

Minutes of COFE's second meeting **held on 17.08.2007**

The meeting was presided over by the head of COFE and president of BSA Dr. Abdul Basit Turki Saeed and attended by the Committee member and the two experts.

After approving the agenda, the Committee considered the items included there in and as follows:

1. Follow up on the decisions of the previous meeting

Three side meetings were held with DFI auditors and with financial persons from Government Departments to follow up results of 2006 DFI audits.

To ensure effective follow up on results of all previous DFI audits, the Committee had reviewed the reports for the years 2003, 2004, 2005 and 2006 and had identified and summarized all audit observations and reservations that required remedial actions by the various Government Departments.

This summary will be a main item on all Committee meetings as part of its responsibility to clear and follow up audit comments.

The Committee reviewed the preliminary report prepared by BSA on its follow up with the Government Ministries on actions taken in respect of audit reports. This BSA report after its completion will be presented to the Council of Ministers and to Parliament and will be posted on COFE's website.

As part of its efforts to ensure effective follow up and oversight over DFI cash flows, the Committee decided on the following measures:

1.1. Request the Central Bank of Iraq (CBI) to provide the Committee with the Fund's cash flows on a monthly basis.

1.2. Request the accounts department in the Ministry of Finance to provide the Committee with the Fund's trial balance on a monthly basis.

1.3. Request SOMO to provide the Committee with monthly reports on oil exports.

1.4. Request the Trade Bank of Iraq (TBI) to provide the Committee with a comprehensive statement of all outstanding letters of credits as at 01.07.2007 and monthly reports thereafter on L/Cs opened and closed during the related month.

2. Work of the DFI auditor

The meeting held with DFI auditor E&Y focused on two main issues:

2. 1. The audit program for 2007 and the need to complete the interim audit for the first six months of 2007 in time to be presented to IAMB in its meeting scheduled for 1-2 November 2007.

2. 2. Completion of the checking of oil production, and its disposal for the year 2006. The Committee considered that the auditor's work on this issue in 2006 was incomplete.

E&Y confirmed that the work on the above two issues would be completed before the next IAMB meetings.

3. Metering of oil and oil products

There was a thorough discussion of this item as all audit reports during the previous four years contained comments that there was no effective metering system in place for oil and oil products and as a result the accuracy of the figures given for oil production and refining was doubtful.

The slow progress in tackling this important issue is causing grave financial harms to the country through abuse and smuggling of oil and adverse political repercussions as the slow progress in addressing this issue is linked to financial and administrative corruption.

The Committee studied the measures which the Ministry of Oil has advised that it has taken to remedy the situation and reviewed the results of the follow up carried out by BSA team in the Ministry of Oil. The Committee considers that actions taken so far are not enough to combat this very grave situation and decided to address a letter to the Council of Ministers and to the Parliament informing them of this unsatisfactory situation and what must be done in respect thereof and that this letter be posted on the Committee's website.

4. Internal controls in Ministries

The Committee discussed all the comments of the Fund's auditor with regard to internal controls in the ministries which have been repeated in the previous audit reports over the past four years. The Committee noted that all the comments have been identified in BSA reports and efforts have been made by BSA, the World Bank and the International Monetary Fund to enhance the quality of internal controls and to train the personnel involved. Some of the main measures taken are:

4.1. Electronic program for the accounts of the state budget.

4. 2. Issue of unified contracting instructions and procedures for all Ministries.

4.3. Issue by BSA of a directory for internal audit units in the various Ministries.

4.4. Training programs for the Inspector Generals in the Ministries.

- 4.5. Implementation of a pre-audit system for tendering and submitting proposals to Ministries for contracts exceeding \$3 millions in value. Further a post audit is done by BSA within 15 days of signing contracts that exceed \$100000 in value. Weakness was identified and corrective measures being followed up.
- 4.6. Issue of unified accounting instructions covering, purchases, control over cash and other treasury assets, advances, deposits and salaries accounts.
- 4.7. State final accounts and the delays in their issue for the years 2005 and 2006.
- 4.8. Computerized accounting systems in all Ministries.
- 4.9. Organization chart and job descriptions for posts and schedules for authorities and responsibilities.
- 4.10. Development and completion of procedures for the preparation of the state general budget.

5. Immunity of DFI funds as per Security Council Resolution

The Committee stressed the importance of initiating measures to issue a resolution from the UN Security Council extending immunity to DFI funds and other Iraqi assets for several years after the current immunity expires on 31.12.2007.

The extension will allow time to the Ministry of Finance to settle outstanding debts with creditors. The Committee urges the related government departments to draft an appropriate resolution taking into consideration the continuation or otherwise of DFI.

6. Draft Financial Revenues Law

The Committee reviewed the draft of Financial Revenue Law and noted duplication and contradictions between some of its provisions (especially article 6 of the draft law) and the work of the Committee. As COFE was formed, as a result of contacts, between IAMB and the Council of Ministers, and the Memorandum of Understanding signed between IMF on one hand and MOF and CBI on the other hand. Further COFE's oversight procedures are linked with the compensation deduction of 5% from oil sales proceeds by the use of an intermediary account for such proceeds. The Committee decided to send a letter to the Council of Ministers bringing to its note the foregoing.

Head of the Committee

Member

Expert

Expert