

Republic of Iraq  
BSA of Supreme Audit  
BSA President Office  
No. 1/1/3  
Date

To / IAMB  
Sub. / E&Y Audit Report

Dear Sirs:

Although E&Y published its audit report on DFI accounts for the period (1<sup>st</sup> July to 31<sup>st</sup> Dec. 2005) in English on its website, BSA continued waiting for the Arabic version of the report. After being compelled to translate the report and then to circulate it, our follow up the measures taken by ministries regarding the remarks mentioned in the report and BSA showed the following notes:

Remarks concerning Ministries

1. Ministry of Oil

Ministry of oil was notified in details about the auditor remarks. a committee was formed to settle these remarks in SOMO. BSA followed up this matter and all infringements recorded by auditors are to be settled. Here under the detailed notes:

Ministry of Oil Headquarters

I. Employees records

We don't sustain the remark about the ministry not deducting the salaries for the unpaid leaves from the employees. However, we observed that the ministry issues two directives about these leaves. The first is to grant the leave, and the second is to deduct the salary, and there is a delay in delivering these directives to account department which result this delay in deducting

## II. Refineries Capacity

The report showed that refiners did not operate in full capacity; BSA sustains this remark. The data we have indicate an acute reduction in the realized production of the primary products (Gasoline, LPG, Fuel oil) in comparison with the planned capacity for 2005.

## III. Storage Capacity

We agree with the remark concerning the lack of sufficient storage capacity all over oil companies and terminals are true. BSA has mentioned this issue in its report No. 8/28/1/738 dated 29/1/2006.

## IV. Operational loading System at loading points.

We sustain the remark that ministry of oil did not operate metering system. BSA has referred to this issue in its reports including (1108 and 2728) on 14/2/2006 and 19/4/2006 respectively, forwarded to the secretariat of council of ministers. The ministry has stated that it has taken the necessary remedial actions; yet, facts refer to tardiness in settling this issue, taken into consideration article 3 related to SOMO.

## V. Reconciliation between companies

We sustain the remark about the ministry not making reconciliation between production companies and, refining and distribution companies are true. BSA has referred to this issue in several reports of which, the report No. 2728 dated 19/4/2006, forwarded to the secretariat of council of ministers.

## VI. Back-ups of accounting documents

The report showed that the documents of the financial department of the ministry were burned out. The ministry sustained this remark, yet, it stated the inability of making backups to all documents and preserving them in several places, as this measure is costly and requires time, staff, and places. However, the ministry will take precautions against fire. In addition, the ministry has entered all financial data in computers so as making them on CDs monthly and to keep them in several places.

## SOMO

### I. Internal control procedures over oil imports

Regarding the lack of documented internal control procedures over oil imports, the company did not sustain this remark. The company stated that there is existing internal control procedures over oil imports, but these procedures were not compiled in one manual. We recommend compiling these procedures in one manual. We have been informed by the committee tasked with settling audit remarks related to SOMO, that one of the committee's measures is to achieve this manual. BSA will follow up this in the future.

### II. Contracting Procedures

In spite of SOMO's response to this remark which stated that contracting procedures were executed in accordance with international oil market standards and were subject to the minister's approval, yet they were not carried out as they were to be as the auditor suggested. During BSA follow up for the last two years, it has discovered more than one external factor limiting the opportunity of acquisition typically and because of the need to this product and its reflection on the political level, the company was again compelled to adopt the same remarked procedure after attempting to acquire the product via bidding as the auditor suggested.

### III. Lack of Metering System for imported petroleum products

BSA has generally diagnosed that control procedures over the flow of crude oil and petroleum products, both imported or exported, suffer from massive shortcomings and lack in providing and using meters and counters throughout all phases. BSA has referred to this shortcoming in several letters addressed to the council of ministers- committee of energy, in the letter numbered 8/28/1/2728 dated 219/4/2006 and in the correspondences forwarded to the council of ministers secretariat numbered (3803, 4348, and 6538) in 9/8/2005, 4/9/2005 and 12/12/2005 respectively. Ministry of oil regarded this issue as one of its crucial tasks and started in providing meters, as a preliminary step, to several exporting terminals in southern region, in addition to conducting an over all survey to determine how many meters it needs in order to start installing them.

#### IV. Reconciliation with Petroleum Products Imports Ledger

Concerning not making monthly reconciliations between the quantities registered in SOMO's Petroleum Products Imports Ledger and the registered quantities imported by SABA Company, the company sustained the remark justifying that current circumstances make it difficult to perform these reconciliations. SOMO stated that it will perform them later. BSA will follow up this in future.

#### V. Monthly Reconciliations with Suppliers of Petroleum Products

We sustain that the financial department of SOMO did not perform reconciliations between the statements of the suppliers of petroleum products and SOMO's records on monthly basis. SOMO agreed that there are delays in performing reconciliations as there are ones done by Turkish companies on undelivered and unloaded quantities. BSA will follow up this in future.

#### VI. Pending Reconciliation Items

We agree that there is no reconciliation between SOMO and TBI regarding opened LCs. It has been proved to BSA that this issue still exists and both SOMO and TBI are responsible for it.

#### VII. Bank Reconciliation: Review and Approval

Although the mechanism suggested by the auditor is necessary for audit purposes; yet, the existing filing procedure, adopted by SOMO for years, is designed to facilitate transactions more than to provide it and central database. BSA, in collaboration with SOMO, will seek a better procedure which insures the merits of filing system.

#### VIII. Contracts not provided to the Shipping and Finance department

SOMO stated that its procedure is attaching contract abstract to execution order issued to the competent departments instead of handing a full copy of the contract. This procedure has been followed for along time by SOMO without facing any problems. BSA, during audit for previous period, has not found any flaw in these abstracts; therefore, there is no immediate need to change this procedure urgently.

IX. Improper Segregation of duties over the financial department data base

SOMO stated that it had knowledge during the previous period about the alternative suggested by the auditor; however, this alternative is highly expensive regarding what it is going to add to the present system.

X. Inexistence of supplies invoices

Depending on the experience of SOMO with difference suppliers it appeared that SOMO paid for what is actually received in order to safeguard public funds. Reconciliation between the invoices and what is actually received may indicate the suppliers' compliance to the provisions of the contracts.

XI. Control over invoices

In relation to manual numbering of credit notifications, invoices and import certificate of lading department, the following up committee formed in the company recommended adopting the auditor's remark.

XII. Evidence to support payments

SOMO sustained this remark, as the state bank is newly established; the forwarded slips have been insufficient for full audit purposes. The following up committee stated that the auditor's remark will be taken into consideration to ensure proper dealing with the bank.

XIII. Cancellation of payment vouchers and supporting documents

SOMO agrees on the remark concerning not stamping payment vouchers and supporting documents with (PAID) after discharging the payment.

XIV. Filing System

In relation to distributing documents or official papers supporting sale transactions and not compiling them into one file with certain department and due to the need of administration and auditors to review these data beside complication of their collection, the company did not sustain issues stated in the recommendation by virtue of considering this system as valid and applied since long years ago, furthermore it was proved for its efficiency and adequacy.

XV. Absence of reconciliation with oil production companies

Regarding the remark that "SOMO" did not carry out reconciliation related to crude oil sales although the companies are sending their reports of sale on monthly basis, the company articulated its response in that there are regular reconciliation between "SOMO" and north and south oil companies in the light of the exported actual quantities and according to export documents. Though, that audit outcomes of this BSA regarding this concern for the previous periods has indicated the existence of differences, they did not have great impact on the level of activity results.

XVI. Documentation of OSP committee meetings

Although the remark mentioned in the auditor report, the technical meetings for this purpose are executed periodically and include major respective departments, their recommendations are not deemed valid unless their held minutes of meetings are forwarded to the minister of oil in order to be approved. The company believes that this procedure is adequate and harmless especially that their prices are public.

XVII. No detailed documentation of contracts awarding committee.

Regarding the remark mentioned above, the company stated that a committee presided by the company director general was created since the appropriations of the second half of (2006) for preparing charts including companies and quantities proposed to be exported, besides producing regular minutes to these companies and quantities and consequently forwarding them to the minister to be approved.

XVIII. No bidding procedures for oil contracts

SOMO did not approve selling crude oil using acquisition method which is not followed in any petroleum producer and exporter countries as this method would delay exporting process and the possibility of involvement of incompetent and unspecialized parties and intermediaries in the sale process.

XIX. No back up policy or recovery plan

SOMO sustained the remark and approved the recommendation. However, SOMO declared that it is one of the few institutions that preserved its financial data in spite of being looted. It also confirmed the necessity for safekeeping important documents and papers.

XX. Certificate of Discharge at destination port is not Obtained

The company stated that all contracts state its right in demanding purchasing companies of certificate of discharge but practically SOMO is not demanding these certificates and justified the reasons behind that are that it deals with distinguished companies with good international reputation.

XXI. Insufficient contractual provisions

The company confirmed the content of the remark and mentioned that the applicable price for any shipment is the valid price during the month when the vessel was scheduled to be loaded and that this procedure has nothing to do with and no effecting change of prices.

XXII. Approval of OSP calculation formula

SOMO did not confirm the content of the remark and indicated that its official policy stands on achieving the highest income for oil barrel which can be achieved through selling to several markets and therefore it's impractical to integrate prices of these markets into one integrated calculation formula and categorize them into fixed calculation matrix. Notifying that Prices rates (OSP) are being sent with the signature of the director general to the minister to be approved. BSA believes that SOMO's procedure is sufficient for the time being.

XXIII. No sequential numbering for used forms

SOMO did not confirm the content of the remark and explained that all documents mentioned in the remark are numbered even if prompt, while it is preferable and secure to put pre-numbering (printed) and serials and numbers for the critical documents especially sales invoices.

XXIV. Differences between SOMO's bill of lading and vessel readings

SOMO sustained the existence of such differences and attributed that to the difference of measurement mechanism and the mechanical impacts on vessel body and this difference is inconsiderable under well-known measurements. In our view this issue is to be solved through treating the weakness or lack of meters installed in exporting ports even though the BSA audit processes have included the remark of these differences and BSA encourages taking the necessary procedures by the company.

XXV. Basra port loading rate less than vessel's loading rate.

The company has stated that the pumping capacity is none of its responsibility and this case is related to the overall situation of the oil facilities associated with exporting oil regarding their oldness and need of maintenance, updating and expanding. BSA concurs SOMOs opinion and has been familiarized with the ministry's actual efforts to update and maintain these facilities to ensure proper production and exporting.

XXVI. Late opining of export Crude Oil Sales LCs

The company has supported that the mentioned note represent rare cases and it has no effect on loading other vessel. As the auditor did not mention any specific examples, the BSA has no chance to make investigation on the resulting burdens.

XXVII. Late Financial Statements Closing

The company has supported the existence of the note and cleared that this related to the weakness of commercial information agility and it will seek to overcome this note.

XXVIII. Documentation at The Finance Department

The company supported the note above, is due to not using computer in managing these data as well as it is still using the manual audit work with evidences actually included in the contract file and they are sufficient for the purpose of documentation for the time being and it uses computer in this department for statistical purposes.

2- Ministry of Finance

A- Overall Internal Control Systems

We sustain that overall internal control system of the DFI in general are inactive and the reply has mentioned in details in C and B notes.

B- Authorization of Disbursement

The disbursement process of amounts from DFI is accomplished according to the mechanism organized by the Financial Administration Law and prime minister and minister of finance are authorized or whom they authorize the process to achieve these payments will be carried out



by DG of accounts department according to the authority given by the minister of finance and according to organizing mechanism and subject to the audit and control.

#### C- Incomplete Accounting Records

We support that the Cash Management Department in ministry of finance doesn't hold manual financial records but depends in his work on the data and information received from CBI on monthly basis; these data are reconciled with the letters issued by MOF as CBI is the authorized body by the Security Council to hold DFI accounts records.

#### D- Closing Process of Financial Statement and Reporting Package

Ministry of Finance does not need monthly closing for financial statements received from CBI, but the status-quo shows organizing monthly abstract about the cash revenues and disbursements from which reporting package can be prepared as needed.

#### E-Accounting Systems

We confirm the need to develop accounting systems by using modern techniques given most of ministries moving in this direction in order to develop the efficiency and sufficiency of controls as most of state administrations use computers in accounting systems effectiveness and salaries such as CBI which hold DFI accounts records.

#### F- Policies and Procedures Manual

DFI work is done according to the texts and procedures stated in Financial Management Law and the size of the DFI transactions and their procedures are managed through the instructions of the ministry of finance. This doesn't need to establish manual and comprehensive procedures and the work procedures are clear to all employees. We confirm the recommendation.....of developing policies and comprehensive procedures manual and reviewing the manual on a periodic basis to update it as it is appropriate for providing directions on accounts and processes for all DFI employees.

#### G- Tracking Ministries Budget

We don't Sustain this note as accounting department/Ministry of Finance has strict procedures for field of funding ministries through a computer

special card that shows funded and available amounts in the current account of the ministry and the final balance sheet up to date of the required payment...etc. using the annual principle adapted by Iraqi Budget compelled the termination of the remaining credits by the end of its fiscal year and not to be funded unless the concern dictates rotation for each credit.

#### H-Budget Preparation

In preparing its annual federal budget Ministry of Finance adapts the procedures and phases identified in financial management law no. (9) 2004(Section 6) that ensure reaching assessments suitable for spending size of government spending units. Applications form manual of assessments showed last year actual realizations and assessments size of the current year and subject to the officials' discussions in the balance office in the ministry of finance until being finalized and there are monthly follow up actual reports for executing annual budget procedures.

#### I- Work statements of ministry of finance which directed by US agencies

We agree the note which mentions that payments orders issued by US agencies for contracts payments, but there is no responsible party for examining the accuracy of payment, amount reconciliation..... With contract condition and ensuring that there is not repeated.

We agree with the following recommendations:-

- Ensuring each payment.
- Ensuring receipt of goods and services by the concerned ministry.
- Ensuring adequate registration of the payment by the concerned ministry.
- Reconciliation the amount with records of CBI, FRB NY.
- Ensuring its compliance with conditions and provisions of contract.
- Ensuring stamp the contractor voucher to avoid payments repetition.

In addition, ministry of finance doesn't keep any database of US agencies contracts.

### **3- CBI**

#### **A- Overall internal control systems**

Through the BSA following up of what the mentioned above ,we agree that DFI has no written administrative law and it is directed by various departments in the CBI ;but supervision responsibility of daily movements and statements in respect of the fund related to general directorate of investments in CBI . Regarding the absence of risk management process and internal control function of DFI, this is correct; as there is no separated management for the DFI and written law. Concerning department of internal control in CBI and performing specific functions for some operations of DFI; but in fact the department of internal control didn't perform any audit activity for DFI. BSA is following up the subject daily to apply the auditor's recommendation.

#### **B-Delegation & authority matrix**

The remark is inaccurate; as transfer orders received in TBI according to the request of ministries which meet the conditions and have allocation within the budget and there are orders organize according to a statement delivered to the governor of CBI for approval or to the consultant exclusively who is authorized by the CBI governor. after the approval is made , entries and documents are organized and signed by two authorized employees as well as a third authorized one (SWIFT) according to the agreement made with the Federal Reserve Bank. A specialist employee shall prepare the order on SWIFT system, then another employee may access using another password to review the order and finally it will be released by a third employee with a different password.

#### **C- DFI disbursement completeness and accuracy.**

We agree to the observation related to separating the DFI accounts from the ministry of finance accounts. This observation is identified by the BSA and work to open separate accounts for the DFI is going on by the CBI pursuant to its letter no. 11/3/1086 on 27-7-2006.

#### **D- DFI's Records at CBI**

We agree the observation included in the report concerning DFI records, and the existence of a difference amounting 104\$ millions between DFI assets and liabilities balances. This observation is identified by the BSA

according to the letter no. 5631 on 27-10-2005 the difference then was around 200\$ million. CBI still works to settle these differences.

### **E-Accounting Systems**

We agree to the observation of improper accounting measures of the current volume and concerning DFI structure. This item is responded in details within the observations concerning the ministry of finance.

### **F- LC's Statements**

The auditor's report mentioned that the ministry of finance doesn't receive a notification from TBI for the credits executed and amount transferred to the correspondent bank. In this respect we would make it clear that the observation is inaccurate for ministry of finance has no special account at TBI and the latter notifies the CBI concerning all cash LC's and the amounts transferred in case of not being executed by the correspondent Bank.

### **G- DFI accounts at FRB NY.**

We agree with observation on establishing bank accounts for DFI based on letters of former CPA dated 28-11-2003. Ministry of finance and the CBI have no details about the movement and source of these funds. CBI had written to the FRB NY several times to obtain detailed information about accounts since the beginning of its opening and the party which did that without getting any response but ultimately E & Y Corporation was provided with the required information and sending a copy to CBI. CBI approached the FRB NY to close these accounts and transfer their balances to DFI account according to CBI letter no.5/11729 after acquiring approval from ministry of finance according to its letter no. (11564)in 3/9/2006.

### **H- Data encryption and confidentiality**

We agree that many payment orders to export oil were sent by department of Oil export in CBI by e-mail and this will lead to loss of data confidentiality whereas the e-mail doesn't have the adequate security in such correspondences although our audit team didn't detect or was informed of any differences resulted from change in the circulated statements.

### **I- Interests' calculation for repurchase and treasury bills investment**

We agree with the note that CBI / investment department did not re-account the interests income from repurchase and treasury bills investments, CBI justified that due to the difference of calculated interests amount on notices of FRB NY with the fixed interest rate, CBI approached FRB NY according to its letter no. 1438/5 in 27/7/2006 and the FRB NY responded in 7/9/2006 explaining that the stated bank retains 2% from the interest amount (fees of the investing the amount and returning it back).

### **J- Reporting the recovered and refunded amount**

We agree the note and CBI had written to TBI about the recovered amounts by several letters for each amount, TBI responded to that and the responses started to come successively.

### **K- Unapproved payments**

We agree the note, but the stated amount was (1023050) \$ transferred from DFI account in the FRB NY to CBI account which represents advance payment to TBI to pay the LC for state company of vegetable oil without obtaining approval from ministry of finance. Through BSA following up the subject, it becomes clear that the amount mentioned above, was paid by state company of vegetable oil when it was allowable for state entities to deal with dollar and this amount returned to DFI after cancellation of LC and it was requested to be paid again by TBI without getting approval from ministry of finance and such cases would not be repeated later.

### **g. Interest paid on cash margins against LCs**

The report of auditors stated that the source of received interests' payments from J.P.Morgan bank didn't document within the monthly statement of DFI and we agree to what was mentioned above, in our opinion it is necessary that TBI provides CBI with statements and conformations for it lies within its duties, CBI and ministry of finance have to apply that and BSA will follow the subject with the parties mentioned above.

#### **4. Ministry of communication**

##### **A. allocation of Pay roll budget**

We don't agree the note for the salaries budget for the ministries is one budget not two budgets and we don't agree with overstepping on section level, but on the level of materials; therefore its amendment and circulation within an authority of minister.

##### **B. income tax and social security calculation**

We don't agree with the note as there is reliable application form at accounting income tax for each employee without documenting some statements with supporting documents.

##### **d. Inventory Storage**

We don't agree with the note, as there is no joint storage in the ministry for both the ministry and state company of communication and post; but there is special storage for the ministry and the company. BSA indicated some special notices of the storage and mentioned in our reports no. (8067/1/41/10) dated 21/9/2006.

#### **5. Ministry of housing and construction**

##### **A. fixed assets register**

We agree with the existence of a delay in registration of the purchased fixed assets in the register on timely basis and BSA already highlighted that in its report no. 10/39/1/4430 dated 5/6/2006.

##### **B- Physical count at year end**

##### **C- Physical count differences**

We confirm what came in articles B and C about not conducting full physical count at year end of fixed assts and that there are differences between partial physical count and the record of fixed assets. Current control and audit activities showed such cases. The financial commercial department of the ministry issued order no. (245) on 30/8/2006, according to which the necessary procedures were made in order to avoid the above mentioned articles (A,B,C).

## **D-Letters of Credit (LCs) Disbursement**

The import department is responsible for establishment of LCs at the TBI and the amount paid for the LC is registered in the advances account in the financial records. In the meantime, LC section was created in the financial department, records of the LC amounts were opened, approaching wings related to the ministry in order to settle the imported items worth and all the consequent expenses in coordination with departments of import and central warehouses besides providing the wings with the items issuance and receiving documents. The ministry was informed once again about these notes of the audit company in order to address them.

## **6-Ministry of sport and youth**

### **A- Representative collects salaries of the employees**

We don't confirm the note as there is formal representation of each club which receives its earmarked grant and that the grant is allocated for all the activities and actions of the club and not only for the salaries of the workers of the club, notifying that the sports clubs are independent financially and administratively from the ministry according to the sports clubs law no. 37 in 1988, therefore the direction concerning this article can not be put into effect by transferring salaries of the clubs workers through the bank system.

### **B- Differences in Payroll process**

I. The note is correct as the voucher was not stamped by the internal audit department with (audited) yet the voucher mentioned in the note is signed by Ina'am Ali (an employee of the above mentioned department), without mentioning the department where she works in the voucher and that not stamping the voucher with (audited) was inattentively, as it became clear to us through reviewing the disbursement vouchers that they are marked with (audited).

II. The note is incorrect, as the voucher has the financial department approval through the signature of accounts manager and the financial and accounts department director general.

**III.** we sustain that there is a modification of the total amount of the voucher because there is a miscalculation without being signed by one of the officials concerning the recommendations, there are signatures of the financial manager and internal auditor on the monthly payroll and approval of payment order by the financial department manager and the finance and accounts department director general and the accountant.

#### **C- Compare between budget and actual expenses**

we sustain that there is differences between allocated amounts and actual expenses, as there was a decrease in the expenditure in comparison with the expenditure allocations for some of the budget chapters for 2005 and the chapters (3,4,5) as their execution percentage were (15%, 12%, 13%) , notifying that the ministry does not present a detailed explanation of these deviancies, given that the results of budget execution for the above mentioned year does not show any overstepping of the approved allocations.

#### **D- Gifts not recorded into fixed assets register**

We sustain the correctness of the note mentioned in this paragraph and the ministry was intentioned to that and to the necessity of registering them according to the valid rules.

### **6- Ministry of transport**

#### **A- Fixed assets register**

We sustain the note that there is no fixed assets register during the auditors work and that register was prepared later and then we went over it.

#### **B-physical count at year end**

We do not sustain what was mentioned in the report as the ministry made an inventory of its fixed assets at the end of (2005) and the team was provided with a copy of those lists while auditing that year account and the ministry claimed that it gave the auditors of (E and Y) copies of those inventories.



## **7- Ministry of municipality and public works**

### **A- No segregation of duties in recording fixed assets**

We do not sustain the mentioned note as there is a segregation of duties between the official who receive the good and the official who is in charge of recording these goods in the register.

### **B- Gifts not recorded in the fixed assets registry**

We sustain what's mentioned in the note and the case is highlighted in our audit reports.

## **8- Ministry of Displacement and Migration**

### **A-Members of analysis Committee**

We sustain that number of members of analyses committee is still in their positions and the ministry has made the necessary procedures to overcome this problem and begun to change the committee's members.

## **9- Ministry of Science and Technology**

### **A- Recording Supporting Documents**

We don't sustain what's mentioned in the note as the official responsible for recording procurements depends on input storage voucher of receiving goods when registering them and not on procurement invoices enclosed with the payment order to enhance payment.

### **B- Physical Counting at Year end**

We don't sustain what's mentioned in the note as the ministry issued administrative orders to inventory of all fixed assets of the ministry and its related departments as for 31/12/2005 and conducted the inventory.

## **10- Ministry of Labor and Social Affairs**

### **A- Recording Supporting Documents**

We don't sustain the note as the official responsible for recording procurement depends on input storage voucher of receiving items when registering them and not on procurement invoice enclosed with the payment order to enhance payment.

## **B- Physical counts at Year End**

We don't sustain the note as at the end of 2005 the Ministry conducted actual inventory of the fixed assets and reconciled it with records' balances.

## **11- Ministry of Defense**

### **A- Food & Maintenance contracts**

The report highlighted the Ministry engaged in contracts with contractors to provide food and maintenance service (cleaning & laundry) depending on the number of privates in army units multiplied by the service price for each Iraqi private, and it noticed that there were no sufficient control which support that the number of privates used to pay the contractors bills was recorded accurately.

BSA has highlighted this phenomenon in its audit reports and we have number of contracts, but the security situation keeps us from reaching to rapid solution for such problem. There are efforts in the Ministry to prepare qualified staff for providing food & services directly without contractors to decrease these contracts rapid solution for such a problem.

### **B- Suppliers Proposals for Food Contract**

BSA agrees with what was mentioned in the company's report & its recommendation about supplier's proposals & their inability to review & audit these proposals as there are incorrect cases in large number of contracts resulted in transferring these files to the Commission on the Public Integrity and adopted the original documents as bind evidence by the Iraqi Law during investigation.

## **12- Ministry of Agriculture**

### **A- Budget Transfer for the coming year**

We sustain that the Ministry seized amounts from 2005 allocations and transferred and spent them in the following year 2006. BSA already drew attention to this violation in its report No.4329 on 1/6/2006.

## **B- Procurement Committee Rotation**

We sustain what was mentioned in the note of not changing procurements committee in the Ministry headquarters for more than 6 months and was stated in the BSA report, the Ministry justified that the case was exceptional due to sabotage the Ministry faced during the first half of 2005.

## **C- Fixed Assets Identification**

We sustain that fixed assets record does not include identification numbers for fixed assets.

## **D- Supplier's Invoices Records**

Auditors report stated that there were suppliers' invoices in the state Company for Agricultural Supplies had the same number related to the letter of credit TB1/721104 to purchase phosphate ammonium from AL-Della Group Industry. The report also stated that there were duplicate payments. Through the BSA following up this matter it was clear that there were no duplications in the commercial invoice as it was in various dates, amounts, quantities and arrival destination given that the order was completely closed.

## **E- No Compliance with Procurement Regulation**

The report stated that contract no. DAP/2004 signed with AL-Della Group for Industry & Trade in the amount of \$ 43200000 was signed by the manager of the state Company for Agricultural Supplies without obtaining the approval of the Council of Ministers- economic committee. The report also referred to the fact that the Bids Opening Committee was the committee which analyzed the offers. The result of BSA following up showed that the right number of the contract is DPA/3/2004 and not the one mentioned in the note with the same amount. The approval of the Economic Committee was not obtained then for the contract was signed on 16/6/2004 and that date was before establishing the committee. The approvals then were exclusively made by the minister. The company sustained that both bids opening and the analysis committee is the same one.

## **F - Absence of control Procedure on receipts from the Ministry of Finance**

The report referred to the withdrawal of 12 billion ID (twelve billions Iraqi Dinars) deposited in the current account of Ministry of Agriculture in CBI. Our follow up showed that headquarters of the ministry doesn't have a current account in CBI and the financing is made by the Ministry of Finance/Accounting Department as it instructs the CBI to transfer the amounts to the current account of the ministry in Al-Rafedain Bank and reconciliations are made periodically with the Accounting Department.

## **G - Incomplete Personnel files**

We sustain that the personnel files were burned out through 2005 and BSA referred to that in its report no.5643 related to the results of controlling and auditing the staff of Ministry of Agriculture and their salaries, issued on 10/7/2006.

## **13- Ministry of Higher Education**

### **A - Fixed Assets Identification Numbers**

We sustain that there are no identification numbers for the individual assets in fixed assets record.

### **B - No Reconciliation for Related Universities Transactions**

The Ministry of Higher Education is not bound to make monthly reconciliation with its related universities for they are independent financially and administratively and have their own independent accounts. The Ministry has no authority to manage them, however, we believe in the importance of having unified statistical information on the level of the ministry of Higher Education with all its related bodies in what concerns all budget items.

### **C - Weakness in the Stores Function**

We sustain that there was a weakness in the stores function and the BSA has already highlighted it in its report no. 3941/1/18/6 dated 2006/5/24 (Ministry of Higher Education and Scientific Research).

## **14- Ministry of Industry and Minerals**

### **A- Fixed Assets Identification Numbers**

We sustain what was mentioned in the note and that the BSA has highlighted it in the reports No. 1867, 3473, 9351 dated 10/3, 11/5, 31/7/2006 respectively.

### **B- Control Over Payrolls**

We sustain the note that there is a number of vouchers (disbursement and journal) not signed by the receivers and the responsible manager.

## **15- Ministry of Planning**

### **Fixed Assets Identification numbers**

We sustain that there are no identification numbers for the individual fixed assets.

## **16- Ministry of Water Resources**

### **A - Reviews and Approvals of Salaries sheet**

We don't sustain the opinion of the company that the accounting manager doesn't review and sign the salary sheets as no salary sheets should be disbursed or prepared before he goes over and signs it. Also, no salary would be paid before the director general approves the payroll. In the light of the mentioned observation a direction was made to write the phrase (the salary sheets were reviewed by) when the accounting manager signs it with the date.

### **B - Segregation of the Duties of Check Payment**

We don't sustain what was mentioned in the note concerning segregation of the duties related to checks preparation and signing, as there is a special employee prepares checks organization and he's not authorized to sign checks and where checks should be signed by authorized persons according to the authority, those are the accountant, the accounting manager and the director general. Currently, an administrative order is being issued to determine the authorities for each financial official.

## **C - Pre-numbering purchase Orders**

We sustain that there are no pre-numbered purchase orders enclosed with the payment order. However, there are regular work-procedures for every purchase where the note is prepared in the department specialized to state needs. After sustaining that the letter of credit is available and having the approval to purchase, the purchase will be done. Pre-numbered Serial purchase orders were printed lately and it will be enclosed with the payment order.

## **17-Ministry of Interior**

### **A- Contracting Procedures for the Military Helmet Contract**

The amount of the contract is recorded in a special account of the Ministry of Interior & ratified by the Ministry of Finance, & opening this account was according to the CPA's approval on 28-6-2004 especially for the security issues. Our working teams sustain the correctness of the notes mentioned in the report, and were not included within the scope of our previous audit for not recording the amount within the budget of the Ministry of the Interiors notifying that the contract was not carried out.

### **B-Contracting Procedures for Weapons Contract**

The BSA sustain what was mentioned in E&Y record concerning the contracting with a supplier for providing weapons, but the contract is not fully achieved & an amendment is done on the quantity received & the spending amount estimated \$(1604000) instead of \$ (395000) due to the urgent need, despite of the stated notes in the report on which the financial agent has reservation, the remaining weapons were turned back to the supplier.

### **C-No Allocation of Budget**

The Ministry of Interior prepared the budget as a total amount for both expenses & revenues throughout a whole year .BSA following up of showed that the budget of 2005 existed in details, but the amount of the two contracts mentioned in Para A&B were part of the amount of (10) \$ million which was deposited out of the budget for urgent security needs, accordingly, no details were recorded on, & BSA recommended to turn the remaining amounts back to the Ministry of Finance.

## **18 –Ministry of Health**

### **A-Contracting Procedures**

During our review of the contract No. 95-2005-40 importing related to medicine and medical equipments , it was noted that the sign of the contract was in 7-4-2005 & not in 15-5-2005 as mentioned in the report of the audit company ,also the date of opening LC was in 15-9-2005 not in 27-9-2005. The report also showed that the freight of the goods was in 26-4-2006 but in our audit we note that the goods delivery was done in two shipments, the first was in 31-12-2005 & the second in 25-3 - 2006.this indicates the inaccuracy of the data & information mentioned in the report.

### **B-Weakness in the Documentation of Purchase Process**

The report shows that there is a weakness in documentation of purchase process, our follow up showed the following;

- I. We do not sustain what was mentioned in the report of the company about signing some contracts before subjecting them to the administration procedures and approved as by the members of analysis, study and import committees, where all the contracts mentioned in the report were subjected to these procedures.
- II. We sustain what mentioned in the report about not obtaining the signature of the supplier on the contracts 40-2005-171& 40-2005-94, as the first contract was not signed by the supplier but he was informed of and the goods were received properly after paying its amount. The second one was a contract project and not signed by the supplier and not carried out and the negotiations are still on between the two parties due to not reaching to an agreement to sing it finally. Concerning the contract 16-2005-398, we do not sustain the note, as the contract is signed by the supplier & the ministry and carried out by the concerned company.
- III. We do not sustain what was mentioned in the report of the company concerning the contract No. 40-2005-614 as all the pages are signed.
- IV. We sustain what was mentioned in the report concerning not obtaining more than two bids for the contracts No. 43-2005-86,

40-2005-109, 50-2005-428, 50-2005-411, and 40-2005 122. Concerning the contract no 16-2005-398, we found out that the bid had been selected from five bids submitted properly.

- V. We do not sustain what was mentioned in the report concerning not providing the auditors with the permanent documents of the contracts mentioned in the report, as our follow up showed that documents are available in the department of engineering import or in the legal department, and as follows:

<b>contract no</b>	<b>contract value</b>	<b>notes</b>
77-2005-270	\$3744787	Documents in the engineering import dept
40-2005-75	\$2250000	Documents in the engineering import dept.
Supplying paper for ECCO device	\$ 10767451	The file in legal dept.

- VI. Concerning keeping of contracts files in a one suitable and secure place, we agree with what was mentioned, BSA had already mentioned that in its audit reports.
- VII. Concerning what was mentioned in the report, about the absence of documentary evidence for the exclusion of some suppliers from submitting their companies' registration certificates, BSA sustains the notes as far as they are concerned with the contract no.40/2005/29 exclusively.

## **19- Ministry of Trade**

### **A. Direct invitation of suppliers**

The company technique in obtaining bids is made through inviting experienced suppliers on internet to submit their bids. Then, the bids will be opened, analyzed, studied and accordingly recommendations will be forwarded to the high committee for review and taking decision concerning to consider the lowest prices. Concerning the mentioned L/C no. 2005/2140 to supply (10000) tons of soap for \$ 1080 per ton, in total value of \$10800 thousands when the presented prices in bids are reasonable, the company decides that there is no need for negotiation.



**B. Long period between signing contracts, open letter of credit and delivery date**

- i. Because of the numerous procedures imposed on the company and the country, the period between signing of contract and the opening of L/C becomes long. In this case, TBI has to be informed and then J.P Morgan Bank in London and its branch in New York, and then the accredited Bank in the supplier's country. Completing these procedures and informing the company would take approximately one month.
- ii. On the other hand, the delivery period is determined according to the supplier ability and the company's need of the required material. Shipping and delivery dates and setting up the last date of validity of LC will be agreed upon. What is mentioned above is applicable to the said examples and we agree to what was mentioned about activation of penal conditions on suppliers notifying that the company retains demurrages according to each case.

**C. Differences between quantity delivered and quantity recorded in bill of lading**

The mentioned case is related to the L/C no.2005/1940 valued \$ 24,822 million. We noted that the report had fixed the quantity in the bill of lading at (57376) tons while the delivery order was (63000) Tons. Our data examining approved the contract quantity (63000) Tons (CIF) Um-Qasr port and the shipped quantity according to the bills of lading was (63000) Tons. The delivered quantity is primarily estimated in the port at the first acceptance, after that the final acceptance in the warehouses. The damages will be demanded from the transportation company. If damages were attributed to the supplier, the value of the shortage would be deducted from the value of the contract. The value of (335) Tons out of (6000) Tons of the shortage was collected and measures to follow up collecting would be made.

**D. Contracting procedures**

- I- The contracting procedures pass through series of successive steps. The company has invited the well-established companies to inform them about tenders to supply the food basket goods. There are specialized committees to open the bids , a committee to study the

bids and submit the recommendations to the high economic committee in order to take the adequate decisions , and all the examples mentioned in the report are documented by the high committee approvals for awarding these are contracts of sugar and oils delivery as follows;

L/C no. 2005/2164	the approval of the General Secretariat of council of ministries, no./sh7/7/3/7/1/9989 in 25/8/2005.
L/C no. 1939/2005 1940/2005	sugar delivery all procedures were done appropriately and the high committee for contracts approved in session on 30/5/2005, 5/6/2005, 15/6/2005, 26/6/2006, 29/6/2005, 3/7/2005.

Noting that what was done about this item was according to accredited bases in the company and Ministry of Trade.

II- The report refers that there is no specialized committee responsible for reviewing and analysing the suppliers' bids. We would like to clarify that there is a specialized committee from the company for this purpose and to which all the cases are exposed for taking necessary action.

III-Also the report refers to weakness in the contractual conditions concerning payment method, the letter of guarantee and payment timing. These matters are presented to the high committee of contracts to take decisions. Sometimes defaults in performance may take place. Notifying that the penal conditions against suppliers are sometimes weak and we informed the company about that. Detailed reply is as follows;

- L/C 1939/2005and L/C 1940/2005

The high committee of contracts approved form of proposed guarantees by suppliers in order to speed up shipment, by letter (sh.1/7/3/7/1/9539) in 21/8/2005.

- L/C2172/2005 with Alaa Al-Salaam Company, the contract and the credit were cancelled due to false check submitted by the company. The cancellation was made according to Council of Ministries letter no. (sh 1/7/3/7/1/2486) in 19/2/2006).

- L/C no. 2005/2146. This number, as the company believes, is wrong and the true one is 2005 /2164 for the supply of oil the quantity of which was distributed to a number of companies. The said credit belongs to Albaloot Company under the High Committee for contracts.
- L/C no. 2005/2346 –amounts of clustered sugar were found in chartered ships from water transportation. These amounts equal (4297) tons and the minister of trade has agreed to deduct their value from water transportation entitlements.

IV. The report mentioned that imported goods shall be tested and examined by the company's quality control department and not by a third party. The company is entitled to have its own quality control department for test and examination. Should any dispute takes place with the supplies on test result, the company may ask for third party assistance, herein the Control Office of Measurement and Quality Control.

#### **E. Credit files documentation**

All statements and documents are maintained in the company , however, occasionally they are kept in more than one department such as putting tender ,solicitation ,study and referral papers in one file and contract ,credit establishment shipping and supply papers in another file . As for the letter of guarantee, it is to be kept with the insurance and compensations section system and we agree on using electronic documentation system but currently the company lacks required capabilities.

#### **Common observations**

##### **1- Financial Policies & Procedures of Internal Control**

Internal control financial policies and procedures the report stated that a guide for financial policies and procedures and internal control is not available. We would like to mention that financial policies and procedures arise out from inherent accumulated experience and issued systems and instructions, yet these have not

been collected into one standardized guide. BSA will conduct a comprehensive study of the internal control systems to be promulgated.

## **2- Structural organization and professional specifications**

The reason for no structural organization and professional official specifications that clarify responsibility is attributed to Iraq's special status. BSA has recommended to work in accordance with the laws in affect and called upon the new ministries to develop drafts of laws and regulations to organize their structure, powers and professional description includes state's joint and public functions, made by ministry of finance the specific specialties for each ministry has not been accomplished yet.

## **3- IT procedures and policies**

We agree to the report regarding the absence of documented official procedures and policies for IT and that most of the Iraqi ministries are working seriously on developing the IT plan.

## **4- Internal control department**

The report showed that ministries' internal control departments do not have (formal policy, procedures, internal control standards programs, outlined responsibilities, and independent policies). The companies' law and formations laws provide legislative cover for internal instructions allow the financial employee, and not the internal auditor, to be appointed in the procurement committee. If the auditor is a member in the procurement committee then transactions in which he takes part shall not be audited by him.

## **5- Human resources department**

The report mentioned that the human resources department performance and work is limited due to lost documents of some employees and not maintaining records appropriately and losing some files. We agree to this note because of the security situation emerged after 9/4/2003, given that it is included within the BSA programs for audit and its coverage in the final accounts audit programs is obligatory. We believe that this note is true for contractually assigned employees and not for permanent ones.

## **6- Reconciliation with ministry of finance**

The ministry of finance through non- central department manages to receive monthly budget according to effective instruction and reconcile them. The prescribed mechanisms dictate approval of ministries' records in the ministry of finance accounting office. However, this mechanism was disrupted after 4/9 events and still some ministries have not made monthly reconciliation with the ministry of finance. This issue is one of the main items in the boar's auditing program with each account on which the BSA expresses opinion. The BSA believes that this issue will be overcome in the near future as the BSA has begun for two months asking for cash flows from the ministry of finance to the other ministries and verifying the registration of these amounts in the ministries and their good spending.

## **7- Signature Series on Checks**

It was not approved to us by the field audit that ministries did not have a series of signatures. There is a clear and direct authorization for checks deposited in banks. Concerning the signature authorization on checks amounts, there is deference in applications, but it is limited and identified by administrative and ministerial orders.

## **8- Segregation of duties over payroll process**

In most cases, we agree to that the employee who set up the salaries, is also responsible for uploading the payroll in computer systems, but the preparation process is connected with audit process before uploading, and this process is subject to internal control on other employees.

## **9-Cash payment of salaries**

We agreed upon using the principal of distribution on bank basis after providing the suitable security conditions, noting that this approach was used in most pre-war governmental institutions.

## **10-Manual preparation of payroll**

Most ministries use computer and software and computer applications to count salaries. The others will be involved in that after providing the financial and human requirements.

## **11- Copy of issued checks**

For the checks which are paid to any party, the recipient signature is taken on the voucher. If it is official, the usual measure is to get a confirmation receipt of the check. These are sufficient control factors. We see it unnecessary to keep a copy of issued checks or the receiver's ID.

## **12- Control over ministries related companies**

The report indicates that internal control departments' activities in ministries do not cover related companies' transactions. We would like to clarify that there is deference in control procedures between the headquarters and formations from ministry to another. Where a certain ministry such as trade or industry has general directorates of internal control, it shall perform this procedure. But the ministries that contain internal control departments in headquarters only, their tasks will differ and therefore it is unfavorable to do the detailed supervision on subsidiaries works. This task is one of inspector's general tasks in ministries.

## **13- Cancellation of supporting documents attached to payment voucher.**

The remark is correct and will be applied in future.

## **14- Reconciliation with related companies**

The report indicated that ministries did not prepare monthly reconciliations with related companies to reconcile the credits provided by ministry of finance. The soundness of public fund usage in financial and administrative independent units is included in the mechanism of this independency, and does not need to be reconciled with their related ministries headquarters, although we sustain the necessity of performing monthly reconciliations for statistical purposes.

## **15- Contracts Standards Form**

The report stated that there are no contracts standards Form to obtain the goods or services. There is central instructions organize contracting process and its conditions are valid before two years (Memorandum no.4 of 2004 and the resolution no.87 of 2004) in addition to these issued by the council of ministers. Differences in contracts standards Forms among ministries are resulted from different specializations, as well as there are common notes in contracts indicate that there is a defect in announcement and contracting conditions which are not completed, and they are determined in our audit reports, and the BSA is working on them within its programs, and there are cases of not implementing conditions and instructions of contracting and bids. Due to the unusual circumstances, as some cases of accepting direct invitation have taken place with the agreement of official bodies higher than minister authorization and these are notified by BSA. It will disappear when there will be no motive for those concerning monopolized goods.

## **16- Fixed Assets Reconciliations Numbers**

We agree to what was mentioned in the report concerning the absence of individual fixed assets reconciliation numbers in the records, notifying that this remark has been mentioned in most of BSA reports.

## **17- Budget preparation manual**

We agree that there is no budget preparation manual although that ministry of finance distributes budgets preparation forms annually in addition to issue annual instructions included the basic indicators to set up special suggestions in the budget for the next period covering this need with our agreement to the continuous need to hold improvement courses for those who work on budget preparation in the ministry.

With appreciation.

**President, Board of Supreme Audit  
/ Sep. /2006**