

Follow up KPMG's report on Iraqi development fund for 2008

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Republic of Iraq

Board of Supreme Audit

Ref. No.: \ \

Date: \ \

To/ The Committee of Financial Experts - COFE

Sub/ DFI Audit

Dear Sirs,

KPMG has undertaken the audit work on DFI accounts for the period 1\1\2008 – 31\12\2008, and presented a statement of cash receipts and payments for the above mentioned period. The statement included KPMG's observations and results. While studying these observations on ministries visited by the company's auditors and our follow up to the procedures of these ministries with regard to these observations, we have come up with the following conclusions:

Metering system

KPMG's report pointed out that (the Ministry of Oil "MoO" is lacking a complete system for operation, loading and metric measurement at the loading and extraction points to ensure that all oil and oil products export sales are accounted for or determine the volume of exported quantities. Hence, in the absence of such effective system, and as the sabotage of oil pipelines continues, determining the volume of all oil products and exports would be impossible; bearing in mind that the revenues of such exports should be deposited in Oil Precedes Revenues Account "OPRA" as well as the DFI account).

Moreover, our review on oil exports indicates that every export is recorder in the DFI's revenue, and the loading meters installed at the exportation ports works concurrently with the Ullage approach, and the differences between the two methods are inappreciable. South Oil Company conducted a survey to upgrade export requirements. As to the other sectors in the oil industry, the MoO has embarked on and taken applicable procedures to provide meters, as a first step, for some of the exportation outlets in the southern region of Iraq. The Ministry also conducted an all-over survey on its needs of these meters aiming at starting with their installations. The Ministry,

pursuant to the letter of technical department No (3) dated 18/2/2009, assigned the causes of negative deviation of the completion ratios to the following:

- 1- Vast geographical area, large scale of work and long period of delivery.
- 2- The current situation is inappropriate to apply the system in some companies.
- 3- Reasons connected with the availability of financial allocation for the orders.

In addition, the above mentioned letter stated the status of each company within the Ministry, on whether it can fulfill the Ministry's central plan as to providing the measurement requirements by the end of the current year, and as follows:

No.	Co. Name	Projected Completion for 2009
1	Pipelines	Completion is expected to be done this year unless impediments of L/Cs opening
2	Distribution	The company is committed according to the company's letter No. 4976 on 3/2/2009, to provide the metering requirements with the other companies during this year , and for the other sites by the end of next year
3	Gas Filling	The company is not expected to complete all the requirements during the current year, for being in the process of reconsidering the needs
4	North Refineries	The company is committed to provide all requirements during this year
5	North Gas	The company is committed to accomplish this year plan pertaining to the remaining orders, which are in process
6	Midland Refineries	The company is committed to provide the requirements, except for the newly-built Al-Diwaniya refinery
7	South Refineries	The company is committed to implement the plan during this year
8	South Gas	as a result of its incomplete study and not requesting the allocation for its need The company, is not expected to fulfill all the requirement during this year
9	North Oil	The company is expected to provide all requirements in this year, except for the field measurement requirements to

		be provided by mid 2010
10	South Oil/ Misan Oil	In spite of its attempts in this regard the company won't complete all requirements before the end of 2011
11	Oil Tankers Company	Some requirements can be provided in the current year

Regarding the aforementioned, it is clear that a number of companies will not be able to complete installing and running the required meters by the end of 2009, as set by MoO; this will continue till the end of 2011. Below, the findings of our follow up the status of MoO companies with regard to property transfer meters:

A- Extraction Companies

First - North Oil Company (NOC):

North Oil Company letter No. 9610/155/ dated Jan 8th 2009 referred to the status of property transfer meters in the 21 sites of the company; among 34 installed meters (crude oil, dry gas and recycled oil, acid gas and dome gas), only 2 are functional and calibrated one for acid gas, and the other for dome gas. The aforementioned letter has also mentioned that 2 - meter measure systems will be installed per each system in most of these sites. It is expected by the end of the 4th quarter of 2009, to finish recalibrating oil storage tanks to secure new measuring chart, as well as installing radar devices to gauge fluid level inside the tanks. The findings of our follow up concerning L/C status have showed that NOC has stated, in its letter no. 9233/157/6 dated 2008/6/25, purchase requisitions to procure different meters and counters for oil production, degassing stations, oil pump stations, liquid petroleum gas (LPG) measuring systems, and radar measuring devices to be placed on top of storage tanks. After reviewing purchase requisitions in documentary L/C section, we have found that all purchase requisitions are still under announcing RFP and acquiring proposals, according to the content of NOC letter no. 39871 dated Nov. 6th 2008 directed to MoO/ Technical Department.

Second: North Gas Company

In reviewing L/Cs status in relation to meters, counters, and their spare parts during 2007 and 2008, we have discovered 23 purchase requisitions to which 14 contracts have been signed during 2008-2009, L/Cs have been opened for 5 of them, and the materials of only one contract have been received that belong to platform scale weight sensors, while the rest still in the phase of RFP or awaiting signing, taking in consideration that

the proposed completion dates for these contracts have been set up for the period between Jan. 24th, 2009 to April 30th, 2010.

Third: South Oil Company

There are contracts made with The Italian Company (Progetti) for procuring meters; yet, the goods have not been delivered, and as detailed below:

<u>Contract No.</u>	<u>Contract subject</u>
2837 -6- 85	Meter system for Al-Uamayya oil port
2845- 6 - 85	Meter system for commercial accounting for Al-Zubair pipeline (1) - Al-Basrah refinery

Another metering system has been installed in al-Basrah port since 2007 and has been commissioned for commercial accounting starting from July 1st 2008. Besides, several purchase requisitions have not reached L/C opening phase yet.

Fourth: South Gas Company

Our follow up findings have showed the following:

1. There are no counters for measuring the movement of the received and used gas; instead, the company adopts joint minutes done with Pipelines Company by adopting flow rate method, which is subject to the committee estimation and thus lacks the required accuracy.
2. The issue of requisitions for procuring meters is still going through correspondences, and the company does not have any documentary L/C for procuring gas flow meters in 2008.

Fifth: Missan Oil Company

Our follow up to the company requisitions, and meters has shown the following:

1. There are no meters installed on pumping pipelines to export terminals.
2. The status of purchase requisitions for meters to install on crude oil supply is as follows:

- Purchase requisition of Al-Ezeer medium point region numbered 4010/8/58, which is under announcement.
- Purchase requisition of crude oil supply point to the new Misan refinery, which is under preparation, while regarding Al-halfaya outlet, Misan and Al-bazrgan refineries purchase requisition prepared by the south oil company numbered 3619/08/79 is under referral and contracting.

B- Oil Manufacturing Companies

First – South Refineries Company

The following observations have been identified during our follow up the status of the meters in the company:

The company uses Rader measurement system to control the quantities received from the inputs and outputs supplied between the company's depots and its production departments, as well as between the latter and beneficiaries giving that no meters to measure these materials are existed.

1. There are no meters to calculate the crude oil quantities supplied to Thiqaar refinery, these quantities have been measured by measure tape.
2. Regarding Missan refinery, the company has stated that there are no meters to calculate its inputs of crude oil, as it depends on estimations of a committee formed in the refinery for this purpose.
3. There is no documentary letters of credit opened to import the meters up to date, giving that the company has stated to us that four requisitions numbered (2007-12, 2007-13, 2007-14, 2008-13) are still incomplete in the stage of opening the letter of credit, giving that total meters required by the company are 59 meters.

Second-North Refiners Company

The company stated, according to its letter number 147 dated 25/1/ 2009 related to the status of meters and stages of purchase & receptions that there are (9) requisitions to purchase meters of oil production & gas as well as spare parts, only (3) three have been received during 2007, 2008 concerning meters of oil's depot, the asphalt, meters of oil productions and spare parts, while the remaining is still under promotion or awarding.

Third – Mid land Refineries Company

The data received from the company stated that many meters of measuring property are operational, but are not been calibrated; besides some of them are out of order. The table below shows that:

Company name	status of measuring equipment				
	Operational	Calibrated operational	Out of order	worn	total
Midland refineries	76	28	5	1	110

C- Distribution companies

First: Oil Products Distribution Co. / Al- Anbar branch

Our review of the operational meters in the Oil Products Company /Al-Anbar branch has shown the following four depots:

(1) **Al-Anbar new depot**

The operational meters have amounted (12) for loading & unloading platforms, 4 for each product (gasoline, gas oil, kerosene).Whereas the number of the meters available at Al-Ramadi distribution center, supplied from Al-Anbar depot is six operational meters installed into the unloading platforms with one meter per product (gas oil – kerosene – fuel oil – premium gasoline – hydraulic oil – gear oil)

(2) Alankoor depot has been out of work since 2003 events

(3) Hadeetha oil depot has been out of work since December 2003

(4) Project No. (1030/2) in Alfallahat area has been out of work since 2003

Second: oil products distribution / Northern region branch

The follow up of our specialized audit team, working at the oil products Distribution Company / Northern region branch, and the pipelines company / Hamam Alaaleel depot showed that the number of the installed meters at Hamam Alaaleel depot from May 2008 until July 2008 were five meters, three of them were installed at gas loading platforms and two meters were installed at gasoline loading platforms besides there were two meters in progress because of incompleteness of their accessories such as, pumps and loading arms.

Third: Pipelines Company

- (1) The status of the meters of pumping and receiving stations for light products of the 17 sites that belong to the pipeline company indicated one meter, out of 25 existing meters at Al Nasyria pump station and depot, is out of order, and it is expected to be repaired by March 2009. As for the receiving stations, there is one meter, out of 53 meters at Hamam Alaaleel depot, out of order. The meter is being repaired, and expects to be completed by April 2009.
- (2) The following table illustrates the status of the loading arms meters for light products to the pipeline company locations, which indicate 39 meters, out of 148, are out of order.

location	functional	damaged	notes
Hammam Alaleel depot	11	3	The company stated that the current meters cover the operational need, and it intends to complete the rest of them
Almshahda Pump station & depot	-	25	System rehabilitation is still pending up to the date, due to some fire accidents in the depot
Al karkh and Allatifiya depot	26	8	Currently (6) meters are under rehabilitation in Al karkh depot, which came under fire accident. Their completion is expected in April/2009
Alsha'eeba depot Pumping station	22	3	The company stated that two meters were supplied to the loading arms of the new bridge, and repair of the remaining meters is to be completed in April/2009.
Kirkuk depot	13	-	-
Al rasafa depot	23	-	-
Al hindiya depot	14	-	-
Al hilla depot	10	-	-
Al dewaniya depot	14	-	-
Al kut depot	9	-	-
Al nasiria depot	6	-	-
Total	148	39	

3) Hereinafter the situation of installing the unload platform for tankers:

Location	Platforms to be installed	Expected completion date	Platforms actually installed	Notes
Al dewania Pumping station & depot	7	May/2008	9	-
Al hilla depot	4	May/2008	6	-
Al hindia depot	6	June/2008	6	-
Al rasafa depot	9	July/2008	9	-
Hamam al aleel depot	6	July/2008	5	(1) platform has not been installed
KirkukModern depot	6	Aug./2008	6	-
Alnasiriya Pumping station & depot	6	Aug./2008	4	(2)platforms were transported to Al dewaniya station & depot
Al kut depot	6	Sep./2008	9	-
Total	50		54	

Fourth: Oil products supplied to the electricity stations

Ministry of Oil handles supplying the electrical power station with oil products such as (crude oil, gas oil, and dry gas). The oil products are transported to these stations either by tankers or pipes owned by the pipelines company. The company installed meters in (7) electricity stations (Aldoura, Alhartha and Khore Alzubair) on 3\3\2009 according to its letter no. (R/108/12293), as for Beji electricity station a meter is being installed currently. The company said in the above mentioned letter that the received quantities

are identified according to stations' consumption, and this mechanism is approved although the meters are installed because the Ministry of Electricity refused to accept the meter-based quantities. The company also stated that it intends to establish joint committees between the Pipelines Company and the Ministry of Electricity in order to reach a final settlement in this respect. The results of our follow up of certain directorates have shown the following:

1- General Directorate for Electrical Power Production for North Region

The supplied quantities to the Directorate are calculated according to the following two equations, and in compliance with the agreement between the Directorate and MoO as per the letter of the Directorate No. (688) on 11/2/2009.

The quantity of gas received (cubic meter) = the production quantity (MWH) (Megawatt/hour) for old units X415

The quantity of received gas (cubic meter) = the production quantity (MWH) (Megawatt/hour) for new units X280

The cost of received quantities of liquid gas has been registered in the financial recorders with approval of the supplying company and the General Directorate.

As for the received fuel (gas oil) by tankers, they are provided with measurement card issued by the MoO, includes detailed specifications of the vehicle's tank, as well as unloading the received fuel in standard tank to verify the received quantity.

2- General Directorate for Electric power Production / Salah Aldeen

The letter of the mentioned above Directorate No (1095/4/6) on 11/2/2009 stated that the available meters in certain stations don't work properly, as well as they are old and in need of replacement or repair and continuous calibration; therefore the mechanism of total production (Megawatt) is adopted at the end of each month, reconciliation and audit are made by the representatives of MoO and representatives of the Directorate and the figures that have been agreed upon considered payable.

3- General Directorate for South Electric power Distribution

First: there are (5) five stations for generating electricity in Basrah, the following table illustrate the status of meters in each station:

Stations	Oil meter	Gas meter	Notices
Alharytha	1	-	Adopted with the supplied party (Oil Pipelines Company)
Alnajebyia	1	-	Not adopted for not being calibrated, and there is a gas meter installed newly but it hasn't adopted yet.
Khore Alzubair	-	1	Not adopted for not being calibrated, and it needs replacement.
Bazrkan	-	1	Adopted
Alsha'aeba	-	-	There are no metres for measuring the received quantities of oil and gas from the station

Second: General Directorate of Electric power Production in Nassiriya showed as per its letter No. (814) on 17/2/2009 that the applied mechanism in calculating the quantities of the received fuel from the Ministry of Oil is as follows:

- (1) There are meters in Nassiriya and Samawa Electric power stations; the received quantities are reconciled daily with the Ministry of Oil, whereas Nassiriya thermal power station uses the crude oil and the mixed oil, and Samawa station receives the natural gas and fuel oil.
- (2) Nassiriya gas power station receives the gas oil via tankers, the quantities are calculated based on metric measure in the tanker, and there are metres in the station in order to calculate received quantities in their tanks for lacking of pipeline between the electrical stations and sources of supply; therefore the directorate depends on the installed measurement system upon accounting with the Ministry of Oil.

2- Statement of cash receipts and payments

During our audit and reconciliation of DFI statements submitted by the State Directorate for Investments in Central Bank of Iraq (CBI), and the records of Ministry of Finance (MoF) with statements that appeared in the statement of cash receipts and payments submitted by KPMG for the period from 1/1/2008 until 31/12/2008, we found the following:

A- Cash Receipts :

The total amount of cash receipts for the above mentioned period is as shown in the table below:

Cash receipts	Amount according to the company's report (thousand US\$)	Amount according to the records of CBI (thousand US\$)	The difference (thousand US\$)	Amount according to the records of Ministry of Finance (thousand US\$)	The difference (thousand US\$)
oil Export sales	58789576	58792649	3073	58792649	3073
Receipts from the frozen assets outside Iraq	833	833	-	833	-
United Nation Oil-for-Food Program	5860	-	(5860)	25104	19244
Received interests	577007	577007	-	577007	-
Other receipts	1966026	1943709	(22317)	3451336	1485310
Total	61339302	61314198	(25104)	62846929	1507627

We have the following observation:

First- According to statements of CBI about the amount in KPMG's report, we found a difference amounted \$3073000 in the imported oil sales. Our follow-up showed that this difference represented a deposited amount in DFI on 28/8/2008 and it has been registered as oil sales and deleted later from Swift letter, at the same time this difference was regarded as refunded cash without making any amendments between the CBI's records and the statements sent to the MoF. The State Directorate for Investments, in its memorandum No.1295 on 23/4/2009, stated that the amount mentioned above will be amended.

Second- KPMG's report showed that (the resources of all frozen assets outside Iraq belong to the Development Fund for Iraq (DFI), our inquiry with the management revealed the lack of complete records concerning these frozen assets. We were not able to take sufficient procedures for ensuring the completeness of frozen assets in the financial statement). The results of our follow-up proved that there were no detailed records about the frozen assets, according to the letter of the MoF No.22 on 1/6/2009; therefore, we can not ensure the completeness of frozen assets in the statement, since the registration is made for the fund's receipt only. The Ministry of Finance under its letter No. 6676 on 17/6/2009, sent to the Cabinet General Secretariat, stated that it prepared the project of Iraq's external

debt database under the title "the National Project", and established a team that works according to three stages to prepare and classify the data and determine the final amounts that should be collected.

Upon auditing the records concerning allocations, frozen assets and an account of (PCO) held by the General Directorate for Investments in the CBI to examine the soundness of the directorate's control, we observed the following:

- (1) The records maintained are informal, as well as there are no details about the date of opening the record or the stamp of the related department or any details about reviewing this record by a certain authority.
- (2) Certain balances have been written down with a pencil in the allocations' record.
- (3) The amounts paid from the fund, are not classified in separate accounts at ministries level, but are documented according to the payment date in the record of allocations.
- (4) The record of allocations contained stroke and scrap, without supporting this amendment with name and signature.
- (5) Names for columns in the allocations' record are not stated.
- (6) The record of frozen balances is not maintained with liabilities that clarifies the nature of movement of this account.
- (7) The record maintained in the payments department for (PCO) account, which is established for the paid amounts, does not clarify any information that can lead to the Iraqi authorities benefiting from these transfers paid.

Third- The amount of (\$5860000) was recorded within "other receipts" in records of the CBI, whereas this amount represents transfers to DFI from the Oil- for - Food Program, while in the records of MoF, the amount of (US\$ 25104000) is registered with a difference amounted to (\$19244000) from the amount recorded in KPMG's report.

Forth- Within other receipts item, the amount of (\$1312005000) was registered wrongly in the DFI account, for this amount is related to the revenues of Cellular Communications Network license. Our review revealed that the State Commission of Communications informed the TBI through several letters, the latest numbered (246) dated 13/2/2008 to transfer the amount mentioned above from its account in the TBI into the MoF account according to the instructions of budget execution for 2008. Yet, the TBI, under its notification dated

12/3/2008 transferred the amount to the account of DFI. The Ministry of Finance confirmed, by its letter no (11255) on 14/8/2008, registering the amount as final revenue in the DFI account, which requires reversing the mentioned amount from the DFI account in FRBNY and register it in the current account of MoF numbered 300349.

Fifth- KPMG's statement identified that the other receipts item amounted to (\$1966026000), while this item amounted to (\$ 1943709000) in the records of the CBI, i.e. a difference reached to (\$ 22317000). The audit of analysis of this account showed that the amount of insurances recovered from letters of guarantee reached to \$ 536189000, under KPMG's statement, while the automated records indicated that the amount is \$ 508888000 i.e. a difference reached to (\$ 27301000), excluding the mount (\$ 25104000), which is registered wrongly, because it belongs to the MOU and excluding the amount \$ 3073000 related to oil sales, and taking into consideration the registered recovered amount (\$ 876000), related to the transfer from MOU program to the DFI, then the balance would be matched.

This indicates an overlap among the items of receipts and KPMG's statements and the statements of CBI.

Sixth- The amount of (\$ 536189000) appeared within the item of other receipts, this amount represents recovered deposits on letters of guarantee. Upon auditing this item an amount of (\$ 80898197000) appeared which is paid from the DFI account no.73 on 14/1/2008 for commercial debts and then returned to the same account on 16/1/2008, recorded as an amount recovered from commercial debts. During auditing this debt we observed the following:

- (1) The amount is related to a payment of the fourth due coupon (the interests of Iraq's new bonds) for the commercial debts (the major creditors).
- (2) Upon auditing the payments from account no. 73, three of these payments appeared at the same amount dated on 11/7/2007, 13/7/2007 and 14/1/2008, these payments represent the second, third and fourth installments, respectively.
- (3) Two installments are reimbursed from these payments to DFI account no. 73 on 17/7/2007 and 16/1/2008 due to payment duplication from account no. (50) of the Central Bank of Iraq i.e. the third and fourth installments.
- (4) We couldn't verify whether the CBI paid the amount of second coupon on 11/1/2007 from its account no. (50), because the basic documents of manual records were burnt.

(5) The adopted mechanism for paying these coupons by the MoF/ Department of Monetary Accounting (E 134) on 8/1/2009 indicated that the MoF directed the CBI to pay these coupons from the account no.(50) of the CBI upon maturity, and registering the amount as a debt on the account no.(300349) of the MoF, this means that in case of paying the amount of second coupon from account no.(50) there would be a repeated Payment that was not recovered yet.

Seventh- Some entries of invested amounts were registered, then were refunded by an entry as receipts within the recovered amounts; and this was made in contrary to the adopted mechanism that stipulated no movements shall be registered or maintained by entries in case of overnight investment. The total of these amounts reached \$ 1505000, which were excluded from DFI movement due to its zero impact on the actual paid or received balance.

B- Cash Payments

The total of payments for the period mentioned above is illustrated in the table below:

Cash Payments	Amount according to the company's report Thousand \$	Amount according to the records of CBI Thousand \$	The difference Thousand \$	Amount according to the records of Ministry of Finance Thousand \$	The difference Thousand \$
Transfers to Ministry of Finance	45524455	45524455	-	45500000	24455
Letters of credit in favor of Iraqi Ministries	14846387	14846387	-	14846387	(27251)
Contracts run by American agencies	314750	314750	-	314750	-
Payments of the external debts of Iraq	229216	231842	(2626)	131842	97374
Other payments	27330	27330	-	1905079	(1877749)
Total	60942138	60944764	(2626)	62725309	(1738171)

We have the following notes concerning it:

First – Transfers to Ministry of Finance

There is a difference of (\$ 24455) (twenty four thousand four hundred fifty five dollars) between what is shown in the records of the MoF and of KPMG's report which represents the balance of cash held by the Joint Area Support Group JASG on 31/12/2007 deposited in the account of the MoF with the Central Bank according to the notification on 25/3/2008 and has not been registered in the records of MoF.

Second - letters of credit for the benefit of Iraqi ministries

- 1- The Ministry of Finance accredited the TBI to issue letters of credit for Iraqi ministries and institutions and pay the amount of the L/Cs from the DFI account with the FRBNY to the bank accounts of the TBI with (JP Morgan) bank and (Citibank) and retain the amounts transferred to them as deposits until they receive a confirmation from the Iraqi ministries about receiving the goods or provide service in accordance with the terms of the letter of credit and such payments has reached for the period subject of the report \$ (14846387000) (fourteen billion eight hundred forty six million and three hundred eighty seven thousand dollars) and the results of the reconciliation conducted by BSA audit team for the data related to MoF's payments for letters of credit that represents amounts transferred during 2008 to other ministries via DFI, have shown differences between the records of the MoF and KPMG's report, and during the reconciliation of the amounts stated in the report the following differences appeared:

The ministry	According to KMPG report thousand dollars	According to Ministry of Finance thousand dollars	Difference thousand dollars
Ministry of Oil	4433988	4184013	2499745
Ministry of Trade	4100500	4350500	(25000)
Ministry of Defense	2297552	2297552	
Ministry of Electricity	2104919	2104919	
Ministry of Interiors	726717	726717	
Council of Ministers	430081	422189	7892
Ministry of Health	374427	374427	
Ministry of Municipalities	254882	248642	6240
Ministry of Communication	40002	40002	
Ministry of Water Resources	38293	38293	
Ministry of Agriculture	19069	19160	(91)
Ministry of Transformation	16288	30420	(14132)

Ministry of Higher Education	4254	4254	
Ministry of Finance	2480	25296	(22816)
Ministry of Housing and Reconstruction	144	144	
Ministry of Industry	116		116
Ministry of Justice	2675	2675	
High Commission Of Election		4435	(4435)
Total	14846387	14873638	(27251)

- 2- Within the payments of letters of credit for the benefit of Iraqi ministries, the amount of \$ 645399 thousand (six hundred forty-five million three hundred and ninety nine thousand dollars) belongs to the Ministry of Interior, and the amount of \$ (1551237) thousand (one billion five hundred fifty-one million two hundred and seventy three thousand dollars) belongs to the Ministry of Defense transferred to Foreign Military Sales (FMS) with the Federal Reserve Bank in New York for the expenses of the military and security equipment.
- 3- Payments of above mentioned letters of credit include payments for self-funded government companies were not covered by DFI and in return MoF received advanced payments from these companies for financing letters of credit for those companies and has not been deposited in DFI account at the FRBNY, but has been deposited in the account of the MoF with the CBI, and MoF could not identify the amounts received from the above mentioned companies, as well as not able to determine the amounts paid from DFI for the financing of appropriations for these companies.
- 4- When reconcile analysis prepared by the audit company for amounts paid for the benefit of Iraqi ministries with the analysis prepared by us according to the records provided by the CBI, a difference of \$ (43081) thousand (forty three million eighty-one thousand dollars) appeared in the amounts paid to the benefit of the Council of Ministers as the payments according the company's statement amounted (\$ 430081) thousand (four hundred thirty million and eighty-one thousand dollars) and by analysis of the audit team, it was \$ 387000 thousand (three hundred and eighty seven

million dollars) and the difference appeared to represents the amount paid as invoices for (Bombardier) company of manufacturing aircrafts which is \$ 36813 thousand (thirty six million eight hundred and thirteen thousand) dollars and payments to the Sunny Endowment of \$ 6286 thousand (six million two hundred and Eighty six thousand dollars) recorded in the statement at the expense of the Council of Ministers.

Third - Iraq's foreign debt payment

A difference of \$ 97374 thousand (ninety seven million three hundred seventy four thousand dollars) is shown between the records of MoF and as shown in the report of KPMG where the amount of \$ 131842 thousand (one hundred thirty-one million eight hundred forty two thousand dollars) which appears in the records of MoF represents the sums paid in the repayment of the debt of previous years while the paid amounts in 2008 of \$ 229216 thousand (two hundred twenty nine million two hundred sixteen thousand dollars) was not recorded in the records of MoF and a difference of \$ 2626 thousand (two million six hundred twenty six thousand dollars) indicated between the report of KPMG and the records of the CBI, which represents the remaining of the paid amount to Citi Bank to amortize commercial debts and we could not be sure of that because all documents were burned out in the fire of CBI.

Fourth – Other payments

There is a difference of \$1877749 thousand (one billion eight hundred seventy seven million seven hundred forty nine thousand) between what is shown in the records of the MoF and the report of KPMG within other payments account including the amount recorded by MoF

Details	Amount thousand dollars
Invested amounts	1505000
Swift fees	3
Paid to PCO	3000000
Paid interest to JP Morgan for an amount	21
amount transferred to DFI account	1000000
public debt	55
total	1905079

While the details of the amount recorded in KPMG's report are as follows:

Details	Amount thousand dollars
Aldewaniya province is listed within the letter of credits as a finance	16601
Consultation services for listed within the letter of credits as a finance (MoF)	6200
listed within the letter of credits as a finance (The Higher Commission for Elections)	4435
Different contracts	94
Total	27330

This indicates the existence of overlap between the amounts recorded for the expense of other payments and the amounts invested and letter of credits.

C. Oil products export sales

KPMG's report stated that the net of oil products export sales revenues during the year ended 31 December 2008 were as follows:

A. Cash receipt from oil products export sales during 2008 was \$ 1335237 thousand.

B. Cash receipt from oil products export sales during 2007 was \$ 1797259 thousand

While SOMO's reply according its memo no. 1261 on 12.07.2009 identified that the receipts from oil products export sales mentioned in KPMG's report are approximate figures and do not express the value of actual sales, which are as follows:

- Fuel oil sales \$ 1274352 thousand.

- Fuel oil sales 11822487 Iraqi Dinar

- Sulfur sales \$ 10600 thousand.

As for oil products export sales for 2007 amounted \$ 1797259 thousand, SOMO addressed the previous audit Company by its letter no. 1763 on 05.05.2009 requesting them to provide the basis according which they use to determine this amount.

D- United Nations Compensation Fund (UNCF)

Ministry of Finance has no Information on UNCF balance with regard to the payable and the remaining balance of compensations due to the United Nations Compensation

Fund, and the date of the last payment due, our follow up has shown that the task and role of MoF regarding the statements sent from the CBI, which include amounts deducted for the compensation was limited to verify the mentioned data as monthly totals in the accounting entries in non-regular and non-accounting records run by the Department of cash after matching with the monthly reconciliation of the DFI account prepared by the CBI and sent to MoF which is not carrying out the detailed matching of the data provided by CBI with data and details of oil sales, neither with SOMO nor with the direct DFI account movement to verify and document the income and deductions stated in the records, knowing that the statements made by the Minister of Finance in the media on 21/1/2009 indicated that Iraq has to pay approximately \$ 50 billion as compensation, out of which \$ 23 billion were paid to date.

E- Handing over the files of American Agencies' contracts to the BSA

The report of the audit company indicated that the American Agencies have delivered on 11/12/2006 the files and the supporting documents of contracts signed by the former authority and the American entities to the Board of Supreme Audit, which informed these entities on 25/2/2007 that there are financial and legislative irregularities thus Iraqi administrations reserve the right to seek compensation for any financial harm to the Iraqi treasury as a result to any financial or administrative act by the implementation of these contracts.

The Board of Supreme Audit (BSA) distributed CDs received from Projects and Contracting Office of these contracts to the relevant ministries in addition to photocopy the hard copies received from the mentioned office and re-classified them according to the beneficiary Iraqi authorities in order to be audited and clarify their status through getting answers for specific items such as (does the project have been received, is the beneficiary aware of the project, the reasonableness of the costs, is the project already completed, has it carried out at the request of the beneficiary, and has it been listed in the records) and the BSA is in the process of completing and collecting the information from the beneficiaries and submit a report thereon.

F – Oil for Food Program

Meetings were held between representatives of the Iraqi government and the Secretariat of the United Nations to discuss measures to end the oil for food program and they agreed to set up a working group comprised of members of the Secretariat of the United Nations, the Iraqi Ministry of Foreign Affairs, the CBI and the relevant ministries aimed

at reducing the number of outstanding letters of credit and find a solution to the issues arising from 167 letters of credit and the working group reviewed the pending delivery requests submitted to the relevant ministries for the validation of the receipt of goods in each case and the issuance of its receipt confirmations.

BSA confirmed in its letters numbered 6023 and 6024 on 17/6/2008 to the CBI and MoF regarding the status of the letters of credit that have not been identified until 31/12/2007, as well as remaining balances from the oil for food program and the total amount to be paid from the mentioned credits to resolve the issue of contracts.

It also stressed on the Ministry of Foreign Affairs under the BSA letter No. 6102 on 19/6/2008 to provide it with the minutes of meeting between the Ministry of Foreign Affairs and the United Nations, and the details of the remaining contracts up to 31/12/2007 to enable the BSA to follow-up, bearing in mind that the Iraqi government set up June 30, 2008 as a deadline for ministries to send documents regarding the contracts of MOU by the CBI and the number of suspended L/Cs issued by the ministries under the program has reached 147 as of June 20, 2008 with a total amount of \$ 494980, the number of L/Cs on which there are claims from the suppliers, and there are no records or receive certificates issued by the Iraqi authorities for them is 139 of approximately \$ 272 million for the same period. The beneficiary Iraqi authorities identified since May 2008 there are 103 L/Cs for cancellation because the goods and services associated with them were not received by the beneficiaries, the program transferred amount of \$ 5860000 to DFI during 2008.

KPMG 2008 report

A- Common Observations

Via our review to KPMG's report, we have found several observations common among a number of ministries, and as follows:

First: Working-hours Control

Working-hours control is done by using plain papers to be signed by employees when coming in the morning, while there is no any form to control the end of working hours. The absence of an automated system to control working hours (automated working hours control) may result in weakness of the control over employees. This observation is stated in relation to the Ministry of Human Rights, Electricity, Environment, Transportation, Defense and Foreign Affairs.

Ministry of Human Rights has stated that it has applied a control system that uses IDs with classified numbers as well as finger prints to mark the employees' arrival and departure times in 2009.

Second: Accounting System Automation

Having the accounting entries established, written down in the general journal and posted to the ledger as well as trial balance and financial reports preparation are conducted manually. This observation is mentioned in relation to the ministries of (Human Rights, Migration and Displaced, Labor, Agriculture, Higher Education, Water Resources, Health, Trade, Electricity, Culture, Municipalities & Public works, Communications, Defense and State Company for Communications and Post).

Third: Organizational chart and Job Description

Inexistence of organizational chart and job description as for levels of responsibility and accountability, this is mentioned in reports concerning the following ministries (Human Rights, Migration and Displaced, Labor, Agriculture, Planning, Water Resources, Interior, Education, Culture, Housing and Reconstruction, Environment, Foreign Affairs, Communications, Transportation and Science and Technology).

Fourth: Checks past their due dates by more than 6 months

When reviewing bank reconciliations, we have noticed the existence of checks overdue by more than 6 months. This observation is applicable to the following ministries (Human Rights, Agriculture, Higher Education, Interior, Trade, Environment, Culture, Sciences & Technology and General Directorate of Swages).

Fifth: War Damages

Ministries have not determined the value of war damages by writing them off. This observation was regarding to Ministries of (Transportation, Agriculture, Labor, Water Resources, State Company for Trade of Grain, Culture and General Directorate of Swages).

Sixth: Tenders' opening & analyzing Committees

Members of these committees are not changed regularly. This observation was regarding Ministries of (Sciences& Technology, Oil/ Drilling Company).

Seventh- Segregation of control duties

The person responsible of preparing payrolls is involved in the committee which pays the salaries; this observation appeared in the Ministries of (Housing and reconstruction, General Directorate of Water, General Directorate of Swages and General Directorate of Municipalities).

B- Special Observations

I- Ministry of Finance

(1)- Accounting Records and Documents (high):

Through reviewing the accounting records, we observed the following:

- (A) The Accounting Department in the ministry's headquarters didn't maintain a record for assets.
- (B) The ministry did not keep a record for cars maintenance, in spite of the volume of disbursed amounts and the number of cars included in this account.
- (C) The financial management recorded the disbursement vouchers for the entire month in the general journal of disbursement vouchers, and then register the entry vouchers for the month in the general journal of accounting entries without commitment of historical sequences.
- (D) The ministry handled the cancelled entries and the cancelled disbursement vouchers in the same way by writing down (invalid) on the original copy of the entry in the general journal instead of reversing the entry, the Ministry replied by its letter no. 12203 on 05.08.2009 concerning the following items:
 - 1. There is no fixed of stocks assets record maintained by the financial department as the department perform payment and receipt.
 - 2. The department of services controls car's maintenance expenditures as there is a file for each car in which all documents are kept including maintenance expenditures.
 - 3. The approach used is to record payments vouchers first then entries documents for organizing matter in order to facilitate reviewing the payment and entry documents.
 - 4. As for the cancelled entries, they are cancelled immediately in the related month before inserting them to the computer or the records for saving time.

Our follow up on these observations showed the following:

- A. Our audit team did not sustain what is mentioned in KPMG's report; since the record of fixed assets is maintained by the storekeeper.
- B. Our audit team sustained what is mentioned in the report of Audit Company concerning not keeping disbursement record for cars maintenance by the ministry.
- C. Our audit team didn't confirm what is mentioned in the observation of KPMG; as registration in general journal conducted chronologically.
- D. Our audit team didn't sustain what is mentioned in the observation of KPMG concerning treating the cancelled entries and the cancelled disbursement vouchers in the same way by writing down (invalid) and the team stated that the entry had been reversed.

2- The manual and automated accounting system (medium):

We observed that the balances derived from the automated accounting system were not identical with balances of general journal for first half of each month of 2008. The ministry explained by its reply that the balances derived from the automated accounting system are compared with the balances from general journal and they should match, on the other hand there are monthly basis reconciliations between the automated system and the general journal record, conducted by internal audit department, and the financial department amended the reconciliation entry during 2008. Our audit team didn't sustain what is mentioned in KPMG's observation and stated that all balances were identical except revenues account of June 2008, a difference amounted (ID 52000) had been found between the balance of trial balance and general journal.

3- Auditing the documents of procurement committees (high):

During review the disbursement vouchers, we found that the procedures of procurements audit hadn't been taken seriously, for example we mentioned the following.

- A. Disbursement voucher (8360) on 17/1/2008: the procurement committee brought three price proposals, two of them issued by the same party.
- B. Disbursement voucher (8368) on 23/1/2008: the ministry disbursed without procurement committee as stipulated in the regulations.
- C. Entry voucher (1599) on 29/1/2008: procurement committee presented three price proposals, two of them issued by the same party.

- D. Disbursement voucher (8634) on 05.03.2008: procurement committee presented three price proposals, two of them issued by the same party.

The ministry replied as follows:

- A. The internal audit department confirms the audit of procurement process in accordance with the valid regulations as for presenting three proposals from different parties which are:
1. Al Rahman Aluminium office.
 2. Al Maghreb blacksmith office.
 3. Al Sakhra Aluminium office.
- B. The above mentioned document was paid without the intermediary of procurement committee due to the secrecy of the work and the security situation.
- C. At that time an amendment to the model of the requested devices has taken place, according to the memo attached to the document, therefore a second proposal was presented by Al Safeer Company on 16.01.2008.
- D. The procurement receipt issued by Tareeq Al Israa office is not a proposal but is a delivery voucher, so there is no repetition in the proposals.

The follow up of our audit team resulted the following:

1. The observation concerning the disbursement voucher (8360) on 17/1/2008 was not accurate; since there were three price proposals from different offices.
2. The audit team sustain what is mentioned in KPMG's report concerning the disbursement voucher (8368) on 23/1/2008; since disbursement had been made without procurement committee.
3. Our audit team sustain what is mentioned in KPMG's report concerning entry voucher (1599) on 29/1/2008 that related to presenting three price proposals by procurement committee, two of these price proposals issued by the same party.
4. The observation concerning the disbursement voucher (8634) on 5/3/2008 was not accurate; since there were three price proposals from different offices.

II: Ministry of Oil /SOMO

(1) Trial Balance (High)

We have not received 2008 trial balance till the date of preparing this report on 18th March 2009. We, therefore, were not able to verify the correctness of balances. SOMO sustained KPMG's note. SOMO provided BSA with the trial balance according to its

letter no. 8797 on 06.04.2009, and the MoO addressed the General Secretariat of Council of Ministers through its letter no. 748 on 12.01.2009 to obtain approval to submit the financial statements on 31.03 each year, accordingly the General Secretariat addressed the Ministry through its letter no. 8325 on 23.03.2009 informing it with BSA point of view without expressing the G. Secretariat opinion.

(2) Accounting System (Medium)

During our visit to the company, we noted that the company uses Access program; and it does not cope with the significance and the magnitude of the company's activity, which leads to delay in work. SOMO explained that there is a contract with Ministry of Industry (State Company for information systems) to develop an automated system but still did not completed the final version of the system to date.

(3) Fines (high)

Related to the fines, KPMG stated that there are delay fines due on SOMO for delay in loading the ships amounted \$ 24,470,389 during 2008. SOMO explained that the reasons of the delay were due to insufficient of crude oil storage, pumping and loading capacities. We sustained KPMG's observation and recommend that Ministry of Oil took the necessary actions to increase the above mentioned capacities in addition to the responsibility of the State Company for Iraqi Ports in this sense. BSA stated the same observation in its previous reports.

(4) Destination Change (high)

Through our review of the crude oil contracts, it was clear that Shell Company had changed direction of one of the cargoes from North America to Far East which resulted in due amount to be paid by Shell amounting \$ 26287818. SOMO asked Shell to pay that amount; While Shell neither recognized nor remits the amount until the date of our visit on 18th March 2008. However, SOMO has sold other quantities to Shell during that period. No reply from SOMO is received yet. SOMO explained that Shell has changed the destination and the Minister of Oil instructed on 04.03.2009 to ask the Company to pay the amount, therefore we confirm the necessity of collecting the amount as the terms of contracts do not allow oil importing companies to change the destination agreed upon of the shipped quantities.

(5) National Bank of Jordan (Ahli) (High):

During our visit to the SOMO, it became clear that SOMO had old balances with National Bank of Jordan (Ahli), the amounts are as follow:

\$ 7,868,578, €922,704, 6,935 Francs, £ 1,389

SOMO sent a letter on 9/2/2009 to Jordan National (Ahli) Bank regarding confirmation of the balances. On 1/3/2009 the said Bank sent a letter to inform SOMO that there are no balances belong to SOMO, and any correspondence in this regard should be made with the Central Bank of Jordan. SOMO explained by its letter no. 1/1653 on 27.04.2009 that it had addressed CBJ to transfer the balances to DFI account, CBJ referred SOMO's letter to the Jordanian Minister of Finance/Head of Frozen Deposits Management Committee; according to CBJ letter no.6515 dated 3rd May 2009, yet, none of these amounts has been transferred until the date of this report. It should be taken into consideration that the amount stated in KPMG's report differs from the amount mentioned in SOMO's letter, and as follows:

Details	Dollar
KPMG report	7868578
SOMO report	4771541
Difference	3097037

(6) The suspended items in banking reconciliations:

Through the reconciliation process between SOMO and TBI (Account No. 1151, 1084), we observed suspended items for a long period with huge balances since 2007, taking into consideration that SOMO has opened these accounts in 2007 to address suspended items of account No.1029. SOMO stated that the suspended balances for 2006 were completely settled and amounts are still suspended and SOMO is carrying on its follow up. In our opinion the amounts still suspended to date are as follow, and not as mentioned in SOMO's reply:

Amounts appeared in SOMO's records and did not appear in bank's disclosure	Amount US\$	Amounts appeared in bank's disclosure and did not appear in SOMO's records	Amount US\$
Deposits	320716783	Deposits	73738404
Withdrawals	148212954	Withdrawals	105504465

The audit team sustained the note of KPMG's report, which is still outstanding.

(7) Payable amounts from Ministry of Electricity (Medium):

Through our review of SOMO, we observed amounts accrued on Ministry of Electricity according to an agreement of \$(48,033,030) between SOMO and the Turkish Company and Ministry of Electricity for the period 1/7/2007 to 31/12/2008 and amount of (27,200,725) Iraqi Dinar for the period 1/1/2008 to 30/6/2008. SOMO stated that it issued many letters to Ministry of Electricity to collect the outstanding amounts, as mentioned in letters no. 490, 818 and 585 on 04.02, 01.03, 21.04.2009 respectively, while Ministry of Electricity did not pay the amounts. The follow up of BSA audit team showed that the amounts mentioned in KPMG's report did not match with the figures mentioned in SOMO's records, and we recommend going on collecting them. According BSA audit team's memo no. 20 on 08.07.2009 SOMO was requested to provide the above mentioned balances as mentioned in KPMG's report and no reply was received to date.

(8) Reconciliation of crude oil sales (Medium):

During our visit to SOMO, we observed that it has made reconciliation of crude oil sales with the CBI on monthly basis without making reconciliation with MoF. SOMO confirmed conducting reconciliation on monthly basis with CBI, but it did not confirm the reconciliation with MoF. Our audit team confirms the necessity of conducting reconciliation with MoF through documented matched statements.

(9) The commercial and operating accounts (Medium):

Through our visit to SOMO, we observed that SOMO prepares two types of accounts, the commercial and operating accounts, without consolidating them. SOMO replied that it is possible to consolidate the accounts after the completion of implementing the unified system of commercial accounts. Our follow up showed that there is a committee formed from MoO, BSA, MoF and the CBI to develop a new accounting system of commercial accounts and did not complete to date. ,

(10) Commissions (Medium):

Through our visit to SOMO, we observed that the accounting department registered the commissions of oil products for nine months only in the statement of commercial activity (42) for 2008. SOMO sustained the note and explained that the reason is the confirmations from beneficiary companies are not completed. In our opinion it is not permitted to record these commissions in 2009 for it will be in contrary with accounting system principles and other financial regulations and it is necessary to adopt accrual basis when recording these commissions.

(11) Oil products Sales (High):

Through our visit to SOMO, we observed that the accounting department doesn't make reconciliation between oil products sales on accrual basis and the receipts of these products sales. SOMO explained that the adopted system in the company applies accrual basis and not cash basis, and in all cases SOMO should conduct reconciliations between oil products sales and their receipts and adopt accrual basis when recording such transactions.

III: Ministry of Oil

1- Burned Produced Condensers (high):

During our visit to the ministry, we learnt that North Oil Company burns quantities of condensers produced from Ajeel field due to the lack of discharge outlets. The burned quantity during 2008 was 1391230 barrels. The company stated, in its letter No. 13438 on May 26th, 2009, that rehabilitating crude oil extraction units will start, and condensers will be mixed with it and resort to transport these condensers by tankers, or re-injecting them in wells when security situation allows; the issue is under follow-up. The results of our audit team showed that condensers are light liquids come out with crude gas extraction process. Due to the breaches on exporting lines of Ajeel field and the inability to inject the liquids in these pipes, they are burned currently and the company is working on re-injecting these liquids in one of the nearest wells till the rehabilitation of the field pipeline, taking into account that Ajeel field (west of Tikrit) is considered one of the richest field of crude gas; yet, oil production in this field has stopped as it was looted after the events of 2003.

2- Missing barrels (high)

When we visited the ministry, we noticed that there are 698083 missing barrels in 2008 in North Oil Company due to terrorists' acts. In its letter no.13438 on May 26th, 2009 the company stated that the missing quantity of crude oil and refineries surplus which resulted from damaged pipelines (damaged by insurgency) in 2008, was mostly during the first quarter of that year, and later on decreased as the security situation improved. Besides, NOC transports what can be transported of the leaked oil. Our follow-up showed that number of missing barrels is inaccurate; the exact quantity is 658737 barrels. The total wasted quantities were due to insurgencies and terrorists' acts according to the letter of operations officer no.44 on January 19th 2009 addressed to the head of legal department, and the quantity mentioned above is the same quantity admitted in the production report and the financial & administrative report of the company and the quantity accredited by us to be deducted from the stock of crude oil at the end of the period

3- Oil Injection (High)

When we visit the ministry, we found out that North Oil Company has re-injected (586,392) barrels in wells during 2008 which led to damages in oil wells. The company, in its letter (no. 13438 on May 26th, 2009) argued that 462392 barrels of crude oil, and 124000 barrels of refineries' surplus were re-injected in wells during 2008 (in January and March only) because of the inability to export these products as insurgencies damaged the Iraqi – Turkish pipeline, and the company needs to continue producing crude oil in order to produce the associated gas, and LPG for local consumption. Our audit team's follow-up showed that the correct numbers approved in the financial and administrative reports and the product report are as follows:

Crude oil and condensers injected in Kirkuk reservoir	457000
Crude oil injected in Ein Zala oilfields	5392
Total	462392 barrels

Worth to mention that re-injection process stopped completely due to the continuation of exporting crude oil after the improvement of security situation, and the availability of huge quantity of gas from Ajeel field.

4- The General Strategic Plan of the Government of Iraq in 2008 (high)

When we visited the ministry, we found that the ministry prepared an annual plan on January 23, 2008. The quantities to be produced according to the plan were 585000 barrels/day for NOC and 2,135000 barrels/day for SOC. The actual daily averages of produced quantities are 577000 bpd and 1703000 bpd for NOC and SOC respectively. When comparing the planned with the actually produced quantities, we noticed that there is a deviation by 432 thousand barrels per day for SOC. The answer of the company was in its letter no. 13438 on May 26th 2009, referring to several production problems that faced the extraction sector being discussed in many symposiums and seminars. The ministry has set its future plans to increase production levels and defined the measures needed for achieving such increase, and the requirements for addressing present congestions; the ministry has also submitted to the presidency of Council of Ministers several suggestions in relation to overcome the obstacles and improve production levels, among which is granting exceptional authorities for implementing oil facilities reconstruction projects, and facilitating financial and legal procedures in place. The follow-up of our audit team in Kirkuk showed that the original production plan of the company, approved in the beginning of the year and reported to MoF and MoO was to produce (696) thousand barrel/day; and this was approved as benchmark for comparison in relation to production plan. Inquiring about the source of barrels number (585) thousand barrels/day mentioned in KPMG's report by the operations officer of the company, we found out that this number was from the updated plan of crude oil production for the 4th quarter of 2008 which was approved by the opinion commission in the ministry.

Concerning the daily average of the actual produced quantities by NOC which reached (577) thousand bpd, according to what was mentioned in the KPMG's report; our audit team showed that actual production average of NOC was (57742) thousand bpd. This is the outcome of dividing the total annual production, which is 211182 barrels, by 366 days. This is recorded in the annual production report of the NOC issued by the operations body, and in the NOC's financial and administrative report and should conform to KPMG's report.

Our audit team working at SOC showed that what was mentioned by KPMG regarding this note was inaccurate in relation to the quantities produced according to the plan, and daily average of the actual quantities produced as the following table would state:

	Planned thousands bpd	Accomplished thousands bpd	Difference thousands bpd
KPMG data	2135	1703	432
South Oil Company data	1900	1750	150

Besides, this note was mentioned in our previous reports, such as our report No.8840 on 7/8/2008.

5- Exported quantity's measuring method (high)

During our visit to the ministry, we found that NOC uses the base of (shipped quantities until midnight) in preparing the report of (balance and reconcile quantities of crude oil and oil products). However, to reconcile with SOMO, it uses bill of lading. This way led to differences in the exported quantities in the report of balance and reconcile of crude oil, although the ministry instructed all the companies to use the bill of lading. The Ministry replies in its letter no.13438 on May 26th 2009, stating that monthly reconciliations of disposal, receipt, and stock at Ceyhan port are governed by meticulous mechanism conforms to international procedures. Thus, monthly balances are based on the total of actual shipped quantities until the last minute of the closing day of the month. But, calculating net shipped quantities (according to bills of lading) was for financial reckoning with external parties contracted with SOMO for exported Iraqi oil. Taking into consideration that total and net shipped quantities are calculated according to bills of lading when loading complete (or when there is no loading) or supplying the Turkish refinery of Kerici prior to hour (24:00) of the last day of the month to account for. Our procedures in this regard are going on with the internal control department in the ministry and SOMO to determine hour (zero) in case of the completion of the loading at the beginning of the new month.

Our follow up stated that NOC adopted midnight of the last day of each month to account for the total shipped quantities in Ceyhan port; on this base, the total shipped quantities are accounted for.

In some cases the ship which has been loaded on the last day of the month may continue loading extended the next day of the following month; thus, loading would stop for half an hour after midnight and then resumed to complete the shipment, with the quantity registered on the next month one shipping and prepare one document for the total

shipped quantities on that ship. This method has been used for a long time to avoid the problems of monthly changing sale prices and to avoid preparing more than one document of the shipment and there are no recorded differences within the monthly and annual reconciliations between NOC and SOMO in this regard. Despite having several debates in this regard at the ministry in the presence of the parties concerned; yet, better procedure was never reached.

(6) Reconciliations Section (high)

During our visit to the Reconciliation Section at the ministry, we noticed that there were differences between the quantities supplied by NOC and those received by the Refineries Company which amounted 290 barrels; and 50134 barrels between SOC and Refineries. The ministry replied according to the letter form department of studies and production account at NOC no.597 on March 25th 2009, stating that there were no differences as for 2008. Besides, they usually relied on the readings of meters installed on crude oil pipelines at NOC. The company has stated its reply in letter no.13438 on May 26th 2009 concerning the differences mentioned in KPMG's report as follows:

- 17003 barrels between NOC and North Refineries recorded in the preliminary reconciliation report resulted from a mistake in recording the quantities received in September, committed by North Refineries; this was corrected in the final report.
- 317 barrel the difference between NOC and Al-Mussaiyab power plant resulted from a mistake in recording the quantities, committed by the power plant; this was corrected in the final report. The present difference is 73 barrels, which within the allowed limits.
- 47502 barrel difference between SOC and Midland Refineries Company resulted from recording quantities in normal degree. This was corrected in the final reconciliation 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 were daily receipt confirmations through letter issued by North Refineries Company stating the actual received quantities. Moreover, NRC paid for the total quantities of crude oil supplied without objection.

(7) Midland Refineries: received earnest (medium)

During our visit we noticed that the Refineries have collected preliminary earnest amounting 3% from the total offer amount of the contract, in the form of bank guarantee, according to instructions issued by the High Commission of Contracts. Yet, these guarantees were issued by foreign banks outside Iraq; a procedure that does not comply with those instructions which ordained issuance of such guarantee by Iraqi banks. Example: a contract to provide 3 air compressors, check value of \$ 210000 issued by a Jordanian bank. The company replies in its letter no. 3199 on 29.07.2009 that it had refunded the amount of the guaranties' checks to the supplier after the submission of performance bond amounted 5% of the awarded contract that issued by TBI and the materials are under production and shipment. Our audit team sustained the note, and stated that it was addressed now, as the guarantee is issued by Iraqi banks or ratified by Iraqi banks in case it is issued by foreign banks. Also recent instructions have stressed on requesting an authentication letter for such guarantees by the parties concerned.

(8) Drilling Company/opening bid's Committees (Medium)

During our visit to the company, it was clear for us that one member of the opening bid's committee has his name mentioned repeatedly in more than one committee from 25.7.2007 to 31.12.2008. The company replied in its letter no.13438 on May 26th 2009, stating that the administrative orders forming these committees for 2007-2008 were issued in proximate dates due to involvement of such committee member in delegation, leave, or something else. However, the membership of Mr. Ahmed Ramzi did not exceed time limit set in IG circulation no. 2\739 on February 19th 2007; moreover, in March 2008, Mr. Ramzi was released from committee membership according to order no.1278 on March 19th 2008. Our audit team sustained the note mentioned in KPMG's report which showed the repetition of the name (Ahmed Ramzi Subhi) yet in his capacity as an accountant.

(9) Drilling Company/Performance Bond (Medium)

Through our review to the company's contracts, we noticed that the contracting companies did not comply by the period specified in the contract for submitting Performance Bonds. Example: Contract No. DC4/B/2006 or IDC/100/2008. The company replied in its letter no. 13438 on May 26th 2009, stating that performance bonds are key documents without which any contract would be invalid. Drilling Company would not open L/C unless performance bond is submitted. However, delays

in submitting PBs usually result from correspondences; anyway, no L/C is opened unless PB is submitted. Our audit team sustained the note mentioned in KPMG's report concerning the non compliance of the contracting companies by the specific periods according to the contracts & instructions concerning letters of guarantee. This subject is pointed out by BSA in many reports several years ago.

(10) Oil Projects Company/preliminary earnest (Medium)

During our visit, we have noticed that the Ministry has collected preliminary earnest in the form of bank guarantees out of the total offer amount. Yet these guarantees were issued by foreign banks outside Iraq and thus do not comply with the instructions issued by the Iraqi banks. Example: offer No.2145/QR 12/2006 issued by a Jordanian bank. The company replied in its letter no.13438 on May 26th 2009, stating that the aforementioned bid was executed prior to the issuance of government contracts execution instructions for 2007-2008; and the guarantee was accepted by TBI. Besides, the company follows the instructions in relation to all bid and contracts executed after the issuance of the aforementioned instructions. Our audit team stated that the note existed and was addressed by the company.

(11) Ministry Headquarters/Account approved by the Ministry of Finance (Medium)

MoF did not approve the consolidation record which includes a summary of the fiscal year accounts. The company replied in its letter no.13438 on May 26th 2009, stating that required reconciliations for consolidation record have been done with MoF for 2008 and it matched, but the record was not sealed as MoF required reconciliations of previous years. 2005, 2007 reconciliations were done, but 2006 reconciliation is still in process; the delay is a result of fire set in accountancy department which greatly delayed accomplishing the reconciliation as many documents were lost in the fire. Our audit team sustained the note mentioned in KPMG's report concerning the non ratification of consolidation record by MoF. The team also stated that the note still outstanding and mentioned in the report of BSA.

(12) Ministry Headquarters/Stolen vehicles

During our visit to the Ministry, it was clear that there were vehicles stolen from the Ministry by known parties prior to 2008, yet not restored. According to the request of the Secretariat General of the Cabinet, these stolen vehicles should be restored. The ministry stated that legal actions are in progress to restore the vehicles taken by political

parties or stolen, taking into consideration that there was no single theft in the ministry headquarters during 2008. Our audit team working in the Ministry stated that MoO has undertaken all legal measurements related to the stolen vehicles. Yet if the intention of the note was to refer to the vehicles lent to parties known prior to 2008, then we sustain the note although this was mentioned years ago in our reports.

(13) Ministry Headquarters/Contracts Department/legal directorate (Medium)

During our visit to the Ministry Contracts department, we noticed the following:

1. It has no status report for the Ministry tenders and contracts, at least for 2008 or those signed prior to 2008 and are still valid.
2. The Department does not apply any archiving and numbering of contracts concluded by the Ministry headquarters.
3. The Department has no central record that comprises all contract documents.

The ministry did not reply yet, and our audit team sustained the note mentioned in KPMG's report.

(14) Contract Amount Increase (Medium)

Throughout reviews we noted that the amount of two contracts for supply and installation a boiler and Isomerization unit in Dorah Refineries has been subject to increase of \$ 550000 and \$ 4086000 respectively during 2008 due to the delay by the Ministry in settling issues. The Ministry did not sustain the note arguing that there are crucial procedures taken by the MoO to obtain all due approvals for finalizing the boiler contract. As for the other unit, the award was on December 21st 2005, however, given the high importance of the contract, the several procedures taken to secure its being duly executed, have consumed much time, including approval of the Economic Committee at the Council of Ministers on October 20th 2007. Our audit team at Dora refineries sustained the note mentioned in KPMG's report in relation to the boiler contract; in its letter no.17873 of July 24th 2008, the Secretariat General of Council of Ministers approved MoO request of increasing the contract price by \$ 550000, recognizing the importance of the contract with regards to the need for developing oil sector. As for the Isomerization unit, the supplier raised the price to compensate the difference in exchange price of dollar v Euro occurred as the approval on the contract delayed. In decision no. 248 in 2008, Council of Ministers approved increasing the price of the contract (\$ 4086000) signed with the Italian Company S.T.P.

15 Completion of oil sales and oil products (high)

In March 2004 the IMAB recommended the necessity of expedite the installation of comprehensive metering system for oil in Iraq in compliance with practices followed in this industry. Metering system is crucial for attaining financial accountability and transparency on oil resources in Iraq. Although the Iraqi government supports the process of installation of metering system, and there is a letter sent by the Minister of oil to the Head of COFE stating that the completion of installation of metering system is 31st December 2009, yet we know that only 33% of the process was completed as of 31st December 2008; the installation works are expected to continue till 2011 according to the letter of the department of meters and counters on 16th march 2009.

As there is no comprehensive control system over oil, differences between extracted, produced, exported, and locally consumed quantities appear. The Ministry answered in its letter no.13438 on May 26th 2009, stating that they hope the installation would be achieved fully within the specified time limits; however, there are several issues out of their control, such as lack of appropriations, or supplying the meters by foreign companies including installation, commissioning and certification. Nevertheless, our follow up states that MoO has developed a plan for installing meters and counters at all levels of oil industry and expecting to be finalized during 2011.

(16) Differences between MoO and South Oil Company (high)

It was clear through our visit that there are differences between the crude oil quantities produced according to the Ministry's records and those of South Oil Company. The produced quantities according to the Ministry records amount 623341260 barrels whereas according to South Oil Company, the quantities amount to 630115418 barrels. This makes the difference 6774158 barrels as of 17.03.2009. The Ministry has informed us that the reason behind this difference is attributed to the South Oil Company whose reply is not yet received. Our audit team has already sustained KPMG's note concerning South Oil Company crude oil produced in 2008 amounting to 630115418 barrels. This was confirmed in the annual report of the Gas & Oil Movement Section, affiliate to the South Oil Company. This note however was mentioned in our previous reports such as report No. 8840 on 07.08.2008.

IV. Ministry of Telecommunication

(1) Organizational chart and Job Description (medium)

The KPMG's report stated (We have noticed that there is no official job description which states the levels of responsibility and accountability). The ministry replied that the observation is not correct, as the ministry has an organizational chart, although it is not approved. There is a committee in the ministry headed by the technical consultant of telecommunication security to reconsider this organizational chart so that it copes with the development of the Ministry. Also, there is a cabinet's letter no. 2/1/7102 dated 12th July 2005 urging them to send the draft law to establish the organizational chart of the Ministry. Our follow-up has proved the correctness of the observation, as it has been reported in the result of Internal Control evaluation report no. 10/41/1/10006 dated 28th Aug. 2008.

(2) Ministry of Finance approval on Accounts (medium)

The KPMG's report stated (Ministry of Finance has not approved the consolidation record which contains the summary of 2007-2008 accounts up to 28th Feb. 2009). The Ministry replied that its 2008 final statements are submitted on 28th Feb.2009; therefore, such record has not been approved by MoF yet. As there is an adjustment limit on the financial statements, the approval on the 2007 financial statements has been postponed, and those statements are expected to be issued together with 2008 financial statements. The audit team sustained the observation.

(3) Accounting system automation (medium)

KPMG's report stated (we have noticed the accounting entries released, written down in the journal and posted to the ledger as well as trial balance and financial reports are conducted manually). The ministry has replied that it applies IFMIS system and manual registration in the same time, but the project has come to halt because of abduction of the five experts from MoF. The Ministry has been notified that the project will resume in early 2009, and all computers and internet required have been prepared. The audit team has sustained the observation.

(4) Bank accounts (medium)

The KPMG's report stated (the ministry has two bank accounts, one with TBI and the other with Al-Rafidain Bank, and when bank reconciliation is made, such reconciliation would include the two accounts). The ministry has not confirmed this observation as

there are separate reconciliations for each account; reconciliations are consolidated in one sheet for the purposes of MoF for 2009. Our audit team has stated that, during 2008, a reconciliation has been made to include the above two accounts.

5- Fixed assets record (medium)

KPMG's report stated: (we observed that the fixed assets record does not include identification numbers of the fixed assets, as assigning an identification number for each asset helps the ministries to track the trail of each item up to the fixed assets record and provide the possibility of accountability concerning fixed assets, besides it eases the process of the material verification of the ministry's fixed assets). The ministry approved the correctness of the observation and shall order the application of identification of the fixed assets in 2009. The audit team approved what has been stated in KPMG's report and it was pointed out in BSA report concerning the results of checking and evaluating the internal control for 2007(10/41/1/10006) on 28/8/2008.

6- Working hours control: (medium)

KPMG's report stated: "we observed that the working hours control is done through plain paper signed by the employees when they arrive in the morning and there is no system to control the end of the working day, the lack of automated working hours control system (automated working hours) could lead to weakness of control of employees work). The ministry replied that there are records to control the working hours at the information desk and the LAN project was assigned to one of the companies to develop an integrated computer system for information inside the building including finger print devices to control employees working hours. The audit team sustained the observation mentioned above.

7- State Company for Communication and Post (SCCP) – the balance sheet (low):

KPMG's report stated: "we did not find a trace of an opening entry in the company's records from 2004 to 2008". The ministry replied that it has submitted the company's statements to BSA and they were accepted in their preliminary form and were returned because of the interference between the investment and current plan and the analyses were not completed, these mistakes are going to be corrected when presenting the statements in their final form to BSA. The audit team approved what was stated in audit KPMG's report as the company's accounts were not issued from 2004 to 2008 because of the interference between the investment and current accounts of the plan, so they were returned from BSA.

8. SCCP – Bank accounts reconciliation: (high)

KPMG's report stated: "there were no bank reconciliations for 2007, 2008 and until January 2009". The Company replied that the delay was due to the appearance of an amount of (59400) thousand dinars in the bank statement account for February 2007, which has not been settled by the bank. The bank is to be contacted to address the situation and the 2007 reconciliation is in progress. The audit team approved the observation and showed that the differences in the bank account does not mean necessarily not conducting the reconciliations, but conducting them keeping the amount within the outstanding, and follow up it's settlement afterwards, bearing in mind that the company has many current accounts with banks instead of one current account.

9. SCCP - Accounting System Automation (medium):

KPMG's report pointed out the following: (We have noticed that establishing the accounting entries, writing them down in the journal and posting them to the ledger, as well as producing the trial balance and preparing financial reports have been conducted manually). According to the Ministry the reason behind that are lack of computers and trained staff, and the absence of a reliable automated system to be adopted as a work practice. The computer center will coordinate with the consultant offices to prepare a unified system. The audit team sustained KPMG's observation.

10. SCCP - Contract Files (high):

KPMG's report stated the following: (During our visit to SCCP, we have noticed that contracts supporting documents are not kept organized. The documents of each contract are dispersed among the accounting department, legal department, import department and planning and follow up department, a situation that would complicate acquiring and following up some of the contracts and their relevant documents). The Ministry replied, stating that SCCP is lacking a complete contract department able to assemble all contract steps, and with the Ministry's new structure a contract department in the ministry headquarters is to be established. The audit team confirmed the audit report content, and that such observation was identified in the examination and evaluation results report of the internal audit system, No. 10\41\1\10006 dated 28\8\2008.

11- GCCP - Tower Protection Fees: (high)

KPMG's report pointed out the following: (During our visit to SCCP, we have noticed that the inspector general's audit committees found out that the mobile phone companies towers protection and location fees were neither requested from nor paid by these companies. The fees totaled \$ 8.2 million as of 30\10\2008. The Ministry replied that requesting tower protection fees shall be conducted by the Ministry of Telecommunications / Facility Protection Commission and the fees payment follow up is underway, as well as for location fees. The latest payments have contributed to decrease the said amount. The audit team approved the observation of KPMG's report, which was identified in its report No. 10\41\1\1460 dated 9\2\2009. The observation refers that the mobile phone companies did not sign contracts to interconnect their networks with the certified networks of telecommunications service providers, including SCCP. The mobile phone companies have been utilizing SCCP's infrastructure since 2003 up to the preparation of this report. During our follow up with SCCP related to the implementation of the cabinet's General Secretariat letter No. L. Q. \355 dated 2\4\2008, which stated that the debts incurred by mobile phone companies were collected by the Ministry of Telecommunications in coordination with Information and Telecommunications Commission and Mobile Phone Committee. SCCP as per its letter No. 60 on 24\4\2008 to the Ministry of Telecommunications determined the dues on the mobile phone companies (Iraqna-Atheer-Asiacell) as follows:

Co. Name	EI fees Thousand dinar	EI installation Thousand dinar	Optic Cable Fees Thousand dinar	Optic Fiber Cable Installation \$	Location Fees \$	Towers \$	Electric Current Thousand dinar
IRAQNA, ATHEER and ASIACELL	6,318,570	873,0000	5856109	417,000	14,892,203	3,132,950	1633

12- SCCP –Contracts (high)

KPMG's report stated the following: (During our visit to SCCP, we have noticed some cases where contracting measures are not complied with. Some contracts were made through direct invitation without having competitive offers and a documented justification of award, such as the contract No. 28/2008 of approximately \$ 13 million. The Ministry stated that competitive offers were received as five companies were invited, three of which sent their offers. Offers were reviewed by the Study and Analysis Committee, which selected Alfaconsult Co. as the best company. Following that, the Central Contract Commission approved the committee's report. Our review showed that SCCP did not identify the contracts upon which direct invitation was made. As for the contract no. 8/2008, SCCP /Legal Dep. invited the following companies to present the technical and commercial offer:

- 1-Alfaconsult Co.
2. Consultant Co. for Information
3. Al-Rawasi Co.
4. Al-Shurakaa for IT

13- SCCP - MOU Contracts (medium)

KPMG's report identified the following: (during our visit to the Ministry of Telecommunications and review the financial position of the contracts made in favor of SCCP under the old Memorandum Of Understanding (MOU), we have found out that some of the contracts' financial position does not comply with the financial position at CBI). The Ministry replied that a committee headed by the assistant director general of the Ministry's Planning and Follow up directorate was formed, and is still working to settle the financial position of MOU's contracts. The audit team approved KPMG's report content.

14- SCCP Penalty of the contract of "Technology Company for communications" (high)

KPMG's report stated "During our visit to the communications co. we noticed that the contract No. 19/2005 signed with Technology Co. for communication impose a penalty estimated \$ 282000. The Co. paid \$ 2850 and withheld to pay the rest amount estimated \$ 279150.

The Ministry has answered that according to the minister's instructions- attached; \$ 2850 has been seized instead of the amount mentioned above \$ 282000, noting that the

penalty is estimated \$250000 which represents 10% of the contract amount but not \$ 282000. The audit of the contract 19/2005 related to supply a public phone network with pre- paid cards with cost estimated \$2500000 for SCCP showed that one of the contract's items includes a penalty for each day delay amounted % 0.001 not 0.001, but that amount should not exceed % 10 of the contract value. The ministry counted the penalty according to the rate mentioned in the contract for 114 days amounted \$2850 instead of \$250000, whereas this amount should not exceed 10 % of the contract value.

15- SCCP Tender of Quwat AL-Asad co. & Iskrateling co.(high)

KPMG's report stated (during our visit to the SCCP Co. we noticed that there was a tender, both Quwat AL-Asad Co. & Iskrateling Co. have participated in. The contract was awarded to the first one, during our review on the contracts; we found a letter of Iskrateling notifying SCCP co. that Quwat AL-Asad co. is the authorized by Iskrateling to represent it in Iraq, so the competition factor that impose the participation of more than one participant in the tender does not exist). The ministry has answered that Quwat AL-Asad co. is the authorized & registered in Iraq whereas; Iskrateling is not registered in Iraq. The spare parts are supplied exclusively by Quwat AL-Asad co. the audit team has approved what has been mentioned in KPMG's report on the competition factors as Quwat AL-Asad represents Iskratling in Iraq as per letter no. 2008/1478 on 25.06.2008 addressed to SCCP, noting that the direct invitation sent to Iskratling was cancelled for not being registered in Iraq and an acquisition was declared. SCCP knows Quwat AL-Asad co. the official and exclusive agent of Iskratling according to the letter dated 06.09.2008 from Quwat AL-Asad addressed to the Minister's office.

16. State Company for international network for information services – grants & gifts (medium)

KPMG's report stated (during our visit to the co. and inquiring the employees, we found that there are grants and gifts since the previous year which have not been registered in the assets record). The ministry has answered that a committee had been formed in 2008 to register them in the company's record and a report was submitted to the director general for approval. We approve KPMG's note which was also mentioned in our report on the company no. 10/41/3/13347 on 10/11/2008.

17- State company for international network for information services – fixed assets (medium)

KPMG's report stated (during our visit to the co. and inquiring the employees, we found that there are depreciated fixed assets that should be destroyed and written off). The ministry answered that a committee had been formed to write off depreciated fixed assets and a statement of these materials had been delivered to the higher write off committee in the ministry.

The audit team approved the note and it was mentioned in our report no. 10/ 41/3/13347 on 10/11/2008 within the results of testing and evaluating the internal control system report no. 10/41/10006 on 28/8/2008.

18- State Company for the International network for information- TBI (high):

KPMG's report stated that (the reconciliation with Trade Bank of Iraq (TBI) has not been conducted for not providing the statements by the said bank). The Ministry replied that our dealing with TBI limits within opening letters of credit related to the projects of investment plan, the bank is visited periodically to get the notices related to opening the L/Cs and all amounts released. The audit team supports this observation and it was identified in our report no. 13347 on 10/11/2008 for the company. It is worth mentioning that there is a letter no. 1/1/15/3973 issued by BSA on 19/5/2008 included statements of the suspended L/Cs for a number of import contracts.

19- State Company for the International network for information - war damages 2003 (medium):

KPMG's Report stated that (through our visit to the Company, we found that the company counted and estimated the losses of war of 2003, but it didn't write them off from the accounting records).The Ministry responded that the war losses are referred to the Higher Committee for write off in order to do so. The audit team supports the observation that was also mentioned in our audit report No.13347 on 10/11/2008.

20- State Company for the International network for information - Stolen materials in 2006 (medium)

KPMG's report stated that (during 2006 some assets were stolen from the company but those were not itemize in order to be written off from the accounting records). The Ministry replied that part of these stolen assets was itemize in 2007 and the other part in

2008. The audit team supports the observation that was also mentioned in our audit report No.13347 on 10/11/2008.

21- State Company for the International network for information -credit and debit balances (medium):

KPMG's report stated that (through our review of the trial balance, we found that there are suspended debit and credit balances since previous years). The Ministry replied that it will address the related parties in order to settle the matter in 2009. The audit team supports the observation which was also mentioned in our report No. 12247 on 10/11/2008 and our report concerning the result of scrutiny and evaluation of internal control system.

22- State Company for the International network for information - the company's capital (medium):

KPMG's report stated that (through our review of the trial balance, we found that the accumulated losses exceed the capital of the company), but the Ministry did not give any reply concerning this observation. The audit team sustained the observation that was also mentioned in our report No. 13347 on 10/11/2008.

V- Ministry of Youth and Sport

(1) Contracts of the US Agencies (medium):

We observed that the Ministry does not keep files of the (146) contracts signed by the US Agencies during (2003, 2004). The Ministry replied that it had no basic documents concerning these contracts. We support KPMG's remark, and we believe that coordination should be made among the Ministry of Youth and Sport, Ministry of Finance and the US Embassy to settle the matter.

(2) Stores (medium):

We observed that the Ministry does not have sufficient stores, and the fixed assets are stored in the Ministry's headquarters located in Al-Zawraa Park. The Ministry used recently a building in Al-Iskan District as a store, and all the assets will be transferred to this building. We set this observation in our report No.8/36/417, 2007.

(3) The contracts payment (medium):

The contract No (6/10/YS) amounted (10.055.865) euro, plus 10% to build three gyms halls, signed between the Iraqi Ministry of Youth and Sport and The Jordanian (ITI) institution on 1\11\2001, was suspended for two years until the first payment was paid on 18/1/2003. We found that (9.848.255) euro was paid until 11\5\2005, which represents 89% of the contract value. The documents show that the completion percentage of this contract is 35% according to the resident engineer of the project. The Jordanian company halted executing the project and the Ministry sued the Company. There was no response from the Ministry. Memoranda No (106) and (107) were submitted to the Ministry on 10\3\2009 and 15\3\2009 respectively, but the Ministry did not respond and the audit team had not been provided with the basic documents to express an opinion.

(4) The accounting records (medium):

When we scrutinized the accounting records of the Ministry, we found that these records did not include the general ledger related to the accounts of the Ministry's Headquarters, and we observed that the accounting section within the engineering department did not keep complete accounting records. The Ministry said that the observation was inaccurate, since it applies decentralized governmental accounting system. The audit team supports the Ministry's reply as the record in use is the record of consolidation.

(5) The fixed assets record (Medium):

While reviewing the record of assets, we observed that the record did not include the chassis numbers of the Ministry's vehicles. We received no reply from the Ministry. The audit team supported KPMG's remark, which was also identified in BSA report No.8/36/1/171 in 2007.

VI – Ministry of Transport

(1) Contracts review (high):

During our review of the contract to purchase 4 tug boats for (\$18. 800. 000) from Wazef Company dated 6/12/2004, and as a result of the delay in opening the letter of credit, it was re-contracted in 2008 to purchase 2 tug boats for (\$18 800 000). The Ministry said that the note is related to the State Company for Iraqi Ports and the delay was due to the security situation in the governorate of Basrah during 2004-2007. The increase resulted from the internationally soaring oil prices during the first half of 2008.

The committee of economic affairs in the Cabinet approved the increase and that the contract completion was 75%. Our review indicates that the tender delay for more than (32) months from the date of issuing the award letter was due to non-transference of the entire amount of L/C according to the contract terms. The supplier already sent 14 letters to the State Company for Iraqi Ports, reporting the continuous rise in international prices, the change of dollar v euro exchange rates, as well as the growing increase in oil prices. The procedures maintained by the Iraqi Ports were overdue, where 25% of the L/C was in effect on 26/6/2006 and 75% of it on 25/7/2007, violating the contract and its appendix which stated that the credit shall enter into effect (30) days after the Government formation. The supplier required signing a supplementary contract that requires the changing of each tug boat price to an amount of (\$ 9 400 000). The Ministry of Transport contacted the Secretariat of the Cabinet through its letter No (1384) on 28/9/2008. The Cabinet through its letter No.(341), 2008 agreed on the Ministry's suggestions, and a subsidiary contract was signed on 3/12/2008, so the tug boat price became (\$9 400 000). According to the conditions of the new contract appendix, the expected completion will be in the middle of 2009. It is worth to mention that the observation was mentioned also in our report related to the accounts of 2004 No (8972) on 30/10/2007 and repeated in 2005- accounts report.

(2) War damages (medium):

The Ministry did not itemize and assess the value of the war damages to write them off. The Ministry said that a committee had been formed to itemize the war damages according to its letter No.22926 dated 25/11/2004, but this committee did not carry out its work. Another committee has been formed according to the ministerial order No.778 on 23/2/2009. Now, it is in the process of assessing the damages and taking the necessary procedures to write them off. We sustain KPMG's observation, which was identified also in BSA reports as follows:

- (10/40/5192) dated 27/6/2006 the financial statements of the ministry's Headquarters for 2003.
- 10/40/5574 dated 6/7/2006 the financial statements of the State Company for executing Transportation and Communication projects for 2003.
- 10/6/46/9458 dated 6/11/2004 the financial statements of Al-Dhilal State Company for Passengers and Goods Transport for 2003.

(3) Debit balances (medium):

During our visit to the State Company for Railways we observed that there were a number of debit balances from previous years belong to government institutions that are not settled yet. The Ministry sustained the content of KPMG's report; the audit team also sustained the content, which was underlined in BSA reports for years 2001-2008.

(4) The inventory process (medium):

Upon our visit to the State Company for Railways, we found that the company did not form an in-house committee to conduct an inventory process in the districts of Beji, Al-Qa'em, Al-Ramadi, Al-Haklania and Kirkuk, but depended only on the inventory sent by its stations for reconciliation. The Ministry clarified that the deteriorating security situation caused the delay in preparing the inventory reconciliation reports. Besides, the company is geographically dispersed across the country, which would make it difficult to obtain information due to roads, transportation and communication cut off. However, an inspection and analysis had been made on the value of the buildings and damaged and missing means of transport. The audit team approved the content of the KPMG's report identifying that in its reports for 2001-2006. The observation is still valid for 2007-2008. The company inventories the furniture only and has not done the formal reconciliation with the sub-records.

(5) Organizational chart (medium):

We observed that there was no organizational chart and formal job description to clarify the responsibility and accountability levels. The Ministry answered that it has organizational chart and job description according to the regulation No. 6 issued in 1995. The new law of the Ministry of transport has not been legislated yet after splitting the Ministry of transport and Communication in to two Ministries.

Our audit team approved what mentioned in KPMG's report according to its report No.1/10/40/1/8976 on 11/8/2008, as well as the report No. 1/10/40/10008 on 28/8/2008, which indicated that there is no job description when we evaluated the internal audit system of the Ministry and its affiliation. As to the authorities, there are authorities issued annually upon the approval of the federal budget of the state for all levels. When comparing the organizational chart with regulation No. 6 for 1995, we observed that there are differences between them at the lowest levels.

(6) Working hours control (low)

We observed that the working hours control forms represent ordinary papers signed by the employees upon their presence in the morning, and thus there is no automated control of working hours. This will lead to weakness of the control on the employees' presence. The Ministry said that there is a manual record in the Ministry's reception in which the employees' presence is recorded and there is no control on the working hours whether in the Ministry's headquarters or its affiliations. The audit team approved what mentioned in KPMG's report.

VII - Ministry of Labor and Social Affaires:

(1)-The Organizational chart (medium):

We have noticed that the Ministry and its affiliated departments do not have organizational chart, or a new job description that explain the levels of responsibility and accountability; we have found the job description of the Ministry dates back to September 1983. The Ministry has stated in its letter no (243) on 11th March 2009, that Instructions no. (1) for 2008 issued on 15th Dec 2008, have included the structures of departments of Ministry's headquarters and their authorities according to the new law of the Ministry; new directions specific to directorates will be issued. The Ministry will update the job description that issued in 1984. The results of our audit team follow-up show the correctness of Ministry's answer, and it has included the observation in its report number (14908/1/12/6) on financial statements of 2007.

(2)- Ministry's consolidated financial statements (medium):

We have noticed that the Ministry has not consolidated its financial statements with the financial statements of its affiliated directorates. The Ministry, states in its letter no. (2435) on 2009/3/11, that the delay in consolidating financial statements of 2007 is ascribed to delay of social welfare department (social care network) in submitting the required statements because it is a newly established department with several branches scattered all over the governorates. This will be remedied in future. Audit team sustains the observations, and in its memorandum no 59 on 19.03.2008 about applying the contents of the letter of Secretariat General of the Council of Ministers no. 15375/1/1 on 13.09.2009 on statement consolidation; the Ministry, in its memorandum on 23rd March 2008, has stated working on the execution of the council of ministers' letter.

(3)- Committee on inventory of weapons stock (medium):

The committee has been established by order no 1849 on 24th December 2008; it has been noticed that the weapon storekeeper is a member of this committee, which leads to lack of impartiality in performance. The Ministry states in its letter no. (2435) on 3rd November 2009, that weapons inventory process has been done by the committee concerned, and has been verified by the high committee of assets inventory; in future it will be taken into account not to include the storekeeper in the committee. Our audit committee sustains the answer of the Ministry.

(4)-Damages of war of 2003(medium):

Via our visit to ministry, we have noticed that the ministry has identified and estimated war losses of 2003, but it has not written them off in accounting records.

The Ministry has itemized the damages of 2003 war according to the directions issued by BSA in this regard. The results of itemization have been sent to MoF for write-off approval, but the MoF approval is not received yet.

After that, a commission established in the Ministry of Planning and Development Cooperation to apply new mechanism for write-off process, the information has been sent to Ministry of planning for final approvals, but they are still pending. The audit team sustains the answer of the Ministry because the write-off of these damages needs a central decision.

(5) Automation of accounting system (medium):

We have noticed that the processes of editing of accounting entries, recording them in the general journal, posting to general ledger, extracting trial balance and financial reports are all done manually.

The Ministry has stated that it is working now with MoF to input the information in computer through the FMIS system and the automation of accounting processes will be done when the system application completes. The audit team sustains KPMG observation, keeping in mind that BAS audit team identified this observation in report no (9936) on 2008/8/27.

VIII: Ministry of Agriculture

(1) Checks of maturity date exceeds 6 months (medium):

During the review of reconciliations of bank accounts, we observed that there are checks exceeded their issuance date with more than 6 months and according to the Iraqi law, these checks considered invalid. The ministry showed according to its memorandum dated 12/2/2009 that it discharged the checks whose legal period has passed 6 months. The audit team showed that the Ministry response is sufficient, whereas we observed and followed up the Ministry discharging all the checks whereof legal period has passed. Noting that this note has been repeated within paragraph (6) concerning bank accounts reconciliation.

2) Salaries (medium)

When we review the statements of payroll we noticed that salaries are calculated on the basis of equation created inside the Ministry which differs from the equation that prepared by MoF. The Ministry, according to its memorandum dated 22/1/2009, showed that the reason of salaries fluctuation is due to using certain mechanism related to the Ministry in 2005 up to 31/8/2008 .The MoF objected by its letter No. 6696 dated 19/8/2008 and also General secretariat for Cabinet by its letter No. 16908 on 13/7/2008 on this mechanism as illegal and the salaries are re- calculated on 1/9/2008. Our follow up showed that Ministry reply is satisfactory whereas the Ministry follow its own Salary system previously for 2005 up to 13/8/2008. According to BSA objection the salaries has been once again re-calculated, whereas the Ministry established a committee to re-calculate its own employees' salaries pursuant to MoF instructions.

3) War Damages (Medium)

The Ministry has not itemized the war damages inflicted on its assets in order to determine the value and write them off because of the Ministry's inability to do so. The Ministry showed that the letter No. 17138 dated 14/8/2008 concerning the deletion of assets due to the events of 9/4/2003 was directed to the Ministry of Planning and Development Co-operation/ Legal Directorate as it is the party in charge of that. Our follow up showed that the Ministry reply is not satisfactory, as the Ministry submitted results of war damages previously and was audited by BSA but because of the formation of the committee inside the Ministry of Planning and Development Co-operation and its request from the Ministry to submit an inventory and evaluation of war damages, to this

committee as the Ministry didn't present it and explained in its letter No. 17138 dated 14/8/2008 that there is no need to do so as it was already submitted to BSA.

4) Job Description (medium)

We didn't find the organizational chart for the Ministry and the related directorates, we also observed that job description is back to 1983 when the Ministry's name was Ministry of Agriculture and Irrigation. The Ministry clarified according to its memorandum dated 22/1/2009 that there is no organizational chart for the Ministry because the bylaw is not issued yet pending the legislation of the draft law currently submitted to the General Secretariat of the Cabinet. Our follow up showed that the Ministry replay concerning the organizational chart is satisfactory as there is organizational chart for the Ministry issued in 2007, as for job description the reply is not satisfactory whereas the Ministry should update the previous job description to identify the actual and current responsibilities and duties for each employee .

5) Automation Accounting System (medium)

We observed that the process of writing down accounting entries, recording in the general journal, posting to the general ledger and preparing the trail balance and financial reports are conducted manually .The ministry showed that accounting system is manual now and the ministry continuing to link the accounting system with internet to computerize the accounting work and concluded trail balances by this system which suppose to be applicable starting from 1/6/2009 also our follow-up showed that the Ministry reply is unsatisfied, the BSA suggested that the Ministry shall use computerized accounting information system in all accounting transactions instead of manual system which is used by the Ministry now.

6) Bank Accounts Reconciliation (high)

Upon review we found that reconciliation of bank accounts included many weaknesses whereas observed there is balances from previous months in relatively big amounts without analyzing, and also deposits from previous years that has no entry identified, moreover the reconciliation included issued checks from the Ministry more than 6 months ago which was not reversed, also there are bank commissions from previous months within the outstanding. The Ministry did not confirm the existence of balances from previous months whereas there are complete analysis of the amounts that were classified during 2009, and the same case for revenues that were classified during 2009, as for the checks issued by the Ministry 6 months ago and were not reversed, the

observation is repeated in clause No (1) from the report and was classified during 2009. BSA audit team confirmed the correctness of the Ministry's answer.

7) Engineering Department Contracts (high)

There are no files or documents available in the engineering department concerning the signed contracts by the mentioned department with local contractors to implement three modern villages in Karbala in 2007 in amount of 10,400,000,000 ID and in Al Samawa and Dewania during 2008 in amount of 13738669500 ID and 13497231000 ID respectively. The Ministry stated that it submitted copies of files and signed contracts for the above mentioned projects for knowledge, and the related engineering insurance is not documented in the department.

Our follow-up showed that the Ministry's reply is not accurate as we observed that there are some of contract documents in the engineering department but the procedures of payment and follow-up the implementation is not available in engineering department as it was kept in the headquarters of Ministry of Agriculture.

IX: Ministry of Higher Education and Scientific Research

1) Bank Accounts Reconciliation (high)

Throughout our visit to the Ministry on 14 December 2008 we observed that last account reconciliation with TBI was conducted on 29 August 2007. The Ministry confirmed the note, it showed that the Ministry obtained new statements from the bank for the period 1/1/2007 up to 31/12/2007 and had done new reconciliation for the period 1/1/2008 up to 31/12/2008 whereas audited up to 31/8/2007 and the rest of reconciliations are in process of auditing by the Department of Internal control and Audit. The Audit Team confirmed the accuracy of the note that was mentioned in KPMG's report, and BSA previously mentioned in its report No. 2294/1/18/6 dated 26/2/2009 that there are delay in preparation of monthly reconciliation of TBI statement during 2007 in addition to the inaccuracy of reconciliation that was prepared by cultural directorates accounts, BSA recommended an investigation with regard to these reconciliations.

2) Computerizing Accounting System (medium)

We observed that the process of writing down accounting entries, recording in the general journal, posting to the general ledger and concluded the trail balance and financial reports are conducted manually. The Ministry confirmed this note whereas the posting is implemented manually till now, the Ministry showed that department of

financial affairs prepared in co-ordination with programmers, a program regarding computerizing and it is under test now, in order to observe the deficiencies that will occur and prepared necessary solutions and apply it in the coming period. The audit team confirmed the accuracy of the note that mentioned in KPMG's report.

3) Due checks for more than 6 months (medium)

After reviewing the reconciliation of bank accounts we observed that there are due checks for more than 6 months. The Ministry clarified that KPMG's report did not determine in which month the suspended checks appear. The Ministry stated that, it will perform settlement for the due suspended checks to post them to the trust accounts. During our follow up, we observed that there is a seized amount of (5875900) ID in bank statement reconciliation related to the investment plan as of 31/2/2008. There are no suspended checks in the current accounts as of 31/12/2008.

4) Consolidated financial statement of the ministry (medium)

We observed that the ministry does not consolidate the financial statements with related universities and departments' financial statements, as they are considered financially independent facilities and department of the Ministry. The Ministry agreed with this note and it has been handled in computer program to unify the accounts of the Ministry formations with the accounts of Ministry's Headquarters for statistic purposes in early 2009. Whereas every administrative formation has its own budget that is treated independently by MoF. Our follow up showed the correctness of this note which is mentioned in KPMG's report, and BSA audit team agreed also with taken procedures by the Ministry to handle the note in early of 2009.

5) Records of the Ministry (medium)

By inspecting the records of the Ministry we observed that there are many records in unaccepted condition because of the mistakes, scratching and corrections especially in allocations, advances and trust records. The Ministry agreed with this observation which was specified by KPMG. The staff was ordered to take the suitable procedures to avoid scratching and corrections in the records. The audit team confirmed this observation.

6) Filing system (medium)

During our visit and check many accounting system aspects and procedures of the Ministry, we observe that the filing system (archives) is performed in unorganized way which is hindering the audit or retrieving documents easily. The Ministry agreed with

this observation and it was addressed on 1/1/2009 by preparing files index of expending and entry. BSA audit team agreed with this observation.

7) Exceed the allocations (medium)

During the reviewing process we observed that the Ministry exceeded its allocations concerning different allowances. The agreement upon the transfer procedures was done to all allocations except accommodation and hospitality. The Ministry stated that exceeding is still in two accounts mentioned in KPMG's observation which include accommodation and hospitality allocations. Our follow up showed that there is still exceed of allocations in these two mentioned accounts to date.

X - Ministry of Planning

1) Contracts extension (medium)

We observed from reviewing the Ministry's contracts that the contract of cleaning the Ministry building for 2008 was an extension to 2007 contract, which means non compliance with contracting procedures and getting competitive offers. The Ministry did not reply and the audit team agreed with KPMG's report, stating that the Minister's approval was taken on advertising the contract tender according to the administrative directorate memo no (851) on 5/11/2008.

2) Contracts extension and committees of specifications reconciliation (medium)

Through reviewing the Ministry's contracts, we observe that the contract of Al Rabea' office for transporting the employees for 2008 was an extension to the contract of 2007 which means non compliance with contracting procedures and getting competitive offers. We did not find any documents refer that there is a committee from the ministry to reconcile car's specifications and number with what is mentioned in the contract. The Ministry did not reply. The audit team agreed with the KPMG's report, stating that the Minister approval was taken on advertising the contract tender according to the administrative directorate memo no. (851) on 5/11/2008. In regard to the specifications reconciliation committee, the item included the commitments of first party (2) of the contract "the sum should be paid at the end of each due month according to a report by the person in charge of transportation in the ministry".

3) Organizational chart (medium)

There is no organizational chart and job description that clarifies the responsibility and accountability levels. There was no reply from the ministry. Our follow up showed that the KPMG's report was not accurate concerning the organizational chart, as there are three schemes of the organizational chart, but there was no approval from the Minister. The Ministry is still working with the previous job description and it prepared a new draft law with the organizational chart which was returned by the General Secretariat of the Cabinet by the letter no. (31994) on 7/12/2008 for modifications, which were done by the economic, investment and construction committee. BSA audit team already mentioned the observation in its reports issued on the results of inspection and assessment of the internal control no. 4/4/9917 on 27/8/2008 and the financial statements of the Ministry Headquarters 2006 (9493) on 14/11/2007

XI - Ministry of Water Recourses

1) Job description (medium)

There is no job description for all jobs in the Ministry, which led not to determine the responsibilities and duties. The Ministry replied as follows:

First: there is a job description guideline since 1988 and currently applied in our ministry.

Second: a job description guideline or regulations has been made according to the requirements of the Ministry of Water Resources in coordination and cooperation with experts from development & support project which is in the final stages now. Our follow up has showed that this observation has been mentioned in BSA report on the result of testing & evaluating the internal control system No. 10/38/1/10085 on 31/8/2008. The answer of the Ministry on BSA report mentioned above that there is an old job description guideline applied, and currently a new guideline is in the final stages of development according to the Ministry requirements. The follow up is going on with the Ministry till we obtain the new job description guideline.

2- Damages of War in 2003 (medium)

During our visit to the Ministry we found that the Company has inventoried & estimated the Damages of War in 2003 but it has not been authorized to write them off from the accounting records. The Ministry showed that a central committee has been formed to audit the statements delivered by the ministries on the results of war damages inventory,

as the assets have been written off & registered on account 1665 according to the Cabinet order no. 190 issued by General Secretariat of the Cabinet no 20818 on 16 /12/2007 & waiting for a central decision. Currently there is a committee to audit & submit the statements to the Ministry of planning & development cooperation, taking in to consideration that KPMG did not identified the name of the company that inventories and assesses the war damages. BSA follow up in this sense is going on & intensive as the list of war damages inventory for each entity were audited, urging the formations & the Ministry to finalize the statement & submit them to the Ministry of Planning & Development Cooperation.

3- Inventory (medium)

When we reviewed the names of inventory committee's member, we noticed that there is a store keeper's name within the inventory committee's member which would lead to the non- independence in the committee performance. The Ministry showed that the names of store keepers have been mentioned in the ministerial order no. 18376 on 19/10/2008 concerning the formation of inventory committees in order to refer to the store obligation & financial responsibility of the store keeper & obtain his signature on the obligation for each committee, but he does not participate with the inventory committee in the inventory process. The name of store keepers shall be deleted off the inventory orders. Our follow up showed that during our audit & control work of the financial statements the Ministry of Water Resources in 2008 this observation was noticed and a questionnaire with the no.3 on 11/3/2009 is directed. The ministry answered that the store keeper was mentioned in the inventory minutes for explanation. The Ministry pledged that the name of store keeper will not be mentioned in the inventory minutes in the future.

4- Contract no 1/2008 (medium)

When we reviewed contract no 1/2008, we noticed that the Ministry has received boats that do not conform to required descriptions in the contract, by a receiving minute & which have not been registered in the store record according to the instructions. The Ministry showed that the boats received are related to contract no. 17 in 2008 according to the ministry's letter / general directorate of financial affairs / audit department. No (11759) on 9/7/2008. The receipt of the boats related to contract no. 1 in 2008 was confirmed according to the letter of general directorate of dam & reservoirs/assets department in letter no. 7264 on 14/8/2008. These boats should be conformed to the descriptions according to receipt minute dated 12/8/2008 & they were registered in the

store records by the voucher no. 31345 on 5/10/2008 by AL-Rumadi project. The results of our audit team follow up showed that the Ministry of Water Resources contracted on 8/1/2008 with the state company of That – AL Swari / Ministry of Industry & Minerals to buy 17 boats for (499500) thousand Dinars as shown in the table below:

Measurements according to the contract	number	Boat price Thousands Dinars	Actual delivered items
(5.5 x 2.8) M	4	35500	(Comply with the specifications)
(1.8 x 4.8) M	13	37500	(4 comply with the specifications but the remaining 9 are not Comply with the specifications due to the difference in boat Measurements (4.8 x 1.8) M

Up to the mean time there are negotiations and correspondences with the supplier regarding this issue, knowing that the ministry did not pay for the 9 boats that not complied with the specifications.

5- Unified Coding System for numbering contracts (medium):

It has been indicated that there is no unified coding system for numbering contracts within the Ministry, as we found some contracts have neither numbers nor signatures while the Ministry stated that there are no such contracts for 2008 as all contracts have been signed and numbered from 1 to 34, pointing out that all contracts have been signed by both parties and approved with the legitimate stamps of the ministry and the other party. Through audit and control works on Ministry of Water Resources, specifically concerning the contracts BSA audit team did not found any unnumbered or not signed contracts at the Ministry, but the draft contracts have not been attached in the contracts' file, but it doesn't mean that the original approved contract does not exist.

6- Archive system (medium)

During our visit to the audit and accounting department at the ministry we found that the archive system needs to be dealt with more care particularly keeping the basic documents of the contracts, officials at the Ministry mentioned that audit and control department had been informed to organize the archive of all procedures, especially for the contracts and we approved what KPMG mentioned.

7- Accounting system (medium)

It has been found that all entries, recording and reporting are conducted manually except for the assets system. The Ministry stated that the Iraqi Financial Management Information system (IFMIS) adopted by the Iraqi government / MoF was implemented experimentally in 2007 and will be implemented officially on 1/6/2009 according to MoF letter no. (820) on 13/1/2009.

BSA already followed up the software used by the departments of the Ministry and urged those departments to engage with more computer work.

XII – Ministry of Interior

1- Salaries of the employees of the Ministry in governorates (high):

The salaries payment process of the employees of the ministry in provinces have been audited by the governorate and paid from the treasury of the governorate, and then a CD with names and allowances for each month is sent to salaries audit department in the Ministry to check the repeated names on access system, almost each month such names are discovered, and a memorandum is sent to the governorate to refund the payments, the Ministry response on this issue dint not received. We confirm the correctness of the observation during 2008. Our follow up showed that the Ministry's Headquarters implemented a computerized system using the full name to avoid the repetition of names, taking in to consideration that the treasuries in the governorates are responsible of police salaries audit, as they are centrally financed and this system was implemented in 2009.

2- Due checks for more than six months (medium):

We found throughout our review to the monthly bank accounts reconciliation for November 2008 that there are suspended checks since 2004, we found also suspended checks and payments in the bank statement that not appear in the recorder. The Ministry did not respond to our inquiry about this issue. BSA audit team sustains the correctness of the observation, but the Ministry made settlement entries by recording the checks at (suspended checks deposits) account in 2009.

3- Non compliance with governmental contracts implementation instructions (high)

We noticed that there was a copy of letter of guarantee amounted 6 million ID issued by Ashore bank on 21/10/2007 in the contract signed with Towers technical company for

engineering services while the minutes of tenders opening committee dated 7/10/2007 which means that issuing of the letter of guarantee was after the bidding and opening the tenders, moreover we found when checking the materials that they are Mexican originated not English as the company pledged. The Ministry did not respond to our inquiry about this issue. It appeared through our further review that Towers technical company for engineering services was the only company that submitted offer; therefore it has been informed by tenders analyzing committee to submit a letter of guarantee after obtaining the approval of the Minister.

4- Restructuring (medium)

We found that the law and the bylaw of the Ministry are outdated, the Ministry established new affiliations and abolished old ones without legal order and job description, the Ministry did not respond to our inquiry about this issue and the audit team sustain the correctness of this observation explaining that the law is in the process of issuing at the State Consultative Council.

5- Military supplies (high):

Coalition forces supplied Baghdad police directorate with (6951) pistols type Glock but they did not entered in the inventory and there are no information where they are now. The General Directorate of Baghdad Police/ directorate of police storage did not confirm KPMG's observation clarifying by its letter no. 88 on 10.01.2009 that it had received (6951) pistols from the coalition forces as follows:

- 2900 pistols received according to voucher no. 11 on 31.05.2006
- 4015 pistols received according to voucher no. 15 on 04.07.2006
- 36 pistols received according to voucher no.16 on 22.08.2006

6951

While the total of pistols distributed by the directorate is 6946 pistol by legal documents, and the remaining total are 5 pistols only. BSA audit team confirmed that the above mentioned pistols are registered in the logistic directorate within Baghdad police command's records and delivered to the relevant persons through legal documents.

6- Non compliance with contracting procedures (high):

We noticed during our visit to the Ministry that there are some cases of non compliance with contracting procedures. Some contracts have been concluded by direct invitation with no competitive bids nor documented justification for the award, for example the contract no (14/2008) of 15 billion ID, contract no. (16/2008) of 7 billion ID, contract No. 23/2008 of (1,7) billion ID, contract No. (26/2008) of 37 billion ID, and contract No. 36/2008 of 61 billion ID. The Ministry did not reply on the observation. We concluded that the contracts No. 14/2008, 36/2008, 26/2008 are all contracts for importing explosive detection devices concluded exclusively with the British company ATSC and under the agreement of central contract committee of the cabinet, while the contract No. 16/2008 is concluded with State Company for Cars Trade to import 2 vehicles and 80 explosive detection device. The contract No. 23/2008 is signed with (Nour Usa) as it is the only specialized company in data program.

7- Assets record (medium):

We noted that the fixed assets record does not include identification numbers for fixed assets. The assignment of identification number for each asset can help ministries to track each item within the fixed assets record and provide accountability concerning the fixed assets; in addition, it facilitates the verification of the actual fixed assets exist. The Ministry did not reply concerning the said note. BSA audit team asserts the correctness of the note.

8- Audit of US Embassy contracts (high):

Through our visit to the Ministry of interior, we noticed that the auditing directorate – inspector general office of the Ministry is auditing (1317) contracts of US Embassy whereas several breaches are found. The Ministry did not reply concerning the said note. BSA audit team asserts the correctness of the note.

XIII- Ministry of Health

State company for Marketing drugs and medical supplies:

1- Fees for opening L/Cs (medium):

The fees for opening L/Cs in (Kemadia) favor has been seized from its accounts in TBI, and these fees were accumulated to be (\$1,5) million, and the company tried to settle that topic with the TBI, no progress has been made in that concern to date, and the TBI

was informed to refund the deducted commissions of the company's account with it, especially those with the private banks according to the company's letter No.(19981) on Oct. 20, 2008. Our follow up indicated that the said case is from previous years, as the bank charged the company with L/Cs amounts and related commissions although the L/C amount is allocated by MoF. That error of L/Cs amounts was treated, and the commissions of L/Cs opening are charged on company's account. Yet their values have to be paid by this company according to importing contracts held with supplying companies, and the TBI does not treat these commissions unless three years passed. The company indicated, by its letter No. (19981) in Oct.,20,2008 that these instructions are applied by (JP Morgan) bank , yet through the review of what is mentioned in the said letter , it is noticed that the ministry has not informed the TBI to return withheld commissions to the bank , as it is mentioned in the said reply and it indicates also the lack of reconciliation within some credit , and in that concern some notes concerning the L/Cs have been mentioned within the audit report concerning importing contracts of the company No.(6/20/2/2147) in 24/2/2009 , whereas some breaches and the lack of reconciliations with some of the documentary credits between the company and the TBI were indicated for the period from 2004 to 2006.

2- Stock management:

- a- Not realistic assessment of needs, whereas the popular clinics are asked to identify the needs one and half year prior to the actual need date.
- b- The specialized committee in the technical office did not expose the expected quantities to arrive during the period until need assessment is presented.
- c- When medicine is supplied, officials in charge of the popular clinics find that the time is not enough for manipulating of these quantities due the approach of the expiry date.
- d- The Ministry forces the popular clinics to receive the drugs that are surplus in the company's stores which are usually approaching their expiry date.
- e- The supplied medicines are distributed without taking to consideration transferring these drugs to health offices on one side and to the popular clinics on the other side within validity time.
- f- Popular clinics are objecting the origin from which drugs are imported.

- g- There are a lot of drugs that expired, in the popular clinic stores, so they have to be submitted to the committee of destruction.

Herein below the details of three of them:

Medicine	No. of pills	Pack size	Units	Unit price IQD	Total IOD
Aldomet Tab.	7.602.330	30	253.411	1.730	438.401030
Becotide Inh.	91.960	1	91.96	3.311	304.479.560
Mestinon Tab.	298.950	50	5.979	5.979	35.57.560
					<u>778.455.640</u>

-The ministry asserted what is mentioned in paragraph A of KPMG's observation according to which the estimation department's reply illustrated that this is true and applicable not only to the popular clinics but to all health offices in the governorates and other health institutions, because it needs a long time to supply the drugs and other health requirements.

- As for paragraph (B) the company's reply included the following: tenders analyzing and opening committee will study the needs of the materials and will take in to consideration importing and stocks status, as they are deducted from the total needs, and submission will be based on the deficiency and according to the following equation: $\text{deficiency} = \text{total needs} - (\text{importing status} + \text{stocks})$.

- According to paragraph (c) the estimation department's manager illustrated that this paragraph is not related to the department but with the company and the stores, and that the managers of pharmacy departments in the governorates complained of the random distribution of drugs and the surplus of medicines.

- As for paragraph (d) the director of department of need assessment has been notified that this paragraph does not related to the department but to the company, the stores, taking in to consideration that the company and the stores are supplying clinics their needs that assess by them previously. It has been noticed that clinics were modifying their needs because of unstable security situation, lack of patients and visitors to reduce from several millions to tens minimum. The sample has been enclosed to list of amendments of the previous years where the materials had been

delivered to stores; in this case the amendment is not possible because the materials were already delivered.

- As for paragraph (e) the director of department of need assessment explained that the transfer of surplus of drugs is considered part of pharmacy's department, the company and health entities work for the purpose of use in places of need to be before periods without exceeding six months from the date of expiry.
- With regard to paragraph (f) from observation of KPMG, the answer of State company for marketing drugs and medical supplies (Kemadia) was as follows: the assignment of drugs are based on the contexts in place, which depends on the position of the registration, serenity, price-competitive, period of supply and the age of manufactured article.
- As for paragraph (g) from observation of KPMG, general company for marketing of drugs and medical supplies (Kemadia) has not answered but the director of need's assessment explained that the clinics should address the ministry, when there is a surplus of drugs the Ministry is approached for the purpose of delivery to the health directorates.

Our follow showed:

- with regard to paragraph (A), the audit team support the correctness of observation's, this observation is valid for all institutions and health centers not for the clinics only and this related to the procedures of requirement's preparing by department of need's assessment in technical office at the ministry of health, this must publicized on first three months in every year. This procedure returned to department then studied and discussed it to get close to figures approximate to actual requirements with a view of technical commission. This process take about two years to provide drugs, the company supported that under paper of inquiry which numbered (4) on 11.03.2009.
- As for paragraph (B), the observation is incorrect, as this is the company's specialty and can not be accredited as these quantities were expected to be delivered for immediate needs which was estimated previously, and distributed according to the needs. As for the committee of study and analysis bids shall determine the requirement on basis of deficit caused by the equation of import by subtraction the total requirement from import and storage balance.

- Regarding paragraph (C) the audit team confirmed the correctness of the observation, whereas the clinics and health institutions are provided in the last months of the year with full quota which lead to surplus in drugs that can not benefit from except in the coming periods, and out of the needs required. The Ministry supported observation through its memorandum dated 11.03.2009.
- For paragraph (D), the audit team sustain the correctness of the observation's, explaining that this happens due to inaccuracy of institutions and clinics need's assessment, as the requirements have been modified according to decreasing the quantity that have exaggeration in million unit to thousands hundred that lead to the material's deliver before preparation of that sides to these modifications.
- The audit team referred on its answer on paragraph (E) to observation's accuracy, this is because department of pharmacy and health institutions do not transfer the surplus for maneuver and inform the relevant party (the company).
- In paragraph (F), the audit team supports the observation related to the objection of popular clinics on the country of origin of the drugs, although the imported drugs are not delivered except by accredited company registered in Ministry of Health and mentioned in scientific reference of general drugs from entrusted origins, and in accordance with inspection, testing and success of drug, as well it should be authorized by National Committee for Drugs Selection.
- As for paragraph (G) the audit team supported the observation, and explained that this defect because the clinics did not inform about the drugs expiry to transfer by the authorized company on provided the health institution's requirement. BSA's report no.(2147/2/20/6) on 2009/2/24 on drugs import contracts mentioned the observation on ensuring and deliver drugs and medical supplies, and the mechanism of need's assessment.

(3)- Opening accounting entries (high):

we noticed that opening entries of 2008 were listed in October 2008 it means in the end of year that lead to inaccuracy of financial reports which issued before the date mentioned. The company for marketing of drugs and medical supplies on 2009/3/11 said that, delay of preparing of opening entry at 2008 because of, the audit of final accounts did not completed and there are some observations that may prepare the modification entry according to it. BSA audit team supported what was stated on company.

(4)- Stock of guns and ammunition/ministry of health (high):

We noticed that guns and ammunition of ministry held by persons who are no longer in work in the ministry's staff. The ministry showed (department of personnel) the acquaintance should be by ministry's security, after guns received from these persons, as stated in the answer of the ministry on 2009/3/11. BSA audit team showed that the report of KPMG did not include examples for its above observations to pursue and verify the matter.

(5)- returned checks/ministry of health (middle):

We noticed that there is weakness in management of funds because some of checks issued by the Ministry were not disbursed because of lack of sufficient funds in the bank account of the ministry.

The ministry said that, this was because of the delay of ministry of finance in financing the account of ministry in Rafidain bank. BSA supports above observation.

(6)- Inventory, property and equipment damage as a result of war (high)

We noticed that finance management did not write off from its records the stock, property and damaged and stolen equipment as result of war. The general company for marketing drugs and medical supplies wrote off those in the period of final account of 2003 from its records and recorded the differences in cash and inventory until it receive directions of MoF to resolve the damage of (7,6,5,2,103,397) dinar. We support the observation of KPMG. The write-off assets must be managed according to central decision and we assert having registered them in the account of cash and storage's differences.

(7) – The doctors hold administrative posts / Ministry of Health (medium):

It has been found that most of the key posts at the Ministry are held by doctors and medical specialists who have no administrative skills. The Ministry cleared that the persons who held these posts, are being selected upon the Health Minister suggestion and the approval of the General Secretariat of Council of Ministers, as acting officers until their permanent hold of these posts without considering functional grading. The audit team approved what was stated in KPMG's observation as the post of director general of the financial, administrative and legal office can not be held by doctors or medical specialists.

(8) - Automating accounting system (medium):

We observed that the process of establishing the accounting entries, recording them in the journal, posting them to the ledger and preparing the trial balance and the financial reports is done manually. The ministry confirmed that and there is a study represented by the accounts department to the information technology center at the ministry to set up a system. We approve the correctness of KPMG's observation.

(9) Non existence of unified budget (medium)

We observed the lack of a unified budget which include the headquarters of the ministry and its related facilities which results in making the budget office at MoF conducts a transfer between the ministry and the related facilities allocations. The ministry confirmed the lack of a unified budget. We approve the correctness of the observation; the audit team contacted the administrative, financial and legal office according to the memo. No. 24 on 4/2/2009 concerning preparing the unified financial data in compliance with the central instructions concerning preparing unified financial data for the central financing offices and self financing offices, informed by the council of ministers secretariat but there is still no answer about it.

XIV- Ministry of Trade – Grain Board of Iraq

(1) Office of import (high):

Although there is a detailed program of internal audit on the departments, branches and silos but the lack of accuracy of the procedures included in the program was noticed, as for the office of import, it was discovered that the program does not include the specialized items that require an understanding of the details of the ships and shipments of the wheat. The Ministry replied that the observation did not specify the nature of the specialized items concerning the shipments and the ships thus it can not be considered and the company has an integrated internal audit program for all the department of the company including the importing department and they have many procedures and work control methods starting with specifying the shipments of the wheat and the rice and their arrival at the discharge port and underlining all the details of the contracts. Our follow up showed the correctness of the observation and our report no. 4/2/1/235 on 23/1/2008 included an item about information system saying that it is required to prepare an integrated work guideline of information system including a general description of the system, the goals and the responsibility of each department.

(2) Salaries and wages system (medium):

We observed the lack of coordination between the personnel department and the accounting department related to updating the employees' data base as the accounting department is adjusting the employees' data base without the approval or the coordination with the employees department. The Ministry replied that the administrative and financial information were organized by the computers department and currently there is an employee from the financial department and another from the administrative department are working together on one program in order to unify the information. Our audit team confirms the Ministry's reply.

(3) The compiled financial statements / State Company for Foodstuff (medium):

The State Company for Foodstuff has 13 branches attached to the headquarters in Baghdad in addition to 3 branches in Kurdistan region. The process of compiling the financial statements is done manually which could lead errors, besides their preparation would take a lot of time. The Ministry replied that the number of these branches is 14 besides 3 other branches in Kurdistan region except Baghdad governorate, and after the events of 9/4/2003 all the programs and files adopted on the computers were damaged including the financial statements and because there is no system after the events the final accounts were done (the journal and the ledger) manually and then the totals were entered to the computer in order to organize the balance sheet set. Currently all the balances (the branches and Baghdad) are made by using computers and the work is going on to use the computerized system for preparing all data, keeping in mind that all the documents (receiving, financing and reconciliation) are recorder in the computer previously and currently. We approve the correctness of the observation and it was pointed out in our report no. 9934 on 27/8/2008 concerning examining the internal control system.

(4) Automation of the accounting system / State Company for Foodstuff (medium):

We observed that the process of establishing the accounting entries, recording them in the journal, posting them to the ledger preparing making the trial balance and the financial reports is done manually. The state company for foodstuff approved what was stated in the in the company's report and attributed that to the lack of programming of all the financial statements and organizing the daily entries and using them in the automation of the accounting system, right now there is a follow up to enter all the financial statement of the balance into the computer system, as for the accounts of the

branches and the stock accounts it is automated besides the release of receiving , financing documents and the lists of foodstuff distributors and sales lists and the release reconciliation and the salaries are all automated. The audit team approved what was stated in the company's reply and pointed out the observation in its report no. 9934 dated 27/8/2008 concerning examining the internal control system.

(5) Debit accounts for more than 3 years / State Company for Foodstuff (high):

We noticed that there are debit accounts of more than 3 billion Iraqi dinars in the company's records for more than 3 years, these accounts belong to state establishments. The state company for foodstuff approved what was stated in KPMG's report and showed that these debit accounts belong to the dissolved establishments and can not be written off the records and the Ministry of Trade is following up the case with MoF according to MoF letter no. 13647 on 12/10/2008 which emphasize the necessity of settling these accounts with the parties that these establishment are related to now, because of the lack of the initial documents which had burned or damaged. The audit team approved the answer of the company and we pointed out the observation in our report no. 4789 of the company's accounts for 2006.

(6) Bank accounts reconciliations / State Company for Foodstuff (high):

The company does the reconciliation for all the accounts together, and does not separate the account when making the reconciliation. When we visited the company on 9/2/2009 and asked the employee who is in charge of the reconciliation to supply us with November and December 2008 reconciliations we found out that they were not ready and not complete. The company stated under the memo of the control and auditing department no. 59 on 11/3/2005 that each account is reconciled separately and there is no consolidation in the reconciliation of all the accounts, while the delay is due to the delay of cash procurements record which is registered in US\$ then transformed to ID based on different exchange rates. BSA audit team agrees with the observation as for the delay, while as for the reconciliation does not agree with.

(7) Checks record / State Company for Foodstuff (high):

The check record prepared by the computers department does not match the records of the financial office or the records of the import office. The State Company of Foodstuff certified the note and clarified that check records concerning paying for suppliers represents all accruals which is an expending for food supplying, expending for taxes sum and cut off amounts of 5% in case L/Cs are not updated, while the import records is

not limited to fixing expending accruals of suppliers and is not related to stamps fees or tax accounting settlements. The statements issued by the financial department are the basis for reconciliation. The audit team approved what is mentioned in company's response.

(8) Bad debts / Grain Board (medium):

Through reviewing the company's accounts it has been discovered that there are doubtful debts of about 2.300.000.000 dinars belongs to the 60 of the offices dissolved after 2003, the existence of such balances in the company's record reflect an unreal state of its record. The company approved the observation and the situation was presented to the administrative board on the last session and was referred to the legal department to take the necessary action. Also the audit team approved the observation and it was included in our report no. 4/2/12/736 on 29/12/2008 concerning the company financial statement for 2007.

(9) War damages / Grain Board (medium):

The company has not itemized the war aftermath damages of its assets and has not determined the assets value in order to write them off its records. The company stated that committees were formed for the purpose of taking the necessary action towards the situation after 9/4/2003 and they investigated, audited and inventory the financial and assets and the stock, then recommendations and conclusions were submitted to the Ministry. Our follow up showed the correctness of the observation and the subject of war damages was included in our reports no. 4/2/12/1374 and 6308 on 22/2/2006 and 30/6/2008 respectively.

(10) Checks overdue by more than six months/ Grain Board (medium):

When reviewing the bank reconciliation we observed that there were checks over due by more than six months. The company approved the observation and the procedures are undergoing to address them. The observation was included in our report no. 4/2/12/736 on 29/1/2008.

XV - Ministry of Electricity

(1) Contract for supplying circuit breaker 400- kv (high):

During the visit to Ministry of Electricity, we noticed that contract no. EU/2006 concluded with Al-Nakheel Al-Basiq Company is one of the old contracts and originally awarded to Siemens and it has not been fulfilled because of the 2003 war.

We observed the following violations concerning this case:

1. Al-Nakheel Al-Basiq Company has not presented the bank guarantee at the beginning; still it has not been eliminated just as the two eliminated companies, the Arab Investors and Kemet.
2. It is stated that Al-Nakheel Al-Basiq Company is an intermediary, and not a manufacturer; while it has been preferred on the basis that it is a manufacturer; although the Council of Ministers recommendation is to deal only with manufacturer companies.
3. The letter of credit is issued by a Kuwaiti bank and is not endorsed by an Iraqi bank.
4. The supplier has not presented the performance bond on time.
5. It has been approved to raise the contract price by 10% on 7/9/2008 because the price of the circuit breaker has become higher than the price mentioned in the contract due to the delay in opening the L/C. The amount of contract is \$14,233,214 US. The ministry replied states that there is nothing indicates that the bid is an old contract awarded to Siemens and the directorate was contacted, and we have been informed that the bid is new. The Ministry reply states the following:

1. The administration has recommended awarding the bid to Al-Nakheel Al-Basiq Company, but the sub-committee of auditing contracts at the Ministry's Headquarters has recommended awarding it to Siemens as the Al-Nakheel Al-Basiq is not a manufacturer and has not presented the guarantee of participation in bidding. The Council of Ministers / economic committee have been asked, in letter No 1338 on 24/1/2007, to approve awarding to Siemens (Turkish company) in an amount of (\$14608763, 41).
2. The Council of Ministers in its letter no /809 on 19/6/2007, has decided to award the bid to Al-Nakheel Al-Basiq Company (because it presents the lowest price, provided that all the materials should be of Swedish origin) although it is not a manufacturer company.
3. The performance bond is submitted by Al-Bilad Islamic Bank, where private banks are considered accredited.
4. The company has delayed submitting the performance bond as it has requested several consultations, such as exempting it from Iraq Reconstruction Tax.
5. Delay in opening L/C has led to request of raising the prices by the company, as MoF has not transferred the contract amount till the approval of 2008 investment budget according to its letter no. 5212 dated 27th April 2008, while our letter no. 28348 was dated 13th Dec. 2007.

Our follow up has showed the following:

- 1- The audit team has not found any documents at the Ministry Headquarters that refer to the contract as an “old contract”.
- 2- Ministry of Electricity has suggested awarding the contract to Siemens, a Turkish company; yet, the official approvals issued by the General Secretariat of Council of Ministers no. 809 (dated 19th June 2007) have recommended awarding the contract to Al-Nakheel Al-Basiq Company.
- 3- The performance bond is submitted by Al-Bilad Islamic Bank, and not by a Kuwaiti bank.
- 4- The delay in submitting PB is caused by the company’s request concerning exempting it from Iraq reconstruction tax.
- 5- We confirm the observation concerning claims for raising prices of most of the contracts; yet, approvals come from central authorities.

(2) Contract for sub-stations spare parts (high)

We have noticed that the sub-stations spare parts contract price of \$972070 has been raised in 2008 by \$276537 mainly due to delay in opening L/C for Al-Maher Company.

The Ministry replied:

- MoF has been sent a letter No 23641 (dated 24th Oct. 2007) attaching the original copy of that contract, as North transmission General Directorate has previously notified MoF and sent a check showing the contract amount. We have requested MoF to transfer the amount value in dollars and depositing it in TBI so as to open the L/C.
- MoF, in its letter no. 12424 of 6th Nov. 2007, has stated transferring the said amount.
- We have sent our letter no. 25582 on 14th Nov. 2007 to TBI to open the L/C.
- The L/C has been opened on 3rd Dec. 2007, but the corresponding bank has fallen behind in relation to notify the company about opening the L/C as the bank notification date is 18th Feb. 2008.
- The company has asked for raising the price by 10%; the Urgent contracts committee has approved the raise in its letter no. 208 on 27th April 2008.

We confirm what is stated in KPMG report, taking into consideration that the delay is mainly caused by delay in opening L/C, due to its tardy required actions.

(3)- Spare parts contract for Al-Mosul station (high):

We have noticed that the contract for supplying Al-Mosul 400 Kv(HT) station with spare parts amounting \$541187 has been raised in 2008 by 10% mainly because of the delay in signing the contract with Arshest company. The Ministry response is as follows:

- The check has been sent to MoF by North Power Transmission in its letter no. 5600 dated 12th Dec. 2007.
- We have requested MoF to inform us about the amount transfer procedures, pursuant to letter no. 613 dated 10th Jan. 2008.
- MoF have sent the check to CBI, in its letter no. 664 dated 24th Jan. 2008.
- When our authorized employee has referred to CBI, we have known that all documents including checks sent in December have burnt. This has been conveyed to MoF. Then the said contract amount has been transferred to CBI by MoF letter no. 4941 dated 22nd April 2008.
- The company has requested raising the price by 10 %; this raise has been approved by Secretariat of Council of Ministers in its letter no. 23338 dated 11th Sept. 2008.

We sustain the observation, except for claiming the raise results from delay in opening the L/C.

(4) – Al-Najaf station (Units 1&2) rehabilitation contract (high):

We have noticed the following irregularities in relation to the contract with ABB German Company:

1. Performance bond amount is paid to a German bank, and not to an Iraqi bank.
2. Origin of material has been changed.
3. The paragraph related to the insurance of the material has been omitted from the contract.
4. The company has evaded executing the contract for more than 3 years.

The Ministry has replied saying that the said contract has been cancelled due to the company delay in execution. Our follow up has stated that the cancellation request has been sent by MoE letter no. 6724 dated 5th March 2009 to Secretariat of Council of Ministers/ Central Contracts Committee, attributing the cancellation to the company's procrastination, as the contract has been signed on 25th Dec. 2006, and never executed.

(5) - Accounting System Automation (medium):

We have noticed that the accounting entries are established, written down in the journal and posted to the ledger manually, as well as extracting trial balance and financial reports preparation are conducted manually too. The Ministry has responded stating that the process of issuing accounting entries are entered in computers; ledgers and trial balances are extracted from such computers. Besides, manual posting of the

abovementioned entries in the general journal is for our purposes only, and they match accounts extracted from computers. Our audit team sustains the observation.

(6) – Fixed assets (medium):

We have noticed that fixed assets record does not contain identification numbers for fixed assets. Assigning identification numbers for each asset helps the Ministry in tracking each item in the fixed assets record and enables accountability, and facilitates checking the actual quantity of fixed assets. The Ministry replied that fixed assets record contains identification numbers according to a computerized system. Our audit team sustains the observation.

(7) - Working hours Control (low)

Working hours control is done by using plain papers signed by employees when coming in the morning, while there is no any form to control the end of working hours. The absence of an automated system for controlling working hours (time clocks) may result in weakness of the control over employees' working hours. The Ministry has said that there is a record for employees arrival maintained by administration department in the economic affairs office, and that every employee signs when he / she arrives. BSA audit team confirms the correctness of the observation.

XVI: Ministry of Justice:

1- Lawsuits out of Iraq (high)

During our visit to the Ministry, we have noticed that the legal office receives via e-mail reconciliations from foreign attorneys abroad in relation to amount paid for lawsuits filed abroad. The total amount disbursed for these lawsuits during 2008 is estimated by 2675164597 Iraqi Dinars; the financial office does not have any further information concerning this amount. The Ministry has stated that the Secretariat of Council of Ministers has endorsed the recommendations of the legal advisory bureau, in its letter no. 2/1/107/13004 dated 8th June 2008. One of these recommendations is approval for disbursing 31.50 Euro to the Dutch attorney Albert Knigge of Houthoff Buruma law firm, as fees for the above mentioned lawsuit during August 2007. Minister of justice has approved disbursing the attorney fees according to the letter of the legal affairs office no. 2035 on 30th June 2008 addressed to the administrative & financial office/accounting department directing it to take the actions required for transferring the aforementioned amount. We confirm the remark, as the financial department should have lawsuits list and authorized foreign attorneys list from the parties concerned

separately; yet we would like to state that the paid amounts have disbursed according to a decision issued by legal advisory bureau, then there is the approval of the Secretary General of Council of Ministers, followed by the Minister of Justice authorizing the disbursement of the said amount by the financial department. The audit team has referred in the external report on financial statements of the Headquarters of MoJ for 2007- 2008, to fact that we have not received information concerning number of foreign lawsuits, in spite of our request stated in several memos. The above mentioned amount does not stand for attorneys' fees, but only part of it, while the other part is funding to the account, pursuant to MoF two letters mentioned in the report, as follows:

MoF funding	2,100,000,000 ID
Disbursed amounts	567,357,575 ID
Bank commissions	7,789,022 ID
Total	<hr/> 2,675,146,597 ID

The correct total, contrary to what stated above.

2. Contracts Registration (medium):

In 2008, contracts department has been established to document all contracts signed in 2008. As for contracts signed before 2008, they are still in investment department, yet, there is no coordination between the two departments, taking into consideration that there are contracts in investment department signed prior to 2008, while its dues have been paid in 2008. Ministry replied that coordination between reconstruction section and contracts department has been initiated to keep the initial documents of contracts signed in 2007, and have disbursements in 2008, after establishing contracts department in the Ministry. We confirm the remark, and the audit team stated this remark in the internal report on the Ministry of Justice Headquarters.

3. Operating budget Journal (medium).

Through our review of the operating budget journal in the Ministry of Justice, we came up with the following:

- There were no numbers of accounting entries written down, for all accounting operations over.
- The register does not include the accountant and internal audit department stamps and signatures.
- Correction fluid or striking off is used in journal.

The Ministry replied as follows:

- a- All the numbers of accounting entries related to disbursement voucher and current and closed entry are set out in the journal.
- b- As for the signatures of the accountant and the internal control department, they sign the monthly trial balance, which represents the journal. The remark of opening a journal besides the trial balances will be considered as from this year.
- c- The journal clerk is directed not to use correction fluid in journal and to consider accuracy in recording.

We do not agree with the remark related to the numbers of accounting entries as these are registered in the journal in sequence. Concerning the signatures and stamps of internal audit department and using of correction fluid, we approve the observation. Also, the audit team underlined in the report of examination and evaluation of the internal control system for 2007, that the internal audit work does not cover the entire Ministry and its affiliations' activities, and there is a pre-disbursement audit committee rather than a department, and what was mentioned in the Ministry's internal report for 2008 about using correction fluid in the journal.

4. Iraqi Correction Facility (medium):

This facility, which is a formation of Ministry of Justice responsible for all Iraqi prisons, does not coordinate with its provincial departments on issues related to inventory procedures of stocks and assets. The Iraqi Correction Facility has not replied on this remark. We confirm the remark as there is no any effective cooperative measures being used between the Correction Department and its provincial departments in relation to the procedures of fixed and stock assets inventory. However, these measures were activated after the current manager received his duties on 10\8\2008. Administrative orders were issued to set up joint inventory committees with the provinces to inventory stock and fixed assets.

5. Contracting Measures (medium):

Through reviewing a sample of the Ministry's contracts, we found out that the State Company For Electrical Industries requested an extension to its contract to supply, connect and modify air circuit breakers for the Ministry's building after expiring of the deadline of 35 days from the legal period of the contract completion date on 20/1/2008 as the company's request was issued on 25/3/2008, which is against the applicable rules. The Ministry acquired demurrages but it was refunded later to the company. It is to be noted that the Ministry made a second contract with the company to supply similar materials. Related to the exemption of the State Company for Electrical Industries from delay penalties on circuit breakers contract, the Ministry stated, that all the documents of this issue were attached, and the penalties were first

deducted then refunded to the company pursuant to the contract department letter No. 5139 dated 3/9/2008 under the Ministry of Planning and Development Cooperation letter No. 10191 dated 2/9/2008. We disagree with the observation since the Ministry of Justice contacted MPDC/State Contract department through its letter No. 4906 on 7/8/2008, and the said department replied through its letter No. 10191 on 2/9/2008 that article 12 of the contract stipulates the following: (in the event that total or partial interruption take place due to un expected or un evitable reasons, the contract period shall be extended to the extent that work progress is affected and upon both parties agreement).

6. FMS contracts (High):

We noticed that during 2007 an amount of ID 64 billions was transferred by MoF, without the Ministry of Justice entitlement or learning, to the Foreign Military Sales (FMS) special account in favor of the US FRBNY. We could not get any information on how funds were paid out of this account as the Ministry has no information in this respect. Further, the Ministry of Justice has not recorded the amounts disbursed from this account during the year within its disbursements. We were able only to be sure that Iraqi Correction Facility received 300,000 liter of gas oil at 750 dinar per liter, which made a total of 225,000,000 dinar from 21/10/2007 to 22/11/2007. The Ministry replied that no records or evidential documents what so ever are available at Iraqi Correction Facility, as the amount was spent by the American side as the Ministry claimed. A committee was formed to review the said documents, and we will inform you about the measures once the committee has finished its work. We confirm the observation, and the financial records of the Iraqi Correction Facility did not show any amounts related to the said fund payment. Moreover, the Ministry of Justice has not credited the amounts being disbursed or transferred on this account. The gas oil material was not evidenced in the control records, because the disbursement for which was made by the American side pursuant to the Facility letter on 12/3/2009. The Correction Facility has set up a committee to audit the initial documents, and the results of the committee's work will be followed up.

XVII: Ministry of Culture

1. Exceeding the Budget Amounts (medium):

We noticed through reviewing sample contracts that the project of Marshes Researches and Museums Center\ first stage was included in the contract No (tender 9\2007) signed by the Ministry of Culture with Qasr Al-Ameer Co. and Sinjar Co. for a total amount of ID 5,475,600,000, while the allocated amount in the Investment Budget of 2008 is 800,000,000 Iraqi dinars. The Ministry has not replied, and we confirm the observation, which was mentioned in our report No. 10613 on 11\9\2008.

2. War Damages (medium):

The Ministry of Culture has not itemized the war aftermath damages on its assets, and has not determined the assets value in order to write them off its records. A committee was formed on 19\6\2008 pursuant to the administrative order No. 4371, and it has not come up with any result. The Ministry's reply hasn't arrived yet, and we sustain the observation, which was mentioned in our report No. 6832 on 3\7\2008.

3. Accounting System Automation (medium):

We noticed that establishing the accounting entries, writing them down in the journal and posting them to the ledger, as well as preparing the trial balance and financial reports is conducted manually. The Ministry's reply has not arrived yet and we confirm the observation, which was mentioned in our report No. 9990 on 28\2\2008.

4. Salary System and Job Segregation (high):

Through our review on the salary system conducted in the Ministries, we noticed that these salaries are prepared manually. This process is stressful, time consuming and increase the chances of human errors. We also identified that the salary preparation employee is also responsible for salary handing over to (engineering, implementation, accounting and audit) committees. Furthermore, the salary-receiving committees did not get changed throughout 2008. The Ministry's reply hasn't arrived yet, and we confirm the observation, which was mentioned in our report No. 6832 on 3\7\2008.

5. Organizational chart (medium):

We noticed the Ministry lacked an organizational chart and official job description that could clarify levels of responsibility and accountability. The Ministry's reply has not arrived yet and we sustain the observation, which was mentioned in our report No. 9990 on 28\2\2008.

6. Operational Budget (medium):

While reviewing the operational budgets journal, we identified many corrections were made on entries either by using strike off or correction fluid without being concurred with the accounting manager and the internal accountant's stamp or signature on such corrections. The Ministry's reply hasn't arrived yet, and we confirm the observation, which was mentioned in our report No. 6832 on 3\7\2008.

7- Checks past their due dates by more than 6 months (medium):

When reviewing bank reconciliations, we noticed that there are checks overdue by more than 6 months. The ministry did not reply and we sustain the note

XVIII – Ministry of Education

1- Banks Accounts reconciliations (high)

Throughout our review of the banks reconciliations, we noticed that some of the reconciliations were carried out every three months rather than every month. We also noticed that documents supported the suspended amounts in the reconciliations did not exist. The Ministry stated that reconciliation is carried out monthly according to the valid financial instructions. One single 3- month reconciliation occurred (March, April, and May of 2008) due to the non existence of movements in all account operations and according to MoF directions. Our audit team confirmed occurrence of one case of 3-month reconciliation mentioned above, yet this does not prevent conducting monthly reconciliations even if there was no movement.

2- Organizational chart (high)

The job description dates back to 1984 taking into account that the organizational chart was updated during 2003. The Ministry stated that a committee was formed in accordance with the ministerial directive No. 781 on 18/2/2009. The Cabinet letter No K (6/1/41/851) on 14.01.2009 was referred to the State Directorate of the Educational

Planning, yet no reply has been sent till now. Our audit team certifies the Ministry's reply.

XIX - The Ministry of Human Rights

1- Organizational chart and Job Description (medium)

We've noticed inexistence of organizational chart and job description set up levels of responsibility and accountability, the ministry has not replied; our audit team has stated that there is an effective organizational chart and job description applied by the ministry until issuing new law of the ministry which is in legislation process.

2- Working hours Control (low)

Working hours control is done by using plain papers to be signed by employees when coming in the morning, while there is no any form to control the end of working hours. The absence of an automated system for controlling working hours (time clock) may lead to weakness in control over employees' work-time. The ministry has not replied, nevertheless our audit team has reported that the issue has been solved as the Ministry of Human Right applied a control system that uses IDs with classified number as well as fingerprints to register the employees' arrival and departure times in 2009.

3-Checks past their due dates by more than 6 months (medium):

When reviewing bank reconciliations, we have noticed checks overdue by more than 6 months. The ministry has not replied, and our audit team sustains this observation.

4- Accounting system automation (medium):

We have noticed that having the accounting entries established, written down in the general journal and posted to the general ledger, as well as trial balance and financial reports preparation are conducted manually. The ministry has not replied, and our audit team sustains this observation except for entering financial statements by the Ministry to computer.

5- Assets record (medium):

When reviewing the assets record, we have noticed that it does not state chassis numbers for the vehicles of the Ministry. The Ministry has not replied and our audit team sustains this observation.

XX: The Ministry of Migration and displaced

1- The bylaw (high)

We have noticed during our visit to the ministry that there is no bylaw issued according to approved law by competent authorities to identify the workflow, responsibilities, and duties. The ministry has stated that its new law is still in the process of legislation; therefore, it has not prepared a bylaw waiting for the new law to be issued. We confirm this reply.

2- Stolen car (high)

When reviewing the assets record, we noticed that there was the word (stolen) to describe one of the items, a Nissan (sunny) car, and there is no chassis number in the record or minutes of investigation. The Ministry has replied that the chassis number is not written down, so the employee who is in charge of the record is instructed to write down chassis number as per financial and administrative office memorandum no. 10 on 12th /3/2009. We confirm this reply.

3- Reconciliation of bank accounts (high)

During our check visit to the Ministry, we have noticed that reconciliation of bank accounts with bank statements are not conducted properly as the reconciliation of account no. 11200 lacks sufficient information of the differences between ministry records and bank statements. In respect of bank accounts reconciliation with bank statements, the Ministry reply that banks do not send debit notes to the Ministry and it will address this observation, and banks will be asked for details of outstanding amounts. We sustain KPMG auditors' observation.

4- Fixed assets record (high)

When reviewing the assets record, we have noticed that different types of assets are listed in one irregular record; moreover, there are no identification numbers for weapons, as well as vehicles chassis numbers. As for registering different types in one irregular record, the Ministry reply states that it has established records for furniture, material, and other records, and observation is addressed in 2009. In relation to weapons identification numbers, it will investigate this issue. The audit team sustains the observation, and it has been addressed by the Ministry.

5- The Staff (medium):

We have found via our review that the staff structure comprises one deputy minister, while the actual deputies are three. We have noticed that one of the directors general (Abdullah Fadel Aoun) has no directorate to run. The Ministry has replied that there are three deputies while the staff structure refers to only one. We sustain KPMG's observation; however, the Ministry has specified the number of deputies, directors general and counselors according to the new law which is in the process of legislation to be one deputy, 2 counselors and seven directors general. The Ministry has addressed the cabinet in its letter no. 955 on 19/2/2009 regarding the excess employees including three deputies. As for Mr. Abdullah Fadel Aoun, he has been hired by the Secretariat General of the Council of Ministers. We confirm the reply of the ministry.

6- Accounting system automation (medium):

We have noticed that having the accounting entries established, written down in the general journal and posted to the ledger as well as trial balance and financial reports preparation are conducted manually. The Ministry attributed that to the suspension of FMIS which was effective in 2006, the Ministry has started working on this system in August 2008 according to MoF instructions to computerize trial balance, bank statement, expenditures and revenues, but not disbursement vouchers and entries. We sustain KPMG's observation.

XXI - Ministry of Sciences and Technology

1. Checks past their due dates for more than six months (medium):

We've noticed, in bank reconciliation of account no. (468) on 31st/12/2008, that there are outstanding checks since July 2008, and have not been settled in the reconciliation of January 2009. The Ministry has not sustained what is mentioned in KPMG's report, as these checks were canceled after the legal period passed. Our follow up indicated that suspended checks date are 27-13/7/2008. They can be canceled only after the legal period, which is six months and ten days, expires i.e. until 23rd/1/2009. In other words, these checks will inevitably appear in the reconciliation of January 2009, and the Ministry canceled them as in entries no (104, 100) in 23rd, 22nd /2/2209.

2. Tenders analyzing and opening committee (High):

We've noticed that members of tenders analyzing and opening committee are permanent and they are not changed periodically as per annual budget execution instructions, issued by the ministry of finance, which necessitate changing committee members every six months. The ministry's reply has not been received yet. We do not sustain the observation; paragraph (D), Article (39) (general provisions) of budget execution instructions of 2008 states the following: 'It should be taken into consideration changing periodically one third of the members of procurement committees that are involved in purchasing from the market to safeguard the state treasury rights. The period a member may hold a position in such committee should not exceed 6 months, and not renewable in any case except for the extreme necessity to satisfy pressing need, a member shall not participate in a second procurement committee, unless no less than one year passes). The instructions do not refer to changing members of opening & analyzing bids committee, and so do the instructions of executing government contracts No. 1 for 2008.

3. Letters of credits & performance bonds (medium)

When reviewing contracts, we noticed that contracts department does not follow up continuously letter of credits and performance bonds. The department addresses the bank to extend the letter of credits after their expiration date, for example:

Contract No.	L/C No.	Validity date	Ministry demand date for prolong
20	901/2008	1/2/2009	3/2/2009
14	690/2008	1/2/2009	3/2/2009

The Ministry has answered that it has requested L/C extension on 3/2/2009 – the abovementioned L/C has been extended up to 1/4/2009. The Ministry has got an authenticity of issuance certificate for the letter that has been renewed for the first contract. As for the second contract, we sustain the note that was mentioned in our report No. 5/17/1/14839 on 14/12/2008.

4. Employees Training Contract (high)

When reviewing contracts, we've noticed that contract No. 37 (contract for training employees to develop human resources) has been signed via direct invitation, i.e one bidder method; we have not found a justification for contracting without request for

proposals. The answer of ministry has not been received; this matter was mentioned in the BSA's report No. (5/17/1/2481) on 4/3/2009.

5. Contracts Department (medium)

When reviewing contracts, we've noticed that contract department does not mention the preliminarily deposit amount; this matter breaches item H, para 2, article 5 of announcement of tenders, e.g:

Contract No.	Tender No.
2	2008m 45
13	2008m7

The answer of the ministry has not been received; our follow-up shows that announcement states (refer to tender documents) and within the tenders documents the deposit amount is mentioned.

6. The Ministry establishment law (medium)

We have noticed that the Ministry establishment law is still a draft without approval of competent authorities. The Ministry has not replied. We sustain the observation; it has been stated in BSA report No (4436/1/17/5) on 27th November 2008.

XXII: The Ministry of Environment:

(1) The salaries and wages system (medium):

During our review to the procedures of salaries related to contractual employees, we noticed that the personnel management's records section documents the personnel salaries only in the salaries and wages system and does not take into consideration the contractual employees' salaries, whereas that system disclose their names only. Also we have noticed that the contractual employees' files are not well-ordered or organized. The Ministry answered that the administrative orders related to assigning employees as contractual are issued from the personnel department and the contract amount is defined according to specific controls, while salaries section has nothing to do with the subject other than the contractual employees' files are complete due to they contain official documents related to contracting. Our audit team showed that it is provided with a contractual employees names' statement and their salaries whereas they are listed categories: bachelor (180000) commerce school diploma (150000) high school (130000). During our exam to a sample of contractual employees' files, we observed that

the required documents including the certificate, issuance authenticity and assignment order are available, but they are not indexing and classified as the employees files should be.

(2) Employees' files (low):

The records section in the ministry's personnel department keeps the employees' files of the Ministry Headquarters only and does not keep a copy of employees' files of its directorates. The Ministry answered that it directed the administrative sections' officials in the environment directorates since 2008, and a context and work mechanism have been set up including personal files indexing (the original ones), keep a photocopy of them in the Ministry and transfer the completed files to be delivered according to receive and deliver minute prepared for that purpose. Our audit team sustain the note and showed that currently the Ministry prepared a hall in the mines affairs office to keep the files of ministry's employees as a result of insufficient area of the administrative and financial office.

(3) Coordination between all ministry's offices (medium) :

During our visit to the Ministry of Environment, we noticed the weakness of coordination between the contracts and financial departments whereas the financial department does not provide the contracts department with performance bond which leads the contracts department to carry on the contracting process with the supplier although he does not commit the contract's conditions sometimes. The Ministry answered that upon the contracting, the contracted company will submit a performance bond. When the issuance authenticity is made, the contracts department will provide the financial department with a copy, and when the contract and all its obligations are completed, it will be returned and notifying the financial department too. Our audit team showed that the accurate mechanism is that the contracts department and opening and analysis committees determine whether the contractor has submitted all obligations including the preliminary insurances (and the performance bonds), while in our auditing reports, many essential observations were mentioned related to contracts department and Ministry's contracting:

- Our report No. 10142 dated 1/9/2008
- Our report No. 1923 dated 6/3/2008
- Our report No. 11789 dated 12/10/2008

4) Organizational chart and job Description (medium)

We noticed that there is no official organizational chart and job description explain the levels of responsibility and accountability.

The Ministry replied that it has assigned a central committee constituted under the ministerial order No (5) dated 5/1/2009 to implement the Ministry of Environment Law No. (37) of 2008 and the work is continuing on the preparation of the major formations which are at the level of general directorate, a ministerial order concerning its chart, responsibilities and duties for each one will issued. The legal department will undertake the follow-up of issuing the statute of the ministry but as for the job description the Ministry is deem the first one in that, as it has prepared job description for all job titles in use in the ministry and will form a central committee to follow up its implementation in the ministry. Our audit team sustained KPMG's note correctness as there is no authorized statute and job description and this mentioned in our report No. 10142 dated 1/9/2008, the audit team showed that the ministry is delay in preparing the organizational chart after issuing its law No. 37 of 2008.

5) Procedures and Polices of Financial & Internal Control (high)

Upon our visit to the ministry we noticed that there is no comprehensive manual concerning procedures and polices of financial & internal control for the Ministry. The Ministry explained that there is comprehensive manual concerning procedures & polices of internal control and audit of the ministry covering most of ministry's activities and will cover all the activities after the completion of staff and auditors acquire the experiences. Our audit team confirmed the correctness of the note and it stated that the note is mentioned in our report No. 10142 dated 1/9/2008.

6) Record of Fixed Assets (medium)

We noticed that record of fixed assets did not contain identification numbers of the fixed assets. The Ministry showed that it book keeping an accounting stores record (13) and explain that store cards will be used in future in addition to coding the store records. Our audit team sustained the note and this note has been mentioned in our report No. 10142 dated 1/9/2008.

7) - working hours' control (low):

We noticed that working hours control is represented by normal papers which signed by employees at morning and there is no system to control its end. The lack of computerized system to control work hours' may lead to weakness in control over attendance of employees. The Ministry replied that "the ministry contexts concerning this are as follows:

- A. There are unified records for the employees signatures (at morning & evening) in all the ministry directorates and the environment directorates in the governorates, there are specialized employees who are responsible for these books and may subject to audit.
- B. These records are closed at 8:30 am and don't allow to any employee to sign after this time even if he/she reached to the ministry.
- C. There is another employee who is specialized in preparing a form to write down all those names who are not signed in records at morning and this form is submit to each manager responsible for employee who does not sign in that records and the specialized manager shall confirm the employee leave or absence, mentioning the reasons of delay and the concerned manager shall sign on his employee names.
- D. This form must present to the manager of financial and administrative directorate and then to the personnel department every day in order to issue administrative order concerning the absence of employee or recording the leaves and make sure that the delay of some employees is not repeated.
- E. At the end of working hours, the employees shall sign in the records to be exact in the evening box and these books are closed at 3:30 pm and each employee doesn't sign in the evening hours will consider absent excluding the official exit cases or time leave which is confirmed by the specialized manager, this mentioned mechanism in the above clauses is very accurate to control the official working hours to all ministry staff.
- F. Two devices for electronic signature are bought this year in order to be used in the Ministry Headquarters in Al Karada and Al Wazerya only and the other ministry's directorates and environment directorates in governorates will be provided with this device.

Our audit team sustain the correctness of what has been mentioned in the Ministry reply whereas the records are signed at morning and evening, we think this provide sufficient control on the employees attendance.

8) Contract of Supplying Furniture (high)

During our review to the contract of supplying furniture for the buildings of Environment directorates in the governorates (Basrah, Mesan and Dhi Qar) in total amount 283430000 ID in the Ministry of Environment, we noticed that performance bond was submitted in form two endorsed checks in total value 10, 000, 000 ID which represent 3.53% from the contract amount while the governmental instructions stipulated on 5% which equal to 14171500 ID which means there is difference of 4171500ID i.e. 1.47%. The ministry stated that the company was notified to change the submitted checks (performance bond) in 5% of the contract value. Our audit team confirms KPMG's note correctness.

9) Contract No. 121 with Al-Lu'lu' Company (high)

During our audit of the contracts, we noticed that in the contract no. 121 with Allu'lu' and Marjan Company (contract for supplying and installation machines for control the quality of air, second stage) the preliminary guarantee was an endorsed check in amount 14000 000 ID doesn't represent the rate of 1% from the bid value 1456000000 ID whereas the value of preliminary guarantee that supposed to be paid is 14560000 ID i.e. the submitted guarantee is less than the above amount with 560000 ID. The Ministry replied that the bid participation amount is 1% of tender value is presented to participate the tender and this procedures related to the work of analyzing bids committee when the anchoring of the tender the company present 5% for good performance i.e. 1% presentation which will be within the work of analyzing committee and nothing to do for the contracts department because the company that obtain the bid is owed 5% for good performance. Our audit team sustained the correctness of KPMG'S observation, and the reply of ministry is not accurate.

10) Repeating the announcement of Bids (medium)

We noticed during our review that the ministry re-announces some bids after opening the submitted proposals for different reasons which lead to reveal the submitted prices by bidders for the committees' members so there is no confidentiality for submitted bids for example contract No. 121/103/94/39/19/70. The Ministry clarified

that when re announce for the second or third time, in accordance with the implementation of governmental contracts, the committee opens the proposals and reveals the prices in order to know the number of participated company and informs it, and this was mentioned in the instructions of governmental contracts implementation No.1 of 2008. Our audit team sustained what is mentioned in the Ministry reply and showed that many of re announcement cases required opening the proposal in order to make suitable decision therein.

11) Checks Due for more than 6 months (medium)

During our review to bank reconciliations for December 2008 we noticed that there are outstanding checks in the reconciliations since 2007 to date. The Ministry clarified that because of non drawing these checks by the beneficiaries they are cancelled according to the law because of exceeding more than 6 months, notifying that these checks were drawn during this period which leads to delay in settlement of these checks and necessary actions will be taken in future. Our audit team sustained the correctness of the note and clarified that this situation confused the financial department concerning the implementation of necessary reconciliations for the current account in the bank and this note mentioned in our reports No. 1923 on 6/3/2008 and No. 11783 on 12/10/2008 .

XXIII - Ministry of Construction and Housing

1- Segregation of duties (high):

We have noticed during our visit to the Ministry of Construction and Housing that salaries department prepares payrolls, review them, receives the related amounts and pays the employees, which means that there are no duties segregation for the employees that prepare statements, review them and pay the salaries. The Ministry has confirmed this observation attributing it to shortage of personnel in salaries department. We sustain this observation; as salaries department prepares payrolls which are audited by internal control department, while accounts department prepares the check to be signed by four authorized officials: financial affairs manager (accounts manager), assistant of a director general, legal department manager and another manager. The salaries section composed of three employees receives the check to pay the salaries. There is no order to establish salaries disbursement committee, keeping in mind that the bank is within the Ministry.

2- Contracts files (medium)

We've noticed that bodies in the Ministry are responsible for preparing, announcing, and accepting proposals, and not the contracts department whose role is analyzing the proposals only. The department neither keeps the contract files signed by ministry during 2008; nor keeps the contracts of previous years. The Ministry has not replied. Our follow up has indicated that contracts department has been established on 7th /8/2007 according to order no. (13766), and it has started its missions in (March 2008). The department's staff consists of (8) employees from (follow – up section, contracting section, electronic archive section and contracting information system). While the department consists of: (proposals opening committee and proposals analyzing committee). They are in charged with proposals opening and advertising in the concerned directorate, proposals analyzing, studying, approving, ratifying and submitting them to the General Secretariat of the Cabinet (central committee for auditing contracts) and to prepare contracts and having them approved. The department keeps some of contracts data in addition to financial follow up within the ministry affiliates.

3- The organizational chart (medium):

We've noticed that there is no organizational chart and formal job description that can clarify the levels of responsibility and accountability. The Ministry replied that it has established a committee according to the ministerial order no. (55) on 5th /1/2009 to prepare a guideline for jobs description for the Ministry Headquarters stating each job requirements, duties, responsibilities and the criteria that should be met by job occupant. An organizational chart will be drafted after approving the Ministry's law.

Our follow up indicated that there is an old organizational chart for the Ministry and its affiliates. Some amendments have been made to the law no (62) of 1988 and bylaw No (3) of 1987. Some departments have been cancelled and others have been newly established, and there is no formal approval in this regard. This observation is mentioned in the BSA report No (7688) on 16th /7/2008 about the financial statements of 2007.

4- Donations from external institutions (high):

The Ministry of housing has received donations in kind from external institutions, many of these were not recorded in the assets record, it is also noticed that many of them have not been recorded in the Ministry's warehouse. The Ministry has replied, in its memo (81 on 11th March 2009) issued by assets department providing a

disclosure of the institutions that presented these donations. We sustain this observation as during a visit to the Ministry's stores a big map - printer presented by the UN was discovered. Moreover, it is noticed that there is a deficiency in basic documents, worth mentioning that this has been identified by the audit team through the inventory performed by the team on 31st /12/2008.

5- Weapons warehouse (medium):

The results of assets inventory indicates that the inventory of light weapons at the end of 2008 does not match with what is mentioned in the records; and we noticed a difference in the number of weapons handed to the employees of the ministry:

kind	Number per inventory	Number per records	difference
Bertha pistol	72	260	188
Bronek pistol	3	10	7
Kalashnikov machine gun	104	139	35

The ministry has sustained the observation because they haven't conducted inventory of the weapons of the Minister office guards, quitters, deceased and transferred employees who have no acquaintance yet. The audit team sustains the observation which is mentioned in BSA report No (7688) on 16th July 2008.

6- Cars warehouse (medium):

We've noticed, when reviewing the assets department, that some vehicles are registered in the records, but they are missing in the actual inventory, for example:

Peugeot ROA

Proton Saloon

Dodge Chrysler

Kia Saip

Peugeot 306

The Ministry sustains the observation; a committee is established to address the subject according to ministerial order No (12901) on 26th /6/2007 and has been asserted by letter No(29) on 21st /1/2009 and (79) on 11th /3/2009 and they are still be followed up.

The audit team asserts the correctness of the observation and it is identified in BSA report No (7688) on 16th /7/2008 and that the team is still following up the matter.

7- The stock of cars and vehicles:

We've noticed, when reviewing assets department in the financial and commercial administration of the Ministry Headquarters, that there is (49) cars and vehicles have been stolen. The assets department in the financial administration has informed the legal department about this matter in order to follow up the issue, yet it has not been resolved. The Ministry has replied stating that they have discussed the matter with the General Directorate of Traffic through letter No (4516) on 22nd /2/2009 concerning the (49) stolen cars; the financial and commercial administration has been informed about that in letter No (98) on 10th /3/2009. The observation is identified in the BSA report no (9896) on 29/11/2007.

8- Current operational budget journal (medium):

Through reviewing accounting records of the Ministry Headquarters we've noticed that the current operational budget journal and for all months of 2008, lacks stamps and signatures of the officer in charge of the record, the accountant, and the internal control of the Ministry. The Ministry reply states that the observation has been taken into consideration, and sheets of all months have been signed by the officer in charge of records, the accountant, and the internal Control of the Ministry to signify their monthly review. We sustain the observation, which is also mentioned in BSA report on internal control system within accounts of 2007; it is also identified during 2008. It is noticed that the record contains a writings in pencil and no signature of the accountant or audit section, in addition to many strokes.

9- Outstanding accounts (medium):

Through the review of financial records and financial statements related to the Ministry, we have found some outstanding balances of the period before 9th /4/2003 still unsettled.

Account No	Sum in ID
Debtors of project funding advances	1.546.259574
Credit advances	136.000.000
Deposits	1.522.167.915
Creditors	4.979.291559

The ministry reply states that they have informed MoF to settle these outstanding balances; the last letter is No (793) on 13th /1/2009; yet MoF has not replied to the ministry's letter till now; outstanding amounts cannot be settled without having records and documents available, as such records have been burned during the war.

We sustain the observation; it is mentioned in our report no (7688) on 16th /7/2008.

10- Al-Anbar project acquisition (high):

During our visit to the state commission of housing, and reviewing a sample of the ministry contracts, we've noticed that the acquisition of Al- Anbar housing complex tender no. 7/2008 has been awarded to Hadhramote Company in spite the fact that their offer price is higher than the prices offered by Nabdh Alrafidain Company and Jabal Al-Salam Company. We could not get justifications of awarding this tender because the file has been referred to court. The Ministry reply states the reasons for not awarding the project to the aforementioned companies although they have offered the lowest prices as follows:

- 1- They have not presented previous similar projects accurately.
- 2- Offered Price by the two said companies is (58889407000) ID and has become, after auditing, (54771000000) ID. The two companies indicated that the first price is the right one according to a formal letter thereof. We sustain the observation; and the original documents are in court, copies of the contract, award letters and approval letters were provided. The contract implies building a housing complex in Al-Anbar consists of (71) buildings, school, kindergarten and health centre; all documents are returned to the state commission of housing, and some of them have been returned to the court.

XXIV - Ministry of Municipalities and Public Works

1. Contracts Department (Medium):

From the results of the review process for the Ministry of Municipalities and Public Works, we found a weakness in performing the duties of the contracts department in the Ministry, represented by:

- A- The department is unaware of the status of the tenders and contracts that belong to its directorates at least for 2008, which are under the authority of the committee of contracts review and approval or under the Director General of each Directorate.

B- The department activity is confined to review the acquisition after the directorate that holds the acquisition issues the award decision and hands over its documents to the central committee in the Ministry.

C- The department is not aware of the contracts signed before 2008, and being changed during 2008 through increasing its amounts or prolonging the execution periods. The Ministry has not reply, and our audit team supports what is mentioned in items (A, B) in the observation mentioned above. We referred to the observation in our report No. (2557) on 5/3/2009 of 2007 financial statement; the audit team supports also what is mentioned in item (C).

2. General Directorate of water, sewerage and municipalities- segregation of duties (High):

Through our visit to the directorates, we observed that the salaries department prepares the pay rolls, receives the related amounts and then pays the salaries, which means there is no separation of the duties between the persons in charge of preparing and reviewing the payroll statements as well as those involved in payment process. The Ministry did not reply, our audit team supports what is mentioned in KPMG's observation, as it has already identified this status within the report no (10162) on 1/9/2008 related to the assessment of the internal control system.

3. Directorate General for water, sewerage and municipalities- automation of the accounting system (Medium):

We observed that the process of writing the accounting entries in the journal, posting them to the general ledger and deducing the trial balance and the financial statements are made manually. The Ministry did not reply, and our audit team supports what is mentioned in KPMG observation, as it has already identified this status within the report no (10162) on 1/9/2008 related to assessing the internal control system.

4. General Directorate of Water - contract for executing and supplying equipment for Alislah water project in Al-chebaish (High):

Through our observation of a sample of the contracts of the Directorate general for Water, we observed, in relation to the contract of executing and supplying equipment to Alislah water project Al Chebaish of total amount (ID 23,064,870.400), that 90 % from the value of the first shipment amounted (\$109,243) was paid, and this is in contrary of what is stipulated in one of the contract's conditions to pay 40% of the

value of the first shipment. The Ministry did not reply, and the audit team stated that the correctness of the observation can not be verified, because the Ministry did not provide the audit team with a copy of the contract, and there is no reply from the Ministry regarding our memo No.(27) on 24/3/2009. Therefore, we directed our audit team in Thi-Qar to verify its correctness, and we sent a letter No.(234) on 22/3/2009 to Thi-Qar Directorate of Water, the Directorate replied in its letter No.(2066) on 23/3/2009 that the directorate or the resident engineer is not responsible for any item regarding supplying the project equipment, which should be under the supervision of the General Directorate for Water. Whereas reception of these equipments upon their arrival to the site is conducted by a committee established by the General Directorate for water, taking into consideration that the Directorate letter mentioned above stated that there are no equipment arrived to the site until the date of this letter.

5. General Directorate of Water - the length of period between the award and signing dates of the contract (Low):

Through our review of a sample of the contracts of General Directorate for water, we observed that the period between the award date and signing dates of the contract is relatively long, for example:

<u>Contract name</u>	<u>award date</u>	<u>signing date</u>
Supplying 15 multi		
Purpose-machine	30\6\2008	18\11\2008
with spare parts		
Al-Kofa water project	27\12\2007	20\4\2008
Study and design		
Preparation		

The Ministry did not reply and the observation has not been verified for not providing the audit team with a copy of the contract and there is no reply from the Ministry concerning our memorandum No.(27) in 24/3/2009.

6. General Directorate of Water and sewerage - the financial and accounting records (Medium):

Through the process of reviewing the accounting records of the financial departments for General Directorate of Water and the General Directorate of Sewerage, we observed the following:

- Related to the General Directorate of Water, we observed that the central journal does not contain stamps or signatures of the internal audit department, while in terms of the General Directorate of Sewerage, we observed that the record of investment plan doesn't contain stamps or signatures of the internal audit department. The Ministry did not reply, and our audit team supports what is mentioned in this observation .

7. General Directorate of Water and sewerage - registering and settling L/Cs payments (Low):

-Through our review of the financial statements, we observed that the financial department doesn't register or include all L/Cs in special records that showed the number of L/C, its amount, the opening and expiry date of the L/C. The commercial department is solely responsible for registering the credits. The Ministry did not reply, and our audit team supports what is mentioned in this observation .

8. General Directorate of Sewerage - checks due for more than (6) months (Medium):

- Upon our review of the banking reconciliation, we observed that there are due checks for more than (6) months. The Ministry did not reply, and our audit team supports what is mentioned in this observation .

9. The General Directorate of Sewerage – war damages (medium):

During our visit to the directorate, we observed that the directorate in 2008 reinstated a committee to calculate the war damages in 2003 because the old committee could not reach to an actual amount. The ministry did not reply and our audit team approved what mentioned in the note which is stated in our report in 2006.

10. The General Directorate of Water – contracts numbering (medium):

We observed that all the contracts of the directorate were not given with identifying numbers but only with incoming and outgoing numbers. The ministry did not reply and our audit team approved what mentioned in the observation.

11. The General Directorate of Sewerage – The contract of Al-Numania Sewerage project (medium):

During our review of the contract of Al- Numania project in the directorate, of a total amount (33,673,706,000) Iraqi dinars, we observed that the company submitted preliminary deposit amounted to (300,000,000) Iraqi dinars (less than 1% of the bid amount), noting that the preliminary deposit should be submitted is (336,737,060) Iraqi dinars, i.e. a difference of (36,737,060) Iraqi dinars. We observed that members' signatures of the Committee on Approval and Review of Contracts were incomplete in its decisions (No.11, No.59) related to Al- Numania sewerage project. The ministry did not reply and the correctness of the observation could not be verified because the audit team was not provided with a copy of the contract although we asked for a copy of the contract through our letter No. 105 on 29\3\2009, as the directorate has not finish the works of movnig and organizing its files in the directorate new location.

(12) The General Directorate of Sewerage – stock entry vouchers (low):

During our visit to the directorate, we observed that there is difference in the stock's record amounted to (752,526,914,752) Iraqi dinars because the stock vouchers were not documented in time. This difference is related to 2008 and prior years. The ministry did not reply, and our audit team approved the content of the note.

(13) The Directorate General for Sewerage – contract of supplying, implementing and installing sewage station of Al-Najaf Al- Ashraf (high):

During our review of the contract of supplying, implementing and installing sewage station of A-Najaf Al- Ashraf amounted to (85,350,053,450) Iraqi dinars in the directorate, we observed that the Ministry signed the contract without the approval of the central committee of contracts in the Cabinet, which clarified after signing the contract that it is not responsible for correctness of the referral procedures because the Ministry did not send a letter to the central committee of contracts in the Cabinet. The Ministry did not reply, and the observation correctness is not verified because the audit team was

not provided with a copy of the contract due to incomplete transfer of the files to the directorate new building. Therefore, we directed our audit team in Al- Najaf governorate to ensure the observation correctness, which stated that it visited Al Najaf Sewerage Directory and the resident engineer department who clarified that all the basic documents of the project such as (feasibility study, designs, announcement, opening committees, analyses, awarding, and contract conclusion) were available in the Directorate.

(14) The Directorate General for Municipalities – performance bond (medium):

During our review of the contract for supplying 34 bulldozers, signed with Toyota Tsushu company, we observed that the company submitted the performance bond on 14/12/2008 which is contrary to what stated in the signed contract on 20/5/2008 in one of its items concerning imposing the company to submit performance bond after 15 days of signing the contract. The Ministry did not reply, and the note correctness is not confirmed because we were not provided with the basic documents of the contract. In reply to our memo dated 29\3\2009, the directorate apologized for its incomplete work of moving and organizing its basic documents.

(15). The Directorate General for Water, Municipalities and Sewerage – salary system (medium):

During our review of the salary process in the directorates, we observed that these directorates use manual preparation of salaries. This process is tiring and time consuming. Besides, the manual preparation of salaries would increase the possibility of human errors. The ministry did not reply, and our audit team confirmed the observation.

XXV – Ministry of Industry and Minerals:

1- Reconciliation between the trial balance and payroll (low)

We noted that the internal control did not conduct monthly or quarterly reconciliation between the trial balance and payroll, and there is no answer received from the Ministry regarding this. Our audit team follow-up showed that the Ministry Headquarters is funded centrally and applies the governmental accounting system and what is listed in the balance of review corresponds to the salary review that had been set up during the quarter, therefore, this observation is inaccurate.

2- Salaries committees (high):

We noted during 2008 that the salaries and other allowance were delivered to one employee who is responsible for the disbursement and not to a committee. The Ministry withdraw the Ministerial Order number 411/20/5929 Date 12/2/2009 to form committees for the receipt and distribution of salaries and other allowance. There was no answer from the Ministry, our audit team follow-up showed that the Ministry procedures in 2008 were the formation of committees to receive salaries as these committees receive the amounts allocated to each department and then those amounts are distributed to the employees after being confirmed and signed for receipt of salary.

3- War Damage (medium):

Establishing a technical committee to itemize the damage of war according to the Ministerial Order number 411/20/21308 on 3/7/2008, but through our review of the Ministry we were informed that the Committee till 7/4/2009 has not completed the preparation of the lists of the damage. There was no answer from the Ministry, our audit team follow-up showed that the ministerial committee established under the ministerial order No. (21380) on 3/7/2008 prepared lists of damages and referred them to the committee, formed under the ministerial order number (190) 2008 and ratified on lists related to (20) companies and the follow-up is on going to obtain approvals for the rest of the companies. Knowing that the Ministry and its affiliates applied mechanism to address war damages included in BSA letter No (187) on 31/8/2003.

4. Car maintenance expenses (low):

We have noted that there is no reconciliation of balance of the expenses of maintenance of cars in the financial records with the reconciliations in the department of transport. There was no answer from the Ministry; our audit team follow-up showed that registering car's expenses in the accounting records is down in commodity supplies and maintenance expenses as a total while the department of transport maintains the card for each car includes all disbursements. The financial department has been directed to coordinate with the department of transport for the registration of all listed expenses in the accounting records with the car cards for the purpose of reconciliation between the expenses spent on these vehicles in total and the expenses of each car card, which has been audited by the internal audit department.

XXVI: Ministry of Defense:

(1)- Bank accounts reconciliation: ministry account with Alrafidain Bank - Headquarters (high):

When reviewing the above mentioned account reconciliations as of 31/12/2008 we found the following:

1 – The matching included a number of checks recorded in the Ministry's records that did not appear in the statement of the Bank of total amount of (1.076.097.424) I D for 2006, as well as a total amount of (16.637.168.432) I D for 2007 which i.e. a grand total of (17,820. 825,776) I D that should be canceled as they represent overdue checks for more than six months.

2 – The reconciliation included funds emerged in the bank statement and the Ministry is not aware of the details, whereas the total of these amounts for 2005 is (10.2780250) I D and for 2006 (1.7830.000) I D and for 2007 the total amount of (892.122.50) I D and the total amount (36,815 .530) I D for 2008 to reach the total of (941.000.130) I D.

3 – The reconciliation included funds recorded by the Ministry in its records as received amounts for the bank account and did not appear in the bank statement. Whereas the total amount for 2006 (7.830.000) I D, and the total amount for 2007 (456.019.150) ID, and the total amount for 2008 (89.397200). The grand total of these amounts is (545.416.350) ID.

4- The reconciliation included funds recorded by the Ministry in the balance without documentation with a total of (18.625.637.039) ID.

5- The statement mentioned in (1) above included a mistake in casting of (9000000) I D.

There was no answer from the Ministry. The audit team sustained the company's observation regarding the existence of suspended checks in the Ministry's records did not appear in the bank statement. As for the amounts that appear in the bank statement and the Ministry is not aware of their details, the audit team has confirmed all the amounts except for 2008 as it showed that the correct amount is (36971230) I D not (36815530) I D. As for The amounts in which the ministry made an entry in the records at the department of receipts and did not appear in the bank statement it has been found not matching, and as follows:

The year	The amount according to KPMG report/ Dinar	The amount according to audit team
2007	456015150	534588650
2008	89397200	2997700

We support KPMG's statement in the report regarding the existence of the total amount (18625637039) I D, in the reconciliation without supporting documents and there is an error in casting suspended checks according to the statement provided by the Ministry the total under of (9000000) I D.

(2) – Bank accounts reconciliation: the account of the ministry with Rafidain Bank

- Ministry Branch (high):

When reviewing the above mentioned account reconciliation, as of 31/12/2008 we found the following:

1 - the monthly reconciliation included funds appeared in the bank statement and the Ministry is not aware of the details, whereas the total amounts for this year is (470.174.127) ID, and for 2007 the total amount was (1.391.551931) I D and the total amount for 2008 was (70722.912.844.300) I D i.e the grand total is (9.584.638.902.300) I D.

2 - The reconciliation included amounts that are registered in the ministry's records and did not appear in the bank statement. Whereas the total amounts for 2006 (403.241.447) ID, the total amount for 2007 (214.958.258) ID, and the total amount for 2008 (411.982.096) ID, i.e a grand total of (1.033.960.601) I D, in addition to a total of (3.778.800) I D for 2009 mentioned in the reconciliation.

3 - The reconciliation included amounts that the ministry recorded in the balance without any basic documents, with a total of (16.884.155) I D.

4 - The statement mentioned in (1) above, included a mistake in adding with an amount of (62,450) I D and the statement mentioned in (2) above included error in casting of the amount (4) I D.

There was no answer from the Ministry. We confirm KPMG's observations related to deposits and suspended amounts in the records of the Ministry for 2006 and errors in casting statements.

(3) – Bank accounts reconciliation: the account of the Ministry with Rafidain Bank

- Alzwaya Branch (medium):

When reviewing the above mentioned account reconciliation, as of 31/12/2008 we found an amount of (419002220) ID within the differences for the value of

endorsed check issued on 25/7/2006. An investigating committee was established to investigate the loss but it was not settled until the end of 2008. There was no answer from the Ministry. We support the KPMG's note regarding the amount of the endorsed check issued on 25/7/2006 of 419002220 I D appeared in suspensions of current account reconciliation.

(4) – Bank accounts reconciliation: Bank account with TBI (high):

We found no reconciliation of Ministry's accounts with the TBI since 2005; we were informed that the Committee established for this purpose has not taken action until the date of the review in April 2009. This delay resulted that the ministry did not registered any entry related to the mentioned bank in spite of significant accounting operations carried out by the Ministry through this account. There was no answer from the Ministry. We support the correctness of the note stating that the ministry recorded total amounts of (18625637039) I D (eighteen billion and six hundred and twenty-five million six hundred and thirty-seven thousand and thirty-nine I D) in the balance according to the reconciliation without any supporting documents.

(5) - Entries of Foreign Military Sales (FMS) contracts operations (high):

Although the FMS contracts included more than 100 contracts with a total value of more than 4 billion U.S. dollars, we did not find any entry of such contracts within the Ministry's records at the relevant department at the directorate of budget and programs since the ministry joined this program under the decision of the Economic Affairs Committee of Council of Ministers (No. 842) on 11/10/2006, as the department does not record due to lack of the necessary documents and information. We have also noted that the relevant staff did not get an adequate training to work under the terms of this program, as well as the use of contradictions form 340 - 103, for example, was not activated until 15/2/2009, despite its important role in the process of receipt. There was no answer from the Ministry. We confirm KPMG's note on the FMS program, and this BSA is following the subject of these contracts and how to deal with them and has held several meetings with the representatives of the Ministry of Defense, representative of US Department of Defense, and the representatives of the U.S. Treasury, the latest was on 10/5/2009. Note that the ministry has recently started to prove the entries of the program in the records of 2006 in spite of our reservation on the way of the accounting settlement.

(6) - Fixed assets (high):

We know that the accounting section is neither book keeping a register of assets nor conducting annual inventory of the assets of the directorate of budget and programs. The Ministry did not reply. We support the KPMG's note which is indicated in our report no.5/6/1/2056 on 24/3/2007 regarding accounts of 2005.

(7) – Suspended letters of acceptance within the FMS (medium):

When reviewing the status of letters acceptance on 21/4/2009 presented it was as follows:

The year	The total	completed	partial	uncompleted	canceled	suspended
2005	1	1	0	0	0	0
2006	2	0	2	0	0	0
2007	53	23	16	10	3	0
2008	54	1	8	33	1	11
2009	3	0	0	2	0	1
	113	25	27	45	4	12

It was found that the reason for the suspension of contracts set forth under the heading of (suspended) is the lack of allocation required to finance the letters of acceptance although the Minister of Defense signed those letters, bearing in mind that the total value of these contracts (\$ 550597417). There was no answer from the Ministry. We support KPMG's observation of the existence of 12 suspended letters with a total amount of (\$ 550597417) for lack of the necessary allocation.

(8) - The qualifications of the labor force in the department of budget and program (medium):

Through our review to the qualifications of the directorate of budget and programs' staff we found the following

- 1- There is an employee with post graduate diploma of Persian language.
- 2- There is an employee with Bachelor degree in History and one has a Bachelor

degree in Physics and another with Bachelor degree in Mathematics within the Directorate.

3- There is an employee with Bachelor degree in agriculture, one with Bachelor degree in Fine Arts, one with Bachelor in Engineering /mechanics, and one with Bachelor in Science / physics within the Directorate.

4- There is one employee with oil Diploma (checks department), one with electricity Diploma (checks department), one with mechanics of armor Diploma, two with teachers Institution Diploma, one medical technician Diploma (checks department) and one has a with Chemistry Diploma within the Directorate.

5 – There are (5) employee with a degree of industry high school and one Agriculture high school (Records department) within the Directorate.

There was no answer from the ministry. We Support the company's observations about the qualifications of the staff in the Directorate-General of the budget and programs, indicated in our report No. 5/6/2056 on 27/3/2007 on 2005 financial statements.

9-Automation of the accounting system (medium):

We noted that the operation of establishing accounting entries, recording in the journal, posting to the general ledger and preparing trial balance and financial reports are conducted manually. There was no answer from the Ministry. We support KPMG's observation about non-adoption the accounting system in their work.

10 - Working hours (low):

We noted that working hours control is done by papers to be signed by the employees at the attendance hours, the absence of automated working hour's control leads to the weakness in the control of the employees.

There was no answer from the ministry. It was noted that the system adopted by the Ministry to control working hours is manual, but it is effective.

XXVII - Ministry of Foreign Affairs:

1 - Assets records (medium):

When we review the records of fixed assets for 2008 we noticed:

- 1- The financial administration did not issue purchase entries of these assets at the time of our audit of the Ministry, in May 2009. We found an overlap between the items of the assets in weapons page, of the records where they registered pistols and quivers on the same page.
- 2 - The quantities stated in the weapons page did not match with the weapons purchases statement for 2008, the amount mentioned in the statement is more than that in the weapon page in quantity and quality
- 3 - Items of assets that are registered in records did not include important information for many cases. We found as example lack in chassis and motor numbers for some vehicles, as well as the purchase cost for most of the vehicles was not registered in the records.
- 4- Not using the regular records (accounting 13) for all types of assets, where we found the vehicles record out of context.

No answer received from the ministry, we support the correctness of the observation about the fixed assets records

2 - Contracts for cars purchase (high):

During our audit of the contract for the cars purchase GMC YOKUN XL mentioned above of 692,500\$, we noted that:

- 1 - The contracting process have been done through the Procurement Committee on the contrary to the provisions of the fourth paragraph (b - purchase authority) in the of the instructions budget execution which should be followed by the auction procedures, or direct invitation.
- 2 - The ministry did not inform the concerned parties such as Ministry of planning about the contract details, its amount and data of the contractor party as soon as the procedures of signing the contract were completed.
- 3 - The contract didn't include seals, approval of the legal department in the Ministry, the serial number and the address of the second party. We have the same above mentioned observations concerning the contract for the purchase of Chevrolet Caprice cars model 2008 at \$ 806,250.

There was no answer from the Ministry. We support the correctness of KPMG's observation on the contract for the purchase of cars.

3- Payment of salary (medium):

During our review of the process of disbursing the salaries of the diplomatic missions abroad we noted:

- 1 - Some staff is authorizing other employees to receive the salaries on their behalf, without an authorization or any supporting document at the salaries division in the Ministry to ensure the validity of the authorization; this appeared as an example in the payroll lists of diplomatic missions in Manila, Damascus and Teheran for

November 2008.

- 2 - We noted that in some cases the staff didn't sign on payroll to prove receipt of salary, as an example that has appeared in payroll of diplomatic mission in Sofia for September and November 2008.
- 3 - The diplomatic mission payroll section that issues payroll maintains some of the payroll that came from diplomatic missions in a random manner, an example for that we didn't find in the section the lists of diplomatic missions of Manama, Warsaw and Athens, for all months of 2008, as we know that they are kept in the departments of Internal Audit.

There was no answer from the Ministry. We support the correctness of KPMG's observation with regard to the salaries of the diplomatic missions abroad.

4 - The implementation of contracts for the ministry outside Iraq (medium):

During our review for the contract samples we found:

- 1 - We noted that an announcement of a bid for consultancy work for the project of rehabilitation and construction of the Embassy of Iraq in Paris has been published in one local newspaper, and there was an announcement of a bid in two local newspaper for building new consular and residence in Dubai, contrary to the instructions that state to announce in the 3 newspapers.
- 2 - We noted that the contracting procedures for some contracts are made through the engineering department in coordination with the Legal Department; we did not find at the Ministry Headquarters any office or central department for contract to be responsible of the contractual process.

There was no answer from the Ministry. We support the correctness of the observation; however, there is a section of contracts connected to the minister.

5 - Working hours control (medium):

We noted that the working hours control is handled by papers to be signed by the staff in the attendance hours, the absence of automated working hours control lead to weaknesses of control on the employees work.

There was no answer from the ministry. We support the correctness of observation.

6 - Organizational chart (medium):

The Ministry hasn't updated organizational chart that shows the levels and authorities, it was found that the existing organizational chart does not much with the needs of the Ministry; we also did not find a job description for the Ministry.

There was no answer from the ministry. We support the correctness of the observation.

7 - The consolidation record (medium):

We noted that there wasn't approval from the MoF on the consolidation record in the administrative and financial office/ Ministry of Foreign Affairs accounting department for 2008 and prior years. There was no answer from the Ministry. We support the correctness of the observation.

8 - Stolen vehicles (medium):

We noticed that there was cases of theft vehicles in the Ministry occurred in 2003, including three stolen cars that were stolen according to the report of the inventory of cars in 2008; we could not get answers and documents showing the final position of the subject above in the transport section, assets department and the legal department for example:

<u>Car type</u>	<u>car number</u>	<u>Date of theft</u>
Daewoo	248810	10/1/2007
Pickup	470215	24/8/2008

No answer from the Ministry. We support the correctness of the observation.

9 – Committee of inventory of the diplomatic missions and representations of Foreign Affairs (medium):

The inventory of the assets of diplomatic missions for the year ended 31 / 12/2008 we noted the following:

- 1- Some diplomatic missions implemented the inventory without issuing an administrative order to form specialize committee, for example: Istanbul, Doha and the Embassy in Cairo.
- 2 - Some diplomatic missions did not send inventory lists of 2008 until the end of our visit to the Ministry in May 2009 for example, diplomatic missions in London and Dubai.
- 3 - The Ministry records of diplomatic missions assets of 2009 did not include a lot of important data, We have noticed for example there was a sentence "old purchase" under the number and date of purchase transaction for the most of the record pages of consular assets in Damascus, also noted that the cars record of the Embassy in New Delhi didn't included chassis numbers.

No answer from the Ministry. The follow up of our audit team with regard to these items showed the following:

- 1.We didn't support the observation, as there are administrative orders of the diplomatic missions - Doha and Cairo according to order 5/2/545 on 22.02.2009 and 3/1/5102 on 26 \ 11 \ 2008, respectively.
2. Diplomatic missions in London and Dubai sent an official inventory lists by official letters no. 1/2/533 on 24 \ 4 \ 2009 and 528 on 26 \ 2 \ 2009, respectively.
3. Support the correctness of observation.

10- Loss of weapons (medium):

During our review of the statement about the types and numbers of weapons purchased during 2008, we notice the loss of some of the weapons like Kalashnikov rifles figures 606-0370-26004251 without taking the necessary legal procedures of minutes of the investigation, and so on.

There was no answer from the Ministry .we support the correctness of observation.

11 – Assets (medium):

During the review of the inventory on 31 \ 12 \ 2008 we noted:

1 - There is no coding system of the asset

2 - No computer system for the assets of the Ministry Headquarters, despite the adoption of such system with regard to diplomatic missions.

There was no answer from the Ministry; we support the correctness of observation.

XXVIII – Kurdistan Region:

KPMG's report contained common observations on some ministries and directorates in the governorates of Sulaymania and Arbil within Kurdistan Region in addition to observations on the ministries and directorates of (Finance, Transport, Municipalities, Electricity, Higher Education, and Housing and construction). Those observations were referred to the General Secretariat of Council of Ministers - office of Kurdistan Region coordinator by COFE's letter no. 16 on 14.05.2009. No answer was received from concerned ministries and directorates in the region to date.

4 – Follow-up of Ernest & Young's Report for 2007

a- Ministry of Oil

First- Completion of Oil Sales & Products

The progress of installation of a comprehensive metering system in Iraq according to the best oil industry practice is still slow. It's noticed the reduction of achievement ratios to install these systems for the most companies. The ministry of oil / technical directorate has required from all concerned companies by its letter No. F/7/157/403 on 22/1/2009, to study the reasons of this reduction and stressed on all the laggard companies to achieve the plan on due date by the end of 2009, notifying that the letter of ministry of oil No. 3 on 18/2/2009 has been determined the end of 2011 as a date to complete installation and operating the meters.

Second: Sales of Oil Products

SOMO did not work to prepare a reconciliation of the difference estimated (\$153749562) (one hundred fifty three million, seven hundred forty nine thousand five hundred sixty two dollar), between the total sales and total collections. SOMO has contacted Ernest & Young to explain the source of information mentioned in the report according to it's letter no H1/1763 on 05.05.2009.

Third: Barter transactions

The total statements of exporting fuel oil and crude oil by barter with Syrian government are still different from SOMO Company as the following:

<u>Company statements</u>	<u>\$total amount</u>
Ernest & Young Company	1032598000
SOMO	750864575

Ernst & Young presented an analysis of the amount mentioned above as follows:

period	amount/ thousands dollars
Balance according to KPMG report as of June 2005 issued on May 23, 2005.	561105
bartering transactions for the six months ended on 31/12/2005	78565
bartering transactions of 2006	175537
bartering transactions of 2007	217391
total	1032598

Our follow-up revealed that the amount is \$(750864575), according to SOMO records, as illustrated below:

year	Amount of gas oil \$	Amount of crude oil \$	Total \$
2003	-	17076719	17276719
2004	46355229	129337981	175693210
2005	32798338	132141703	164940041
2006	7332794	168230355	175563149
2007	35387756	182003700	217391456
total	121874117	627990458	750864575

Noting that the amount of (\$302391) due on the Government of Syria for the bartering processes had not been paid to date, as illustrated below:

description	thousand USD
amount of gas oil & crude oil	750865
products received from the government of Syria (to be deducted)	448474
	302391

Fourth: preliminary deposits:

The ministry did not take the necessary procedures to avoid receiving the preliminary deposits estimated 3% in bank guarantees through foreign banks outside Iraq in contradiction to the instructions issued by higher committee of contracts, which requires issuing the guarantees by Iraqi banks.

Fifth: operational loading system

Concerning the oil meters at loading platforms of SOC, the said company mentioned in its letter No. 46128/170 on 12/10/2008 directed to the office of internal control in the Ministry that these meters were installed by the American Company "Parson" & calibrated by SOC with Swiss company SGS (the inspecting company) & accredited certificates has been issued & incorporated in the commercial & financial calculation since 1/7/2008 & our team sustained the company's answer.

Sixth: Reconciliations with the affiliate's records

The issue of preparing SOMO records reconciliation, oil production companies & the refinery companies in BSA's reports has been discussed in the joint meeting between the BSA & Ministry of Oil, but SOMO has not finished yet the reconciliation procedures between the products quantities supplied by the oil products companies & refinery & distribution companies with its records to avoid the differences appeared between them.

Seventh: Quantities of received oil products:

The technical directorate in SOMO does not prepare reports to confirm the quantity received from the oil products, as it approves the quantity certificates issued by the shipment dept. through the eastern portal only not the other borderline portals. The technical directorate stated that it does not prepare reports on the quantities of oil products received; as it approves the quantity certificates issued by the shipment dept. through the eastern portal only, explaining that the contractual department sends a hand written statement that includes the shipment details discharged in deposits in the presence of an employee from technical department. SOMO reconcile the statements with those received from the beneficiary then issues the quantity certificate and the commercial bill accordingly. We recommend providing BSA with confirmation reports for all received quantities through all access points and not to be exclusive for eastern portal.

Eighth: Fees of monitoring oil products quantities

The tech. directorate in the Ministry of Oil has been authorized to monitor the oil products quantities, imported after terminating the contracts of Sabra & Khaylani companies; according to a mechanism identified by the ministry. The disbursement should be conducted on monitoring process over the deducted amounts from the suppliers. SOMO has proposed providing specific allocations in its budget to be disbursed on the monitoring process, but the follow-up result has showed that the Ministry's procedures are not complete; although two years have been passed since changing the monitoring party.

The Ministry of Oil has to provide the proper allocations to be disbursed within its budget on the monitoring activities by the technical department. We don't sustain conducting this procedure by SOMO. We recommend recording the deducted revenues related to the monitoring processes as revenue to be credited with the public treasury and not using these revenues for monitoring purposes.

Ninth: procedures of internal control over importing oil:

SOMO has not completed setting the procedures of internal control over importing oil products yet, SOMO stated that it has issued a manual for internal control over importing oil products.

Tenth: Metering System for Imported Oil Products:

Our follow-up of SOMO's procedures concerning applying accurate metering system to insure the control on the imported products quantities showed that there are no documents to enable conducting of reconciliations between SOMO and suppliers.

Eleventh: Monthly reconciliation with Oil Products Suppliers:

SOMO did not conduct any reconciliations procedures between oil products quantities supplied buy companies and their records kept in the financial department. SOMO stated that it will conduct such reconciliation starting early 2009 and it will on yearly basis. BSA believes that monthly not yearly basis reconciliations are necessary.

Twelfth: Filing System:

SOMO did not develop filing system so as to insure easily reference to the files and facilitate control and auditing tasks, we suggest establishing central file contains all the documents related to the importing process in addition to the files kept in the different

departments of the company which are (Marketing, Shipment and Financial Departments). SOMO explained that it made progress in this sense, but we think that there is a necessity to consolidate the information related to import of oil products process in central files in addition to keep copies of certain documents in the concerned department.

Thirteenth: Control on the Lists and Certifications of Import:

SOMO did not make any necessary procedures to adopt the prior and printed serial numbers mode for the important documents to control the lists and certifications.

Fourteenth: Payment vouchers and supporting documents:

Despite of continuous confirmations of the auditing company and the BSA's report about stamping the vouchers and its supporting documents, after the completion of payment so as to enhance the payment process, but SOMO did not take the necessary actions to implement what is mentioned above.

Fifteenth: Exchange Rate:

SOMO did not take the necessary procedures to carry out the direction related to using the exchanging rate announced and specified by CBI for the purpose of recording Iraqi oil exports. SOMO stated that in 2009 an exchange rate of 1170 ID per one US\$ will be used as agreed on with BSA and internal control directorate in the Ministry. We confirm the observation and stress on using the exchange rate of 1170 ID per one US\$ starting from early 2009 in order to highlight the actual value of import and other transactions.

Sixteenth: Settlement with Syrian Government:

The amount due on Syria for barter transactions of crude oil for the oil products, amounted according to KPMG report about (\$302391) (Three hundred two million and three hundred and ninety one thousand dollars) suspend to date despite of SOMO's efforts to recover the amount and there is a continuous follow up to obtain the amount due on Syrian Marketing Oil Office by the Ministry of Oil- SOMO, MoF – The Committee of Recovering Iraqi funds abroad, Ministry of foreign Affairs – Arabic Directorate, in addition to Al-Rafidian Bank follow up in Considering that the proposed mechanism to transfer amount will be carry out through its bank account with First National Bank/Beirut and the last letter was SOMO's letter No. 3/10637 dated 13/4/2009.

B- Central Bank of Iraq

First: Authorizations and Mandate list:

We are still stand to our opinion that the used method of issuing payment orders by the General Directorate for investment in the CBI is sufficient to ensure the proper implementation of payment orders although we confirm the necessity of specified the authorized persons for payment from (DFI) account exclusively.

Second: reporting on reimbursed and recovered amounts:

The recovered amounts to DFI's account that represent (cancellation of L/C, interests on the cash deposits, increase in funding the requested amount, the amounts transferred from the frozen funds abroad Iraq and the amounts transferred from the Oil for Food Program) are still at the FRBNY and not supported with the necessary documents and subsequently they are listed in the other revenues item, we stress on the needs that the database of cash receipts and payments ensures the precise classification and identification of the type of revenues.

Third: DFI's record in CBI:

The difference between the Fund's credits and debits balances amounted 4250000 \$ (four millions and two hundred and fifty thousands dollars) is still under settlement process.

Forth: Confidentiality and Data Protection:

CBI still uses the e-mail in correspondences instead of using SWIFT as a secure mail.

Fifth: Classification of Receipts and Cash Payments:

CBI keeps the database of cash receipts and payments of DFI by using Excel sheets, these sheets do not ensure much of necessary data that provide accurate and clear description of the operation starting from the approval, passing through the Number of L/C and the name of beneficiary..... etc.

Sixth: Interest Paid against L/C cash deposits:

Since the MoF is responsible of the management of DFI accounts, therefore it is responsible of calculating the interests.

C- Ministry of Finance:

Our follow up to Ernest & Young observations/2007 shows, according to MoF- directorate of accounting no. 11013 on 16.07.2009, the following:

First: guide of procedures and policies

MoF replied that DFI work is limited to follow up all oil revenues and amounts transferred and as long as FRBNY is administrating the account and sends all financial statements to CBI which in it turn provide them to MoF to be reconciled with the records therefore there is no new policies for DFI work rather new procedures followed by DFI staff to serve providing financial statements and information, our follow up showed that MoF reply is not accurate for there are no new procedures and the observation still valid.

Second: authority of payment from DFI account

MoF stated that there are limited authorities of payment from DFI and other accounts under the authority given to all authorized officers according to the level of finance and authority of payment, accordingly there is no need for two or more signatures, as the DFI amount to cover L/Cs is signed by Secretary General of Council of Minister on behalf of the Prime Minister and the Minister of Finance or their representatives, but the amount remains under the authority of the director general of accounting directorate to be paid further. The directorate of cash is responsible to control and ensure that the amount financed not to exceed the total in FRBNY; it is also responsible of follow up the amount, as well as the letter of opening L/C issued by the cash department is not signed by the D.G of accounting unless the amount is deducted from the balance retained for L/Cs in DFI account. All L/C opening letter that exceed the balance are not issued before financing the amount in DFI account in FRBNY, taking in to consideration that reconciliations are conducted regularly between MoF and CBI records and the L/C amount is followed up in CBI records. Our follow up showed that there are no cases of exceeding the amount allocated for L/C and there are no reconciliations between the accounting department and other departments.

Third: Budget preparation

We do not sustain what was mentioned in KPMG's report, as there are procedures follow by MoF by relaying on previous year's budget and actual expenses.

Fourth: Accounting System

MoF replied that it has programs through which it can derive the data and information needed for reports that serves the administration and external auditor on timely basis. Our follow up confirmed the correctness of KPMG's observation for the out put of the system is not sufficient.

Fifth: DFI accounting records

MoF stated that the records maintained in the unit of cash management are sufficient and meet requirements of preparing DFI related accounts, there are also reconciliations between the unit of cash management and CBI through the statement, as well as individual follow up and there is a special record for reconciliation through which the disbursed amounts are followed up. DFI account is administrated by FRBNY that provides CBI with all DFI data which in its turn send those to MoF. All disbursements mentioned in the statement are reconciled with MoF records. Our follow up showed that the observation still valid.

Sixth: general internal control systems

MoF replied that DFI account is administrated by FRBNY that provides the General Directorate of investments within CBI with all financial data and monthly statements which in its turn provides unit of cash management in the accounting office to be reconciled with its records; therefore the unit of cash management is an independent unit within the accounting office, it administrates and follow up registering the movement of the cash received from oil export sales and DFI comparing the data received from CBI with those it already has, as the revenues are deposited in DFI account while FRBNY is administrating and investing them. DFI work is currently conducted by DFI administration therefore it does not require establishing another unite, MoF did not reply in relation to code of conduct and ethics.

Seventh: preparing reports and financial data of DFI

MoF stated that the statement of cash flows has been prepared as of July 2007, and COFE and BSA have been provided with above-mentioned statements until March 2009. We sustain what is mentioned in the Ministry's reply.

Eighth: deposits for old L/Cs (JP Morgan)

MoF replied that a committee has been established to follow up TBI in order to settle the delayed deposits of L/Cs and old balances.

Ninth: cash deposits at correspondence banks

MoF stated that DFI will maintain the complete records of the deposits transferred by TBI to correspondence banks and for all other transactions. Our follow up showed the validity of observation; as the Ministry didn't maintain the records to date.

Tenth: DFI payments to Iraqi ministries

MoF replied that a bank account no. (301640) has been opened with CBI to deposit financing amount of DFI account at FRBNY, the amounts have not been transferred to this account yet. Our audit team sustained what is mentioned in KPMG' report.

Eleventh: settlement between MoF and other Ministries and Governmental Organizations

MoF stated that the accounting office is following up the amounts that have been transferred from DFI account at the ministries; as well as follow up recording these amounts in the ministries' account. The differences among the transferred amounts are being settled through the trial balances by these ministries. There are field audit teams to review the reconciliation of records maintained by the ministries. Our follow up showed an inaccuracy of Ministry's reply; as the ministry hasn't made the reconciliations.

Twelfth: reconciliation of MOF's current account with CBI

MoF/accounting office stated that monthly reconciliations have been prepared for the current account No.(70009) at CBI, and the account has been followed up with CBI; as the department of cash management records all the disbursed amounts in the above-mentioned account and comparing them with the statement of CBI as well as reconcile the accounts with department of monetary accounts in the ministry. Our audit team sustained what is mentioned in the Ministry's reply.

Thirteenth: financing MoF's account from DFI

MoF stated that there are correspondences between MoF and CBI concerning calculating the commission deducted by CBI. BSA has been approached in letter no.

(5728) dated on 7/5/2008 to assist in settling this issue. Our follow up showed that the observation is still valid to date.

Fourteenth: Payments from sub account of DFI administrated by US agencies

MoF replied that accounting office approached the ministries and related parties to obtain confirmation of disbursements done by US PCO in favor of ministries and the follow up process is going on, taking in to consideration that MoF did not pay any amount during 2007 and 2008 unless a confirmation has been provided by the concerned ministry or institution regarding the existence of the project. We sustain the correctness of the observation.

Fifteenth: UN compensations Fund

MoF stated that GoI has no relation to this issue, as the process is within the responsibility of Ministry of Foreign Affairs, and it is settled through diplomatic channels. We confirm the correctness of the observation.

Sixteenth: follow up collecting confiscated amount in abroad

MoF replied that Ministry of Foreign Affairs informed MoF that the Iraq Embassy in Italy has assigned an Italian attorney to follow up the issue. Our follow up showed the correctness of this observation; as the issue has not been settled to date.

Seventeenth: there is no protection system

MoF stated that the protection system of the account is a main (Password) for the computer, as it is not possible to access except for the user responsible for the computer. MoF started to develop all programs pursuant to the letter of General secretariat of CoM no. AM/11/K/12660 on 30.04.2009 that contains the order of setting a plan for automation of information systems of the Ministry. We sustain the correctness of the observation.

Eighteenth: Authorizations of programmer to amend the data

As for this observation MoF replied as follows:

- There is an authorized specialized operator who enters the data in certain computer.

- Copying the data after entering, saving them in other computer related to the data base. Our audit team confirmed the correctness of the observation.

Nineteenth: documentation of system amendments

MoF stated that it will introduce the amendments on the system efficiently after setting up the new system and its amendments, as well as it will archive these amendments. We sustain the correctness of the observation.

Twentieth: procedures of request to amend the system

The department will issue special forms to document all requests of amendment containing the required items. Our audit team stated that the observation is still valid.

Twenty first: protection of system information

MoF stated that due to frequent request for data by higher authorities, the Ministry needs to make more copies to avoid the defect or other obstacles that might happen in the future that hamper extracting data, that why it was necessary to have an effective CD reader and writer to make such copies to provide the above mentioned authorities with information and mobile data show, taking in to consideration that a specialized employee is working in the unit of cash management to enter these data. We confirm the correctness of the observation.

Twenty second: Updating the operating system related to the system

MoF stated that the updating is not done due to the following reasons:

- The operating system is not a genuine copy, therefore it can not be updated via the internet, bearing in mind the updating process is the task of information technology office.
- The internet is linked to one computer only for extracting the emails of accounting office only, and there is no other leak outlet. We sustain the correctness of the observation.

D- Ministry of Industry

The old letters of credit deposits

There are two of three letters of credit, No. (196) & (247), which were not closed, and their follow up is going on, the latest is a letter from the economic office in the Ministry

of Industry no.(10441) on 8/4/2008 to the TBI about refund the remaining amounts from the L/Cs which amounted(13913\$) (thirteen thousand nine hundred and thirteen) and (19370\$) (nineteen thousand three hundred and seventy dollars)respectively.

E- Ministry of Health

First- fixed assets record

The necessary procedures have not been taken by the Ministry to include identification numbers in the fixed assets record.

Second- The supporting documents of contracts

The necessary procedures have not been taken by the Ministry to maintain supporting documents of contracts regularly. BSA mentioned that in its report no. (9578) on 19/11/2007.

Third- The delay in procurement and contracting operation

There is a delay in procurement and contracting operation during 2008.

Fourth- deposits of old L/Cs

The remaining amount from L/C no.1345/2004 amounted (69276\$) (sixty nine thousand two hundred and seventy six dollars) about (20%) from the credit amount is still suspended. The supplier was urged to ship the remaining goods. The Ministry refund the remaining amount of L/C no.(143/2003) amounted (2886\$) to DFI according to its letter no. (1843) on 31/1/2008.

Fifth- reconciliation with related companies

The Ministry did not conduct a monthly reconciliation of L/Cs and the balances of import contracts between the Ministry accounting records and the records of the state company of drugs marketing because of the difference in the accounting system in both parties. Noting that the Ministry has a record that shows financing payments to conform to the sending disclosure by the state company of drugs marketing.

F- Ministry of Higher Education

First- Recording the American agencies contracts

The Ministry did not has the documents of the contract carried out by the US agencies amounted (99980\$) (ninety nine thousand nine hundred and eighty dollars).

Second- The settlement of movements with the related universities

We are still on our opinion that the universities have their financial and administrative independency and the Ministry has no L/Cs or balances related to the import contracts and there is no balances in the Ministry related these formations, although we sustain there should be a statistical integration of the universities and the Ministry of Higher Education and Scientific Research.

G- Ministry of Municipalities and Public Works

First- The related directorates' activities

We indicate that each formation of the Ministry has a financial and administrative independency and accounting system that differ from the activity of the Headquarters of the Ministry, so it is not possible to know the activity at the Ministry level.

Second- Recording the assets in the stock records

The storage records maintained in the Ministry is limited to record assets quantities without fixing their value in addition to not recording the gifts and grants value but record their kinds and quantities. The fixed assets record includes no identification numbers of the fixed assets. The note was addressed except including the identification numbers which are not specified for many fixed assets.

Third- The supporting documents of contracts

Our following up showed that the supporting documents of contracts in the state directorate of municipalities are not kept regularly, whereas the documents concerned each contract are distributed in the financial department, the legal department, vehicles department and planning and following up department which leads to difficulty in obtaining and follow up some contracts.

Fourth- Opening tenders committees

The opening tenders committee's members are not being changed periodically contrary to regulations of contracts execution issued by the Ministry of Planning which require changing the committee's members every six months.

Fifth- The salaries committees

The necessary procedures have not been taken by the Ministry concerning changing the salaries committees during 2008.

H- Ministry of Communications

Our following up of old insurances balances of the opening letters of credit in(JP Morgan) bank shows the following :

Credit no.	Credit Amount \$	outstanding Amount \$	Remaining Amount \$	Notes
225/2004	300000	48900	0	The balance is refunded to DFI account
235/2004	4970286	980561	980561	The amount is suspended according to the state company of communications and post letter no.(1310) on 7/6/2008 because Alkani French company did not commit the contract's items
1877/2008	500000	2600	1400	The TBI was contacted with the state company of communications and post' letter no. 19145 on 13/10/2008 concerning transferring the suspended amount as a delay penalty for DFI account.

I - Ministry of Agriculture **Deposits of old L/Cs**

- The remaining balance of L/C no. 810/2004 of the contract A/23/2004 amounted (\$16536) (sixteen thousand five hundred thirty six dollars) was transferred to DFI according to TBI letter on 5/6/2008.
- As for the remaining amount of L/C no. 1506/2004 of the contract no. M/17/2004 ratified with the Iraqi company for machines and equipments services Ltd for supplying (3) bulldozers amounted (94878\$) (ninety four thousand eight hundred and seventy eight dollars), the state company of agricultural equipments according to its memorandum dated 2/3/2009 shows that they confirm the correspondent about transferring the remained balance to DFI but the amount has not been transferred yet.
- The remained amount of the credit no.1634/2005 of the contract no.M130/2005 amounted (121200\$) (one hundred twenty one thousand and two hundred dollars)

is not refunded to DFI although the TBI approaches JP MORGAN on 23/2/2009 to refund the amount.

J- Ministry of Culture

First- contracts files

The observation concerning the unavailability of central file for each contract is still valid.

Second- The salaries and wages

The employees' files lack the identification documents such as (graduation certification and C.V.).

K- Ministry of Electricity

First- Recording and settlement of L/Cs payments

We sustain that the Ministry did not maintain a record for L/Cs during 2008, but it took the necessary procedures to install a program in the computer to follow up the suspended documentary credits with the TBI in order to settle them.

Second- Deposits of old L/Cs

There is no information concerning the existed deposits of old L/Cs balances opening opened with JP MORGAN bank by the CPA. A program is designed TBI in 2007 but it has many obstacles. We are not provided with credit and debt notes for conforming purposes.

L- Ministry of Transport

First- The contracting and the supporting documents of contracts

The audit company showed that there is no central file in the Ministry but the documents are kept in the concerned office. The follow up of our audit team showed that the observation was addressed after establishing the contract department in the Ministry of Transport correlated to the Minister directly. The central file of contracts has been kept during the last quarter of 2008 and the beginning of 2009, notifying that the observation has been stated in our report no.10/40/1/4557 on 19/6/2007.

Second- Deposits of old L/Cs

The headquarters of the Ministry has no L/Cs opened with JP MORGAN bank and these credits belong to the formations of the Ministry. This observation has been mentioned in our report no.(10/40/1/720) on 20/1/2009 submitted to the integrity commission concerning the auditing the contracts of the state company for private transport .

M- Ministry of Trade

First- Overdraft from the bank account

The bank account of the state company for food stuff in the TBI is still overdrawn. The company justifies, in its letter no.(4703) that to provide and purchase the items of the ration card. There is an agreement between Ministry of Trade, TBI and the committee of economic affairs that the bank increases the balance to cover checks up to (\$ 250) million to ensure continuous delivery of food stuff, and the bank account balance becomes positive at the end of December /2007 through the confirmation. Our audit team stated that in spite of the company's justifications, the bank account of the company during 2008 still contain many differences comparing to the financial records.

Second- Opening and analyzing tenders and proposals committees.

The state company for food stuff did not sustain what mentioned in KPMG's report concerning not existing of central committee to open and analyze tenders, stated that it has issued (7) administrative orders to form opening and analyzing tenders committees during 2007. The company also issues (3) administrative orders concerned establishing these committees during 2008.

Third- Deposits of old L/Cs

E&Y's report showed that there is a number of balances related to old L/Cs opened in JP MORGAN bank have not been settled. The state company for food stuff stated in its letter no.(4703) on 5/3/2009 the following:

1. Concerning L/C 369/2004, the remaining amount is \$ 1007 (one thousand and seven US dollars) which represents the value of shortage that was not paid to the supplier. In its letter No.8902 dated on 11/5/2008 and TBI letter No. 369 dated on 2/4/2008 it also stated that L/C was cancelled and amount was refunded to DFI.

2. The \$ 52615 (fifty two thousand and six hundred and fifteen US dollars) amount related to L/C no. 374/2007 represents fees of the internal transportation of the non-

shipped quantities amounting to 41.120 tons. Grain Board of Iraq asked the TBI in its letter No. 100262 on 6/10/2005 to close the remaining credit.

3. The State Company for Food Stuff stated that the remaining amount of L/C no. 337/2004 was \$ 122138 (one hundred twenty two thousand and one hundred eighty three US dollars) and not \$ 13518 (thirteen thousand and four hundred and eighteen US dollars) and it represents a deduction from the suppliers' dues for rejected and un supplied quantities. It also directed its letter No. 20821 dated 19/11/2008 the TBI concerning L/C closure and refunding the remaining balance to DFI.

N. Ministry of Interior

1st: FMS contract

It was mentioned in E&Y's report of 2007 that \$ 169 million (one hundred sixty nine million US dollars) was transferred to a special account in FRBNY to cover the FMS program, no information is available in the Ministry about how this amount was spent. The Ministry did not register the amounts that were spent out of this account in its records. KPMG stated that the total transferred amounts during 2008 were \$ 645399000 (six hundred forty five million and three hundred ninety nine US dollars). Our follow up results showed that the total of the transferred amounts till 1/12/2008 was \$ 1243913821 (one billion and two hundred forty three million and nine hundred thirteen and eight hundred twenty one US dollars) equivalent to ID 1865869500 (one billion eight hundred sixty nine million and five hundred thousands Iraqi Dinars) with an exchange rate of ID 1500 per dollar. Some of these contracts were entirely implemented and some others were partially implemented. There were other contracts which are under signing, yet to date, delivery and receiving minutes for the contracts whose materials were delivered are not documented and the Ministry did not register the transferred amounts and the costs of the received materials in the financial records.

2nd Repetition of tender announcement

The observation is still valid, as the Ministry re-announced during 2008 the tender for Criminal Evidence Records Keeping devices because not all required specifications and data were listed in details.

3rd Recording US Agencies contracts

It was mentioned in the audit team reply that the Ministry had formed committees under the administrative orders No. 7875/268, 9926/1146, 358) dated 12/6/2007, 15/7/2007,

20/1/2008 respectively to audit US Agencies contracts and according to the Inspector General's letter No. 10 dated 1/7/2008, the committees did the following:

1. Translated and audited 174 contracts carried out by the US Agencies of (\$ 14120283).
2. 863 purchase orders of (\$ 182780289) (one hundred eighty two million and seven hundred eighty thousand and two hundred eighty nine US dollars) were separated from contract related files because they are not subject to valid contracting conditions. They amounted to contracts with.
3. There are 144 repeated contracts that have the same date, reference number, amount, subject, beneficiary and contractor of (\$ 13918880) (thirteen million and nine hundred eighteen thousand and eight hundred eighty US dollars).
4. There are 130 contracts of (\$ 9579426) (nine million and five hundred seventy nine thousand and four hundred twenty six US dollars) that not related to the Ministry of Interior as they belonged to other Ministries.
5. There are 6 contracts of (\$ 213880) (two hundred thirteen thousand and eight hundred eighty US dollars) that were cancelled by the Coalition Authority and they were not implemented;
6. There are amounts allocated to be spent by the CPA, yet the amounts spent for the contracts were less than the amounts allocated to them. The committees did not show the whereabouts of the remaining amounts. These expenditures represented purchase of armored vests, reconstruction, purchase of police vehicles, devices and uniforms, food catering. The total allocated was (\$ 5102672) (five million one hundred and two and six hundred seventy US dollars) and the spent amounts were (\$ 2637288) two million sixty hundred thirty seven thousand and two hundred eighty eight US dollars) while the remaining amount was (\$ 2465384) (two million four hundred sixty five thousand and three hundred eight three UD dollars).
7. There were expended amounts more than the allocated amounts for the contracts and they represented purchase of 18 police vehicles, uniforms, and police station reconstruction. The total of the allocated amount was (\$ 4300000) (four hundred and thirteen thousand US dollars) while the expended amount was (\$ 738400) (seven hundred thirty eight thousand and four hundred US dollars).

4th. Budget distribution

We do not agree with what was mentioned in the report of the Audit Company concerning the distribution of the approved budget amounts over 12 months. This was not mentioned within the instructions of the balance implementation.

O. Ministry of Labor & Social Affairs

Keeping Contracts

The Ministry still does not keep copies of the contract files of its related directorates although the Ministry has formed a special department for contracts.

P. Ministry of Water Resources

US Institutions Contract Registration

We certify that there were no data or information in the Ministry concerning these contracts as they had not been submitted by these institutions.

Q. Ministry of Planning

First –Opening and analyzing tenders Committee

Our follow up indicated that the ministry had issue administrative orders related to change of committees members in pursuant of the following administrative orders:

265 on 30/1/2008

2840 on 24/9/2008

6950 on 22/1/2009

Second: Inspection Committee:

We sustain the correctness of the observation during 2008, however, the allocation was provided in 2009 for the purpose of tender to be announced for both (site cleanup and transport lines of the staff).

5- Other Observations:-

A- Standard biddings documents:

Ministry of Planning and Development Cooperation is responsible for issuing instructions in order to facilitate the implementation of all types of governmental

contracts (contracts of executing works, contracts of supplying goods, Non-consultancy services contracts, contracts of supplying goods and executing works) in order to consolidate biddings documents in all government directorates. The Ministry issued standard biddings documents and sent these documents on CDs to all ministries and parties which are not associated with a ministry in pursuant of many letters, the last one No.14471 on 15/12/2008 to express their observations during a period of three months to enable the Ministry of Planning to make the necessary adjustments and then circulated to the ministries .The Ministry of Planning held training courses in cooperation with the international parties in the field of contracts totaled (31) training course .

B- Laws, regulations and instructions:

Our follow up showed for the ministries and directorates which are non-associated with any ministry according to its followed laws and regulations the following:

First: Laws

- (1) There are many ministries that work according to old laws issued in previous years, currently they presented a new draft law to the relevant authorities but they had not been ratified to date, as shown below:

	<u>Parties concerned</u>
- Ministry of Transport	S. G of the Cabinet
- Ministry of Agriculture	Parliament
- Ministry of Municipalities and public works	Parliament
- Ministry of Constructions and Housing	Parliament
- Ministry of Youth and sport	Parliament
-Ministry of Human Rights	Parliament
- Ministry of Displaced	Parliament
- Sunni and Shia endowment	Parliament
- Iraqi Science academy	there is modifications on the law no. 13 of 1995 to the state advisory council

- Ministry of Defense Parliament
 - Ministry of Communications Cabinet
 - Ministry of Culture law draft was prepared and it is still under considering
- (2) Some of the companies, which are related to the ministries, are working according to the dissolved revolution command council orders such as the state company of private transportation and Al Dhilal Company that related to the Ministry of Transport. The mentioned ministry's law was submitted to the general secretary of the Cabinet.
- (3) Some ministries and bodies are still working according to former CPA's orders
- Central Bank of Iraq 56 of 2004
 - Trade Bank of Iraq 20 of 2003
 - Supreme Federal Court 30 of 2005
 - Ministry of Electricity 130 of 2003

Second: By- law

Many bodies are still having no by-laws in spite of issuing some of them, as follows:

- Ministry of Electricity has no Law
- Ministry of Culture has no law
- Iraqi correction facility
- Office of Public Real Estate registration
- Ministry of Justice
- Ministry of Defense
- Central Bank
- Dar – Alnahrain for Printing
- Office of Baghdad Health (Al-Risafa)
- Office of Medical Center
- Ministry of Higher Education & Scientific Research / Baghdad University
- Iraqi Institution for Computers & Informatics (national center for computers- previously)
- Ministry of Youth & Sports (no law)
- Ministry of Human Rights (no law)

- Ministry of Displaced (no law)
- Commission of Sunni & Shia Endowment (no law)
- Ministry of Environment
- Ministry of Municipality & Public Works (no law)
- Higher Juridical Council
- Iraqi Property Claims Commission (referred to CoM but not approved)
- Ministry of Work & Social Affairs (referred to the state consultation council but not approved up to now)

Third: - Organizational Charts

Certain ministries don't have organizational structures, as illustrated below:-

- Ministry of Communications there is no law
- Ministry of Municipality and Public Works there is no law
- Ministry of Environment
- Health Office of Baghdad (Rusafa)
- Office of medical Center
- Al-Mustansyiriah University
- Ministry of Higher Education and Scientific Research
- Iraqi Commission for Computers and Information/ national centre for computers
(previously)
- Central bank
- Dar Alnahrain for printing
- Ministry of Defence
- Ministry of Electricity there is no law

Certain ministries suggest forming organizational structures, but these structures haven't been approved yet, as illustrated below:-

- Ministry of Human Rights
- Ministry of Displaced and Migrants
- Board of Sunni Endowment
- Board of Shia Endowment
- Ministry of Labour and Social Affairs State Advisory Council don't approve yet.
- Iraq Property Claims Commission
- Ministry of Justice at national centre for consultations and administrative development

Bearing in mind that COFE approached the Prime Minister through its letter no. 11 on 14.04.2009 proposing that CoM to issue a directive to all ministries to prepare provisional organizational charts to be approved by CoM and accordingly issue job descriptions, and will be reconsidered after passing their laws

Fourth- Job Description

Some ministries and formations have a job Description which states the specifications, duties and qualifications of the job's occupier as illustrated below:

- Ministry of Electricity
- Iraqi Property Claims Commission
- Supreme Federal Court
- Office of Public Real Estate registration
- Ministry of Justice
- Amannat Baghdad
- Ministry of Human Rights
- Ministry of Displaced and Migrants
- Sunni and Shia endowment commissions
- Ministry of Environment
- Ministry of Transportation & its formations
- Ministry of Agriculture
- Ministry of Municipality & Public Works

Bearing in mind that some ministries under preparing job description as follows:-

- Higher Juridical Council
- Ministry of Defence
- Central Bank of Iraq
- Ministry of Labor and Social Affairs in the State Advisory Council
- Ministry of Education /Al- Risafa
- Ministry of Health
- Office of Baghdad Medical center
- Al-Mustansyiriah University
- Ministry of Higher Education and Scientific Research
- Ministry of Youth & Sports
- Ministry of Constructions and Housing

Merging the internal control departments with Inspectors General offices

First- Merging the internal control departments with the inspector general offices has not been made up to date .Our audit team follow up has stated the reasons by the memo. Submitting to the inspectors General as follows:

- 1) there is no law allows that (instructions or a legal text)

- 2) The matter requires enhancement the office budget with amounts that cover the employees' allowance in the internal control departments with ratio %75 of the nominal salary.

Second- Some ministries, such as ministry of agriculture, have merged the internal control departments with the inspector general office.

Third- some offices has stated that they will prepare a memo to the concerned minister to give his opinion (ministry of transport, electricity)

Establish contracts Offices

Most ministries have offices to audit the contracts with directorate, department or section except the following, whereas the internal audit or the legal office under takes the contract audit task.

<u>Ministry name</u>	<u>contracts audited by</u>
-Ministry of Electricity	Internal Control
-Ministry of Telecommunication	Internal Control
-Ministry f municipalities & public works	Legal Department