

**Development Fund for Iraq and Successor Account
Memorandum of follow-up on matters arising from
audit the prior years**

Ministry of Finance and Central bank of Iraq

31 December 2016



To the government of Iraq
Development fund of Iraq and successor account (CBI 2)
The republic of Iraq

No. 2017-01-160

Date : October 27, 2017

Dear Sirs

We are pleased to submit to you our Management Letter containing our observations and recommendations concerning the internal control structure and other matters resulting from our audit of the Development Fund for Iraq and Successor Account (DFI) for the year ended 31 December 2016. Our audit uncovered certain conditions that, although not considered by us to be material weaknesses, are matters for which corrective action should be considered.

In planning and performing our audit of the financial statements of the Development Fund for Iraq and Successor Account (" DFI"), we considered internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances. but not for the purpose of expressing an opinion on the effectiveness of internal control.

Accordingly our audit may not have identified all weaknesses within your systems. The observations and recommendations as listed in this report may not be a comprehensive record of all weaknesses that may exist

.
This report is intended solely for the information and use of the COFE and the Government of Iraq and is not intended to be and should not be used by anyone other than these specified parties. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties (except the addressee's professional advisers acting in that capacity provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) unless so required by court order or a regulatory authority, without our prior consent in writing. We assume no responsibility whatsoever in respect of or arising out of or in connection with the contents of this presentation to parties other than the addressees. If others choose to rely in any way on the contents of this presentation they do so entirely at their own risk.

We have discussed the content of our report, including our recommendations, with the members of your staff directly involved and where relevant we have incorporated their comments.

Managing Partner
Hatem Kawasmy

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Ministry of Finance

Title	1. Policies And Procedures Manual	Risk grade	High
Observation	We noted that DFI does not have formal detailed policies and procedures manual to cover all areas of its operations. The MOF periodically issues accounting instructions to set out the procedures to be applied in performing certain tasks. However, these instructions are not comprehensive as they do not cover all the aspects of the DFI's operations. Furthermore, these instructions have not been formally codified in the form of a comprehensive policies and procedures manual, which is readily available for reference by the staff involved in the DFI activities.		
Follow up	During our review, we noted that this finding is still outstanding during 2016, we were not informed with any update and the Fund dose not have official Policies And Procedures that cover all the aspects of its operations.		
Recommendation	We recommend that the DFI develops a comprehensive policies and procedures manual to cover all DFI operational, administrative, accounting and financial activities. The manual should also be reviewed on a periodic basis to ensure that it is updated and relevant for providing operational, administrative, accounting and financial guidance to the DFI's staff. In addition, detailed monitoring procedures should be developed and applied by the DFI to ensure proper and consistent implementation of the policies and procedures manual.		
Management response	The observation will be resolved it in the future.		

Title	2. Cash Margin at Corresponding Banks	Risk grade	High
Observation	During our audit, we noted that the CBI and the MOF do not maintain any records of the outstanding cash margins paid from the DFI on behalf of the Iraqi ministries. The letters of credit cash margins at the corresponding banks are not included as part of the DFI cash balances as they are not controlled by the DFI and restricted for the payment of the outstanding letters of credit to the suppliers. However, the cash margins are considered DFI assets and any extra cash at the end of the letter of credit is to be refunded to the DFI account.		
Follow up	During our review, we noted that this finding is still outstanding during 2016.		
Recommendation	We recommend the fund to maintain complete records of the cash margin transfers to the TBI's corresponding banks and all related transactions, as these cash margins are considered as part of the DFI assets until being paid to suppliers.		
Management response	The observation will be resolved it in the future.		

Title	3. DFI Transfers to the MOF's Current IQD Account	Risk grade	High
Observation	During the course of our audit, we noted that there is currently no written agreement between the MOF and the CBI related to the arrangements of financing the MOF's Iraqi Dinar current account # 70009 at the CBI from the DFI. The CBI is financing the MOF's current account, held at the CBI, by withdrawing the amounts from the DFI account at the FRBNY in U.S. \$ and then transferring an equivalent amount in Iraqi Dinar to the MOF's current account at the CBI. The exchange rate used is the CBI formal exchange rate on the date of transfer minus IQD 15 for each U.S. \$ 1 as commission charged by the CBI.		
Follow up	During our review, we noted that this finding is still outstanding during 2016, there is no written agreement between the MOF and the CBI as at our visit date in 16 July 2017.		
Recommendation	We recommend the MOF and the CBI to reach an agreement setting out the arrangements to be followed to finance the MOF's current account in Iraqi Dinars. This agreement shall also include the date of exchange rate to be applied by the CBI to purchase the U.S. Dollar from DFI and basis of commission to be charged to MOF.		
Management response	The observation will be resolved it in the future.		

Title	4. Reconciliation between the MOF and other Ministries	Risk grade	High
Observation	During the course of our audit, we noted that the MoF does not carry out monthly reconciliations for the payments transferred from the DFI to the Ministries and other government entities.		
Follow up	During our review, we noted that this finding is still outstanding as at our visit date in 16 July 2017, the ministry prepare an annual matching by auditing the annual trial balance receipt for the purpose of consolidation, noting that the latest available matched trial balance was for the year ended December 31, 2013.		
Recommendation	We recommend that the MOF carry out monthly reconciliations with the records of the ministries and other government entities for payments transferred to cover their operating and capital budgets. This will help the MOF ensure that all payments made to the ministries were properly recorded in the MOF records and would enhance the control over those payments		
Management response	The observation will be resolved it in the future.		

Title	5. No report for actual expenses balances verse the budget	Risk grade	Moderate
Observation	During the course of our audit, we noted that MoF dose not prepare a report for the actual expenses balances for ministries and other governmental institutions as at December 31, 2015 compared to the approved operational and investment budget. this was due to managerial units of ministries and other governmental institutions delay in sending trial balances to the MoF for the consolidation purpose and to prepare this report.		
Follow up	During our review, we noted that this finding is still outstanding as at our visit date in 16 July 2017, and the latest report for the actual expenses balances compared to the approved budget were prepared for the year ended December 31, 2013.		
Recommendation	We recommend the MoF to prepare the required reports that show the actual expenses balances for ministries and other governmental institutions compared to the approved operational and investment budget to ensure that ministries are complied with approved budgets. This report should be prepared monthly or quarterly to find and resolve the deviations on a timely basis.		
Management response	The mentioned report till be prepared once finalizing the financial reports for prior years.		

Central Bank of Iraq (CBI)

Title	1. Policies and Procedures Manual	Risk grade	High
Observation	We noticed that the CBI does not have a formal documented policies and procedures manual to cover all areas of its operations. Usually the CBI issues instructions to set out the procedures to be followed for performing certain tasks, or senior management's directives on such procedures are contained and documented, in the form of various ad hoc internal memoranda. However, these instructions do not cover all the aspects of the Departments' functions. Furthermore, these instructions have not been formally compiled in the form of a comprehensive policies and procedures manual, readily available for reference of the Bank's staff.		
Follow up	During our review, we noted that this finding is still outstanding during 2016.		
Recommendation	We recommend CBI to establish formal policies and procedures to cover all aspects of its operations. The manual should be reviewed on a periodic basis to ensure that it is updated and is relevant for providing accounting and operational guidance to all staff. In the absence of a consolidated procedures manual the risk exists that: A. Certain new activities may not be covered by existing directives. B. Procedures may be applied in an inconsistent manner. C. Procedures might not be updated on a timely basis. D. Staff may not be aware of all policies and procedures.		
Management response	Although we had a multiple visits and we send our letter number 102-13-2017 dated 28 August 2017, we were not provided with management response.		

Title	2. No Business Continuity Plan	Risk grade	High
Observation	We note that CBI does not have a formally developed and documented business continuity plan. The objective of a business continuity plan is to: - Recognize and assess various contingent risks that could affect the Bank's business or the ability of the Bank to continue operations. - Prepare appropriate plans to reduce the exposure of the Bank to the risks identified to the maximum possible extent.		
Follow up	During our follow up, we noted that the CBI established the Risk Management Department to work with the Investments directorate to assessment the risks and take the necessary actions to reduce the effects.		
Recommendation	We recommend a business continuity plan to be prepared that provides instructions for all users about the actions required in the event of contingency situations. The plan should be integrated with a disaster recovery plan for the computer department and should be tested at the same time to ensure effective functioning. We recommend that senior management allocate the necessary resources to proceed with a full adoption of a business continuity planning effort. Tasks included in a business continuity planning include the following: - Identification and assessment of risks affecting the business; - Development of contingency planning procedures, including the identification of key functions, in conjunction with user departments; - Identification of how those functions will be carried out in the event of a loss of data processing operations; - Identification, and storing off-site, of the back-up records, and procedures critical to key functions; - Establishing or procuring of alternative facilities, suppliers etc. and/or establishing how long important functions could be performed manually before the absence of computer processing capabilities had a significant impact.		
Management response	Although we had a multiple visits and we send our letter number 102-13-2017 dated 28 August 2017, we were not provided with management response.		

Appendix (1): Symbols Legend

Symbol	Descriptions
High Risk	Finding relates to critical weakness issues, which impacts the achievement of main objectives, financial results or professional reputation. We recommend that immediate corrective actions should be taken.
Moderate Risk	Finding relates to Moderate risk issues, which may result in weakened internal control system and/or operational activities efficiency. Such issues must be disclosed. We recommend that corrective actions should be taken in the short run.
Low Risk	Finding relates to identified issues during our review, which may not affect the internal control system and/or operational activities efficiency. However, such Observation deserve attention by management. We recommend that corrective actions should be taken within a reasonable timeline.



Thank you