

## **DFI audit 2010**

Price Waterhouse Coopers has audited the DFI account for the period January 1 through December 31; 2010 and submitted its final report on the DFI financial statements, several meetings were held with BSA follow up team to discuss the observation including those repeated from previous year, or those stated in BSA audit reports. The follow up of our audit teams showed the following:

### **1. The statement of cash receipts and payments:**

- a. We reconciled the amounts appeared in the statement of cash receipts and payments for the period Jan.1 through Dec.31, 2010, attached to PWC's report with the totals from the records held by the directorate of accounting – cash management department in the Ministry of Finance, all amounts were match except for \$ 2025 thousand which represents an amount transferred from the sub – account of the DFI opened with the FRBNY, an equal amount was deposited in the current account no. 60060 of Baghdad Municipality with Rafidain Bank, Al Ahrar Branch, the amount represents the last payment of the work conducted in favor of the municipality and did not appear neither in the records of the Ministry of Finance nor in the records of the Central Bank of Iraq, bearing in mind that Baghdad Municipality confirmed through its letter dated June 13, 2011 that no projects were carried out in its favor by the US agencies.
- b. **The audit of the DFI statements at the CBI showed the following:**
  - I. An amount of \$ 416398 was transferred directly from the balance of other revenues to the balance of receipts from frozen assets on Sept.30, 2010 (a note was written in the column of the balance). The investment department in the CBI explained through its memo dated April 13, 2011 that this amount represents an amount received for a loan given to Senegal and was wrongly recorded as receipt from frozen assets, this will be corrected in 2011, taking in to consideration that PWC computed the amounts as receipts from frozen assets. BSA audit team sent a memo on July 28, 2011 to request information on the action taken by the CBI but no reply was received to date.
  - II. The control over investment in treasury bills was transferred from investment department to deposit department, therefore, another excel file was held to control the accounts of investment, write off and bills' interests. This procedure led to split the responsibility of DFI administration over three departments, namely (foreign accounts dep., deposits dep. and investments dep.), a response was received from investment department in CBI on July 21, 2011 but it was not sufficient.
  - III. There was a difference in the total amount paid for L/Cs in the favor of Iraqi ministries, as appeared in PWC's report in a total amount of (\$

11223074) thousand, while it appeared in the CBI records in a total amount of (\$ 11129944) thousand, with a difference of (\$ 93130) thousand, which represents amounts paid to the TBI in 4 installments. We could not figure out the beneficiary, and they were as follows:

date	Amount/ \$ thousands	Details
Aug. 31, 2010	87823	For issuing L/G
Oct. 03, 2010	4941	A due bill for Boeing comp.
Oct.14, 2010	12	TBI
Oct.14, 2019	<u>354</u>	Transport fees for Bombardier comp.
	<u>93130</u>	

- IV.** An amount of \$ 22705 thousand was paid in favor of the Ministry of Agriculture/ State Company for agricultural equipments on Sept.19, 2010, while verifying the mechanism of implementing the payment order issued by the Ministry of Finance on August 25, 2010, it was observed that the investment department directed to pay the amount from DFI account but it was wrongly paid through the SWIFT from the CBI account, the fault was discovered and corrected on Dec.13, 2010.
- V.** Through our audit of CBI records of the DFI we observed the existence of balances of accounts funded from DFI during 2004, when requesting the general directorate of investments through our memo dated April 19, 2011 about the nature of these sub- accounts, their scope, mechanism of their funding, the authorized party to administrate and control them, its reply through memo. Dated April 27, 2011 was that a number of sub- accounts were opened with the Lebanese banks to pay the L/Cs of the Ministry of Trade, and two sub – accounts with the Federal reserve Bank of New York to finance spending on equipments for Iraqi Ministry of Defense the (FMS), and the payment orders issued by the contracting and projects office in the US Embassy (PCO), these accounts were financed from the DFI. Taking in to consideration that the interests accrued on the accounts in favor of the Ministry of Trade did not transferred periodically to the DFI. In addition, the nature of the account no. 701101017 of treasury bill for the DFI and the account no. 701101018 bank of England for the DFI with a balance of \$ 2594956161and £149699242 respectively was not clear, bearing in mind that these two accounts were not referred to in PWC report on DFI accounts audit. Below the numbers, names and balances of these accounts:

Account no.	Account name	Curr.	balance	
			debit	credit
701101006	DFI with France bank/ Beirut	US \$	555848,76	
7011011007	DFI with First National Bank/ Beirut	US \$	16592360,34	
7011011008	DFI with Resources Bank/ Beirut (1)	US \$	1348638.20	
701101009	DFI oil interests (100%)	US \$	250.52	
7011011010	DFI with Resources Bank	US \$	297529.04	
701101011	DFI with France Bank	US \$	2295188.48	
7011011013	DFI with First National Bank/ Beirut (2)	US \$	3780873.04	
701101015	DFI sub account for FMS with FRBNY	US \$	(901587507.87)	
701101017	DFI/ Treasury bill account	US \$	2594956161.22	
701101018	DFI/ Bank of England	Eng. £	149699242.13	
801101001	Ministry of Finance account against DFI	US \$		11420238246.25
801101002	DFI account for re-buying	US \$		(2159270971.11)
801101003	Temporary deposits with First National Bank/Beirut	US \$		568835.06
801101004	Temporary deposits with France Bank/Beirut	US \$		412510.22
801101005	Temporary deposits with Resources Bank/Beirut	US \$		703131.97
801101006	DFI allocations	US \$		4622657.10
801101007	Ministry of Finance account against DFI	Eng. £		149699242.13

The office of the Governor of the CBI, and the office of the Minister of Finance were informed with the above – mentioned through our letter on June 6, 2011, but no reply received to date. A response was received from investment department in CBI on July 21, 2011 but it was short and not sufficient, while the MoF did not respond to date.

**c. Agreements of fuel oil export sales**

PWC's report noted that (starting from April 1, 2009 all fuel oil export sales were ceased except those related to the joint agreement between Ministry of Electricity, SOMO and IDIL and KARKEY Turkish companies known previously KARTET, in addition to those related to Iraqi oil shipping company. The agreement stipulates that IDIL and KARKEY Turkish companies provide the Ministry of Electricity with power against the fuel oil sold to them by SOMO. This agreement expires on Dec. 31, 2010. The amounts received under the agreement were \$ 5862 thousand resulted from the differences of the prices. No amounts were received from oil products export sales during the year ended Dec. 31, 2010. Since the establishment of DFI through Dec. 31, 2009 the receipts from these export sales were \$ 3383455 thousand that were not deposited in OPRA and not stated in the financial statements, as these amounts are deposited in a special accounts of SOMO. Export sales of fuel oil were ceased starting from April 1, 2009 pursuant the memo of the Minister of oil on March 26, 2009 in exception of the above – mentioned agreements). The Ministry of Oil noted by

its letter dated March 6, 2011 that the export of fuel oil was ceased since 2009, while the joint agreement with KARTET expired on Dec. 31, 2010.

Our follow up showed that SOMO has four bank accounts where the revenues of oil products export sales, including the fuel oil, are deposited which are still opened and as follows:

Account no.	currency	Balance as of April 30, 2011	Notes
1984	ID	1028919871147	Accounts opened with the TBI
1084	US \$	74309036	
5088	ID	65082210483	Rafidain Bank/ Oil complex branch
4002	US \$	156840150	

Moreover, SOMO deposits the amount occurred from administrative fees and penalties impose on import, export and sales of oil products' contracts, in addition to the commission amounts that collected in the favor of SOMO on its activity of export of crude oil, import and export of oil products and fees from Potash Turkish company for Iraqi – Turkish pipeline use, taking in to consideration that MoF confirmed through its letter dated May 4, 2011 sent to the General Secretariat of the Council of Ministers the necessity of providing the ministry with the last reconciliation of SOMO's current account that represents the receipts occurred from fuel oil export sales to enable MoF to close the account and transfer the balance to the ministry's accounts with the CBI no. 70009 and 300349 respectively for both currencies, after ceasing fuel oil export sales.

**d. Barter agreements**

PWC stated that (SOMO conducted barter transactions with Syrian government and private companies for oil and oil products export. The barter transactions included basically fuel oil export against light oil products and export of crude oil against power and light oil products). SOMO confirmed the accuracy of the value barter transactions with Syrian Gov. and private companies for \$ 750865 thousand and \$ 348815 thousand respectively since the establishment of the DFI through Dec.31, 2010.

Our follow up showed that the Syrian Gov. did not pay the due amounts of \$ 640 million (details below), despite the several letters sent by SOMO to the Syrian oil marketing office and the Central Bank of Syria, the last was on Feb.21, 2011. Below are the details of the above – mentioned amounts:

- I. \$ 302 million for the difference of the trade balance of barter agreement to provide oil products against crude oil and fuel oil.

- II. \$ 204 million that represents the cash payment part of the agreement through April 9, 2003, in addition to exported quantities during March and April, 2003.
- III. \$ 64 million for the value of crude oil pumped through the pipeline inside Syrian territory through April 10, 1982 under invoice no. 82/4/HR.
- IV. \$ 70 million unpaid amount of the invoice no. 82/3/HR on March 3, 1982.

e. **Oil metering system**

PWC's report that (the IAMB recommended in March 2004 the necessity of expedite the installation of a comprehensive oil metering system in Iraq in accordance with the practices prevailed in oil industry, despite the fact that the Iraqi gov. support installing oil metering system, the progress made was slow, some meters were installed in oil facilities, but oil fields still lack of meters). Our follow up to the implementation of the metering devices pursuant to the metering system planned as of June 30, 2011 showed that the total of actual execution rate in comparison with total planned is 40%, while the total of actual execution rate in comparison with total accumulated planned is 44%, which are low rates that indicate that the ministry will not be able to achieve its plan in due time by the end of 2011, except for Maisan oil Company which set up 2012 as a deadline to achieve its plan. PWC assigned an engineering expert in this field to verify the effectiveness of the meters installed or calibrated and submitted his technical report in May 2011, annex 1, the report generally noted that there are several common observations related to (depots of Zubair 1, Basrah oil terminal, Khor Al Umaihi oil terminal, Maisan refinery) which are mentioned below:

- I. The system Functional Design Specification was not available for review.
- II. There is no evidence of turbine meter performance monitoring in place.
- III. There were no maintenance procedures at the installation.
- IV. The compact prover is not calibrated since the beginning of the system.

Despite the importance of the metering system in controlling the quantities of oil products to reduce the unjustified deviation and loss but the low rate of implementation during the second quarter of 2011 appeared in both central region refineries and oil products distribution company as it was 237 and 414 device respectively. The table below shows the rate of implementation:

**Table of follow up the implementation of oil metering system as of June 30, 2011**

Company	Planned					Execut. in 2009  (6)	executed in 2010					Execut. in Quar.1 2011  (11)	Quar.2 2011			Total accum. As of the end of quar. 2 /2011  (15)	Percentage of execution as of the end of quar. 2 2011	
	2009	2010	2011	2012	total		Quar.1	Quar.2	Quar.3	Quar.4	total		Plann.	Execu.	Diver.		Total exec. To total plan. (%) (16)	total plan. To accru. Plan. (%) (17)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)		(11)	(12)	(13)	(14)	(15)	(16)	(17)
North oil	-	78	110	-	188	-	-	86	-	-	86	-	-	-	-	86	46	110
South oil	-	16	121	-	137	-	14	24	5	1	44	-	-	-	-	44	32	275
Missan oil	12	1	33	19	65	12	-	7	10	3	20	-	2	-	(2)	32	49	213
North refiner.	201	38	-	-	239	187	-	5	3	5	13	2	-	5	5	207	87	87
Central region refineries	64	217	311	-	592	4	64	19	100	165	348	-	245	8	(237)	360	61	68
South refin.	-	137	-	-	137	-	1	14	9	3	27	-	-	-	-	27	20	20
North gas	22	12	35	-	69	21	6	2	10	2	20	7	35	14	(21)	62	90	90
South gas	2	18	-	-	20	3	-	-	-	-	-	-	-	-	-	3	15	15
Pipe lines	359	51	-	-	410	359	1	-	5	14	20	7	-	13	13	399	97	97
Products distr.	695	1733	564	-	2992	695	-	-	-	-	-	-	414	-	(414)	695	23	24
Gas filling	-	38	11	-	49	-	3	16	6	15	40	-	5	-	(5)	40	82	93
total	1355	2339	1185	19	4898	1281	89	173	148	208	618	16	701	40	(661)	1955	40	44

**f. Receipts from frozen assets**

PWC's report noted that (Some assets that belong to the former Iraqi regime still held by number of states members of the UN, the GoI has no reliable accurate estimation of these assets to be transferred to the DFI, as some of these assets are subject to a judgment or arbitration or other administrative issues). The Iraqi Fund for Foreign Development replied through its letter dated August 8, 2011 that the Fund participate exclusively in recovering amounts related to oil agreements with Jordan and Syria and that does not include any other countries. Our follow up, to date, showed the MoF has no complete detailed records of the frozen assets, while the amount of \$ 523 thousand is the actual amount transferred to the DFI during the year, taking in to consideration that out of the aforementioned amount \$ 417 thousand was transferred from other incomes account to the receipts from frozen assets balance on Sept.9, 2010. Through the reply received from the investment department - CBI on April 13. 2011, it was clear that this amount represents an amount received from Senegal for a loan given by Iraq, and was wrongfully transferred other incomes account to the receipts from frozen assets balance and it will be amended in 2011. PWC computed the amount in the receipts from frozen assets.

**g. UN Oil for Food program**

PWC report stated that (UN oil for food program was established pursuant UNSCR 986 (1995) and further resolutions. UNSCR 1483 (2003) stipulated that the remaining amounts from OFF as soon as possible, an amount of \$ 656000 thousand was transferred to the DFI from OFF during the year ended Dec.31, 2010 (\$ 121 thousand on Dec. 31, 2009). Our follow up of the program during 2010 showed that the UNSCR 1958 (2010) stipulated that the Government of Iraq's provision of certificates of arrival on file with the United Nations as of 15 December 2010, for which payment has not been effected either as a result of the advising bank not being able to locate the relevant beneficiaries or as a result of the beneficiary not providing requisite documentation, and calls upon the Government of Iraq to provide without delay direct payment if contacted by the beneficiaries or its representatives;

Implementing the UNSCR 1958 the UN transferred \$ 656 million from the OFF account to the DFI on Dec.29, 2010 which appeared under receipts from OFF item. Taking in to consideration that UNSCR 1958 stipulated that \$ 20million to be held through Dec.31, 2016 in a separate account to be used solely for the purposes of activities to end the program, and \$ 131 million to be held in another account through Dec.31, 2016 to be used for indemnification for the UN, its representatives, agents and independent companies contracted with, after which all the remaining amounts will be transferred to the government of Iraq. The CBI

requested the authority to pay the following L/Cs implementing para.2 of UNSCR 1958 (2010):

L/C number	The amount/ Euro
751164	1783000
737440	453296.71
725591	36016.10
736601	94999.86
750944	1682423.99
750468	2135.91

According to the approval of the economic committee on May 11, 2011 the CBI sent a letter on May 17, 2011 requesting the allocation of an amount from the DFI to conduct the payments for the related L/Cs.

#### **h. Other receipts**

During reconciling the statement of the remaining amounts refunded by JP Morgan, London to the DFI account from L/Cs balance for the year 2009 and 2010 received from the TBI with the statements received from the CBI through March 31, 2011, we observed that the following amounts did not appear in DFI account:

<u>The date</u>	<u>The amount/ US\$</u>
21.08.2009	1180172.16
23.12.2009	4197415.14
26.05.2010	853291.47
13.09.2010	487417.11
14.09.2010	223589.70
14.09.2010	68446.70

#### **i. Letters of credit in the favor of ministries**

I. Our reconciliation for payments made for the L/Cs opened in the favor of the ministries for the period from Jan.1 to Dec.31, 2010 that appears in the statement of cash receipts and payments, showed the following differences when compared with the records of the concerned ministries:

The ministry	Balance as per PWC Thousand \$	Balance as per Min. records Thousand \$	Difference	Notes
Ministry of Oil	3103788	1240499	1863289	MoO – financial & economic directorate confirmed by its letter dated May 31, 2011 the appearance of the amount of \$ 1240499 thousand in their records within the account of L/Cs' advances that was used for the intended purposes, while the difference of \$1863289 thousand represents amounts recorder on the account of Gas filling, North Gas, Central region Refineries companies and SOMO
Ministry of Defense	1156518	310984	845534	MoD – General Directorate of budget and programs confirmed by its letter dated May 24, 2011 the appearance of the amount \$310984 thousand within the records, while the difference represents amounts that do not belong to the ministry and have no information about.
Ministry of Health/ State Company for Marketing Drug and Medical Supplies	1125571	490784	634787	No reply from Ministry of Health received yet, while our follow up showed the following results: 1. The total amount reconciled with the company's record is \$490784 thousand. 2. The remaining amount of \$634787 does not appear in the company's record. 3. There is an amount of \$ 523230 thousand which appears in the company's record and did not appear in the statement of cash receipts and payments. 4. There was a contract of € 3999750 appeared in PWC's statement in the amount of € 5028 thousand, while in the company's statement appeared in the amount of € 4899 thousand for accredited exchange rate of 1.2249 ID/€ 5. The financial department of the company did not conduct monthly reconciliation to follow up and clear the differences with the Ministry of Finance in a serious manner.

The ministry	Balance as per PWC Thousand \$	Balance as per Min. records Thousand \$	Difference	Notes
Ministry of Water Resources	188712	174751	13961	<p>The Minister's office in the Ministry confirmed by its letter dated June 23, 2011 the appearance of the amount of \$174751 thousand in their records, while the difference of \$ 13961 represents the following:</p> <ol style="list-style-type: none"> <li>1. \$ 3064 thousand represents three payments for contracts that belong to the directorates of water and sewerages and not the Ministry.</li> <li>2. \$ 11581 thousand were computed from DFI account 2009 for the contracts no. (2/3) and (402/2009) concluded in 2009 by the General Commission of Groundwater.</li> <li>3. An amount of \$ 684 thousand related to contract no. (33/2008) that belong to the Headquarters of the Ministry which appeared in the Ministry's record and did not appear in PWC's statement of cash receipts and payments is deducted</li> </ol>
Ministry of Municipalities and Public Works	27499	9007	18492	<p>The General Directorate of Municipalities confirmed by its memo dated July 7, 2011 the appearance of \$ 9007 thousand in its records including \$ 5789 thousand which represents advance payment for L/C for supplying 30 cleaning trucks with spare parts, but the L/C was not activated due to problems with the supplier. This amount did not appear in PWC's statement of cash receipts and payments, while the difference of \$ 18492 thousand did not appear in the directorate's records.</p>
Ministry of interior	21346	20550	796	<p>The directorate of accounting in the Ministry confirmed by its letter dated June 13, 2011 the appearance of \$ 20550 thousand, while the difference of \$ 796 did not appear in their records.</p>

The ministry	Balance as PWC Thousand \$	Balance as Min. records Thousand \$	Difference	Notes																
Ministry of Communications	95636	67827	27809	The administrative and financial directorate in the ministry confirmed by its letters dated March 29 and May 29, 2011 the appearance of the amount \$67827 thousand in their records, while the amount \$27809 that represents MoF payments did not appear in these records																
Ministry of Justice	5969	5932	38	<p>The Ministry's reply did not arrived yet, but our follow up showed the following: There is an amount of \$5932 in the ministry's records which represents the amount, seized by MoF in DFI account, to pay the attorneys hired by the ministry to represents Iraq abroad in the lawsuits filed against it, while the difference of \$37 thousand , we found out that there is a difference between the amount stated in PWC's statement of cash receipts and payments, and the ministry's record and as follows:</p> <table><tr><th>MoF's letter no.</th><th>The amount as per PWC \$</th><th>The amount as per the ministry \$</th><th>The difference \$</th></tr><tr><td>10616</td><td>15166</td><td>1222493</td><td>1207327</td></tr><tr><td>7254</td><td>21801</td><td>1250000</td><td>1228199</td></tr><tr><td></td><td>36967</td><td>2472493</td><td>2435526</td></tr></table>	MoF's letter no.	The amount as per PWC \$	The amount as per the ministry \$	The difference \$	10616	15166	1222493	1207327	7254	21801	1250000	1228199		36967	2472493	2435526
MoF's letter no.	The amount as per PWC \$	The amount as per the ministry \$	The difference \$																	
10616	15166	1222493	1207327																	
7254	21801	1250000	1228199																	
	36967	2472493	2435526																	

**II.** When we reconciled the amounts paid for L/Cs in the favor of the ministries and entities stated in the PWC's statement of cash receipts and payments with those stated in the DFI record in CBI when found an overlap in several payments and as follows:

1. Overlap in the amounts paid for the L/Cs among different ministries, as follows:

The name Ministry	The amount as per PWC/ Thousand \$	The amount as per CBI/ Thousand \$	The difference (plus/ minus)/ Thousand \$
Ministry of Defense	1156518	1139697	16821
Ministry of Internal	21346	38167	(16821)
Min. of Water resources	188712	185648	3064
Min. of Municipalities	27499	30563	(3064)

- The amount of \$ 16821 thousand stated in the table above represents three payments related to the Ministry of Internal recorded wrongly by PWC in the statement of cash receipt and payment in the favor of the Ministry of Defense, as follows:

The amount/ thousand \$	The details
1153	For opening L/C to administrate, functioning, maintaining the Iraqi commanding and control system and hiring a band for satellite transmission
3180	For opening L/C to administrate, functioning, maintaining the Iraqi commanding and control system and hiring a band for satellite transmission
12488	For national unified card project
16821	Total

- The amount \$3064 thousand stated in the table above represents 3 payments for contracts belong to the Ministry of Municipalities and Public Works (water and sewerage department) recorded wrongly by PWC in the statement of cash receipt and payment in the favor of the Ministry of Water Resources, as follows:

The amount/ Thousand \$	The details
1790	a complementary amount for L/C in the favor of the General Directorate of Sewerage
159	a complementary amount for L/C for Al Sharqat water project
1115	A contract to supply a forklift with spare parts for the General Directorate of Water
3064	Total

2. There are amounts that appear in CBI's records in the favor of Ministry of Oil and Ministry of Industry and Minerals while in PWC's statement of cash receipts and payments appear wrongly in the favor of Ministry of Health, as follows:

The Ministry	The amount/ Thousand \$	Notes
Min. of Oil	355832	Investment budget
Min. of Industry and Minerals	8487	State Company for drugs industry

3. An amount of \$ 19149 thousand for L/C was wrongly recorder in the favor of the General Company for civil aviation in the Ministry of Transport, while it belongs to the Ministry of Communication.
4. There is an amount of \$ 8778223 thousand registered in the CBI's records in the favor of the TBI, and it will be added to the balance of the L/C in the favor of the Ministry of Transport, then the amount will be reconciled.
5. There are amounts in the total of \$ 8480 thousand that were registered in CBI's records the favor of the Independent Commission of Elections, Governorate of Babil, and the Council of Ministers that not appear in PWC's statement of cash receipts and payments.

PWC was informed about the above – mentioned differences but no reply was received to date.

#### **J. Contracts administrated by US Agencies**

PWC's report stated that (all US Agencies and the Ministry of Finance did not settle the DFI payments to the US agencies and Iraq reconstruction contracts, moreover an amount of \$ 2025 thousand was paid from the DFI sub-account to the favor of Baghdad Municipality for road construction). Our follow up showed that this amount was not registered in the record of CBI or MoF, while Baghdad Municipality confirmed by its letter dated June 13, 2011, that there are no such projects during 2010 and no project was received, bearing in mind that BSA issued two reports on the contracts carried out by Projects and Contracting Office in the US Embassy – Baghdad, the first one was sent to SIGIR on August 5, 2007 and the other to the Head of Government performance oversight committee in the Congress, both reports included a number of observations on those contracts whether those carried out by the CPA or by PCO after June 28, 2004. SIGIR has issued a report on July 27, 2010 related to DFI funds administrated by US Department of Defense and its Agencies after June 28, 2004, in which it was mentioned that the DoD has received \$9.1 billion of Iraqi money out of which \$ 8.7 billion cannot be accounted for. Pursuant to this report the representative of Iraq to the IAMB and COFE requested to invite representatives from SIGIR and the US DoD to attend the IAMB regular meeting to be held in Amman on October 14-15, 2010, while representatives from SIGIR attended the meeting the DoD declined to attend by its letter dated Oct. 8, 2010 stating that they formed a team to investigate SIGIR's finding and it is not completed yet, promising that they will share the result of the investigation with COFE and the IAMB. During the aforementioned meeting a detailed discussion was made on SIGIR's report. SIGIR's representatives explained that this amount defers from the amount mentioned in their report issued on Jan. 30, 2005 (in which SIGIR stated that the CPA could not provide proper documentation to account for \$ 8.8 billion from Iraqi funds. Taking in to consideration that in its report submitted to the US Congress, Committee on Government reform, SIGIR stated that the CPA had received \$ 19.6 billion of Iraqi funds. This led to a conclusion that the CPA and DoD could not account for \$ 17.5 billion. Iraqi delegation to the meeting explained that for the last three years the team of the international audit firms commissioned by the IAMB was not granted access to audit these funds or getting any information what so ever from the American Side. Taking in to consideration that BSA has written to all Iraqi ministries in relation with the contracts that BSA received their documents

from the American side, audited the available ones and issued two reports in this sense, in addition to that BSA formally informed the American side that Iraq keeps its right to demand compensation for any financial damages resulted from bad management of those funds by the American side.

#### **K. Foreign Military Sales (FMS)**

The FMS account was established on Dec.4, 2006 upon the request of the CBI and it is funded by the DFI, this account is allocated for the security procurements for the Ministries of Justice, intern and defense. Interests generated from overnight investments of this account are transferred to the DFI. A committee was formed under the order of the General Secretariat of CoM in 2009; the committee is chaired by a representative from MoF, and representatives from BSA, MoD, MoI, and MoJ as members to address the problems and difficulties faced by this program. Our follow up showed the following:

#### **I. Ministry of Justice**

An amount of ID 64 billion was transferred to the FMS account, in the favor of the FMS directorate in US DoD, by Iraqi MoF without the acknowledge or consent of Iraqi MoJ. No information is available on the way this amount was spent, as MoJ has no such information; moreover MoJ did not recorder the spent amount in the concerned year within its expenditures. Iraqi correction facility was approached; they confirmed that they received only 300 thousand liters of Gas oil for 750 ID/L, namely a total of 225 million ID on this account, this delivery was for the period Oct.21 to Nov.22, 2007. MoJ replied that Iraqi Correction Facility has no documents concerning the spent of the amount, as it was spent by the American side. Our follow up concerning the transfer of ID 64 billion showed that MoJ informed MoF by its letter dated Dec.30, 2008 that it cannot settle the FMS advance payment given for reconstruction and functioning of justice complex of Al Rousafa recorded as advance payment in the favor of MoJ by MoF because MoJ did not authorized MoF to transfer the amount, and because the American side spent the amount according to the invoices presented by them while there is no confirmation from the beneficiary except for the ID 225 million, therefore MoJ cannot settle the advance payment, accordingly a committee was formed in 2009 and issued a number of recommendations to solve the problem, MoJ has taken the following actions:

1. Requested by it letter dated March 18, 2010 the CBI to provide it with the details of the withdrawn amounts in the favor of these contracts. The CBI

replied by its letter dated March 31, 2010 that it has no details related to these amounts from FMS account.

2. Sent a letter to MoFA on March 18, 2010, May 5, 201 and March 14, 2011 requesting to demand the documents from the American side but no reply was received to date.
3. Sent a letter to US Embassy in Baghdad on March 3, 2010 confirming its request through the MoFA.

## **II. Ministry of Interior**

The Ministry did not record the amounts spent from this account within its capital expenditures. The Ministry answered our inquiry on Feb.20, 2011 that the amounts were not recorded because no supporting documents were received and most goods were not completely delivered. BSA stated that in its report dated August 8, 2009.

## **III. Ministry of Defense**

MoD made 16 settlements with supporting documents of delivered goods either totally or partially for \$61589 thousand until Dec.31, 2010, while the number of the signed contracts was 141 since the inception of the program in 2006, and the withdrawn amount from the FMS account is \$ 4900 million, which means that there is delay in taking the proper and fast actions to implement the recommendations issued by the committee. MoF stated the accounting directorate is following up the subject of accounting entries for MoJ and MoI related to this program.

## **2. The new observations in DFI audit report for 2010 presented by PWC**

- a. The number of the new observations stated in PWC's report is 48 except Kurdistan region, 32 of them were addressed, and 16 are under clearance or no action was taken towards. The table below shows the number of observations and its percentage:

Details	number	addressed	Under clearance	Still valid
Total observations	48	32	9	7
percentage	100	67	19	14

- b. The below table shows the number and percentage, as per the level of the risk, as there still are 7 observation of high risk, 9 medium risk that are not addressed.

Details	number	percentage	High risk	percentage	medium risk	percentage	Low risk	Percentage
Total observations	48	100%	15	31%	32	67%	1	2%
Addressed observations	32	100%	8	25%	23	72%	1	3%
Remained observations	16	100%	7	44%	9	56%	-	-

The follow up still ongoing with the concerned administrations relating to the remained 16 observations.

### **c. The common observations among ministries and governorates**

Through reviewing PWC's report we found that there are some common observations among a number of ministries and governorates, the audit firm did not listed them as common in the final report submitted, and as follows:

#### **I. Not including the financial statement of the contracting parties (medium)**

Not getting those statements and the analysis of the financial statements may lead to conclude the contract with financial inappropriate parties or unable to fulfill their financial obligations, this observation was mentioned on the ministries of Trade, Transport, Environment, governorates of Kerbala'a, Basrah, Najaf and Kirkuk.

#### **II. Not verifying if the company that submit the proposal is in the black list (medium)**

Not verifying if the company that submits the proposal is in the black list may lead to the possibility of contracting with bad reputation companies that are not able to fulfill their contractual obligations; this observation was on the ministry of Finance, governorate of governorates of Kerbala'a, Al Qadissya, Basrah, Najaf and Kirkuk.

Through our follow up we found that these observations were addressed.

**d. Observations on ministries and governorates:**

**I. Ministry of Defense (MoD):**

**1. The contract of Um Qasir maritime base rehabilitation**

PWC's report stated that " Through our review for this contract which is related complementary works for contract No. 6/TB/2006,we noted that it was awarded to the Blue Ocean Company for an amount of IQD 12,591465,155 through the awarding to the second proposal by the analysis committee approach due to cancellation of the contract with the first contractor (Tawfeeq Jum'a Al-Abadi for General Constructions Company), noting that more than 3 years have passed since the analysis committee provided its recommendation and the percentage of completion is still 4% and the contacting period has been fully consumed".

The directorate of Works of the MoD replied by its letter dated May 17, 2011 that the award was made in accordance with the letter sent by General Secretariat of the CoM on Oct.14, 2010 and its annex the CoM resolution no.377 (2010) which recommended awarding the remaining works to the second bidder (Blue Ocean Company). BSA audit team confirms the response of the MoD, but does not support the CoM's resolution because awarding directly to the second bidder is in contrary with the instruction of state contracts execution, and there is no authority to make exceptions, so it should be done through a new announcement for a bid in order to complete the remaining works considering that the contract was nullified amiably between the two parties, and there is no legal base to award it to the second bidder as it was not nullifying before signing. There is correspondence between BSA and the CoM in this regard the last was on Feb.17, 2011, bearing in mind that the financial execution is 34% while the technical execution is 44% as of Dec.31, 2010 and not as it was mentioned in PWC's report 4%, that was stated in our report dated June 6, 2011 on MoD Headquarters audit for 2009.

**2. The appraised costs (medium)**

Pwc's report stated " Through our review of the appraised costs, we noted that there are significant differences between the appraised cost prepared by the Engineering Department and the assigned amount, for example: the contract to renovate the Ration Main Depot sheds in Al-Taji area for an amount of IQD 3,726,907,000 since its appraised cost was IQD 6,407,425,375, exceeding 170% of the contract value".

The directorate of Works of the MoD replied by its letter dated May 17, 2011 that nothing in the instructions prevent awarding when the tender amount is less than the estimated cost, bearing in mind that this was stated in most of BSA audit report on MoD the last was dated June 6, 2011 mentioning that the MoD did not prepare an updated study on the estimated cost in order to be used as standard when analyzing bids and awarding contracts on the contrary to article (3-B-I) of the instruction of state contracts execution no.1/2008 (amended).

### **3. Appointments (medium)**

Pwc's report stated "Through our review of the Payroll Department, we noted employment of permanent and contractual employees during the year 2010, which contradict of the budget instructions of the Federal Republic of Iraq for the year 2009, and the Council of Ministers Resolution 442".

The general directorate of personnel replied by its letter dated June 6, 2011 the orders of permanent appointment were issued exclusively by the approval of the Minister and there are no temporary appointment during 2010 rather renewal of some contracts of those according to the Minister's approval. BSA audit team confirmed PWC's observation concerning the permanent appointment during 2010 through the Minister's approval without obtaining the approval of the MoF in the contrary with part 3, item (1-3) of the state budget execution instructions which stipulates that the central financed entities should get the approval of the directorate of budget in the MoF in this sense after submitting feasible study, taking into consideration that the civil vacancies in MoD are (14641) and this was stated in BSA report dated Oct.10, 2010, as for the temporary appointment, the reply of the MoD was correct, bearing in mind the CoM's resolution no. 113 (2011) addressed such cases of appointment.

## **II. Ministry of Electricity (MoE)**

### **Decline in the percentage of completion (medium)**

Pwc's report stated " We noted a delay in the technical completion in respect of contract No. 36/NT/2008 signed between the Directorate General of Electrical Transmission Projects and Damask Metals Co. Trade & Industry for an amount of USD 8,556,736 for the supplying 132 KV overhead transmission lines since the end of the contractual period is 18 September 2010 and the percentage of technical completion is about 69% up to the date of our visit in January 2011".

The General Directorate for power transport projects in the Ministry replied by its letter dated April 10, 2011 that contract was extended for 62 days the date of the expiry will be on Nov.19, 2010 and the percentage of the technical execution rate is 96% as of Feb.2, 2011 and the material that were not delivered are 4% of the contracted materials. BSA audit team explained that the directorate did not calculated the delay penalties, taking into consideration that BSA audit team has audited the contract and issued its report on it on Nov.24, 2010, and the technical execution rate in that date was 85% .

### **III. Ministry of Health (MoH)**

#### **1. Obsolete inventory (high)**

Pwc's report stated " During our visit to the Ministry, we noted that there are failed and expired medicines in the inventory amount of IQD 31,804,287,304 that are obsolete and needs to be disposed".

The internal control department in the State Company for Marketing Drugs and Medical Supplies (KEMADIA) confirmed by its letter dated Dec.31, 2010 PWC's observation. The stock appeared in the inventory of the company's warehouse of (34673589436) ID as of Dec.31, 2010 after the amendment made by the company due to additional stock remaining from 2004 which were settle implicitly with the amount mentioned in PWC's report. BSA audit team conducted inventory of sample of these drugs at the end of 2010 and the beginning of 2011 in the warehouses of Al Adel, Al Dabash and Al Eskan quarters issuing its report dated April 24, 2011 concerning the financial statements of 2008, as for the amounts related to these drugs, the company formed a committee to study and address the misreporting in the formal counter accounts and the issue is not settled to date. Concerning disposal of these drugs, it was found that some of these drugs failed to pass the compliance test, so the suppliers should replace them and takes them to be disposed or authorize the company to dispose them; in addition there are some obsolete drugs for different reasons and will be replaced by the suppliers according to the provision of the contract, as most of such contracts stipulate the replacement of 100% of the obsolete drugs, then it will be disposed. Prior to disposal committees of investigation and disposal will be formed but these procedures are hampered due to the huge quantity of the drugs, lack of incinerators and the delay of those committees to finish the work despite the continuous work, they nor provide us with a list of the disposed nor informed us if the drugs which was returned to the suppliers were replaced or not.

#### **2. Discrepancies between the cost of disposed medicine and their documented cost per the accounting records (high)**

Pwc's report stated " During our visit to Al-Adil warehouse we noted discrepancies between the cost of disposed medicine as per the disposing committee minutes and the cost recorded in the accounting records, whereby we noted a difference of IQD 5,421 billion that relates to the disposal of 201,000 vial from the medicine “Betamethasone 4mg/ml. The disposal committee indicated the disposal of 201,000 vial with a price per

unit of IQD 271, opposing to the accounting records that indicated the disposal of 201,000 vial with a price per unit of IQD 27,241 per vial, which had resulted in this variance".

KEMADIA confirmed on July 5, 2011 PWC's observation concerning these discrepancies due to currency exchange rate. BSA audit team mentioned that this observation was stated in its report dated June 6, 2011. A committee was formed to study and address the issue but it has not completed its work to date. BSA sent a letter to the GS of the CoM on June 21, 2011 in this regard. It was not clear how the audit firm calculated the difference of (5421) ID through the date in the observation.

### **3. Approval of Settlement of Old Debts(high)**

Pwc's report stated " During our visit to the Ministry we noted cases where no settlement has been made for long outstanding debts. Examples of such cases include:

- Debts due from health departments have been outstanding for more than five years amount to IQD (10090557889) for example: Ninawa health department and Al-Anbar health department.
- Debts due from other departments have been outstanding for more than five years amount to IQD (1638539874) for example: Ministry of Defense and Ebn Sina hospital".

The internal control department in the State Company for Marketing Drugs and Medical Supplies (KEMADIA) confirmed by its letter dated May 29, 2011 explaining that all institutions within the MoH or outside were approached to request paying those debts, but because receiving the letter of MoF dated April 7, 2011 concerning the mutual debts from the period prior to 2003, the actions were currently ceased. BSA audit team confirmed the reply sent KEMADIA to which the debts belong. This observation was stated in BSA report dated June 6, 2011.

### **4. No Comprehensive Physical Verification of Assets (medium)**

Pwc's report stated "During our review of property, plant and equipment, we noted that a full physical count has not been carried out for several years".

The administrative and financial directorate of the MoH replied by its letter dated May 8, 2011 that the necessary actions were taken to address the observation with the ministry's financial statements of 2011. BSA audit team noted the following:

- During 2008 all departments, except the security section, were inventoried but no reconciliation for the inventory results with the

records was conducted. This was stated in BSA report dated June 30, 2010.

- The inventory committees were delayed in completing the work through October 2010 when they completed the work concerning 2009 financial statements and no reconciliation was made. This was stated in BSA report dated Oct.28, 2010.
- During 2010 the inventory was made but no reconciliation was conducted.
- No inventory was done for the Minister's residence for the year 2008-2010.

#### **IV. Ministry of Justice (MoJ)**

##### **1. Contract to supply cleaning materials for the Iraqi correction facility (medium)**

PWC's report stated " On 21 July 2010 the department of Legal Affairs requested to resign the contract No. 54 for supplying cleaning materials to the Iraqi Maintenance Division amounting of IQD 881,000,000 from the Ministry of Industry and Mineral / State Company for botanical oils Industries and that for the poor materials provided by the company, until the date of our visit on February 2011 the contract is not rescind and no further action was taken".

The correction facility replied that a committee was formed under the ministerial order from Dec.27, 2010 which undertake the inspection of the compliance of the good with the contractual description detailed in the annex dated June 9, 2010 in order to solve the problem. BSA audit team noted that no detergents were received from the State Company for Vegetable Oil Products due to the bad quality of the products at that time. The correction facility informed the contracts' department that it has no objection to carry out the contract with the condition that the goods will be of a good quality. A committee was formed under the ministerial order dated Nov.9, 2011 to receive the goods and to test them upon the beginning of supply.

##### **2. Existence of Intermediary between the Ministry and the Contractor (high)**

PWC's report stated " During our review of a sample of contracts, we noted that the contract No.10 to supply fire vehicles and ambulance for the Iraqi Reform Division from the Automotive Industrial Company amounting to IQD 8,818,000,000 and contract No.11 to supply chassis and vehicles for the Iraqi Reform Division from Ministry of Industry and Mineral / Al-Sumood Company for Steel Industrial amounting to IQD 41,792,578,366 were awarded through monopoly contracts without Minister of Justice's approval, and the Ministry of Industrial and Minerals acted as an intermediary between the Ministry of Justice and the contractor, taking into consideration that purchasing from the Ministry of Industry and Minerals is recommended only for the products produced by the ministry according to article (39) from the budget instructions of the Federal Republic of Iraq for the year 2010".

The correction facility replied that contracting is made exclusively by contracting department in the ministry and the was done pursuant to the

Ministry of Industry's letter dated April 24, 2010. BSA audit team stated that PWC's observation is correct and contracting was made in contrary to article 39 of federal budget law that binds all state institutions to purchase the Ministry of Industry's products, but Ministry of Justice contracted with Ministry of Industry to by products that do not belong to, and it was an intermediary between the supplier and MoJ.

**3. Salaries (high)**

PWC's report stated "Through our review of salaries, we noted the following:

- 1- Some employees has delegated the collection of their salaries to other employees on their behalf without providing written authorization or supporting documents to the Ministry to ensure that representatives are authorized to collect payments on behalf of these employees.
- 2- Payroll sheet were prepared manually.
- 3- Salaries are paid in cash."

The correction facility replied that a letter was circulated on Oct.20, 2010 forbidden any employee of receiving the salary of another, as for the payroll, they are prepared by computers in form of excel sheet since 2004. BSA audit team confirmed the facility's reply.

**4. Explosion losses (medium)**

PWC's report stated "During 2009, the Ministry has been exploded and its building was in fire, to the date of our visit, losses resulted from the damages were not quantified nor reported".

The Ministry replied by its letter dated April 7, 2011 that the damaged assets were itemized by a committee formed under order dated April 5, 2010, as the book value of the assets was (488114368) ID, and the approval of higher authorities will be obtained to write them off. BSA audit team confirmed the ministry's reply as all damaged and lost assets of Oct.25, 2009 but they were not written off waiting for a central decision. This observation was mentioned in BSA report dated September 20, 2010 on 2009 financial statements.

## **V. Ministry of Foreign Affairs (MoFA)**

### **1. Contracts and its supporting documents (medium)**

PWC's report stated " During our visit to the Ministry, we noted that contracts' supporting documents are not properly organized which makes it difficult to retrieve, we noted also the lack of a centralized file for each contract to maintain a copy of all its related documents. Rather, documents are filed across the related departments".

The Engineering section of the Ministry replied by its letter dated March 30, 2011 that all contracts have serial numbers, all files are documented and organized starting from announcement through the award including all documents of the acquisition. BSA audit team confirmed the Ministry's reply.

### **2. Delay in contracting process (medium)**

PWC's report stated "We noted delay in the contracting procedure with regard to the rehabilitation of the Iraqi Embassy in Athena contract amounts to EUR 956,269, where as the awarding date was on 22 October 2009 but the contract signed on 9 June 2010".

The Engineering section of the Ministry replied by its letter dated May 2, 2011 that the reasons behind the delay in signing the contract were the following:

- a. The contractor presented a number of requests further to award process and sending the draft contract which were:
  - An advance payment of 25% of the contract value instead of 10%.
  - Not to include supplying a generator and electrical goods related to the project, and correspondence between the Embassy and the Ministry took time to solve the problem through September 9, 2010.
- b. The delay of arrival of the Ambassador until June 9, 2010 and the contract states that the Ambassador signs the contract. On June 9, 2010 the contract was signed and the contractor started working two weeks later, in compliance with the contract's provisions namely on June 21, 2010. BSA audit team confirmed the ministry's reply.

### **3. Employments (medium)**

PWC's report stated "Through our review of the Payroll Department, we noted employment of permanent and contractual employees during the year 2010, which contradicts of the budget instructions of the Federal Republic of Iraq for the year 2009, and the Council of Ministers Resolution 442".

The administrative directorate – human resources in the Ministry replied by its letter dated April 4, 2011 that the number of the employed persons during 2010 was 14 permanent and 127 temporary. BSA audit team explained that these employments were in accordance with the approved staff which was approved by MoF by its letter dated July 5, 2010, therefore the observation is not accurate.

## **VI. Ministry of Interior (MoI)**

### **1. Contracting procedures (high)**

PWC's report " During our review of the Ministry of Interior contracts, we noted that foreign (external) contracts are obtained through "Sole Tender Contracting Method", which is formally approved as per the Council of Ministers' Governmental Contracts Executions Memo article four section five, but this type of tenders is only authorized for products or service of monopolistic nature. Some of the tested contracts are of no monopolistic nature such as "Thales" contract to supply National Identification Document (ID), where as discussed with the Ministry's staff, we agreed that this contract is of non monopolistic nature".

The General Directorate of the Ministry replied by its letter dated June 19, 2011 that the National Identification project awarded to French Company Thales was made via direct invitations to the specialized companies according to article (4/IV) of state contracts instructions no.1 for 2008 (amended), bearing in mind that the award and approval was made by the committee formed under order no 108. BSA audit team explained that this contract is the national card project which was done via direct invitations for 5 specialized companies among which the French Company Thales as one of these and the procedure is in compliance with state contracts instructions no.1 for 2008 (amended).

### **2. Unauthorized employment (high)**

PWC's report stated" During our review of the Ministry of Interior records, we noted that the Ministry headquarter had frequently employed a number of contractual employees without obtaining proper authorization from the Ministry of Finance, for example the Ministry of Interior headquarter had increased its total contractual employees by 893 employees during the month of July, and 858 employees during the month of October".

The Director General of personnel explained by his reply dated June 20, 2011 that the temporary employment was ceased since 2009 and no employment was made except the renewal of the old one by the approval of the minister exclusively according to budget execution instruction for this year and previous year. BSA audit team confirmed the ministry's reply.

## **VII. Ministry of Transport (MoTrans.)**

### **1. Tender and contracting Procedures – General civil aviation institution (medium)**

PWC's report stated " During our review of the tender documents related to the development of the planes parking yard contract, number 73/2010, that was awarded to the General Company for Executing Transportation Projects through direct offering without the announcement of general tender. The direct contracting without the invitation to various contractors does not apply to this contract, since the monopolistic rules do not apply to the nature of the service required and therefore direct contracting with this company, although it is a governmental entity violates the contracting laws".

The institution did not reply BSA audit team query dated June 12, 2011. BSA audit team noted that the observation is not accurate as the institution has the right; pursuant its statute for 2000 issued in accordance with article 43 of companies' law no. 22 (1997), to directly contract with the General Company for projects of transport, as it is specialized with carrying out transport projects, as article (5-I0) stipulates that among the company's scopes (preparing feasible technical and economical studies, preparing necessary designs for the projects, oversight them, and carry them out totally or partially for the favor of the ministry's institutions or others).

### **2. Contractor's audited financial statements (medium)**

PWC's report stated" Through our review of the contracts, we noted that neither the Public Institution for Civil Aviation nor The General Company for Railways obtains a current audited financial statements for their contracted parties and as an example for this:

<b>Company Name</b>	<b>Contractor Name</b>	<b>Contract Description</b>
Public Institution for Civil Aviation	AFM Swiss	lighting Baghdad International airport
The General Company for Railways	Vossloh Cogifer	Preparation of 550 rail

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier, thus the economical recession or external factors may adversely affect the contractor financial position and results in its inability to perform under the contract".

The General Civil Aviation institution replied to BSA query dated July 25, 2011 that the usual approach to award projects is to adopt comparison standards among which the financial evaluation of the bidders (company's capital, revenues and profits). BSA audit team noted that relating to Baghdad International airport lighting contract, the provision of submitting the contractor's financial statements for 3 years was stated, and 10% of the financial execution was made for 13% of the material execution and there is no delay in carrying out the work as the General civil Aviation replied. As for the contract of supplying 550 rail, the contractor presented his company's certificate of registration and a confirmation of its financial status. The L/C was opened on January 1, 2011 but no financial or material execution has been done to date, bearing in mind that submitting the financial statement of the contract's parties is not mandatory to be submitted in accordance with state contracts instructions no.1 for 2008 article (7- X-c) and requesting them means that the company is included to the competitive score, which indicates that the observation is not accurate.

### **VIII. Ministry of Culture (MoC)**

#### **Transfer of previous dissolved Ministry of Media employee to the Ministry of Culture (high)**

PWC's report stated" On 11 August 2005 the General Secretariat Directorate of Ministries has directed the immediate transfer of the previous dissolved Ministry of Media to the Ministry of Culture on its memorandum number 8984. This transfer took effect during April 2010, whereby 1,300 employees were assigned simultaneously on the same month. Delays in implementing such direction and in the absent of detailed study, that provides direct plan on proper utilization of such high number of employees, might result in legal claims on the Ministry's burden".

The Administrative directorate of the ministry replied by its letter dated April 5, 2011 that it does not sustain the observation, and action was taken pursuant to the direction of the GS of the CoM dated August 11, 2005 starting from Nov.11, 2007 in details including the transfer of those with post graduate Diplomas' to the Ministry of Higher Education and Scientific Research and retire those who completed the legal age, preparing lists, issuing annual orders on transferring some of them to different entities. All ministries were approached on August 29, 2005 to select what they need of the staffs who was working in the dissolved Ministry of Information as they are of different administrative, engineering, media, cultural, and translation specialties. Some of them were transferred to the Ministries of Science and Technology, Education, Youth and Sport, Directorate of cultural relationships, cinema and theater department, Iraqi fashion house and children's house for culture, taking into consideration that the salaries of those are paid by one cheque that is audited by the internal control department of the ministry. The number of personnel transferred from the dissolved Ministry of Information to the Ministry of Culture during 2010 is 1290 persons as per MoC letter dated July 24, 2011, approved by MoF by its letter dated April 7, 2011, while 1200 persons receive their salaries from the ministry's Headquarters as per the ministry's letter dated July 25, 2011, moreover 54 were retired and 74 were transferred with the ministry's directorates and outside the ministry.

## **IX. Ministry of Human Rights**

### **Tendering Committee opening documents (medium)**

PWC's report stated " During our review to the contract number 4/2008, we noted that the tender opening committee minutes of meeting were not attached to the contract file".

BSA audit team confirmed that it requested the minutes by its memo dated July 25, 2011, and checked the documents presented by the ministry but no minutes of the committee was found, and either the committee has no copy of the minutes, bearing in mind that there is no further or external minutes related to this contract of 9998732000 ID for building the National Institute, moreover the Ministry did not send the contract to BSA in the contrary of GS of CoM directions.

## **X. Ministry of Oil – SOMO**

### **1. Absence of the system generated loading reports (high)**

PWC's report stated " We noted that SOMO was not provided with any system generated loading reports for loaded crude oil quantities at Basrah oil terminal, where these reports can be generated by the metering automated system at the oil terminal".

SOMO replied by its letter dated June 14, 2011 that according to prevailed practices in the international ports, the aforementioned report is adopted by Basrah port to prepare meter quantity report which includes all details concerning the meters reading to be sent with all loading and measurement documents to SOMO to be reconciled with bill of lading. BSA audit team explained that Basrah port administration prepares the meter quantity report based on system generated loading reports which include the metering details (total quantity, net volume, the water and sodium of the sold quantity), taking in to consideration that this mechanism is applied since May 2011, and the meter quantity reports of the following shipments were verified:

No. of shipment	Date of shipment	The port
BBL/6006	16.05.2011	Basrah
BBL/6011	21.05.2011	Basrah
BBL/6039	17.06.2011	Basrah
BBL/6065	12.07.2011	Basrah
BBL/6059	07.07.2011	Khor Al Umaiah

BSA audit team confirmed SOMO's reply

### **2. No third party inspector authentication(high)**

PWC's report stated " We noted that the third party inspector (SGS) did not sign any shipment document at Basrah Oil Terminals, where shipment documents are signed only by SOMO, South Oil Company and the Tanker master. SOMO had sent a letter addressed to the Iraqi South Oil Company with reference number 15519 dated September 27, 2010 emphasizing on signing the shipments documents by a third party inspector".

SOMO sent a letter to South Oil Company on Aug.24, 2010 to inform them that it is necessary that all metering documents to be signed by the third party inspector and reiterated its letter on Sept.27, 2010. BSA audit team confirmed that South Oil Company has a contract with SGS to do

so, but there is no third party signature on the bill of lading, as for Cyhan port a contract was signed on Sept.1, 2010 but also there is no third party inspector signature on the bills of lading. BSA audit team confirmed PWC's observation.

**3. Allocating crude oil quantities to foreign oil companies (medium)**

PWC's report stated" We noted that crude oil quantities are allocated to selected foreign oil companies based on analyses, market studies and SOMO's previous experience with the purchasers, though we found no documented criteria for such allocation".

SOMO replied by its letter dated July 13, 2011 that there are procedures and policies adapted to receive orders to purchase Iraqi crude oil by official mail of SOMO, a complete report on the qualified companies and their activities will be submitted to the committee of allocation, then the quantities will be allocated for the companies. BSA audit team stated that this is the used procedure but it is not documented and a change can be taken place on the quantities during carrying out the contract. BSA audit team confirmed PWC's observation.

## **XI. Ministry of Finance**

### **1. Black list inquiry (medium)**

Pwc's report stated" With regards to contract No. 4/3/2010 related to the transporting vehicles for the Ministry's employees, we noted that black list inquiry was not obtained from the Ministry of Planning in order to assure the creditability of the contractor. Granting projects to contractors without proper inquiry regarding their reputation and previous history may result in the contractors default in executing obligations. Which may lead the Ministry to bear losses and inability to meets its objectives". The administrative department of the MoF replied by its letter dated March 29, 2011 that the guide of their work in this sense is article 7 – XVIII of state contract instructions no.1 for 2008, as the companies' documents' authentication was checked with the Ministry of Trade – companies' registration department and also its name on the black through the database available. BSA audit team confirmed that the department of planning and follow up has a database related to the black list of the companies.

### **2. Tender opening committee (medium)**

Pwc's report stated" During our review for the contract number 4/2/2010 to reconstruct the Ministry's building, we noted that the opening tendering committee was formed on 28 June 2009 and its members remained in the committee until this contract tenders opening on 20 June 2010 and thus exceeding the authorized period as stated in the 2010 Budget Instructions Extending". The administrative department of the MoF replied by its letter dated March 29, 2011 that the ministry is requesting to be provided by the names of the persons nominated for the committees to obtain the formal approval and issue the orders including tender opening committees. BSA audit team confirmed that PWC's observation is correct and the last committee formed in the ministry's Headquarter was under the order dated August 13, 2009.

## **XII. Ministry of Environment**

### **1. Tendering committee duration period (medium)**

PWC's report stated "Based on our review we noted that the tendering committee members for the first half of year 2010 are the same as those for the second half of year 2009. Extending the duration of tendering commission members beyond the authorized period may cause the Ministry in violating the Governmental Contracting Regulations".

The Ministry replied that the committee was changed after six months under the administrative order dated Feb.17, 2010 according to budget instruction/2010. BSA audit team stated that during the follow up of administrative orders issued in this sense it was observed that the committee was changed under the order dated Sept.8, 2010.

### **2. Contractors financial statements analysis (low)**

PWC's report stated "With regards to contract # 4005020018 related to the oil spill sensor and alarm equipments and after reviewing the tender winner "Al Ghalowa Company" financial statements we noted that no revenues were reported in the contractor financial statements for the periods 2008 and 2009. In addition to the absent of any financial analysis of the tender winner financial position and the ability for him to fulfill his contracting obligations. Granting projects to contractors without proper assessments and evaluation of their financial positions and strength may result in the contractors default over their obligations. Which may lead the Ministry to bear losses and inability to meets its objectives".

Contracting department in the ministry replied by its letter dated July 28, 2011 that it has no such contract number and no such project. BSA audit team confirmed that during the follow up of 2010 contracts they found that the ministry has neither such contract nor such project.

### **3. Project budget assessment (medium)**

PWC's report stated "With regards to contract # 4005020018 related to the oil spill sensor and alarm equipments we noted that preliminary assessed project budget balance included only the ending figure without attaching the project manager assessment study or the mechanism in which the figure was reached. Since the project budget is used in determining the acceptable proposals' fees scale, this may lead in implementing improper basis for determining relevant proposals that meets the Ministries goals and objectives". Contracting department in the ministry replied by its letter dated July 28, 2011 that it has no such

contract number and no such project. BSA audit team confirmed that during the follow up of 2010 contracts they found that the ministry has neither such contract nor such project. Bearing in mind that such observation was stated in BSA audit report dated July 17, 2011 on auditing the contract signed with "Bawabet Al Jeser" General contracting company WLL to conduct the rehabilitation and maintenance of Neighborhood 714 in Al Ghadeer municipality for (3413750) thousand ID.

### **XIII. Ministry of Trade**

#### **1. Credit facilities granted by the Trade Bank of Iraq**

PWC's report stated " On 29 December 2009 the Ministry of Trade was granted an advance from the Trade Bank of Iraq with a total amount of USD 1,5 Billion to finance the operations of Grain Board Company, General Company for Trade of Food Supplies, and Grain Manufacturing Company. Loan installments will be paid from the Trade Ministry's budget through the Ministry of Finance. Obtaining loans from local Banks to finance the governmental recurring operations is a clear indication for the lack of managing and budgeting the governmental resources, in addition to the high interest burden to be borne by the government. Permitting Ministries and governmental bodies to directly obtain credit from Banks without the Ministry of Finance role to facilitate the funds in accordance with allocated budget will render the whole budgeting process to be ineffectual".

The Ministry replied that it resorted to borrowing under a resolution of the CoM in 2009 due to lack of allocation for ration card in 2009 and previous years and no complementary budget was approved. As for interests it works with MoF and TBI to reach to a mechanism to pay them, as MoF will undertake the payment once the Federal annual budget for 2011 approved. BSA audit team that in its report dated Oct.20, 2010 (item 10/c) has mentioned that this resolution did not solve the problem, rather it complicate the issue, moreover it is in the contrary with the contracts signed with the TBI in terms of (the repayment period and the amount of the loan), in addition the interests accrued for this loan are extremely high, taking in to consideration that the loans were of \$ 1250 million and (250) billion ID. A resolution of the CoM was issued on May 6, 2011 to postpone the payment of the loan due on the ministry in order to ensure the items of the ration card for 2012 and MoF will include the loan and its interests in Federal Budget allocations for 2012 as due debts on the state not the Ministry of Trade.

#### **2. Imported items with approved budget/ General company for food stuff (medium)**

PWC's report stated " In year 2010 the Company has contracted and imported lentil, beans, and adult milk without budgeting these products in 2010 budget. Contracting on items not allocated on the budget will result in a deficit in the Company's budget. Such deficit may result in the Company inability to meets it current obligation and seeking for an outside finance".

The General Company for food stuff replied by its memo dated July 5, 2011 that the case stated in PWC's report was during 2008 and 2009, as the contract in 2008 accessed the allocations so it affected 2009

contracts. The observation was addressed in 2010 and 2011 as contracting is done as per the plan and allocations, in addition the items mentioned in the observation are not included with the ration card, and the import of lentil only for Ramadhan will not affect the allocation for 2010. During 2011 a contract for 8500 tons of lentil was made after obtaining the approval and allocation. BSA audit team confirmed the correctness of the company's reply.

**3. Contractor audited financial statements and articles of association/ General company for food stuff and Grain Board of Iraq (medium)**

PWC's report stated " Through our review of the contracts, we noted that neither the General Company for Trade of Food Supplies nor the Grain Board Company obtains a current audited financial statements or articles of association for their contracted parties and as an example of this:

Company Name	Contractor Name	Contract Description	LC #	Unavailable documents
The General Company for Trade of Food Supplies	Mercury General Trading	Adult Milk 1500 ton	ILCUSC0859610	Contactor's audited financial statements Contractor's articles of association
Grain Board Company	Exim Grain Trade	Purchase of Wheat	ILCSGT0804410	Contactor's audited financial statements Contractor's articles of association

The absence of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier, thus the economical recession or external factors may adversely affect the contractor financial position and results in his inability to perform under the contract".

BSA audit team cannot agree with the observation, as the General Company for Food Stuff provided the team with articles of association of Mercury General Trading as per its memo dated July 7, 2011, as for Exim Grain Trade, it is not the first time contract with the company, and it has submitted its articles of association in the first time and the company will be contacted to send its financial statements, bearing in mind that submitting the financial statement of the contract's parties is not mandatory to be submitted in accordance with state contracts instructions no.1 for 2008 article (7- X-c) and requesting them means that the company is included to the competitive score, that indicates that the observation is not accurate.

#### **XIV. Governorate of Karbala'a**

##### **1. Contactor audited financial statements (medium)**

PWC's report stated " Through our review of the contracts, we noted the Governorate did not obtain a current audited financial statements for their contracted parties, as an example of this:

Contract number	Contract name	Contract description
15	Al-Naba'a Al Handasi and Salah Al-Amal	Providing plastic pumps for karbalaa water department
18	Al-Kisar Al-Amiryah Contracting Company	Building of high schools in Al -Rafedean area

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier, thus the economical recession or external factors may adversely affect the contractor financial position and results in its inability to perform under the contract".

Governorate of Karbala'a did not reply, BSA audit team noted that the Governorate did not request the financial statement base on article (7- X-c) of state contracts instructions no.1 for 2008 which stipulated (if it is required by tender documents), bearing in mind that submitting the financial statement of the contract's parties is not mandatory to be submitted in accordance with state contracts instructions no.1 for 2008 article (7- X-c) and requesting them means that the company is included to the competitive score, that indicates that the observation is not accurate.

##### **2. Reconciling the payroll sheets and trail balance (high)**

PWC's report stated" During our review of the payroll sheets, we noted discrepancies between the payroll sheets and the gross payroll posted to the trail balance. In addition the designated department within the governorate did not perform monthly reconciliation to identify those discrepancies".

Governorate of Karbala'a did not reply, BSA audit team noted that the payroll sheets are reconciled with the trail balance. The Governorate paid its staff, and those who are transferred to, from other ministries were paid separately. The sum of the two payroll sheets reconcile the balance appears in the expenditure statement, the reason of the discrepancies in the payroll sheets from one month to another is the transfer of personnel from another ministries, the salary's section reconciles the payroll sheets on monthly bases. BSA audit team does not agree with the observation.

**3. Registration certificate of contracted parties (medium)**

PWC's report stated "Through our review of the contracts, we noted the Governorate did not obtain an establishment certificate for their contracted parties, as an example of this:

Contract no.	Contractor name	Contract description
62	Al-Etihad Engineering Company	Establishing telecommunication network in Al-Abasia Zone
38	Al-Kisar Al-Amiryah Contracting Company	Building of high schools in Al - Rafedean area

The absent of such documents might result in contracting with fake or non existence contractors".

The Governorate did not reply, but BSA audit team explained that the governorate was satisfied only with contractor's classification identification issued by the Ministry of Planning. The observation was stated in BSA report dated June 6, 2011.

**4. Black list inquiry (medium)**

PWC's report stated " Through our review of the contracts, we noted the Governorate did not inquire regarding the exclusion, of the participated companies in the tender, in the black list and as an example of this:

Contract no.	Contractor name	Contract description
62	Al-Etihad Engineering Company	Establishing telecommunication network in Al-Abasia Zone
38	Al-Kisar Al-Amiryah Contracting Company	Building of high schools in Al - Rafedean area

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier".

The Governorate did not reply, and BSA audit team explained that the governorate has a database with the names of the blacklisted companies used as reference and those companies are not included. BSA audit team did not support the observation.

## **XV. Governorate of Qadissyia**

### **Black list inquiry (medium)**

Pwc's report stated " Through our review of the contracts, we noted the Governorate did not inquire regarding the exclusion, of the participated companies in the tender, in the black list and as an example of this:

Contract no.	Contractor name	Contract description
4	Diar Al saad Co.	Equip the governorate with leathers
8	Al azdahir Al Handsea Co.	Cleaning the area in Dewaneyeh city

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier".

The Governorate did not reply to BSA memo dated June 8, 2011. BSA audit team explained that pursuant to the letter of the legal directorate of the Ministry of Planning dated Oct.30, 2010 it was confirmed that these companies are not blacklisted.

## **XVI. Governorate Al Basrah**

### **1. Black list inquiry (medium)**

Pwc's report stated" Through our review of the contracts, we noted the Governorate did not inquire regarding the exclusion, of the participated companies in the tender, in the black list and as an example of this:

Contract no.	Contractor name	Contract description
101	Ervia Franch Co.	Building of FAO electricity station
861	CG Holding Co.	Supplying high voltage equipment

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier".

The governorate replied by its letter dated June 13, 2011 that these companies are not blacklisted. BSA audit team confirmed the Governorate's reply.

### **2. Contractor audited financial statements (medium)**

Pwc's report stated" Through our review of the contracts, we noted the Governorate did not obtain a current audited financial statements for their contracted parties, as an example of this:

Contract no.	Contractor name	Contract description
101	Ervia Franch Co.	Building of FAO electricity station
861	CG Holding Co.	Supplying high voltage equipment

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier, thus the economical recession or external factors may adversely affect the contractor financial position and results in its inability to perform under the contract".

The Governorate replied by its letter dated June 13, 2011 and its annex the memo of the tender study and analyses committee head that the financial statement provision is not mandatory for foreign companies and not even included to the comparisons factors, as the comparison includes (the amount of the bid, the technical proposal, the period of completion of the project, and progress table) and as these companies are foreign companies and has no regional branches no financial statements were requested. BSA audit team explained that the letter of GS of CoM dated June 9, 2011 binds all state institutions to verify the credibility of the

foreign and local companies and similar work with the Ministry of Planning – legal department and Ministry of Trade the companies register. Bearing in mind that submitting the financial statement of the contract's parties is not mandatory to be submitted in accordance with state contracts instructions no.1 for 2008 article (7- X-c) and requesting them means that the company is included to the competitive score, that indicates that the observation is not accurate.

## **XVII. Governorate of Najaf**

### **1. Outstanding balances in the bank statement (high)**

Pwc's report stated "During review reconciliation of Rafidain Bank accounts for Dec.2010 we noted that the Governorate did not recorded all its appeared entries in the bank statement. The appearance of outstanding entries in the Bank statement that do not appear in the governorate's records is considered evidence that the governorate did not identify and record all deposits and withdraws with the bank which leads to the increased risk of not recording the actual receipts and withdraws".

The accounting department in the Governorate replied by its letter dated July 6, 2011 related to the receipts and deposits that appear in the bank statement and not in records, as follows:

#### **a. Account no. 946**

**I.** Amount of ID 21005 represents receipt of:

1. 5 ID appeared on Feb.5, 2009
2. 21000 ID appeared in Dec.29, 2009

Both were addressed and did not appear in Jan. 2011 reconciliation.

**II.** Amount of 46900 ID represents payments for bank commissions that appeared in the bank statement and not recorder in the records.

#### **b. Account no. 979**

There are payments for bank commissions that appeared in the bank statement and not recorder in the records.

BSA audit team explained that concerning point (a) the governorate has addressed the problem within the January's reconciliation. As for the bank commissions the governorate will address them once they receive the note from the bank.

### **2. Checks with due date expired for more than 6 months (medium)**

Pwc's report stated "During review reconciliation of Rafidain Bank accounts for Dec.2010 we noted that there are check with due date expired for more than 6 months, for example a check of (504000) ID issued on Feb.7, 2010".

The governorate replied that the beneficiaries of these checks were contacted to collect the amount of the check or to return it to the governorate to be cancelled and recorded as deposits for them. BSA audit team confirmed the observation and noted that the follow up showed that the governorate is carrying on solving the problem.

### **3. Contractor audited financial statements (medium)**

Pwc's report stated " Through our review of the contracts, we noted the Governorate did not obtain a current audited financial statements for their contracted parties, as an example of this:

The amount /ID	Contractor name	Contract Description
7507720000	Al Sharqia & Faihan Co.	Network and station of heavy water sewages

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier, thus the economical recession or external factors may adversely affect the contractor financial position and results in its inability to perform under the contract".

The governorate replied that submitting the financial statement of the contract's parties is not mandatory to be submitted in accordance with state contracts instructions no.1 for 2008 article (7- X-c) and requesting them means that the company is included to the competitive score. BSA audit team confirmed the reply of the Governorate.

### **4. Registration certificate of contracted parties (medium)**

PWC's report stated "Through our review of the contracts, we noted the Governorate did not obtain an establishment certificate for their contracted parties, as an example of this:

The amount /ID	Contractor name	Contract Description
7507720000	Al Sharqia & Faihan Co.	Network and station of heavy water sewages

The absent of such documents might result in contracting with fake or non existence contractors".

The Governorate presented the registration certificate and the classification identity of the company. BAS audit team confirmed the existence of those documents.

### **5. Black list inquiry (medium)**

Pwc's report stated" Through our review of the contracts, we noted the Governorate did not inquire regarding the exclusion, of the participated companies in the tender, in the black list and as an example of this:

The amount /ID	Contractor name	Contract Description
7507720000	Al Sharqia & Faihan Co.	Network and station of heavy water sewages

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier".

The Governorate replied that making inquiry on the contracting company is a constant procedure in the governorate for all type of contracts, therefore the governorate requested the information on the company from the Ministry of Planning by its letter dated August 10, 2010, and the Ministry replied by its letter dated Sept.6, 2010.

**6. Procedures of nullifying a contract (medium)**

Pwc's report stated" Through our review of the contracts, we noted the Governorate nullified the first award of the contract concerning the building of Commission on Integrity branch in the governorate which was awarded originally to Lammasat Al Fen and Nehar Al Khair company, and it was re-awarded to Al Abrraj Al Thehebia Company for (1816608000) ID, as the nullifying was based on the letter of objection of the objection committee dated on August 29, 2010 but the letter or any other document that clarifies the reason of nullifying was included".

The governorate provided BSA audit team with the letter and all documents related to the analyses minutes and objection committee minutes and all these documents were included in the projects file. BSA audit team confirmed the governorate reply.

## **XVIII. Governorate of Kirkuk**

### **1. Contractor audited financial statements (medium)**

Pwc's report stated" Through our review of the contracts, we noted the Governorate did not obtain a current audited financial statements for their contracted parties, as an example of this:

The amount /ID	Contractor name	Contract Description
988243576	Kirkuk Al Ta'akhi Co.	Paving and coating the streets that have been paved in 2008 in Dakuk
2228788400	Sherdera contracting Co.	Paving and coating the streets that link the governorate and chamber of commerce streets
1463570250	Herman contracting Co.	Paving and coating the street that links Al Wassiti quarter with Gas apartment side

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier, thus the economical recession or external factors may adversely affect the contractor financial position and results in its inability to perform under the contract".

Planning directorate in the governorate replied by its letter dated July 6, 2011 that submitting the audited financial statements is based on the form of the announcement and if it was request to be among bidding documents, then the company has to submit them. BSA audit team noted that submitting the financial statement of the contract's parties is not mandatory to be submitted in accordance with state contracts instructions no.1 for 2008 article (7- X-c) and requesting them means that the company is included to the competitive score. BSA audit team confirmed the reply of the Governorate.

### **2. Black list inquiry (medium)**

Pwc's report stated" Through our review of the contracts, we noted the Governorate did not inquire regarding the exclusion, of the participated companies in the tender, in the black list and as an example of this:

The amount /ID	Contractor name	Contract Description
988243576	Kirkuk Al Ta'akhi Co.	Paving and coating the streets that have been paved in 2008 in Dakuk
2228788400	Sherdera contracting Co.	Paving and coating the streets that link the governorate and chamber of commerce streets
1463570250	Herman contracting Co.	Paving and coating the street that links Al Wassiti quarter with Gas apartment side

The absent of such documents might result in contracting with insolvent, bankrupt, or unfavorable contractor, even if previous contracts existed with the supplier".

Planning directorate in the governorate replied by its letter dated July 6, 2011 that it had circulated correspondence received from the ministries of Planning, Municipalities, Governorates' Affairs and other ministries related to black listed companies to all its related entities and they have to follow up directions. BSA audit team confirmed the governorate's reply.

### **3. Discrepancies between the amounts received from the bank and the salaries paid to the staff (high)**

Pwc's report stated" Through our review of the salaries we noted that there are shortage in the salaries received from the bank by salaries' committee and those paid to the staff in several months in 2010".

Accounting department in the governorate replied by its letter dated July 5, 2011 that the audit firm did not informed them with the observation, explaining that there is no shortage in the amount withdrawn from the bank, but sometimes a shortage appears in the small banknotes received from the bank because the committee can not counting them due to the lack of counting devices and the volume of the amount, the shortage is covered by the committee as it is charged with the task. BSA audit team confirmed the reply of the governorate, and confirmed during a meeting with the director of accounting department and the salaries' committee that it is necessary to count the money before leaving the bank to ensure that this not going to happen in the future.

**3. Kurdistan Region observations:**

The number of new observations concerning Kurdistan Region were (4) on (2) ministries and (1) governorate, in addition to (40) repeated observations concerning (15) ministries and (3) governorates, no reply was received to date. Kurdistan Region has to reply to the audit observation.

**Oil Metering Report**  
**Key Issues**  
**May 2011**

**South Oil Company**

**The Iraq ZR1 Depot**

- The meter skid is fully exposed to the elements which could lead to temperate gradient across the system, especially when proving.
- Not all double block and bleeds appear to have been regularly checked for leakage.
- Login to the supervisory system to obtain the latest proving report was via Administrator level, the highest permission level, which can cause issue with security and configuration.
- The compact prover was last calibrated in August 2008.
- The last prove recorded, viewed on the HMI, was on the 2nd of May 2011. This was also the report obtained in the office earlier. Apart from being 16 days since that stream had been proved it was also over 250 m<sup>3</sup>/hr different in flowrate, i.e. Prove on the 2nd of May 2011 performed at 720m<sup>3</sup>/hr while on the 18th of May 2011 at 1000m<sup>3</sup>/hr.
- There is no evidence of turbine meter performance monitoring in place.
- The system Functional Design Specification was not available for review.

**Al Basrah Oil Terminal**

- No spare thermowells were apparent in the meter streams. This can cause difficulty in carrying out maintenance tests.
- It would appear that all the prove results reviewed were against the master meter and none against the compact prover. This suggests that this is the easier method of carrying out the proving operation and has been used as the normal method to prove.
- The compact prover has not been calibrated since the start-up of the system.
- There is no evidence of turbine meter performance monitoring in place.
- No evidence of Metering Station Logbooks.
- There were no maintenance procedures at the installation.
- The system Functional Design Specification was not available for review.

**Khor Al Umayyah Oil Terminal**

- There appeared to be no cavity wall vents on any of the stream and prover isolation valves.
- The compact prover has not been calibrated since start-up of the system.
- There is no evidence of turbine meter performance monitoring in place.
- No evidence of Metering Station Logbooks.
- There were no maintenance procedures at the installation.
- The Competence of the technician came into question when he was unable to retrieve the constants list from the flow computer when requested
- The system Functional Design Specification was not available for review.

## **Missan Refinery**

### **Replacement Coriolis Metering System**

Equipment has been on site for a considerable length of time already, to the point that the certification for the coriolis meters has already expired (March 2010).

### **Inlet Meters**

Each meter seemed to be in a good condition, operational with only a slight gland leak at the inlet to the operational stream. This should be repaired as, not only is someone losing oil and therefore revenue, it is also harmful to the environment.

### **Export or Tanker Loading Meters**

#### **Heavy Fuel Oil Meters FQ24-1&2**

Non-operational and leakages from various areas. These are Custody Transfer / Fiscal meters and a ticket generator for the truck driver.

#### **Kerosene Meter FQ22**

This meter has been in service since they were last calibrated and shows no sign of any problems with the by-pass sealed with wire and lead seal. It would appear from the records that this meter was last calibrated on the 17th of November 2009

#### **Diesel Meters FQ23-1&2**

These meters have been in service since they were last calibrated and show no sign of any problems. By-pass sealed with wire and lead seal. It would appear from the records that these meters were last calibrated on the 21st of January 2010.

#### **Gasoline Meters FQ21-1&2**

These meters have been inoperable for some time with no spare meters available to replace them. They are not metering the Gasoline being loaded into the distribution company road tankers.