 4- The Jordanian National (Ahli) Bank has not confirmed the amounts of SOMO balances at the bank in spite of SOMO's request. The bank's reply has stated that the bank does not have any balances that belong to SOMO. The audit team has sustained the observation. SOMO has addressed the Central Bank of Jordan with its letter no.1653 on 27<sup>th</sup> April 2009 concerning assets transfers to DFI; CBJ in its turn, referred the letter to chairman of the committee of frozen assets management. However, till the date of report the amount has not been transferred, keeping in mind that the amount mentioned in SOMO's records differs from what is mentioned by KPMG by 3097037 \$.

- 5- Existence of outstanding balances with substantial amounts since 2007 in the current account kept at TBI; SOMO's response has not been received; yet, our audit team has confirmed the observation and it is still outstanding.
- 6- SOMO has not conducted monthly reconciliation of oil sales with MoF since 2007. Moreover, there are no reconciliation made between oil sales on accrual basis and sales receipts. SOMO has not replied. Our audit team confirmed the observation, noting that there is reconciliation between SOMO and CBI, and between CBI and MoF.

### **Third: Ministry of Oil**

- 1- North Oil Company burns condensers quantities produced from Ajeel oilfield as there are no disposal terminals. NOC has replied stating that it will rehabilitate crude oil production units and will mix condensers with it along with other arrangements. Our audit team confirmed this, save the quantity recorded in KPMG's report in comparison to production report and financial & administrative report.
- 2- NOC injects quantities of oil back in wells as it cannot export them because of the damaged Iraqi – Turkish pipeline by acts of insurgents, as well as NOC's pressing need to continue producing crude oil in order to produce crude oil and other products. This action damages oil well. Injection has stopped completely after security situation got better.
- 3- There is a deviation in executing the plan on MoO in relation to NOC and SOC because of production problems in extraction sector. The ministry has developed its future plan depending on increasing production levels, and has identified the measures required for achieving these increases, and overcoming the impediments. Our audit team sustained the observation but referred to inaccuracy of it as far as planned and actual quantities of SOC mentioned by KPMG. This observation is identified by BSA in report no. 8840 On 7<sup>th</sup> Aug 2008.
- 4- A difference in the method of measuring crude oil and oil products quantities. NOC applies (quantities loaded till midnight), SOMO applies reconciliation of quantities according to bills of lading; this leads to differences in exported quantities registered in the report of crude oil budget and reconciliation, taking into consideration that the ministry has directed all companies to apply (bill of lading).
- 5- There are differences in the quantities supplied by NOC and SOC, and the quantities received by Refineries Company. SOC reply has stated that the difference has resulted from wrongly recorded quantities by North Refineries in September, and this mistake has been rectified in the final report. As for the difference between NOC and Al-Mussaiyab power plant, this has resulted from

wrongly recorded quantities by the power plant and has been corrected in the final report; however, it is within the permitted limits of measurement. The difference between SOC and Midland Refineries has resulted from recording quantities in normal degree, and was corrected in the final report.

Our follow up has revealed that NOC production reports and financial statements do not record any differences between the supplied and received quantities during 2008 as there have been daily receipt confirmations through letter issued by North Refineries Company stating the actual received quantities. Moreover, NRC has paid for the total quantities of crude oil supplied to it without complaining.

- 6- A difference between produced crude oil quantities recorded in the Ministry's files and SOC. The ministry has stated this is caused by SOC; however, SOC has not replied. Our audit team confirmed the validity of the observation, and has been mentioned in our report no.8840 on 7<sup>th</sup> Aug 2008.

#### **Fourth: Ministry of Telecommunications**

The ministry conducts a combined reconciliation of its both current accounts kept with Al-Rafidain bank and TBI. Our audit team confirmed this as far as concern 2008.

#### **Fifth: State Company for Telecommunications & Post**

1. Current accounts reconciliations with banks for 2007-2008 have not been conducted. The ministry has stated that this was due to an outstanding amount; our audit team has stated that such issue does not prevent the preparation of this reconciliation.

2- Mobile phones Companies have not concluded contracts to interconnect their networks with licensed telecommunication service providers' networks such as State Company for Telecommunications & Post. One mobile phone company is exploiting the infrastructure of State Company for Telecommunications & Post since 2003. the amounts payable by the mobile phone companies of towers protection and the allocations of these towers' fees which are unpaid up to date have been calculated .The ministry replied that the follow-up of claiming these amounts is continuous .This case has been mentioned in the Board of Supreme audit 's report No. 1460 on 9.02 ,2009.

3-Qwat Al asad and Skartling companies participated in a tender, the first company has won, and it became clear that this company was authorized under the name of the second one for representation in Iraq, in this case, the competition factor is lacking. The ministry replied that Qwat Al asad is registered in Iraq. The Board's audit team sustained the observation; i.e the second company is bogus.

- 4- State company for international information network services has not made a reconciliation of the current account in the Trade Bank of Iraq related to opening the documentary credits as a result of lacking account statements sent



by the Bank. The audit team sustained the observation and it has been mentioned in the report No. 13347 on 10,11,2008.

#### **6. Ministry of Youth and Sport**

- 1) The ministry does not keep files of 146 contracts signed by the American Embassy during 2003, 2004. Both, the ministry and the audit team has sustained the observation.
- 2) %89 of the contract value signed with ITI institution to build three sport's halls on 01,11,2000 has been paid. Bearing in mind the documents indicate that the rate of performance amounted %35 according to the resident engineer's confirmation. Currently the work is stopped and the Ministry filed a lawsuit against the above mentioned Jordanian company. There is no reply on audit team's mom. from the ministry.

#### **7. Ministry of Agriculture**

- 1) There are several outstanding amounts within the banks ' current accounts with a huge sum without analysis. Also, there are deposits of previous years and over due cheque have not been reflected, while the ministry did not sustain the observation, the audit team sustained the validity of the ministry's reply whereas these outstanding have been reconciled during 2009.
- 2) The engineering department in the ministry has not provided with files and documents of contracts signed with the local contractors to establish 3 modern villages in (Karblaa, Samawa and Diwaniya). The ministry sustained that files and documents have been received by the projects management. The audit team has stated that KPMG' observation is inaccurate because no documents are available in the agriculture directorates as well as all these copies are available in the headquarters.

#### **8. Ministry of Higher Education and Scientific Research**

It was noticed that the ministry has delayed in preparing a reconciliation of the current account in the Trade Bank of Iraq .The ministry sustained this observation and currently it is continuous in making these reconciliations, as for 2007 has been achieved, the rest are under the audit .The audit team sustained that BSA notified the ministry according to the report No. 2294 on 26,02,2009.

#### **9. Ministry of Interior**

- 1) The ministry contracted with the technical towers company for engineering services, when the materials were tested, it has been noticed that their origin is Mexican not English in accordance with the contract .The ministry did not reply on this observation. The audit team found this company in only bidder submitted offer.

- 2) The ministry did not comply with the contracting procedures for some contracts whereas the contracting was made according a direct invitation without competitive offers and a documented justification of referral .The ministry did not reply on this observation .While our audit team's follow-up has stated that these contracts are related to importing exclusive charges detection devices with agreement of central contracts committee as a result of an exceptional of these materials.
- 3) There are many violations regarding the American Embassy contracts detected by the inspector General .The ministry did not reply on this observation. The audit team sustained the validity of this observation.

#### **10) Ministry of Health / State Company for Marketing Drugs and Medical Supplies**

- 1) There are arms and ammunitions with persons on longer serving within the ministry's staff. The ministry stated that the acquaintance prepared by the protection group .Our audit team couldn't verify this matter because KPMG's report did not mention examples on this case.
- 2) It has been noticed that the fees of opining the credits in favor of (kemadia) have seized from its account in the Trade Bank of Iraq(TBI) ,where the fees are still recorded as a liabilities on the company though they must pay by the supplied companies according to the contracts .nothing indicates that the ministry has notified the TBI to return these amounts .The Board's report No. 2147 on 24.02.2009 stated that no conciliation of some credits' balances between the company and the Bank from 2004-2006.
- 3) It has been noticed that the assessment of drugs' needs is unrealistic where these needs are requested before one year and a half of the actual need. When these quantities have been received, the public clinics' heads find the time is insufficient to make a maneuver with these quantities as a result of their nearest expiration date. So the clinics are obliged to receive surplus drugs in the stores, their expiry will get shortly Beside these expired drugs in the clinics' stores are presented to the disposing committees .the ministry and the company sustained the observations above ,while our audit team has sustained the observation except the item (the concerned committees subtracts the expected quantities to arrive from the total assessment during the period until the assessment of the needs is received ,our report No. 147 on 24.02.2009 has pointed to that .

#### **11- Ministry of Trade - Grain Board of Iraq**

- 1) The internal audit program does not include information is related to the import department. Whereas the program does not contain the concerned items that require details on the ships and shipments of the wheat. The ministry did not sustain that and it stated that there is an integrated program, procedures and techniques to control on the work starting from registering the shipments until arriving the

unloading port. Our audit team sustains the validity of the observation and pointed to this in the report No. 532 on 23.01.2008.

- 2) KPMG's report has pointed that (State Company for Foodstuff Trading) aggregated the bank's current account reconciliations together, in addition to the delay in preparing these reconciliations. The company did not sustain this observation, the reason of this delay is the analysis of the cash purchases record which is in dollar then it will be exchanged into I.D. The audit team sustained the observation regarding the delay in preparing the reconciliation, however the observation of reconciliation the current accounts annually has not get the sustain of the audit team.

## **12- Ministry of electricity**

- 1) There are many irregularities in the contract signed with the Alnakheel Albasiq company such as the company didn't present bank guarantee at the beginning and it was not eliminated from the bid, the company is mediator and not manufacturer company while it was preferred because it is a manufacturer company, the letter of credit issued by a Kuwaiti Bank, delay in presenting the performance bond and the price was raised by %10, bearing in mind that KPMG has stated that the contract is old and awarded to Siemens company and the implementation was seized due to the events. The Ministry revealed the following, regarding the above mentioned irregularities:

- It was awarded to Al- Nakheel Company, because it is the lowest price, although the company is not a manufacturer.
- The letter of credit is issued by Albelad Islamic Bank.
- The warranty was delayed since the company requested not to be included within the Iraqi reconstruction taxes.
- The delay of L/C opening led to a request of price increase.

The audit team certified the items indicated by the Ministry in that concern.

- 2) Due to the delay of opening the L/C, the amount paid for the agreed contract was increased to supply spare parts for secondary stations, the Ministry and the audit team certified the matter. On the other hand the amount agreed upon for contract of supplying materials to Mousel station was increased due to the delay in signing the contract.
- 3) There are many irregularities concerning the contract of Najaf station rehabilitation, units (1and2), and as follows (performance bond's amount was paid to a German bank and not Iraqi, the origin country was changed, canceling the insurance policy on the equipments, procrastination in contract execution for more than three years). The Ministry replied that the contract was cancelled due to defer, the audit team sustain the observation.

## **Thirteen. Ministry of Justice**

Ministry of Finance transferred 64 billion Iraqi dinars to the FMS account without acknowledgement or authorization from Ministry of Justice, and there is no information about the disbursement of the amount. We found out that the Iraqi correction department has received gas oil in amount of 225 million Iraqi dinars.

The Ministry replied that the department has no records or supporting documents for this disbursement, as the amount was spent by the American side, and a committee was formed to verify that, Bearing in mind that this material was not recorded in the control records, the audit team sustain the observation.

**Fourteen. Ministry of Migration and displaced**

1. The reconciliation of banks current accounts is not duly conducted, as there is sufficient information, concerning the differences between the records and the bank disclosure, recorded. The Ministry justified that the bank did not provide it with the debtor notes, and this will be avoided in the future. The audit team sustains that.
2. It is noted that there is one deputy minister within the Ministry's staff while the appointed to this post are 3 individuals, and that one of the directors general is without a department to take charge of. The Ministry and the audit team as well, approved the remark, given that the Ministry informed the Cabinet's Secretariat General regarding the employees in excess.

**Fifteen: Ministry of Sciences and Technology**

The Ministry concluded a staff-training contract to develop its human capacities by way of direct invitation, which we found unjustifiable unless otherwise a request for proposals is promoted first. The Ministry sends no reply in this respect, given that this observation was included in the Board's report No. 2481 on 4\3\2009.

**Sixteen: Ministry of Environment**

1. We have observed that the Ministry lacks a comprehensive guide for its internal and financial control procedures and policies. The Ministry rejected this remark stating that it already has one that covers all the Ministry's activities, and intended to be applied for the entire activities upon completeness of the department staff and experience acquirement by the auditors. The audit team confirmed the remark through the notes detailed in the report No. 10142 on 1\9\2008.
2. The Ministry did not comply with the specified rates of the performance bond and the rate of the preliminary deposits amounting to (5%, 1%) of the contract value (furniture supply contract of Al-loulo'a Co., contract No. 121), which was entered with the Ministry. The Ministry's reply was inaccurate, and the audit team approved the details of the auditing company.

**Seventeen: Ministry of Construction and Housing**

1. Upon making inventory of the light arms armory, it was found differences in minus between the details of the records and the actual inventory. The Ministry confirmed and justified the case as no

inventory had been made of the arms of Her Excellency the Minister's office, as well as of the work leavers, transferred employees and the deceased employees who have not been given a discharge of liability yet. The audit team approved the remark and identified it within the report No. 7688 on 16\7\2008. Moreover, the records revealed cars, which were not found in the actual inventory. The remark is mentioned in the report, and the Ministry and the audit team approved it.

2-There are 49 private cars and vehicles either lost or stolen, and their issue is still pending. The Ministry informed the Directorate General for Traffic regarding this issue without taking any legal actions. The audit team confirmed the case and identified the remark in the report No. 9896 on 29\11\2007.

3-The auditing company, and as a result of sending the file to the court, could not find any justifying reasons to refer the contract of 71 building in Al-Anbar to Hadhramout co. rather than the to the other two companies, though the high price offered by the said company. The Ministry attributed the cause to presenting low-grade works by the two companies. The audit team approved the case.

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

1. Several weaknesses and shortcomings were found in performing the duties of the Contract Department such as ( directorates contract status is unavailable, its activity is confined to reviewing the tender after issuing the referral decision, the department is unaware of the contracts signed prior to 2008 or the relevant changes). The Ministry did not reply and the audit team approved the content of our report No. 2557 on 5\3\2009.
2. 90% percent of the first shipment was paid to the contract relating to carrying out and supplying equipment for Al Islah water project in Al Jibayish in contrary to the text of the contract, which stipulated the payment of 40% of the first shipment. The Ministry did not reply, and the audit team did not validate+
3. The remark since we were not provided with a copy of the contract. In addition, the Ministry did not reply to the audit team memo in this respect. Therefore, our audit team in Thi-Qar was directed to ensure the remark validity. Thi-Qar Water Directorate replied that the directorate or the resident engineer has nothing to do with any item relating to the supply of the project, and that no contracted materials arrived in the site.
4. The Ministry signed a contract of supplying and installing A sewage station in Al-Najaf without the prior consent of the Cabinet's Central Contracts Commission. The Ministry did not reply and our audit team

did not ensure the remark since we were not provided with a copy of the contract. Therefore, our audit team in Al-Najaf was directed to ensure the remark validity, which explained that all the basic documents of the project are available in the State Directorate for Sewerage in Baghdad.

#### **Nineteen: Ministry of Defense**

1. Upon reviewing the reconciliation of the current account at Al-Rafidain Bank- (main branch), many outstanding amounts dated back to previous years were found in large amounts including (overdue checks, amounts manifested in the Bank account and the Ministry was unaware of its details,

Amounts appeared in the Ministry records and did not appear in the Bank statement, amounts appeared within the balance without basic information and error was found in summation of the outstanding checks statement). The Ministry did not reply on the reasons behind these outstanding, while our audit team approved the remark relevant to the unpaid checks. As for the amounts in the Bank statement of which the Ministry is unaware, the audit team approved all the amounts except for 2008, where there is a difference between the one underlined by the company and that by the audit team in regard to the amounts appeared in the records and did not appear in the Bank statement for the years (2007, 2008). The audit team approved also the amounts with no basic information as well as the error in the summation of the unpaid checks statement.

2. The reconciliation of the Ministry's current account kept in Al-Rafidain bank (ministry branch), revealed several outstanding dating back to previous years in large amounts that the Ministry did not remedy. The Ministry did not reply to this observation, and the audit team sustained the observation in the auditing company report for 2006.
3. Upon reviewing the reconciliation of the current account at Al-Rafidain Bank- (Alzwiya branch) as of 31\12\2008, it was noticed within the differences the value of a check released on 25\7\2006. An inquiry panel was formed in this respect, and the issue is still pending. The Ministry did not reply and the audit team sustained the observation.
4. The auditing company has not found any trace to reconcile the Ministry's account with the Trade Bank of Iraq since 2005. A committee was formed for this purpose without taking the required measures up to the reviewing date in April 2009. As a result the entries belong to the Bank were not recorded despite the key

accounting processes conducted by the Ministry. The Ministry did not reply and the audit team approved the remark.

5. Although the contracts status of the foreign military sales included over 100 contracts with total value exceeds \$4b (four billion USD), we did not find, within the Ministry records, any trail of entries relating to the operations of these contracts due to lacking the necessary documents and information, and to inactivating the contradictions form (130-340) till 15/2/2009 despite its important role in the receiving process. There was no answer received from the ministry on those remarks and the audit team supported the above mentioned and the BSA is following up the subject through the meetings, the most recent held on 10/5/2009 noting that the Ministry has recently started to approve the entries of such contracts of 2006 in spite of the reservation on the way of the accounting treatment.

#### **Twenty – Ministry of Foreign Affairs**

The Ministry purchased vehicles without a public tender, (GMC YOKUN XL) Chevrolet Caprice 2008 through the Procurement Committee, contrary to instructions of implementing the budget as well as there were no stamps and the approval of the legal department at the ministry, in the purchase contracts as well as failure to inform the Ministry of Planning in the details of those contracts and there was no answer received from the ministry on those remarks and the audit team verified the note.