

**To : Chairman and Members of the International advisory and
Monitoring Board (IAMB) on the Development fund for
Iraq (DFI)**

**Subject : Report by the Government of Iraq on the implementation
of recommendations from the previous audit**

I state here below the results of the follow up conducted by the Board of the supreme audit (BSA) on the observations raised by the auditor KPMG on the DFI's accounts for the six months ended 30.6.2005 .

The details given have been extracted from a report submitted by the BSA to the Council of Ministers on the subject, but I have given emphasis to the more important observations of KPMG.

The BSA's report on the other hand contained detailed information and comments on control procedures within the ministries for contracting which were based on the working papers and documents of the BSA team who participated in the audit with KPMG.

In response to the BSA's report , the Council of Ministers has demanded from the ministries explanations and specific measures to address the auditor's reservations and observations.

1- Ministry of Oil

1-1. The procedures in place for the control of oil quantities exported, the issuance of invoices in respect there of and the recording of oil sales proceeds in the DFI accounts are considered satisfactory and efficient.

1-2. The reasons for the reduction in export of fuel oil during this period compared to previous periods are related to the security situation which caused complete suspension of loading at Baiji depot . Further, weather conditions caused reduction of loading in the south.

1-3. The practice of cash advances on oil and oil products sales proceeds has continued since endorsement of this procedure by the previous CPA on 13.1.2004 and for reasons given by the Ministry of Oil at that time.

1-4. The following observations of KPMG are valid and are being following up by the BSA.

1-4-1. Lack of measuring meters at pumping centers , storage tanks and at export points in the south.

1-4-2. Specification of authorities for the higher and middle management at SOMO instead of restricting such authorities to the Minister of oil

1-4-3. addressing the reasons for not recording promptly the importation of light oil products in the books of accounts of the company for the distribution of oil products . However the procedures followed for payment for such importations are satisfactory.

1-4-4. Separation of the task of opening tenders from the task of analyzing and evaluating such tenders at some departments within the Ministry.

2- Ministry Of Electricity

2-1. The Ministry confirmed that it did not prevent the auditors from having access to its books of accounts .The auditors were provided with copies of the monthly trial balances and with access to the accounting records.

2-2. The difficulties encountered in tracing letters of credits in three cases were due to not providing the L/C references (numbers) to enable clarification.

3- Ministry of Finance and Central Bank of Iraq

3-1. The Ministry of Finance sent a letter to he PCO (letter No. 16538 dated 21.11.2005) asking for the return of US\$ (5687960) to the DFI after the change in the source of funding. This amount relates to a contract with USACE. Up to date of this report, there has been no response from the PCO.

3-2. The Ministry of Finance (cash management unit) has clarified in its letter referenced No. 15 dated 7.12.2005 that the amounts paid out of DFI to CBI Dollar account with FRB in NY and referred to in KPMG report was the result of reconciliations of cash movements between the two parties during the Years 2004 and 2005 .

Cash movements between MOF and CBI are now in accord as reflected by MOF records.

4- American Agencies

4-1. No clear answers have been received from these agencies regarding the observations raised by KPMG on their work on some ongoing contracts.

4-2. The BSA has asked the PCO directly to provide details and information on all ongoing contracts so that they may be checked with the audit results of the previous periods. The details and the information asked for have not yet been received.

4-3. The BSA recommends that the follow up of the audit comments and observations raised . the previous periods, be assigned to the auditors who would be selected for the period ending 31.12.2005.

5- **The BSA's Report to the Council of Ministers**

The report gave detailed information about the contracts covered by audit of the BSA's team which participated with KPMG in the audit assignment. As stated earlier, the information given below have been extracted from the working papers and documents of the BSA's audit team.

5-1. size of the samples checked

<u>Ministry</u>	<u>No of contracts covered by audit</u>	<u>Total No. of contracts during the period</u>
Trade	20	225
Electricity	8	28
construction and Housing	8	32
Oil (Oil Projects Co.)	3	13

5-2. The report contained detailed observations about each of the contracts covered and asked for clear and specific replies from the concerned ministries. Follow up will continue.

5-3. The report also contained general instructions and guidelines to address weaknesses in internal control procedures with regard to contracting and asked the Council of Ministers to issue a directive to all ministries to comply with these instructions and guidelines in the future. Concentrated summary is given here under:

5-3-1. Strict compliance with and adherence to the financial instructions issued for the implementation of the approved annual budget (details of the instruction were given)

5-3-2. A performance bond must be obtained in an amount commensurate with the amount of the contract.

5-3-3. Delay penalties must also be commensurate with the amount of the contract.

- 5-3-4. The period between award of the contract and the signing there of must be reasonable.
- 5-3-5. Due care must be given to contract files which must contain all relevant information and documentation regarding the contracts (including invitations to tender, decision of the award, evaluation procedure details ...etc.)
- 5-3-6. Persons who open the responses to invitations to tender must be separate from these who evaluate and recommend.
- 5-3-7. A time limit must be set for opening L/Cs after signing of contracts. Extending validity of L/Cs must be restricted to exceptional cases only.
- 5-3-8. Black list those who fail in their performance without acceptable justifications.
- 5-3-9. Participants in tenders must submit proof of competence.
- 5-3-10. Correspondence received from suppliers must contain a seal or an acceptable evidence that they are responsible for their contents.
- 5-3-11. Internal audit departments in the ministries must play an effective role in the contracting process in all its stages.
- 5-3-12. Legal departments must play an active role in drawing up contracts and ensure that the ministries' rights are protected.

I would also like to add that the Council of Ministers on 5.12.2005 issued an instruction to all ministries to refer all contracts of value above US\$ 100,000 to the BSA for audit within 15 days of signing such contracts.

Iraq Government Representative on IAMB