IRAQ

Public Expenditure and Financial Accountability (PEFA)

Performance Assessment Report, 2016 Framework

FINAL REPORT: OCTOBER 2017

Contents

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The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK'**.

PEFA Secretariat
November 1, 2017

Acronyms and Abbreviations

AG	Accountant General
AFS	Annual Financial Statements
AGA	Autonomous Government Agency
BCC	Budget Call Circular
BER	Budget Execution Report
BFP	Budget Framework Paper
CBI	Central Bank of Iraqi
CFS	Consolidated Financial Statements
CG	Central Government
COFOG	Classification of the Functions of Government
CoR	Council of Representatives
CoI	Committee of Integrity
DBS	Direct Budget Support
DG	Director-General
DoGGC	Department of General Governmental Contracts
DMFAS	Debt Management and Financial Analysis System
DMS	Development Management System
DPL	Development Policy Loan
DPF	Development Policy Fund
DSA	Debt Sustainability Analysis
EITI	Extractive Industries Transparency Initiative
EU	European Union
FBSA	Federal Board of Supreme Audit
FBS	Federal Budget Strategy
FML	Financial Management Law
FY	Fiscal Year
GBE	Government Business Enterprise
GCC	General Commission of Customs
GCT	General Commission of Taxes
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Financial Statistics Manual
GoI	Government of Iraq
HR	Human Resources
IDMIS	Iraq Development Management System
IFMIS	Integrated Financial Management Information Systems
IG	Inspector-general
IGF	Inspector-general Fraud
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
JICA	Japan International Cooperation Agency
KPI	Key Performance Indicator
KRG	Kurdistan Regional Government
MDAs	Ministries, Departments, Agencies
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
N/A	Not applicable
NGO	Non-Government Organization
ODA	Official Development Assistance
METAC	IMF Middle East Regional Technical Assistance Centre
MTF	Medium-Term Framework
NCA	Netherlands Court of Audit
NDP	National Development Plan
PAYE	Pay as you earn
PDD	Public Debt Department
PE	Public Enterprise

PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PIM	Public Investment Management
PMAC	Prime Minister's Advisory Commission
PPP	Public Private Partnership
ROSC	Report on the Observance of Standards and Codes
SOEs	State-Owned Enterprise
SAI	Supreme Audit Institution
SBD	Standard Bidding Documents
SFU	Scrutiny and Follow up Unit (of FBSA)
STA	Single Treasury Account
TA	Technical Assistance
TIN	Taxpayer Identity Number
UNDP	United Nations Development Program
USD	United States Dollars
VFM	Value for money
WB	World Bank

Fiscal year: 1 January

Currency: 1,247.6 Iraqi dinars (IQD) = USD 1, on 1 August 2016

Executive Summary

This repeat assessment of Public Financial Management (PFM) in Iraq is based on the PFM Performance Measurement Framework (PMF) developed by the Public Expenditure and Financial Accountability (PEFA) partners as a tool to provide reliable information on the performance of PFM systems, processes, and institutions over time. The report does not assess government policies or capacity.

The assessment was conducted by World Bank staff, in consultation with Government of Iraq staff. Funding was provided by the United Kingdom Department for International Development in the context of the Iraq Public Financial Management, Transparency, and Regulatory Reform Technical Assistance Program.

Purpose and management of the assessment

The overall objective of this PEFA assessment is to prepare a comprehensive "PFM Performance Report" according to the upgraded PEFA Performance Measurement Framework Methodology of 2016. This aims to provide an analysis of the overall performance of the PFM systems of the Government of Iraq (GoI), examine progress since the previous assessment in 2008 (where possible, as several of the indicators have changed), and provide a baseline against which future progress can be measured.

Assessment coverage and timing

This assessment covered the Government of Iraq, and the fieldwork took place in July/August 2016 followed by a PEFA results validation mission in November 2016. Most of the indicators were assessed using data from 2015 and the two previous completed FYs.

Impact of PFM Systems on the three main budgetary outcomes

Aggregate fiscal discipline

As might be expected in the very difficult circumstances in which the country finds itself, fiscal discipline is not good, and most elements in the overall PFM system that contribute to achieving this objective are not functioning well. In addition, a lack of consensus in parliament meant that the budget proposed by the Executive was not approved for the FY2014, while in the last completed year (2015) there was significant under-spending, particularly on investments (only 33%) while the execution rate for recurrent expenditure was 70% – both are the result of low cash inflows from tax and non-tax revenues. More than 90% of revenue is generated via petroleum products, raised from a very small number of tax payers or via royalties paid into the National Oil Marketing Company (SOMO), and hence the recent volatility of world oil markets has caused huge disruptions to GoI spending plans, and very significant adjustments have had to be made. This can be seen in the variances in income against the original budget (PI-3) and also in expenditure (PI-2), which is further distorted by payment arrears, although the stock of these is declining (PI-22).

In addition, several risks to attaining fiscal discipline are apparent, such as unreported operations (PI-6) and a lack of monitoring fiscal risks from other Public Sector entities including contingent liabilities and 'Public Private Partnerships' (PI-10). However, the recording of government debt and the inclusion of donor funded project bank accounts into the consolidation of government cash/bank balances is sound (PI-13); and multi-year focus is incorporated in fiscal planning (PI-16.3 and 14).

Overall, the various elements of the system concerned with budget execution – including internal controls – are no more than 'functional' and are unable to ensure that aggregate fiscal discipline is effectively attained and sustained.

Strategic allocation of resources

The indicators concerned with 'policy-based fiscal strategy and budgeting', (PIs 14 to 18) show a mixed picture. There are processes in place that intend to allocate budgetary resources in accordance with GoI's declared strategic objectives, in particular, the medium-term focus on expenditure budgeting and the preparation process (PIs 16 and 17).

Most of the other indicators that contribute to the strategic allocation of resources function well at a basic level, notably the budget documentation and its classification in accordance with international norms (PIs 5 and 4 respectively). However, and as mentioned above, the indicators related to revenue collection (PIs 19 and 20) are concentrated on a very small number of tax payers (or on royalties paid into the SOMO) and the volatility of world oil markets has caused huge disruptions to the planning of services, and required very significant short-term adjustments to be made.

There are two completely new indicators relevant to this budgetary outcome, the first of which 'Public Investment Management' (PI-11) was not rated in the context of the fiscal crisis facing GoI – which has meant that the very scarce resources available for investment are allocated to meet ongoing emergency needs rather than well-thought through plans. The second innovation relates to the manner in which a government manages its assets, and with the exception of financial assets, the practice in GoI reflects "generally accepted good practice", with 'B' ratings for two of the three dimensions (PI-12).

Efficient use of resources for service delivery

Financial management is not an end but rather a tool to assist a government to deliver services to its citizens, and of course, services cannot be delivered in the absence of funds. In this respect, GoI's PFM system works reasonably well. This can be seen in the good ratings for the processes that plan services (PIs 16 and 17 mentioned above), as well as for the revenue indicator (PI-20 – despite the negative consequence of the fall in world oil prices), and the fact that despite the very difficult circumstances, there is a reasonable degree of predictability in the availability of funds that support expenditure during the year (PI-21, 'C+').

However, although these indicators might suggest a satisfactory level of performance, the rating for PI-8, 'performance information' – which can help demonstrate the effectiveness of services delivered – (rated 'D') is disappointing, and it is also a matter of concern that the mechanisms in place to reduce possible leakages in the system, such as internal controls, controls over payroll and basic accounting controls (PIs 25, 23 and 27 respectively) are weak, and are only partly compensated by measures in place regarding procurement (PI-24), and the fact that the Internal Audit function (PI-26) is still developing.

Lastly, it must be noted that the oversight arrangements (addressed in PIs 30-31) are less than effective. While the FBSA is independent and has an extensive mandate that includes using international audit standards, the deteriorating political and security conditions has meant that audit have not been completed for all audited bodies, and backlogs are evident. Moreover, the Council of Representatives was unable to scrutinize audited financial reports as they had not been submitted on time, and while there are powers to hold hearings, none have taken place recently.

In summary, most aspects of the PFM system are functioning at a barely satisfactory level – one that will make it difficult for GoI to attain its fiscal and budgetary objectives: there are many areas where significant improvements will be required in the years ahead.

Performance changes since last assessment

This is the first assessment of GoI using the upgraded Framework: an earlier assessment took place in 2008. The guidance issued by the PEFA Secretariat (October 2016) states that only 14 dimensions are directly comparable with the 2011 version: however, one of these is PI-2 (iii) which was part of one of the three indicators amended in 2011, i.e. ***after*** the previous assessment in Iraq.

The table below shows changes in the ratings for ***directly*** comparable dimensions using the numbers in this report, against the previous PI and dimension reference. Section 4.4 below provides details of these as well as the 'non-comparable' ratings.

Table 0.1: Changes in the ratings for directly comparable dimensions since 2008

No.	Indicator	Score 2016	Score 2008	'Old' #	Performance change
PI-4	**Budget classification**				
4.1	Budget classification	C	C	PI-5 (i)	No change.
PI-13	**Debt management**				
13.1	Recording and reporting of debt and guarantees	C	C	PI-17(i)	No change.
PI-17	**Budget preparation process**				
17.1	Budget calendar	B	B	PI-11 (i)	No change.
17.2	Guidance on budget preparation	A	D	PI-11 (ii)	Improvement: BCC is comprehensive, clear, & timely, issued in late Jan/early Feb and is firm basis for preparation of estimates.
PI-18	**Legislative scrutiny budgets**				
18.1	Scope of budget scrutiny	B	C	PI-27 (i)	Improvement: the review is more comprehensive than previously.
18.4	Rules for budget adjustment by the executive	C	D	PI-27 (iv)	No real change – previous rating was considered harsh.
PI-21	**Predictability of in-year resource allocation**				
21.1	Consolidation of cash balances	C	C	PI-17 (ii)	No change.
21.2	Cash forecasting and monitoring	C	C	PI-16 (i)	No change.
21.3	Information on commitment ceilings	A	C	PI-16 (ii)	Improvement: worsening situation necessitated closer monitoring.
21.4	Significance of in-year budget adjustments	C	C	PI-16 (iii)	No change.
PI-23	**Payroll controls**				
23.3	Internal control of payroll	D	D	PI-18 (iii)	No change.
23.4	Payroll audit	C	C	PI-18 (iv)	No change.
PI-25	**Internal controls on nonsalary expenditure**				
25.2	Effectiveness of expenditure commitment controls	D	D	PI-20 (i)	No change.

Overview of on-going and planned PFM reforms and main weaknesses identified

The main challenge for Iraq is the incremental and long-term rebuilding of state institutions that were systematically weakened over the last 30 years. Despite the complex political situation, the authorities are committed to implementing the Government Strategic Plan “2014–2018”. The first strategic priority of the plan is to reach security and stability by liberating cities and Governorates controlled by terrorist groups and restoring the rule of law. The second priority is to deliver public services and upgrade standards of living. This includes delivering electricity services; improving water, health, and education sector performance; and reforming the social protection system.

The Government has already identified the main challenges regarding the preparation, implementation, and monitoring of the budget. Although it has made some progress in enhancing the PFM system, the inherited financial and development risks remain high. Therefore, it is important to accelerate the process of modernization over the medium term. The current fiscal crisis in Iraq also exerts pressure to move ahead with PFM reform to help strengthen fiscal sustainability. In the immediate term, the Government is seeking external financing to close the financing gap and has committed to a number of structural reforms to address inefficiencies and adjust the budget to a situation of lower oil revenues. The government PFM program is designed to meet the needs of these objectives within the following basic elements of the country’s fiscal policy: i) Reducing the Deficit, ii) Focusing on Investment Expenditures, iii) Adopting the principle of fiscal decentralization.

Although it will be a challenge to ensure that the urgent security and fiscal stresses will not divert the Government from engaging in the necessary reforms toward better-governed institutions and better services, the Government recognizes the long-term vital importance of institution rebuilding. Accordingly, the government has been reaching out to experts and international organizations on the following PFM reform areas:

- **New Budget Law:** In consultation with the IMF and the World Bank, a new general financial management law has been drafted and waiting for the Parliament’s endorsement. The law provides the foundation for sound financial management, including but not limited to more transparency in the use of public funds, fiscal discipline, and better quality of spending and the authorities’ control over budget execution.

- **Integrated Financial Management Information System (IFMIS)**: The IFMIS design and implementation is the backbone of the new PFM System Modernization Project supported by the World Bank. The continuation of PFM reform in Iraq can no longer be envisaged without an IFMIS in place to automate core budget execution functions (management of appropriations, commitments, payments, receipts, cash management, accounting, and fiscal reporting). This will introduce the IFMIS through a comprehensive turnkey procurement which includes all necessary IFMIS-related work, including the planning, designing, configuring, testing, commissioning, training, and implementing the IT solution and all related services and goods in the MoF, MoP, two line ministries, and two governorates (Baghdad and Babil).

- **Public Investment Management (PIM)**: A comprehensive program of technical assistance and related support was recently started to modernize and strengthen the PIM system at the federal level, including through: (i) the carrying out of a capacity needs assessment for MoP; (ii) PIM capacity building for MoP staff and relevant government stakeholders; (iii) updating and improving project appraisal methodologies and guidelines, including instructions, guidelines and templates; (iv) development of a framework for ex-post project evaluation; (v) supporting the establishment of a specialized PIM unit within MoP; (vi) development of an integrated bank of investment projects, to support investment planning and decision making, to track and monitor investments, and to serve as an investment project registry; (vii) updating and strengthening the Borrower's legal and regulatory framework for PIM; and (viii) developing an interface within the IFMIS.

- **Decentralization**: Iraq has achieved a significant level of political decentralization comprised of a partial federal and partial unitary state. The 2005 Constitution provides for a federal structure with respect to regional government(s) and a unitary structure with respect to the governorates. The Second Amendment to the Law on Governorates (Law 19, 2013) provides for the devolution of "sub-directorates, departments, tasks and competencies of parts of eight federal ministries".[1] Devolution was supposed to have been carried out over a two-year period, to be completed by August 2015. A strong push by the Prime Minister throughout 2015 has moved devolution forward with at least some of the affected Ministries and the Governorates now in agreement on which functions will be devolved, and which functions will remain with the federal ministries.

- **Transparency, Accountability, and Regulatory Framework:** Under the "Public Financial Management, Transparency, and Regulatory Reform (funded by DFID, implemented in FY2016), the MOF has been working with the World Bank on the following PFM areas:

  i. **Ministry of Finance (MOF) on-line Information and Transparency:** The MoF is developing an "Open Budget Portal" to streamline publication of information and data on public expenditure accounts in Iraq. The portal will explore innovative ways to consolidate and improve public access to fiscal information in Iraq, including using data visualization tools to transform fiscal data and information into intuitive and user friendly formats.

  ii. **MOF Capacity Needs Assessment**: The World Bank is supporting MOF in objectively assessing its needs and how well it is operating in the realm of PFM, through identifying strengths, weaknesses, gaps and the constraints it faces. Once it has identified these challenges, the MoF will be in a position to develop an appropriate strategy for developing its capacity: one that builds on its strengths and addresses (or copes with) constraints that inhibit its effectiveness.

  iii. **Supporting the Federal Board of Supreme Audit (FBSA)**: this support included a review of a sample of audit reports completed by the FBSA (covering financial, compliance and performance audit) and recommendations for improvement, as well as exposure to international good practice in audit report preparation through targeted knowledge sharing activities with peer SAIs.

[1] These include the Ministries of Housing and Reconstruction, Municipalities and Public Works, Health, Education, Labour and Social Welfare, Sports and Youth, and Agriculture and Finance. With respect to the Ministry of Finance, devolution has meant only the creation of Finance Departments in the Governorates, and not a devolution of the Ministry of Finance authorities

Table 0.2: Overall summary of PFM Performance Scores

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	D				**D**
PI-2	Expenditure composition outturn	M1	D	D	A		**D+**
PI-3	Revenue outturn	M2	D	C			**D+**
Pillar II. Transparency of public finances							
PI-4	Budget classification	M1	C				**C**
PI-5	Budget documentation	M1	C				**C**
PI-6	Central government operations outside fiscal reports	M2	D*	D*	D		**D**
PI-7	Transfers to subnational governments	M2	C	B			**C+**
PI-8	Performance information for service delivery	M2	D	D	D	C	**D**
PI-9	Public access to key fiscal information	M1	D				**D**
Pillar III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	D	D	D		**D**
PI-11	Public investment management *(not used)*	M2					**NU**
PI-12	Public asset management	M2	D	B	B		**C+**
PI-13	Debt management	M2	C	C	D		**D+**
Pillar IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	B	B	D		**C+**
PI-15	Fiscal Strategy	M2	C	C	C		**C**
PI-16	Medium-term perspective in expenditure budgeting	M2	B	B	B	C	**B**
PI-17	Budget preparation process	M2	B	A	B		**B+**
PI-18	Legislative scrutiny of budgets	M1	B	C	C	C	**C+**
Pillar V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	C	D	D	D*	**D**
PI-20	Accounting for revenues	M1	B	A	C		**C+**
PI-21	Predictability of in-year resource allocation	M2	C	C	A	C	**C+**
PI-22	Expenditure arrears	M1	D	D			**D**
PI-23	Payroll controls	M1	D	D*	D	C	**D+**
PI-24	Procurement	M2	C	B	C	C	**C+**
PI-25	Internal controls on nonsalary expenditure	M2	C	D	D*		**D+**
PI-26	Internal audit	M1	B	C	B	C	**C+**
Pillar VI. Accounting and Reporting							
PI-27	Financial data integrity	M2	D	D	D	D	**D**
PI-28	In-year budget reports	M1	C	D	C		**D+**
PI-29	Annual financial reports	M1	C	D	C		**D+**
Pillar VII. External Scrutiny and Audit							
PI-30	External audit	M1	C	D	C	B	**D+**
PI-31	Legislative scrutiny of audit reports	M2	NA	NA	NA	NA	**NA**

1 Introduction

1.1 Rationale and purpose

The Public Expenditure and Financial Accountability (PEFA) program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. PEFA is a tool that helps governments achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important public financial management institutions, systems, and processes.

The purpose of this Report is to provide information to all stakeholders about the actual performance of the public financial management system of GoI against a common and standardized assessment framework, and thereby facilitate the identification of areas of reform priorities. In addition, the PEFA report describes future reform priorities of the Government. It also provides information that international development partners can take into account in their future cooperation with and support for the PFM reform plans of GoI.

The overall objective of this PEFA assessment was to draft a comprehensive "PFM Performance Report" prepared according to the PEFA Performance Measurement Framework Methodology of 2016 to provide an analysis of the overall performance of the PFM systems of the GoI and to provide a baseline against which future progress can be measured.

More specifically, the results of this assignment will provide the GoI and its Development Partners with:

a) An assessment of the quality of PFM in the GoI in 2016, based on the PEFA methodology, including an assessment of the relative strengths and weaknesses of the three main budgetary outcomes: Aggregate fiscal discipline, Strategic resource allocation and Efficient service delivery;
b) A basis for further analysis and dialogue on PFM reforms and action plans. Additionally, inform the monitoring and evaluation work of government, development partners and other stakeholders.

1.2 Assessment management and quality assurance

Box 1-1 Assessment management and quality assurance arrangements

PEFA Assessment Management Organization, undertaken by World Bank

- Oversight: Renaud Seligman (Practice Manager at completion), Hisham Waly (Practice Manager at concept), and Mr. Manuel Vargas, Lead Financial Management Specialist, Task Team Leader of PFM, Transparency & Regulatory Reform Technical Assistance Program (all WB).
- Assessment Task Team Leader: Jad Raji Mazahreh, Senior Financial Management Specialist (WB).
- Assessment Team: Mr. Phil Sinnett, PFM/PEFA expert; Mr. Charles Hegbor, PFM/PEFA expert; Ms. Rima Koteiche, Senior Financial Management Specialist; Mr. Moad Al Rubaidi, Senior Financial Management Specialist; Ms. Mona El-Chami, Senior Financial Management Specialist; Ms. Nazaneen Ali, Senior Procurement Specialist; Mr. Emmanuel Cuvillier, Senior Public Sector Specialist, Mr. Salam Almaroof, Public Sector Analyst.

Review of Concept Note and/or Terms of Reference

- Date of reviewed draft concept note and/or terms of reference: January 25, 2016
- Invited reviewers, each of whom provided comments: Mr. Eric Brintet (Lead Financial Management Specialist, WB); Mr. Masakazu Someya and Ms. Yuko Nobuhara from Japan International Cooperation Agency (JICA); and PEFA Secretariat (Ms. Helena Ramos).
- Date(s) of final concept note and/or terms of reference: February 14, 2016.

Review of the Assessment Report

- Date(s) of reviewed draft report(s): On December 17, 2016, the draft section 3 "assessment of PFM performance" was shared with Iraqi counterparts for their review and validation of results.
- The following reviewers were invited and each provided comments: Mr. Eric Brinet, World Bank; Mr. Masakazu Someya, JICA; Mr. Guillaume Barraut, European Union. In addition, the PEFA Secretariat provided comments on 24 May 2017.

1.3 Assessment Methodology

Coverage of the assessment

The 2016 PEFA methodology is set out in the Public Finance Management Performance Measurement Framework (available at www.pefa.org). It is based on 31 Indicators covering all aspects of a country's PFM system. It should be emphasized that PEFA is based on evidence about actual current public sector financial management practice, taking into account statistical information about different aspects of revenue and expenditure over the most recent 2-3 years. Each Indicator is scored on a scale from A to D. The bases for these ratings are the minimum requirements set out in the methodology. Many indicators include two or more dimensions, which are "added up" using PEFA-specific methods M1 or M2. For method M1, the weakest link is decisive; the overall rating is based on the lowest score. For M2, the average of the sub-ratings is used to arrive at the score for the overall indicator.

This PEFA assessment focuses primarily on the GoI's PFM system as per GFS 2014. It seeks to cover the entire PFM system of Budgetary Central Government, including cross-cutting and overall issues, the revenue side, and the budget cycle from planning through execution to control, reporting and audit.

When performance is assessed

In general, the 2016 PEFA assessment covers the period 2013 – 2015. The fieldwork for the assessment took place in August 2016, and because the financial year begins on 1 January, most of the indicators were assessed using data from 2015 and the two previous completed FYs. However, the critical period assessed for each indicator varies according to the PEFA guidelines and is thus indicated case by case in the assessment report (see chapter 3). The period of analysis can refer to the last three completed years (2013-2015), last completed fiscal year (2015), and last approved budget (2017) or time of the assessment November 2016.

Sources of information

The assessment is based on a review of various documents, listed in ***ANNEX 3B***, and on interviews with numerous government officials and other stakeholders, listed in ***ANNEX 3A.***

Other methodological issues for the preparation of the report

The assessment process required the:

- review of legal and regulatory documentation, budget documentation and financial and audit reports (see ***ANNEX 3B*** for documents consulted);
- assessment of PFM practice procedures and systems
- quantitative analysis of official financial and budgetary data; and,
- the application of professional judgment.

An important consideration in the assessment is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the budget credibility indicators. The reliability of the PEFA indicators can only be as good as the accuracy of the financial data upon which they were assessed.

A one-day capacity building workshop had been organized in August for officials prior to the data collection phase: however, a combination of security concerns and unforeseen holidays declared because of extreme heat meant that it was not possible to hold the workshop.

2 Country background Information

2.1 Country economic situation

2.1.1 Country context

Iraq has the fifth-largest crude oil reserves in the world and is the second-largest crude oil producer in the Organization of Petroleum Exporting Countries. However, the halving of the oil price since 2014 has meant that current GoI revenues do not cover the public sector payroll, transfers, and payments to oil companies, let alone the necessary investment and reconstruction measures so desperately required following the prolonged period of war and its aftermath.

The institutional infrastructure, political dynamics, security and the economy have all been adversely impacted by conflict and isolation since the 1990's. The outcome has been a decline in various human development indicators including poverty, health standards, life expectancy, and literacy for the population, estimated to be 37m in 2015, with a GDP per capita of $15,186 (PPP).

In a worsening fiscal situation, GoI is running a cash-rationed budget with security spending taking priority, although financing from the CBI has covered some of the gap for payments to workers and contractors, critical services, and payments to oil companies. The consequence of high conflict-related expenditure and weak oil revenues has seen the budget deficit rise from an average of 5.6% of GDP in 2013 and 2014 to 12.3% and 8.2% of GDP in 2015 and 2016, respectively. This resulted from the sharp reduction in oil prices from an annual average of US$96.5 per barrel in 2014 to US$45.9 in 2015, then to US$35.5 in 2016. Oil revenues decreased by US$35 billion in 2015 (a 41 percent reduction). Increased oil production and exports in 2016 have slightly increased oil revenue, despite continued low oil prices. The limited financing available forced the government to make some adjustments to contain the deficit in both 2015 and 2016. On the revenue side, these focused on ensuring increased volumes of oil exports. On the expenditure side, the government prioritized payments of wages, pensions, debt service and oil-related investments and sharply under-executed non-oil capital investment.

2.1.2 Key aspects of the government's economic and fiscal reforms

In the Prime Minister's acceptance speech to Parliament, the new government (in place since September 2014), set out a reform plan to build a more transparent state that delivers better services to the public. Despite the complex political situation, GoI is committed to implementing their program for 2014-2018, which has six main areas of focus:

- Maintaining the security and stability of Iraq.
- Enhancing the level of social services and welfare.
- Increasing the productive capacity and competitiveness of public and private enterprises.
- Increasing the production or oil and gas, and improving the country's financial stability.
- Reforming the civil service sector.
- Systematizing federal and local relations.

However, there has been a lack of clarity in the objectives of the budget process, resulting in lengthy discussions in the Council of Representatives about the size and amounts of allocations – rather than about objectives and programs – which meant that no budget was approved in 2014. This caused delays in the implementation of activities and services. Hence, the current fiscal pressures provide further impetus to implement PFM reforms. In the immediate term, GoI is seeking a combination of external financing and reforms to close its financing gap, with a program designed to focus on the key elements of its fiscal policy:

- **Reducing the deficit:** Building on the deficit containment efforts undertaken in 2015 and 2016, and the gradual increase in oil prices, the overall fiscal deficit has projected to decrease to 1.7 percent of GDP in 2019.; MDA expenditure ceilings are also established;
- **Focusing on investment expenditures:** the importance of focusing on investment and motivating the private sector to help create jobs is recognized, and: current expenditure is rationalized (e.g. by limiting hiring and requiring MDAs to transfer 'excess' employees);
- **Adopting the principle of fiscal decentralization:** redistributing powers from centralized ministries to give governorates greater responsibility for implementing investment projects. It also recommends enhancing the capacities of governorate councils with respect to developing and implementing investment programs.

2.1.3 Key economic indicators

Table 2.1: Selected Economic and Financial Indicators, 2013–16

	2013	2014	2015	2016
Real GDP Growth (percent)	7.6	0.1	2.9	10.2
Non-oil real GDP (percent)	12.4	-5.1	-13.9	-5.0
Fiscal balance (percent of GDP)	-5.8	-5.4	-12.3	-8.2
Non-oil primary fiscal balance (% of non-oil GDP)	-67.6	-58.5	-45.0	-43.1
Inflation (end of period, y-o-y)	3.1	1.6	2.3	2.0
Current account balance (percent of GDP)	1.1	2.7	-6.1	-6.8
Gross international reserves (billion US$)	77.8	66.7	53.7	43.0
Oil production (millions bpd)	3.0	3.1	3.7	4.5
Oil exports (millions bpd)	2.4	2.6	3.4	3.8

Source: Iraqi authorities; World Bank; and IMF staff estimates.

2.2 Fiscal and budgetary trends

2.2.1 Fiscal performance

Table 2.2: Aggregate Fiscal Data (IQD B)

	FY 2013	FY 2014	FY 2015	FY 2016
Revenues and grants	**115.4**	**104.4**	**63.5**	**66.0**
Crude oil export revenues	104.1	97.1	57.2	57.6
Domestic revenues	9.7	5.9	5.8	8.0
Grants	0.1	0.0	0.0	0.0
Expenditures	**131.2**	**118.8**	**89.3**	**82.8**
Current expenditures	83.7	69.6	57.6	66.2
Salary	32.5	31.8	33.1	36.1
Pension	8.6	8.4	9.0	10.3
Goods and services	16.3	9.1	4.7	6.3
Transfers	20.0	14.7	9.5	11.2
Social safety net (including PDS)	7.6	7.6	4.5	6.3
Transfers to SOEs	1.9	1.5	2.4	2.2
Other transfers	10.5	5.6	2.6	2.7
Interest payments	1.0	0.7	1.3	2.3

War reparations	5.2	4.9	0.0	0.0
Contingency	0.0	0.0	0.0	0.0
Investment expenditures	47.6	49.2	31.6	16.6
Balance (including grants)	**-15.8**	**-14.4**	**-25.8**	**-16.7**

Source: IMF November 2016

Table 2.3: Aggregate Data as % of GDP

	FY 2013	FY 2014	FY 2015	FY 2016
Government revenue and grants	**42.2**	**39.1**	**30.2**	**32.2**
Government oil revenue	38.6	36.9	27.4	28.3
Government non-oil revenue	3.5	2.2	2.8	3.9
Grants	0.0	0.0	0.0	0.0
Expenditure, of which:	**48.0**	**44.5**	**42.5**	**40.4**
Current expenditure	30.6	26.1	27.4	32.3
Capital expenditure	17.4	18.4	15.1	8.1
Primary fiscal balance				
Overall fiscal balance (including grants)	-5.8	-5.4	-12.3	-8.2
Non-oil primary fiscal balance (% of non-oil GDP)	-67.6	-58.6	-45.0	43.1
Memorandum items:				
Tax revenue/non-oil GDP (in %)	2.0	1.8	1.0	3.4
Development Fund Iraq/ (USD B) (Increase -) (reflect the transfer of the DFI from Federal Reserve NY to the CBI in May 2014.	11.8	5.6	-1.7	0.0
Total government debt (% of GDP)	31.2	32.6	54.9	61.3
Total government debt (US $b)	73.1	74.6	97.8	106.6
External government debt (% of GDP)	25.3	25.2	36.7	37.8
External government debt (in USD B)	59.3	57.6	66.1	65.7

Source: IMF November 2016

2.2.2 Allocation of resources

Table 2.4: Actual budgetary allocations by economic classification (as % of total exp)

	FY 2014*	FY 2015	FY 2016
Current expenditure	**na**	**65.50%**	**75.69%**
- wages and salaries	**na**	27.74%	36.97%
- goods and services	**na**	2.83%	6.26%
- interest payments	**na**	1.05%	2.23%
- others	**na**	33.89%	30.23%
Capital expenditure	**na**	**34.50%**	**24.31%**

Source: Ministry of Finance

***** *No budget was approved,*

Table 2.5 Actual budgetary allocations by economic classification (in IQD)

	FY 2014*	FY 2015	FY 2016
Current expenditure	**na**	**78,253,392,443,000**	**80,149,411,081,480**
- wages and salaries	***na***	*33,137,499,354,121*	*39,145,464,368,764*
- goods and services	***na***	*3,379,514,073,254*	*6,632,310,590,360*
- interest payments	***na***	*1,252,189,200,000*	*2,358,869,760,000*
- others	***na***	*40,484,189,815,625*	*32,012,766,362,356*
Capital expenditure	**na**	**41,209,037,106,000**	**25,746,311,538,000**
TOTAL		**119,462,429,549,000**	**105,895,722,619,480**

Source: Ministry of Finance

***** *No budget was approved,*

2.3 Legal and regulatory arrangements for PFM

The Constitution

The Constitution was adopted on 15 October 2005 following a referendum. The federal government is composed of the executive, legislative, and judicial branches, as well as numerous independent commissions.

The executive branch: is composed of the President and the Council of Ministers. The President of the Republic is the head of state and is elected by the Council of Representatives by a two-thirds majority, and is limited to two four-year terms. The Presidency Council is an entity currently operating under the auspices of the "transitional provisions" of the Constitution, and functions in the role of the President until one successive term after the Constitution is ratified. The Council of Ministers is composed of the Prime Minister and the cabinet. The President names the nominee of the largest bloc in the CoR as Prime Minister, who forms a Cabinet, and has direct executive authority for the general policy of the State and is commander-in-chief of the armed forces. The cabinet is responsible for overseeing their respective ministries, proposing laws, preparing the budget, negotiating and signing international agreements and treaties, and appointing various officials.

The legislative branch: comprises two houses: 1) the **Council of Representatives** (CoR), the main elected body of Iraq, has of 328 members – one representative per 100,000 Iraqi persons – and is elected for terms of 4 years. The council elects the President and approves the appointment of the members of the Federal Court of Cassation, the Chief Public Prosecutor, and the President of Judicial Oversight Commission (proposed by the Higher Juridical Council); and approves the appointment of the Army Chief of Staff, his assistants and those of the rank of division commanders and above, and the director of the intelligence service, on proposal by the Cabinet. 2) the **Federation Council**, composed of representatives from the regions and the governorates that are not organized in a region, and regulated in law by the Council of Representatives.

The federal judiciary: is composed of the Higher Judicial Council, the Supreme Court, the Court of Cassation, the Public Prosecution Department, the Judiciary Oversight Commission, and other federal courts that are regulated by law. One such court is the Central Criminal Court.

The Independent High Commission for Human Rights, the Independent Electoral High Commission, and the Commission on Public Integrity are **independent commissions** subject to monitoring by the Council of Representatives. The Central Bank of Iraq, the Board of Supreme Audit, the Communications and Media Commission, and the Endowment Commission are financially and administratively independent institutions. The Foundation of Martyrs is attached to the Council of Ministers. The Federal Public Service Council regulates the affairs of the federal public service, including appointment and promotion.

The federal government has exclusive power over various specified matters, such as Foreign policy and the national budget, and shares powers with regional authorities over regional customs, electrical power, environmental policy, public planning, health, and education. All powers not exclusively granted to the federal government are powers of the regions and governorates that are not organized in a region, and priority is given to regional law in case of conflict between other powers shared between the federal government and regional governments.

Chapter Five of the Constitution, ***Authorities of the Regions,*** describes the form of the federation by stating that the system is made up of the capital (Baghdad), regions, decentralized Governorates, and local administrations (municipalities).

Finance Law

The Financial Management Law and Public Debt Law both of 2004 (Order Number 95 of the Coalition Provisional Authority) are still in place, although a new draft Finance Law has been approved by the Council of Ministers (but not yet by the Council of Representatives), The existing law emphasizes the principles of transparency, comprehensiveness and unity – in particular requiring that all government resources be directed to a common pool to be allocated and used for public expenditure according to the priorities of the government.

Federal Board of Supreme Audit

The Iraq BSA has a long tradition of state auditing dating back to the establishment of Iraq as a nation state. It has been created in 1928 by law and since then this legislation has been progressively updated. Its mission is now enshrined in the Constitution, which define it in its article 103 as a "financially and administratively independent institution". Its mission and duties are defined in the law N° 6 of 1990. Changes, introduced by the Coalition Provisional Authority (CPA) in April 2004, have confirmed the FBSA as an "independent public institution empowered to enhance the economy, efficiency, effectiveness and credibility of the Iraqi government". However, they have limited the FBSA's direct access to the Judiciary and provided for it to work with two newly created institutions, the Commission of Integrity (CoI), responsible for anti-fraud initiatives, and the Inspectors General (IGF) appointed in the ministries. A new law, promulgated in January 2012, confirms the mission and the duties of the FBSA and reinforces its independence and its competence.

Law on Public Procurement

The Public Procurement in Iraq was governed by the Coalition Provisional Authority (CPA) Order No 87 of 2004 and the implementing regulations No. 1 for 2008 promulgated by Council of Ministers and prepared by the Ministry of Planning since 2004. However, the Council of Ministers issued a Resolution dated May 16, 2011 to abolish the existing procurement framework, namely CPA Order No 87 of 2004. A draft Law was developed by an inter-ministerial working force with the assistance of the World Bank and reviewed by the Sharia Council as an appropriate legal framework for the country, but there were calls to discard the draft Law and instead to prepare a new concise By-Law or Regulation. Consequently, and in the absence of a new legal framework, the Ministry of Planning has issued a set of regulations in 2014 to replace the 2008 regulations.

Table 2.6: Other PFM Legislation

<table>
<tr><th>Legislation in place</th></tr>
<tr><td>Main Tax and customs
Fuel Excise Tax/User Charge/Profit sharing: Law Number 9 of 1939, Revolutionary Command Council Resolution No. 82 of 1996 and the Order No. 66 of 1999 issued by the Economic Affairs Committee, CPA Orders No. 37 and 49 of 2004
Customs Tax: Custom Law No (23) of 1984, Custom tariff law No (77) of 1955, CPA Order Number 54 - Trade Liberalization Policy 2004, CPA Order Number 38 - Reconstruction Levy, CPA Order Number 70 – Amendments to Reconstruction Levy, CPA Order Number 12
Direct Tax: Income Tax Law No. 113 of 1982 (Corporate income tax, Wage Withholding tax, Contracts Withholding Tax, Individual Income Tax), Instructions No. (1) of 2005 Concerning Income Tax Deduction by Direct Deduction Method, The System of Depreciation and Elimination for Private, Mixed and Cooperative Sectors Regulation No. 9 of 1994, CPA Orders No. 37 and 49 of 2004</td></tr>
</table>

- **Sales tax**: Hotel Tax (Resolution No. 36) Republic of Iraq Revolutionary Command Council 5/4/1997, Resolution No. 36 of May 4th 1997 and Fiscal Instructions No. 7 of 1997, Car sale fee in accordance with Resolution Number 80 of 1998, CPA Orders No. 37 and 49 of 2004

Control and Audit

- The Law for Financial Administration and Public Debt No. 94 of 2004
- The Law of Inspector General issued by virtue of Order No. 57 of 2004
- The Law of the Ministry of Finance No. 92 of 1981 and bylaws of the Ministry of Finance No. 1 of 1990.

Decentralization

- Iraq constitution of 2005;
- Law 130 (1963): Law of Municipality's Revenues
- Iraq Financial Management Law of 2004
- Law 21, 2008 as amended in 2010 and 2013. As enacted, Law 21, 2008[2] ("The Law of Governorates Note Incorporated into the Region"
- 2013 Amendments to Law 21: - Law 19, (Second Amendment of the Law of Governorates Not Incorporated in a Region (Law 21 of 2008).

2.4 Institutional arrangements for PFM

The main responsibility for PFM reform and regulation rests with the Ministry of Finance (MoF) – responsible for treasury functions and for preparing the recurrent budget, and the Ministry of Planning and Investment (MoP), which prepares the National Development Plan and the capital budget. Responsibility for carrying out government activities is shared between various line departments (MDAs), Governorates and municipalities.

Revenue is mainly the responsibility of the Ministry of Oil and the Tax Department (corporate and personal income taxes, domestic product VAT, special consumption (excise) and natural resource taxes, and land use taxes and charges) and the General Customs Department (import and export duties, import VAT, and other taxes collected on imports).

Table 2.7: Structure of the public sector: (number of entities & turnover, m)

Year: 2016	Public Sector				
	Government Sub-Sector		Social Security Funds	Public Corporation Sub-Sector	
	Budgetary Unit	Extra budgetary Units		Non-Financial Public Corporations	Financial Public Corporations
GoI	*	*	*	*	*
Governorates	*	*	*	*	*
Districts	*	*	*	*	*

*** MoF unable to provide this data**

Table 2.8: Financial structure of government – budget estimates (B)

Year: 2016	Budgetary Units	Extra Budgetary Units	Social Security Fund	Total Aggregated 2/
Revenue	*	*	*	*
Expenditure	*	*	*	*

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2 (2008). Law of Governorates Not Incorporated into a Region: An Annotated Text. USAID and RTI International. Research Triangle Park, NC. All references to the original Law 21 are to this source.

Transfers to (-) and from (+) other units of general gov't	*	*	*	*
Liabilities	*	*	*	*
Financial Assets	*	*	*	*
Non-financial assets	*	*	*	*

*** MoF unable to provide this data**

2.5 Other important features of PFM and its operating environment

In the light of the ongoing security situation (in effect, a war with ISIS), there is considerable political uncertainty, to the extent that providing any government service is extremely difficult and constrains the capacity of the PFM system function at all.

3 Assessment of PFM Performance

Pillar I. Budget reliability

PI-1 Aggregate expenditure outturn

This indicator measures the extent of the total expenditure deviation between the approved expenditure budget and the actual outturn over the last three completed fiscal years – 2013, 2014 and 2015.

1.1 Aggregate expenditure outturn

The summary result matrix in the table below reflects a seemingly high expenditure variance in 2015 at 31.2% from a relatively lower of 13.9% in 2013; detailed analyses are shown in ***Annex 3C***, and summarized in **Table 3.1** below. These deviations reflect significant under-spending, mainly in the investment budget, which stood at 33% reflecting an improvement from the execution rate of 25% in the 2008 PEFA report: the recurrent expenditure execution rate was 70% in 2015.

There were also delays in budget releases due to low cash inflows from tax and non-tax revenues, which affected execution of the investment budget. No budget was ***approved*** in FY2014, as there was no consensus among the political parties in parliament; the budget proposals submitted were rejected and the legislature requested government to revise the estimates. However, the government disagreed with this request, and actual expenditure (unaudited) incurred stood at IQD 113,473.5 billion.

The rating of this indicator is based on data for 2013 and 2015 only; the absence of the 2014 expenditure budget does not affect the ratings as the PEFA framework provides for an 'irregular' fiscal year. Actual expenditure outturn was between 86.1% and 68.8% of the approved expenditure budget between 2013 and 2015.

Table 3.1: Comparison of Budget estimates to Actual (primary expenditure, B)

	2013*		2014		2015	
	Original Budget	**Exp outturn**	**Original Budget**	**Exp outturn**	**Original Budget**	**Exp outturn**
Total budget	138,674	119,373	-	-	119,587	82,333
Agg exp deviation (%)	-13.9%		(no budget)		-31.2%	

Source: MoF

PI-1 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Aggregate expenditure outturn		**D**	**D**		
1.1	Aggregate expenditure outturn	D	D	Expenditure outturn was between 86.1% in FY2013 & 68.8% in FY2015: i.e. 2 of 3 years reviewed. *(N.B. no budget in FY2014)*	Scores are indirectly comparable as 2016 calibration includes externally financed projects/programme (excluded in 2008).

Ongoing reforms: No major reforms

PI-2 Expenditure composition outturn

Where the composition of actual expenditure varies considerably from the original budget, the budget is unlikely to be a useful statement of policy intent. PI-2 is a tighter measure of budget discipline, as it measures how well expenditure can forecast at the vote level. The indicator has three dimensions, and measures the deviation in the composition of expenditure outturn compared to the originally approved budget, which is assumed to reflect GoI's intentions in the relative priority of resources allocated to each function.

2.1 Expenditure composition outturn by function

Variance in expenditure composition is measured by multiplying the original budget for each function by the ratio of the aggregate expenditure outturn to the original aggregate budget, defined as for PI-1. The actual expenditure for each function is then deducted from the adjusted original provision. Finally, these absolute variances (whether positive or negative) are aggregated and compared with the total expenditure outturn.

The rating for this dimension is based on "two of the last three FYs", so ignoring the lack of an approved budget in 2014, the variance in the other two years is greater than permitted for a 'C' rating, i.e. -13.9% and -31.2%. Detailed analyses are shown in ***Annex 3C***.
Dimension rating = D

2.2 Expenditure composition outturn by economic type

Budget classification, both proposed and approved estimates, is by functional government operations, as well as economic classification. Detailed analyses are shown in ***Annex 3C***, and summarized in **Table 3.2** below, expenditure composition variances by economic classification were 43.7% and 43.1% respectively in FY2013 and FY2015; this is higher than the requirement of less than 15% for a C rating. These huge composition variances result from the need to reallocate budget votes due to the volatile security situation.

Table 3.2: Consolidated Fund expenditure composition variance (%)

	2013	2014	2015
Total expenditure variation i.e. PI-1	-13.9	-	-31.2
Composition variance by function i.e. PI-2(i)	-11.5	-	-37.2
Composition variance by economic type i.e. PI-2(ii)	43.7	-	43.1
Average contingency share i.e. PI-2(iii)	0.1		

Source: *The Ministry of Finance*

Dimension rating = D

2.3 Expenditure from contingency reserves

The dimension recognizes the need for a contingency toward unforeseen events but it should not be so large to undermine the credibility of the budget. Section 7(2)(d) of the Financial Management Law 2004 provides for a contingency reserve fund of no more than 5% of total government expenditure budget excluding estimates on debt interest. The average contingency expenditure from the contingency vote for FY2013 and FY2015 was 0.1% of total federal government expenditure; data for FY2014 was not available.
Dimension rating = A

PI-2 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Expenditure composition outturn		**C**	**D+**		
2.1	Expenditure composition outturn by function	C	D	The variance in the two years for which data is available is greater than permitted for a 'C' rating, i.e. -13.9% and -31.2%. *(N.B. no budget in FY2014)*	Not comparable; different data & scoring criterion in PEFA 2008.
2.2	Expenditure composition outturn by economic type	N/A	D	Expenditure composition variances by economic classification were 43.7% and 43.1% respectively in FY2013 and FY2015; this is higher than the requirement of less than 15% for a C rating.	New dimension
2.3	Expenditure from contingency reserves	N/A	A	The average contingency in the two years for which data is available was 0.1%.	New dimension

Ongoing reforms: No major reforms

PI-3 Revenue outturn

This indicator assesses the quality of revenue estimation by comparison of the actual revenue and the approved revenue budget. The larger the deviation, the lower the rating.

3.1 Aggregate revenue outturn

Total government revenues comprise revenues from oil and mineral resources, taxes on goods and services, foreign grants, social security contributions, property income, and profits from government investments. Revenues from oil and minerals constitute between 98% and 77% of total government domestic and foreign revenues according to data obtained from the MoF between 2013 and 2015; the percentage of oil and mineral revenues to total government revenues was 97.6% in 2013, 91.9% in 2014 and 77.2% in 2015. Revenues accruing to the State in terms of taxes represent only between 2% and 6% of total government revenues.

There is no revenue-forecasting model. According to officials from Ministry of Oil and the Tax Board, projections are made with reference to historical data and actual performance adjusted for the current year based on macro-fiscal assumptions (GDP, exchange rate, inflation and interest rate) and the global commodity prices, particularly crude oil. Oil prices are determined based on global prices, conservatively; where global price exceed the budget price, surpluses are used to finance the budget deficit. In recent times (at least over the last two years), the fall in global crude oil prices has had a devastating effect on central government domestic revenues, leading to continuous borrowing to finance the budget deficit; this has also been compounded by the security situation requiring more resources to fight terrorism.

Table 3.3 below provides a summary of the results matrix based on approved budgeted and actual revenues for the three years under review (details appear in ***Annex 3C***); whereas there was no budget in 2014, total actual revenue (unaudited) stood at IQD105.6 trillion. In 2014, the Council of Representatives rejected government budget proposals; parliament requested government to amend the estimates but government disagreed with the legislature. The rating of this dimension is therefore based on data for 2013 and 2015 only; it is important to state that the absence of a budget in 2014 does not influence the outcome of the score, as the PEFA methodology makes provision for one irregular fiscal year.

Table 3.3: Total revenue deviation

Year	2013	2014	2015
	95.4%	No budget	70.7%

Actual revenues were 95.4% in 2013 and 70.7% in 2015 when compared with approved budgeted revenues for the same fiscal years. Detailed analyses are shown in Annex 3C.
Dimension rating = D

3.2 *Revenue composition outturn*

Central government revenue is made up of seven main revenue elements including but not limited to: (i) revenue from oil and minerals, (ii) taxes on goods and services, (iii) taxes on income and capital gains, (iv) social security contributions, (v) fees and fines, and (vi) property income, (vii) share of public corporations' profits. **Table 3.4** below shows that the first of these is by far the largest.

Table 3.4: Composition of GoI revenue (in Trillion IQD)

FY	2013	2014	2015
Government revenue	**113.8**	**105.6**	**66.4**
Government oil revenue	111.1	97.0	51.3
Government Taxes and Fees revenue	2.5	2.5	2.6
Others	0.2	6.1	12.5

*'Others' represent all remaining revenue other than oil and taxes and fees

Table 3.5: Composition of GoI revenue (% of GDP)

FY	2013	2014	2015
Government revenue and grants	**42.2**	**39.1**	**30.2**
Government oil revenue	38.6	36.9	27.4
Government non-oil revenue	3.5	2.2	2.8

As **Table 3.6** below shows, the revenue composition variance was marginal at 0.2% in 2013; it however increased significantly to 14.1% in 2015. There was no composition variance computed for 2014 since there was no budget. The huge variance in 2015 was a result of a shortfall in crude oil production volumes coupled with the continuous fall in oil prices. Revenue from crude oil constitutes about 95% of total government revenue and any economic or production shocks influence negatively government revenues.

Table 3.6: Revenue composition variance

Year	2013	2014	2015
	0.2%	No budget	14.1%

Dimension rating = C

PI-3 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Revenue outturn		**A**	**D+**		
3.1	Aggregate revenue outturn	A	D	Revenue outturns for FY2013 & FY2015 were 95.4% & 70.7%, of approved budgets. *(N.B. no budget in FY2014)*	Scores not comparable: revenues from external sources now included.
3.2	Revenue composition outturn	N/A	C	Revenue composition variance was 0.2% in FY2013 and 14.1% in FY2015 *(N.B. no budget in FY2014)*	New dimension.

Ongoing reforms: No major reforms.

Pillar II. Transparency of public finances

PI-4 Budget classification

4.1 Budget and accounts classification is consistent with international standards

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator.

Iraq Budget classification suffers from fundamental deficiencies, including a lack of a functional classification and an inadequate economic classification. In 2014, a mission from the IMF Middle East Regional Technical Assistance Centre (METAC) provided guidance regarding the economic and the functional classifications of the budget in line with the Government Finance Statistic Manual (GFSM 2001) and the Classification of the Functions of Government. This was followed by a technical assistance mission from the Fiscal Affairs Department of the IMF in 2015 to provide guidance on selected PFM matters, enter alia, program-based budgeting. The mission reported the need for revising the budget classification, including the chart of accounts, to include a program segment, a functional classification, and to bring the economic classification in line with internal standards. The current budget economic classification needs strengthening and introducing a functional classification is warranted consistent with GFSM. Furthermore, the chart of accounts does not have a program segment that allows consolidation of capital and current transactions. A new budget classification was developed and adopted by MOF starting FY15 in accordance with local standards yet the new classification is found capable of producing consistent documentation comparable with at least level “2” of GFS standard.
Dimension rating = C

PI-4 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Budget classification		**C**	**C**		.
4.1	Budget classification	C	C	Budget formulation, execution, and reporting are based on administrative & economic classifications that can produce consistent documentation comparable with GFS standards (at least level 2 of the GFS standard – 2 digits)	A new budget classification has been adopted, which is less comprehensive that the 2007(more GFMS 2001-based) version. The classification framework does not allow direct derivation of the main analytical measures of fiscal policy.

Ongoing reforms: No major reforms.

PI-5 Budget documentation

5.1 The comprehensiveness of the information provided in the annual budget documentation is measured against a list of ‘basic’ and ‘additional items

This indicator has one dimension to assess the comprehensiveness of the information provided in the annual budget documentation presented by the Executive to the Council of

Representatives, and is measured using a list of 'basic' and 'additional' elements included in the last budget submitted to parliament, i.e. the FY2017 budget.

Table 3.7 provides a summary of the information contained in the annual budget proposal submitted to the Council of Representatives for legislative scrutiny and approval. As can be seen in the table, while three of the four basic elements are met, only three of the eight additional elements are met. That said, basic element #4 (aggregate and detailed budget data for both revenue and expenditure for the current year's budget) is partially met; however similar aggregate and detailed revenue and expenditure data for the previous year are not provided in the current year's budget.

Table 3.7: Budget documentation benchmarks

No.	Budget documentation benchmarks	Availability
Basic elements		
1.	Forecast of the fiscal deficit or surplus (or accrual operating result).	**Yes**
2.	Previous year's budget outturn, presented in the same format as the budget proposal	**Yes**
3.	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	**Yes**
4.	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-4), including data for the current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates	**Yes/partially**
Additional elements		
5.	Deficit financing, describing anticipated composition	**Yes**
6.	Macro-economic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	**Yes**
7.	Debt stock, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	**No**
8.	Financial Assets, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	**No**
9.	Summary information of fiscal risks including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as PPP contracts, etc.	**No**
10.	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs	**No**
11.	Documentation on the medium-term framework	**Yes**
12.	Quantification of tax expenditures	**No**

PI-5 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Budget documentation		**D**	**C**		
5.1	Budget documentation	D	C	Budget documentation fulfills 6 elements, including at least 3 basic elements.	Scores not directly comparable, although subject matter is similar to previous PI-6 of 2008 framework, but new elements now included. Only 6 of 12 elements fully met, as in 2008: no improvement in performance

Ongoing reforms: No major reforms

PI-6 Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside GoI financial reports.

In principle, all Government operations using public finances should be included in budget reports to ensure transparency, public disclosure, more efficient allocation and use of the resources, as well as budget sustainability. This will be the case if the expenditure and revenue of extrabudgetary units and expenditure and revenue related to extrabudgetary activities of budgetary units are insignificant or if such revenues and expenditures are included in the government financial reports and are submitted timely for evaluation.

6.1 Expenditure outside financial reports

There is no properly collected information from government referencing expenditures outside the budget and financial reports. A credible budget should capture all central government revenue and expenditure both own resources and donor financed. Further, strategic resource allocation requires alignment of resources tactically in order to ensure economy, efficiency, and effectiveness of service delivery. Duplication of efforts is bound to occur following from poor coordination between government and donors on one hand, and among donors on the other hand.

Dimension rating = D*

6.2 Revenue outside financial reports

The government could not provide information relating to revenue accruing to the State but not reported in either the federal budget or annual financial reports. World Bank, USAID, JICA and EU loans and grants including technical assistance are not included in federal budget and reports except for the WB Development Policy Loan (DPL) of US$1.2billion. Projects and programmes funded by development partners are not reported in the government financial reports. This defeats the transparency and accountability framework as well as comprehensive financial reporting in addition to concerns over budget credibility.

Table 3.8: Data on revenue outside financial reports 2015

Content	Amount
Revenue outside financial reports	*
Total revenue	*
Revenue outside financial reports	*
Fees and charges retained by extrabudgetary units	*
Extrabudgetary funds	*
Ratio (II/I*100)	*

*MoF did not provide the necessary Information.

Dimension rating = D*

6.3 Financial reports of extra-budgetary units

In order to have a comprehensive view of central government operations, the consolidated annual financial statements should capture all revenues and expenditure of both budget entities and extra budgetary[3] units as defined by GFS 2014. Examples of these institutions could include quasi-governmental agencies receiving subsidies from government but at the same time mandated by the law to raise and use own revenues. There are also projects and programmes funded by development partner institutions outside central government budget but in most cases managed by sector ministries; expenditure is paid directly by the donor for public service. There are also private institutions with government contracts to render a service on behalf of government for a fee; these fees are usually charged as gross

[3] General government entities with individual budgets not fully covered by the general budget are considered extra budgetary

and the net income (gross income less service provider expenses/charges) are remitted to government; this system is rare in Iraq as the country is a state-run economy. In all cases, majority of extra budgetary units do not submit detailed financial reports to government.
Dimension rating = D

PI-6 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Central government operations outside financial reports			**D**		
6.1	Expenditure outside financial reports	D	D*	No information from GoI on expenditure outside financial reports and budget.	Rating not directly comparable, as dim reformulated & scope widened to include donor expenditure in addition to GoI expenditure.
6.2	Revenue outside financial reports	N/A	D*	No information from GoI on revenue outside financial reports and budget.	Not comparable: new dimension.
6.3	Financial reports of extra-budgetary units	N/A	D	Majority of extra budgetary units do not provide regular financial reports to GoI. Technical Assistance is not reported to GoI	Not comparable: new dimension.

Ongoing reforms: No major reforms.

PI-7 Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from the GoI government to subnational governments with direct financial relationships to it. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning.

7.1 System for allocating transfers

Article 121 of the Constitution states that “Regions and Governorates shall be allocated an equitable share of the national revenues sufficient to discharge their responsibilities and duties, but having regard to their resources, needs and the percentage of their population”: however, the system of fiscal transfers and allocations to Governorates remains essentially ad hoc. Although Article 121 provides the foundation for a stable revenue sharing structure, at present, this stability only exists in the KRG, and the other Governorates (outside KRG) receive a lump sum dedicated to investment projects, based on population, using a weighted method. However, this is augmented for some Governorates through shared oil revenue transfers, and results in significant per capita variations in the level of investment resources.

Fifteen governorates function under a common intergovernmental structure which is more integrated with the central government, while the Constitution treats governorates in the KRG as a regional government. Asymmetry also exists within this structure at the sub-Governorate level. The current intergovernmental structure allows for asymmetry in the assignment of responsibilities across levels of local government. The Governorates have the authority to assign/delegate functions to districts and sub-districts based on local capacities and preferences.

Budget allocations to the Governorates are dependent upon the MoF and negotiation, and lack both vertical and horizontal balance. Negotiated budgets not only open the door to soft budget constraints, but also foster uncertainty on the part of subnational jurisdictions. Subnational budget allocations are subject to change from one year to the next, negatively impacting incentives. Resource certainty can be enhanced by fixed rules for subnational shared revenues and transfers, and by transparent mechanisms for establishing subnational budget allocations. Elements of derivation-based resource sharing exist in the form of per-barrel distributions from oil production, as well as for customs and in-bound air traffic. However, these are problematic candidates for such revenue sharing. Border regions should not benefit from entry into or out of a nation beyond that needed to accommodate border traffic and infrastructure. Likewise, natural resource endowments are generally better thought to convey national wealth. The result is significant horizontal disparities in Governorate access to revenue. Appropriately structured transfers are the essential bridge between expenditure responsibility and more limited revenue authority.

Accountability and transparency can be enhanced by a subnational revenue system, which includes revenue instruments of sufficient yield and local discretion to command the attention of the population. The lack of access by the Governorates to significant broad-based revenue instruments impairs accountability**.**

Legal provisions for Governorate revenue have been evolving. However, these provisions require enabling regulation by the Central Government, which has not been forthcoming. Therefore, there is no provision for a level of local discretion in setting tax rates or bases needed to qualify as a local revenue source. The Governorates need discretion over the decision of whether to adopt a revenue instrument. They also require discretion to establish the rate and/or base of the instrument. While it appears that there may be more discretion for fees and charges (although even here, there is reference to approval by the ministries), there are no significant discretionary local revenue sources presently available to the Governorates.

Dimension rating = C

7.2 Timeliness of information on transfers

Budgetary resources to subnational governments should be available and released as budgeted. Otherwise, planning, prioritization, responsiveness, and management are defeated. Subnational governments receive information on their annual transfers through the regular budget calendar (cf. PI-17). MoF's stated policy is to disburse a percentage of the investment budget for each of the Governorates at the beginning of the fiscal year and then make subsequent disbursements throughout the year, until the entire budgeted amount of funds has been disbursed. It appears that recently, these disbursements, have been delayed until late in the second quarter of the fiscal year, complicating project programming. This points to the need for more realistic budget planning processes both at the centre and for the Governorates.

Dimension rating = B

PI-7 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Transfers to subnational governments			**C+**		
7.1	System for allocating transfers	C	C	The horizontal allocation of ***some***	GoI put in place several policy and

PI-7 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
				transfers to subnational Governorates from central government is determined by transparent, rule-based systems, based on population.	procedural steps supporting decentralization, however, intergovernmental fiscal relations & service delivery remain highly centralized, & allocations remain ad hoc.
7.2	Timeliness of information on transfers	C	B	Subnational Governments' budget calendar is consistent with the national process, and they receive information on annual transfers through the regular budget calendar.	

Ongoing reforms:
Global Affairs Canada is providing support to GoI in the area of fiscal federalism and decentralization. This includes assisting GoI in developing legal framework around federalism and decentralization, fiscal arrangements, institutional capacity building, and staff capacity building necessary to implement fiscal decentralization arrangements.

PI-8 Performance information for service delivery

Good practice indicates that key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are included in the executive's budget proposal and related documentation as well as in the year-end report, audit reports and performance evaluation reports, in order to promote greater operational efficiency in service delivery. Service delivery units should also know what resources they can expect to be available to enable them to discharge their responsibilities and achieve annual and medium-term performance targets as well as strategic sector objectives.

8.1 Performance plans for service delivery

Performance measurement benchmarks form part of sector strategic documents. For instance, the Ministry of Education has developed a 10-year educational strategy for the period 2012-2022 with 63 investment projects at a total cost of IQD36.5trillion; this strategy has three main strategic objectives: (i) increase access to public education, (ii) improve quality of education, (iii) capacity development. Medium-term (three years) educational sector strategies are developed from the long-term National Development Plan, from which annual action plans are prepared with six key components, namely: institutional development, increased infrastructure, service quality, easy access, good financial management and scientific research. Key Performance Indicators (KPIs) used to benchmark service delivery, especially in the educational sector include rate of budget execution for programmes and projects, number of student enrolment, student dropout rate, student success rate, equity in educational facilities, among others. These KPIs are not published; however, Ministry of Education publishes the academic performance of students as well as performance of public schools.

Road construction and maintenance, construction of schools and hospitals and all other government construction projects is the responsibility of the Ministry of Construction, Public Works, and Municipalities. Once the construction is complete, the management of the facilities is transferred to the sector or line ministry. In most cases, the Ministry of Public Works mounts notices/billboards describing the project to be constructed, the funding agency, the cost of the project, and the expected completion time; however, it does not publish completion reports/results of projects initiated.

Dimension rating = D

8.2 Performance achieved for service delivery

As described in PI-8.1 above, KPIs form part of annual action plans and medium to long-term policy documents. Each line ministry has a monitoring and evaluation (M&E) department that collects and analyses statistical data. The M&E department in each line ministry works in close collaboration with government statistical service – a department under the MoP. The statistical department of MoP provides statistical reporting templates to line ministries for data collection and analysis. Publication of performance achieved for service delivery is not routinely done in accordance with set KPIs; however, interactions with officials of Ministry of Education suggests that student examination results are published in addition to performance of public schools.

Dimension rating = D

8.3 Resources received by service delivery units

Service delivery in Iraq is a key government priority; nonetheless, resource limitation from the national budget as a result of global economic shocks particularly the continuous fall in oil prices coupled with the need to commit more resources to fight ISIS insurgence has led to poor and/or limitation in service delivery. Information on resources received in cash and kind from most development partners is rare and not systematically reported to government. The financial reporting framework is unable to report on resources received by primary service delivery units, such as primary schools and clinics even though governorates have the mandate to report on these units. There is no survey – Public Expenditure Tracking Survey (PETS) conducted in the last three completed fiscal years to track resource allocation to primary service delivery units.

Dimension rating = D

8.4 Performance evaluation for service delivery

This dimension assesses the extent to which the design of service delivery programs and the efficiency and effectiveness of those programs is assessed in a systematic manner through independent performance evaluations. However, there is no evidence to suggest that independent performance evaluation of the efficiency and effectiveness of service delivery have been carried out over the last three years, other than Value for Money (VFM) studies by the internal M&E framework in each line ministry and limited performance audit by FBSA. The conduct of such independent evaluations provides an impartial view of performance benchmarks coupled with the critical assessment of agencies responsible for service delivery.

Dimension rating = C

PI-8 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Performance information for service delivery		**D**	**D**		
8.1	Performance plans for service delivery	N/A	D	Performance benchmarks are developed in sector	New dimension in PEFA 2016.

PI-8 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
				strategies, long term, medium term and annual action plans; but are not published	
8.2	Performance achieved for service delivery	N/A	D	Publication of performance achieved for service delivery is not routinely done in accordance with set KPIs; that said, MoE makes public student examination results as well as performance of schools	New dimension in PEFA 2016
8.3	Resources received by service delivery units	D	D	Over the last three completed fiscal years, no surveys (PETS) has been conducted. Further, there is no mechanism to track resources (both cash and kind) received by primary service delivery units	Subject matter unchanged, but rating & performance not comparable because additional information on two large line ministries is required
8.4	Performance evaluation for service delivery	N/A	C	Value for Money (VFM) studies are performed by the internal M&E framework in each line and limited performance audit by FBSA.	New dimension in PEFA 2016

Ongoing reforms: No major reforms

PI-9 Public access to fiscal information

9.1 The comprehensiveness of fiscal information available to the public

Good practice requires ready public access to key fiscal information. This indicator assesses the public access to information about different aspects of budget performance, as a measure of fiscal transparency. The PEFA assessment framework lists nine elements of fiscal information, including five 'basic' elements and four 'additional' elements. The scoring is based on assessment of public access (through appropriate means such as websites, billboards, notice boards, etc.) to the number of the above information elements.

The GoI has an official government website for publishing public information in addition to individual websites of government ministries and agencies. According to officials, the main source of dissemination of government notices and fiscal reports is through the official government website. **Table 3.9** below analyses the type of fiscal information made available to the public through appropriate means and in a timely manner; only two (annual executive budget proposal documentation and the enacted budget) of the five basic elements complies fully with the assessment criteria. That said, two other elements (one basic and one additional) partially meet the assessment criteria in terms of availability to the public but with substantial delays.

Table 3.9: Public access to key fiscal information

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
Basic elements			
1.	***Annual Executive Budget Proposal documentation:*** A complete set of executive budget proposal documents (as assessed in PI-5) is available to the public within one week of the executive submitting them to the legislature.	**Yes**	Government officials say fiscal information is made public once the Council of Representatives approves it.
2.	***Enacted Budget:*** The annual budget law approved by the legislature is publicized within two weeks of passage of the law	**Yes**	Enacted budget is published on both MoF website and the official government website under the Prime Minister's Office within two weeks following passage of the Appropriation's Act by Parliament
3.	***In-year budget execution reports*****:** The reports are routinely made available to the public within one month of their issuance, as assessed in PI-27	**Yes, with delays**	Whiles in-year (monthly) budget execution reports are published on MoF website, (in accordance with Section 9(7) Annex A of the Financial Management 2004), significant delays of at least three (3) months are encountered
4.	***Annual budget execution report:*** The report is made available to the public within six months of the fiscal year's end.	**No**	The Iraqi Government does not publish consolidated annual financial reports. The Government opines that such information should be made public only after the said accounts have been audited by the Federal Bureau of Supreme Auditors (FBSA)
5.	***Audited annual financial report, incorporating or accompanied by the external auditor's report:*** The report(s) are made available to the public within twelve months of the fiscal year's end.	**No**	Significant delays occur in publishing audited annual financial reports. As of April 2016, the 2014 financial reports were still under review and are yet to be published on government website. The 2015 reports are yet to be audited by FBSA. That said, the 2013 audited financial reports are on MoF website.
Additional elements			
6.	***Pre-Budget Statement:*** The broad parameters for the executive budget proposal regarding expenditure, planned revenue and debt is made available to the public at least four months before the start of the fiscal year.	**No**	This is discussed at the Council of Ministers level but not made public until after legislature approval of the annual budget proposal which usually takes place at the start of the new fiscal year
7.	***Other external audit reports:*** All non-confidential reports on central government consolidated operations are made available to the public within six months of submission.	**No**	No other external audit reports from the FBSA are published except for the audited annual consolidated financial reports
8.	***Summary of the Budget Proposal:*** A clear, simple summary of the Executive's Budget Proposal or the Enacted Budget accessible to the non-budget experts, often referred to as a 'citizens' budget', and where appropriate translated into the most commonly spoken local	**No**	Abridged budget known as the citizen's budget is not yet produced at this stage. That said, the World Bank is supporting the Iraqi Government through the Ministry of Finance under the Externally-Financed Output signed in 2015 to produce a citizen's budget

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
	language, is publicly available within two weeks of the Executive Budget Proposal's submission to the legislature and within one month of the budget's approval		
9.	***Macroeconomic forecasts:*** The forecasts as assessed in PI-14.1 are available within one week of its endorsement.	**Yes, with delays**	While macroeconomic forecasts are discussed as part of the budget strategy[4], they are not made public within a week after endorsement by the Council of Ministers.

PI-9 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Public access to fiscal information		**D**	**D**		
9.1	Public access to fiscal information	D	D	Only two of five basic elements are fully met. Nonetheless, two other elements (1 basic & 1 additional) are partially met; the main challenge is the delay in publication of information	Scores are not directly comparable, although the subject matter remains unchanged. In 2016, elements are split into 'basic' and 'additional' none of which were met in 2008; hence, there is a marginal improvement in performance.

Ongoing reforms:

MoF, with consultation with the IMF and the World Bank, is currently developing a new PFM law that is expected to improve transparency and public access to fiscal information. Furthermore, the World Bank under the Iraq Public Management, Transparency and Regulatory Reform TA is assisting the GoI produce a citizen's budget going forward, upgrade MoF internet and intranet portals for quick public access to fiscal information.

[4] The latest budget strategy 2016-2018 has been developed but not yet published.

Pillar III. Management of assets and liabilities

PI-10 Fiscal risk reporting

This indicator measures the extent to which fiscal risks to GoI are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the GoI's own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters.

10.1 Monitoring of public corporations

Iraq's management of the public corporations is currently decentralized in various ministries and coordination with the Ministry of Finance beyond providing some financial statements is ad hoc. Given the magnitude of the sector and its structural and cyclical problems, the Prime Minister decreed[5] the establishment of a Committee for public corporations restructuring to establish, operate and supervise a database to monitor the fiscal risks as well as to improve comprehensive, accurate and timely data collection on public corporations. A report commissioned by the Prime Minister Advisory Commission (PMAC) dated February 2015 indicates that there are 176 public corporations in Iraq out of which 157 were evaluated but for 19 due to lack of information. Forty-four of one-hundred and fifty-seven public corporations proved to be viable and/or profitable but for the current security situation coupled with the global economic challenges. Although the report on SoE restructuring, which contains fiscal risk report on public corporations, has been submitted to parliament on 24th June 2016, it is yet to be published. At least 75% of public corporations in Iraq are loss-making entities and pose huge fiscal risk on central government. For the two years running 2012 and 2013, government subsidised these corporations with an amount of IQD191billion[6] for remuneration of over 21,600[7] workers. Public corporations are required by law – FML 2004 Section 8 – to prepare and submit monthly, bi-annual and annual audited report to the Minister of Finance. Evidence provided by the FBSA indicates that 168 out 176 public corporations are audited annually, but with considerable delays due to late completion and submission of annual financial statements to FBSA. There are significant delays in submitting annual audited reports to MoF; as at the time of this assessment, 92 public corporations did not present their annual reports of the year 2015, while only 38 public corporations have complied with the law but these audit reports are for FY2012 and FY2013.

Dimension rating = D

10.2 Monitoring of subnational governments

This dimension assesses the extent to which information on financial performance, including the central government's potential exposure to fiscal risks, is available through the audited annual financial statements of subnational governments. It also assesses whether the central government publishes a consolidated report on the financial performance of the subnational government sector annually. Fiscal risks created by subnational governments can take the form of debt service defaults with or without guarantees issued by the central government, operational losses caused by unfunded subnational governments' quasi-fiscal operations, expenditure payment arrears, and unfunded pension obligations. The net fiscal position of subnational governments that have direct fiscal relations with the central government should be monitored, at least on an annual basis, with essential information on fiscal risks reported to the central government official responsible for subnational government oversight.

[5] Decree No. 446 of October 20, 2015
[6] Table on page 12 of PMAC SoE report dated February 2015
[7] Table on page 12 of PMAC SoE report dated February 2015

The availability of information about the utilization of all public financial resources at the subnational level is not adequate. Although the collection and consolidation of subnational government statistics is common in many countries with advanced PFM systems, the manual based system(s) currently found in the government of Iraq's administrative structures may prove to be an overwhelming obstacle to effective consolidation. Systematic collection of subnational administration finance data requires consistency in the governmental financial chart of accounts and budget classifications across the central and subnational government administrations. In addition, the economic budget classifications and the revenue classifications used by the central and subnational administrations must be aligned.

All government agencies in Iraq including the Governorates, follow the Law of Financial Administration and Public Debt No. 94, 2004, and the unified accounting bylaw issued in 2011 by the Iraqi Federal Board of Supreme Audit (FBSA). Governorates follow the cash basis of accounting by which resources and uses of funds are recorded when cash is received or when payments are made. The Governorates use manual-based accounting systems supported with Excel and Word applications to generate basic regular and ad hoc financial reports, such as trial balance, bank reconciliations, and monthly details of revenue and expenditures. Automated accounting systems are believed to reduce human error, and improve record keeping and reporting. The installation of such automated systems in Iraq would eventually lead to better decision making. Therefore, implementing an automated accounting system at the national and subnational government administration levels is a priority.

The external audit function needs to be strengthened at the Governorate level. With the additional powers and resources that will be transferred to the Governorates, it will be important to strengthen the external audit function performed by the Federal Board of Supreme Audit (FBSA) to enhance the oversight and accountability of public spending. According to Iraqi Federal Board of Supreme Audit (FBSA) Law 31 (2011), "the Board shall carry out an extremely wide range of tasks, including: (i) Making an extensive mission of auditing the accounts and activities of all public bodies, including evaluating their performance and investigating all matters related to the efficient use of public money; and (ii) embarking on a mission to investigate corruption, fraud, waste, abuse and inefficiency in matters related to the receipt, disbursement and use of public money." The audit is carried out by the audit commission teams that exist in all governmental entities (including the Governorates) and state-owned enterprises (SOEs).

It is our understanding that Governorates may be subject to two audits per year; one is performed by the FBSA, and in addition, an independent private firm conducts annual audits on selected governorates (sample basis) as part of the "Development Fund for Iraq" project. However, Governorates' financial reports are not published.
Dimension rating = D

10.3 Contingent liabilities and other fiscal risks

At present, there is no evidence at MoF suggesting the monitoring and reporting of central government contingent liabilities arising out of either PPPs or other government financial transactions including sovereign guarantees for public corporations. However, available information from the Ministry of Education suggests that there is an explicit contingent liability estimated at IQD14billion with respect to financial transactions and contracts with building contractors and suppliers of educational materials as a result of government failure to perform its part of the bargain. Whereas there is currently no PPP law, regulations or policy, line ministries do have some PPP engagements with potential liabilities; these are not monitored and reported. Contingent liabilities are potential liabilities that may occur, depending on the outcome of an uncertain future event. They are recorded in the accounting records if the contingency is probable and the amount of the liability can be reasonably estimated. These pose huge fiscal risk on central government finances and therefore should be of paramount importance as far as monitoring and reporting are concerned.

Dimension rating = D

PI-10 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Fiscal risk reporting			**D**		
10.1	Monitoring of public corporations	D	D	MoF is making substantial efforts to monitor public corporations: however, at time of assessment, most of public corporations did not submit their financial statements	This dimension is comparable to 2008 PI-9 (dim ii): oversight of aggregate fiscal risk from other public sector entities.
10.2	Monitoring of subnational governments	D	D	Performance is less than required for 'C' as financial reports are not published.	This dimension is comparable to 2008 PI-9 (dim ii): oversight of aggregate fiscal risk from other public sector entities.
10.3	Contingent liabilities and other fiscal risks		D	There is no evidence suggesting monitoring and reporting of central government contingent liabilities	New dimension; performance not comparable.

Ongoing reforms:

GoI, the under the supervision of the Prime Minister's Advisory Commission (PMAC), has commissioned a study into the viability of state owned enterprises. At present, 38 SoEs have been assessed out of 166 (177 before merger of some SoEs). The report is dated February 2015. Going forward, government intends to restructure these public enterprises to reduce over-reliance on central government subsidies.

With the additional powers and resources that will be transferred to the Governorates, it will be important to strengthen the external audit function performed by the Federal Board of Supreme Audit (FBSA) to enhance the oversight and accountability of public spending.

As part of efforts to provide a legal framework for PPP, government has secured a grant of US$ 3 million from the World Bank to undertake a diagnostic study on PPP arrangements. Meanwhile, the Ministries of Finance and Planning are collaborating to regulate all PPP arrangements with the assistance of the World Bank.

PI-11 Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by a government, with emphasis on the largest and most significant projects. Good practice requires that appraisals are conducted according to national guidelines, the analyses are reviewed by an entity other than the sponsoring entity, and that the results are published.

The country is facing the dual shock of a fiscally, socially and politically costly brutal war waged by the Islamic State of Iraq and Syria (ISIS), and the sharp fall of the price of oil. This assessment comes at a time when the country is undergoing a large fiscal shock that could lead to a much deeper economic and social crisis that would disproportionately hurt the poor and further delay the reconstruction of Iraq. In this context of the current country situation, and that public projects would mainly aim to restore basic services to citizen, it was agreed that rating this indicator would not be meaningful.

Ongoing reforms

The MoP has recently finalized the development of the Iraqi Development Management System (IDMS)—an aid management solution promoting good governance and public accountability and transparency. However, the IDMS does not provide a workflow for all the processes and sub-processes of the PIM System. Based on the content of Cabinet Decree No 445 (October 2015) related to the new PIM framework for Iraq, the MoP is currently establishing a public investment decision process that covers everything from project ideas to pre-feasibility and feasibility studies, capital investment prioritization (based on cost–benefit analysis and expenditure efficiency), financing modalities, continuous monitoring of the fiscal affordability of all projects, project execution, operation and ex-post evaluation. This should gradually be made effective during the implementation of the 2016–2018 PIM Action Plan, and will become effective from 2017.

Relevant government officials at both federal and governorate level will be trained as of October 2016 in project selection and prioritization in the context of the implementation of the 2016–2018 PIM Action Plan, and the “Simplified Manual for Public Investment Projects Selection and Prioritization in Iraq” (December 2015).

The PFM Draft General Financial Management Law (March 2016) makes specific references to multi-year project budgeting, and it is expected that this will be adopted this year by the Council of Representatives.

PI-12 Public asset management

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal, and has three dimensions: 12.1 assesses the level at which financial assets (government investments in public or private companies) are monitored and reported; 12.2 examines the extent to which non-financial fixed assets are monitored and reported; 12.3 measures the level of transparency of asset disposal.

12.1 Financial asset monitoring

It appears there is a unit within MoF responsible for monitoring government investments in equities, which maintains information as to ownership and control (percentage shares), capital appreciation or loss, return on investments, among others: however, all efforts to meet officials proved futile. There is no information on total government investments in equities in the 2013 AFS, nor could any reliable information relating to the monitoring of financial assets (including shares in public corporations) be found for FY2015.

However, an *ad hoc* study commissioned by the Prime Minister's Advisory Commission (PMAC) and published in February 2015 showed that 44 public corporations are potentially viable and could be self-sustaining and eventually be in a position to pay dividends to government.

Dimension rating = D

12.2 Nonfinancial asset monitoring

There is no centralised agency responsible for recording and reporting all central government non-financial assets in a consolidated statement. That notwithstanding, line ministries and budget entities prepare as part of their annual financial statements, a fixed asset statement for external audit in accordance with Section 11(5) of the FML 2004. Each budget entity also maintains a fixed asset register with information on date of purchase, asset type, cost, location and condition or status. The Ministry of Construction, Public Works and Municipalities also maintains records of all capital projects executed on behalf of other line ministries and budget agencies. As an oil economy, the publication of information about oil and gas fields is of paramount importance to Iraqis, in addition to the publication of all other government fixed assets with information on their lifespan.

Dimension rating = B

12.3 Transparency of asset disposal

The Public Procurement, Sale and Lease Law (No. 32 of 1981) covers the sale and lease of government properties and fixed assets. It outlines guidelines for asset disposal. Article 3 says the sale of public assets should be done through public auction. Article 4 prohibits, up to the 4th lineage, all persons directly involved in the sale and lease process from acquiring those assets, including spouses. Articles 6, 8, 9 and 10 outlines the mandatory evaluation and sale committees - which must be two different committees, the membership of the committees - at least three persons with at least one been a qualified accountant. The law requires that by 31st December each year, each budget entity's inventory committee evaluates all fixed assets in its custody and determines those to be disposed. The inventory committee submits its report to the Minister in charge for approval, then to the evaluation committee, followed by advertisement in at least three state print and/or electronic media for a minimum period of 30 days in accordance with Article 12. The advertisement informs the public of the date and venue of the public auction. The successful bidder - the highest bidder takes ownership after all the necessary payments have been made and ownership transfer is concluded. For central government line ministries and budget entities, the proceeds are paid directly into the State Treasury Account held by CBI; public corporations however pay their proceeds into their respective individual corporate bank accounts usually with state banks. MoF reports the proceeds from fixed assets disposal in the monthly and annual financial statements, which are submitted to the Council of Representatives each quarter and year. For instance, in FY2015, proceeds from sale and lease of government fixed assets amounted to IQD83.05billion.

Dimension rating = B

PI-12 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Public asset management		**N/A**	**C+**		
12.1	Financial asset monitoring	N/A	D	There is no reliable data on monitoring of government financial assets.	New dimension: not comparable.
12.2	Nonfinancial asset monitoring	N/A	B	While GoI does not have a consolidated fixed asset register, each budget entity maintains a register which is audited by FBSA	New dimension: not comparable.
12.3	Transparency of asset disposal	N/A	B	Rules and procedures for the disposal of GoI fixed assets are established in the Public Procurement & Lease Law - Law 32 of 1981. Proceeds are reported in AFS.	New dimension: not comparable.

Ongoing reforms: No major reforms.

PI-13 Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

13.1 *Recording and reporting of debt and guarantees*

Good practice requires full information to be available about all general government debt (including debt guaranteed by government), with accuracy ensured by monthly reconciliations between data sources. Total public debt at 30th June 2016 was USD 52.09 billion, of which USD 34.78 billion is domestic and USD 17.31 billion external.

Whiles a Debt Management and Financial Analysis System (DMFAS) software has been procured for recording and reporting public debt, it is not in use for reasons including capacity and capability constrains, logistical constraints such as a well secured and ventilated storage space as well as spares for the servers and computers, among others. The Public Debt Department (PDD), metamorphosed from the former Debt Management Unit established in 2005, and uses Microsoft Excel Spreadsheets for recording and reporting public debt. Whereas monthly debt reconciliation is done by the PDD on principal and interest payments in line with planned payment schedules, and between PDD and Accounts Department, comprehensive annual reconciliation takes place based on statements received from creditors, with minor reconciliation differences usually from exchange and interest rate differences. Officials of PDD maintained that debt figures are accurate and comprehensive; this position is however doubtful since there exist major reconciliation challenges between the Accounts Department and the Public Debt Department. Further, coordination between PDD and Accounts Department leaves much to be desired. Following from this, the IMF has advised the appointment of an external auditor to carry out a comprehensive public debt audit. It should be noted that while debt reports are produced annually, they do not meet international debt reporting standards.

MOF has appointed an international audit firm to perform due diligence of Iraq public debt (international and domestic), which is still ongoing and not finalized at the time of the assessment.

Dimension rating = C

13.2 Approval of debt and guarantees

Best practice envisages that a single Government entity will be responsible for approving the contracting of all loans and the issue of all guarantees, and that the borrowing policy will be implemented within a framework, which establishes transparent limits on outstanding debt, which are consistent with the government's fiscal targets.

Section II (1) Annex B of the Financial Management Law and Public Debt Law 2004 enacted under the Coalition Provisional Authority Order Number 95 mandates the Minister of Finance as the sole government official to secure loans and issue guarantees on behalf of the Government of Iraq. Once contracted, the loans and guarantees shall be managed by the Central Bank of Iraq in accordance with Section I (10) Annex A and Section II (2) Annex B of the same law. Furtherance to these, the law also provides for, under Section II (3) Annex B, the authority of the Minister of Finance for the determination of the terms and conditions governing these debts and guarantees in terms of date of maturity, interest rates, forms of security, interest computation, debt currency, principal and interest payment date, among others. Interactions with officials of the Public Debt Department of MoF in addition to evidence adduced point to the fact that the laws and regulations governing public debt and guarantees, as well as guidelines contained in the debt management strategy 2017-2019 are adhered to. Until 2004, the GoI had no borrowings following from the fact that the budget always had a surplus. Thereafter, GoI began borrowing, not for budget financing but for capacity development and training, as well as to gain experience from international and domestic borrowing strategies in addition to activating the treasury market. The level of sovereign guarantees, as of the time of this assessment was approximately USD 428 million for the energy sector, representing 0.42% or 0.72% of total government budget or expenditure respectively for FY2015.

Dimension rating = C

13.3 Debt management strategy

The MoF developed a current three-year medium-term debt management strategy (DMS) spanning 2017-2019. The strategy outlines an overview of the functions of the Public Debt Department, among which include but not limited to negotiating debt payment schedules, issuing government treasury bills and bonds for the domestic financial market, and securing new affordable external loans from bilateral and multilateral creditors. Government borrowings for the FY2015 amounted to IQD 18.74 trillion; this is expected to increase to IQD 20 trillion in 2016 mainly due to the continuous decline of the price of crude oil with a projected barrel price of USD 45 at a forecast production volume of 3.5 million barrels per day.

The DMS is not published, and is limited in scope in terms of providing a detailed outline of risk implications of government borrowings such as interest and exchange rate risks, among others. Whiles the DMS provides composition of external financing by, lending agency, principal and interest payment: however, it does not provide same for domestic borrowing.

Dimension rating = D

PI-13 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Debt management		**C**	**D+**		
13.1	Recording and reporting of debt and guarantees	C	C	Total public debt records (foreign & domestic) are reconciled & updated annually based on creditor statements, with minor reconciliation differences. Monthly reconciliation is also done between PDD and Accounts Department but with major reconciliation differences	The scores are directly comparable. Score and performance unchanged
13.2	Approval of debt and guarantees	C	C	The Minister of Finance is the sole official authorized by law to contract loans and issue guarantees on behalf of GoI. DMU responsible for managing government debt portfolio. Loans and guarantees are approved by the Council of Representatives.	The scores are not directly comparable, although the subject matter is unchanged from PI-17 (III) in 2008.
13.3	Debt management strategy	NA	D	A 3-year medium-term DMS has been prepared for 2017-2019, which outlines composition of external borrowing but lacks detailed analysis of risks. No information on domestic borrowing for forecast period, & is not published.	Not comparable: new dimension

Ongoing reforms:

Japan International Cooperation Agency (JICA) is providing assistance on Debt Management issues through the ongoing Debt Management Performance Assessment.

Pillar IV. Policy-based fiscal strategy and budgeting

PI-14 Macroeconomic and fiscal forecasting

This indicator measures the ability of a government to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations.

14.1 Macroeconomic forecasts

The Budget Department in the MoF uses projections incorporating GoI policies set out in the *'National Development Plan (2013-17)'* and the *'Strategy for Combating Poverty' (2009)* as well as *ad hoc* inputs from line Ministries, the Central Bank, and the Central Statistics Organization to produce a *'Federal Budget Strategy for Fiscal Years 2016-2018'* (FBS) – effectively a Budget Framework Paper.

The FBS includes the latest available information and developments in GoI policies that may impact on revenues and expenditures, as well as macroeconomic data and assumptions about GDP, inflation (CPI), population growth and exchange rates. Previous trends are observed and forecasting techniques are used to derive projections which in addition to the above estimate loan disbursements and repayments, other financing items, and the oil price. This data is combined into a report which is shared with Parliamentary working groups on the budget, but it is neither published, nor reviewed by another (independent) entity.

Dimension rating = B

14.2 Fiscal forecasts

Effective forecasting of future revenue flows will ideally define the size of the envelope for meaningful planning of medium-term expenditures: this is an essential part of any PFM system and ideally is transparent, formalized and accountable in what is largely a political process. However, in GoI, revenues are overwhelmingly generated (85%) from a single natural resource – Oil – and which are of course highly susceptible to the volatility in world markets. Hence considerable attention is given to the projections generated by the Ministry of Oil about future prices when formulating the fiscal framework. The FBS contains various tables, for example, of projected revenues for fiscal years 2016 to 2018 (compared to the estimates for 2015).

Table 3.10: Revenue projections for 2016 to 2018 (Billions IQD)

	2015	2016	2017	2018
Total revenues	63500	66000	79100	85600
- Revenues from crude oil exports	57700	58000	68600	74500
- Non-oil revenues	5800	8000	10500	11100
Taxes (direct & indirect)	1400	4700	6	7
- Direct taxes	1849.245	2100.585	2465.184	2656.702
Individual income ta	389.245	847.327	932.060	1025.266
Corporate income tax	671.633	275.156	302.672	332.939
Corporate taxes: foreign oil co.	618.000	870.000	1050.000	1100.000
Income tax for civil servants	170.367	108.102	180.452	198.497
- Indirect taxes	2475.000	2546.000	2870.000	3490.000
Customs duties	2065.000	2106.000	2400.000	3000.000
Excise tax	410.000	440.000	470.000	490.000
Interest	15.180	10.853	11.688	12.835
Treasury's profits of B enterprises	3235.166	3002.071	3289.989	3618.988
Fees for services	105.523	165.370	500.000	700.000
Other revenues	105.523	6475.278	5494.122	6043.432
Non-tax revenue	*4400*	*3300*	*3500*	3900

Source: FBS, 2016

Similarly, projected expenditures for fiscal years 2016 to 2018 are compared to estimates for 2015, assumed rates of growth, and the share of the investment budget of total expenditure:

Table 3.11: Expenditure projections for 2016 to 2018 compared to estimates for 2015 (Billions IQD)

	2015	2016	2017	2018
Total expenditures	89.3	82.8	95.0	98.6
- Current expenditures	57.6	66.2	69.6	74.6
Growth rate (percent)	--	6.1	1.4	1.4
Additions	--	4.777	1.195	1.2
- Investment expenditures	31.6	16.6	25.4	24.0
Growth rate (percent)	--	-26.0	10.0	10.1
Additions	--	--	--	--
Total revenues	63.5	66	79.1	85.6
- Revenues from crude oil exports	57.7	58.0	68.6	74.5
- Non-oil revenues	5.8	8.0	10.5	11
Deficit	-25.8	-16.6	-15.9	-13.0
Ratio of investment exp to total budget exp (percent)	35.4	20.0	26.7	24.3
Ratio of current expenditures to total budget expenditures (percent)	64.5	80.0	73.3	75.7
Ration of deficit to total budget (percent)	-a28.9	-20.2	-16.7	-13.2
Ratio of deficit to GDP (percent)	-12.3	-8.2	-7.0	-5.3
Consumer price index (inflation)	1.4	2	2	2
Gross national product	210.2	205.1	227.4	243.8
Population (x 1,000)	35,282	37,016	39,977	41,195

Source: FBS, 2016

As might be expected in an economy so heavily dependent on a single revenue source, forecasting is formalized, led by the Ministry of Oil and integrated in the budget process. This is sufficiently top-down to influence the allocation of expenditure across all GoI priorities, and MoF consults with key stakeholders (including Parliamentary working groups) on the impact of current and new revenue policies to derive recommendations for inclusion in the annual budget law.

Dimension rating = B

14.3 Macrofiscal sensitivity analysis

The FBS does not explicitly include assessments – quantitative or qualitative – of the impact of alternative macroeconomic assumptions., given the sensitivity of markets to such information.

Dimension rating = D

PI-14 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Macroeconomic and fiscal forecasting			**C+**		New indicator.
14.1	Macroeconomic forecasts	*new*	B	Projections of inflation, the Oil price, loans and other financing items are made but not published, nor reviewed by an independent entity.	New dimension.
14.2	Fiscal forecasts	*new*	B	Revenue forecasting is formalized, driven	New dimension.

PI-14 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
				by assumptions about oil prices.	
14.3	Macrofiscal sensitivity analysis	*new*	D	The FBS does not explicitly include quantitative or qualitative assessments of the impact of alternative macroeconomic assumptions.	New dimension.

Ongoing reforms: IMF assistance has been provided in this area, and is expected to continue.

PI-15 Fiscal Strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

In the extremely difficult circumstances facing the country stemming from the continuing ISIS insurgency and the global oil price decline, GoI is facing a large financing gap of more than 9% of GDP, and hence the strategy has been reactive to deal with the immediate crises.

15.1 Fiscal impact of policy proposals

This dimension focuses on proposed policies as well as the key assumptions underpinning the macroeconomic environment, as a failure to anticipate the impact of policy changes can lead to abrupt revenue reductions, unanticipated deficits and further undermine service delivery: this has been the situation faced by GoI, as the recent reduction in oil prices on the world market and the security situation in the country have combined to create a deficit (over 9% of GDP) in the current year's budget.

In this context and with IMF assistance, GoI has adopted a number of short- and medium-term measures to deal with the crisis, including

- strengthening the fiscal position with a number of revenue-enhancing measures such as introducing customs tariffs and sales taxes;
- reprioritizing investment expenditures (eliminating or postponing less necessary projects);
- reviewing project selection and procurement practices;
- improving the delivery of electricity and containing energy subsidies, with strongly progressive rates for the largest consumers with minimal impact on the rates for low-income households;
- increasing domestic fuel prices, which are now among the highest in oil producing countries;
- financing the deficit from domestic as well as external sources;
- actively pursuing a credit rating;
- seeking support from international financial institutions (primarily the World Bank.

Hence the combined effect of the measures outlined above which were designed to provide short term stability to GoI, are quantified and recorded in the MoF's 'Federal Budget Strategy 2016-18' and in the (publically available) IMF 'Article IV' report.
Dimension rating = C

15.2 Fiscal strategy adoption

For several years, the FBS has set out the fiscal framework within which the budget is formulated, although GoI recognises that the budget process itself requires considerable improvement, and this will be addressed over the medium term as part of the financial management reform program. Fiscal data collected by the Budget Department in MoF is formulated into a MTF Framework to project aggregate ceilings for the budget, and forecasts of the fiscal balance: different scenarios are modelled for internal use but are not included in the document presented to Parliament. As well as defining and preparing a series of standard assumptions to ensure that the basis upon which fiscal forecasts are produced is both robust and transparent, the FBS discusses the issues to be considered in formulating a financing policy, including the risks to be mitigated and the structural changes necessary to develop the economy. The strategy reflects a medium-term vision aimed at strengthening the link between budget allocations and GoI priorities for utilizing the resources available for the coming FY.

The latest strategy document projected expenditure limits for FY2016 and the two following years, and identified the following medium-term objectives:

- provide recurrent financing for completed investment projects (such as new schools and hospitals);
- increase the accuracy of spending units' projections, to enhance their planning capacity and limit overly ambitions projections in their annual budgets;
- reduce economic fluctuations.

As mentioned above, following the 2015 'Article IV Consultation' the IMF has agreed a *"Rapid Financing Instrument"* of approximately USD 1.24 billion to support GoI in addressing the financing gap, on the basis that the measures agreed will be implemented.
Dimension rating = C

15.3 Reporting on fiscal outcomes

This dimension assesses the extent to which GoI makes available – as part of the annual budget documentation submitted to the legislature – an assessment of its achievements against the stated fiscal objectives and targets. The FBS presented to Parliament (and the IMF Article IV report) contains data on the actual deficit compared to the planned figure, and these can be seen in **Table 3.12** below:

Table 3.12: Difference between actual & originally forecasted primary fiscal balance

	2013	2014	2015
	%	**%**	**%**
Planned	7.1	1.8	1.2
Actual	-5.5	-5.0	-16.2
Difference	**12.6**	**6.8**	**17.4**

Source: *IMF Article 4, 2015*

The difference was 12.6% in 2013, 6.8% in 2014, and 17.4% in 2015.
Dimension rating = C

PI-15 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Fiscal strategy			**C**		
15.1	Fiscal impact of policy proposals	*new*	C	In the context of the recent reduction in oil prices on the world market and the security situation in the country GoI (with IMF assistance), has adopted a number of short & medium-term measures to deal with the crisis (a deficit over 9% of GDP).	New dimension
15.2	Fiscal strategy adoption	*new*	C	The strategy reflects a medium-term vision to strengthen the link between budget allocations & GoI priorities for utilizing available resources for the coming FY; however, this is not presented to Parliament.	New dimension
15.3	Reporting on fiscal outcomes	*new*	C	GoI prepares progress report against its fiscal strategy and attached to the annual budget submitted to the Parliament.	New dimension

Ongoing reforms: No major reforms.

PI-16 Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

16.1 Medium-term expenditure estimates

The FBS submitted to Parliament includes the forecast fiscal years and the next two years on both revenue and expenditure with explanatory notes, and uses both administrative and economic classifications. The Minister of Finance's budget speech to Parliament follows the FBS and highlights key assumptions, including the impact of the global economic conditions; the Oil price; donor aid flows; and foreign direct investment.

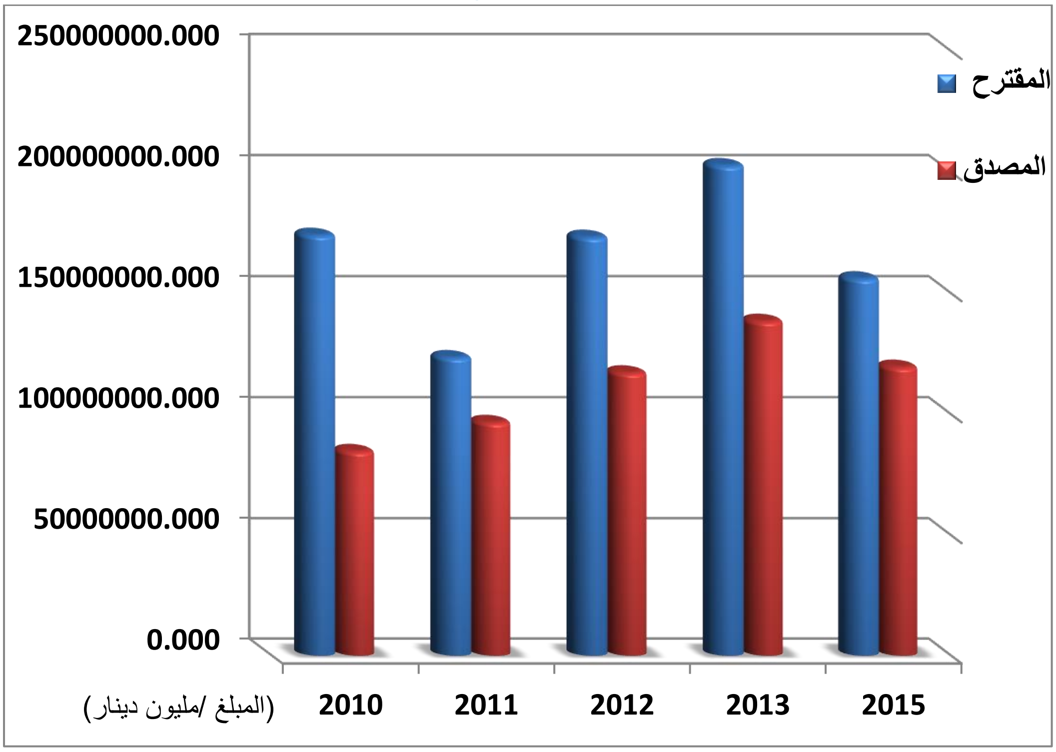
In line with the *'National Development Plan (2013-17)'*, budget consultations for FY2016 were led and coordinated by MoF, and fully informed by preceding planning consultations where broad priorities were agreed. Budget requests by sector ministries and affiliated agencies were scrutinized for compliance with agreed priorities: however, the overall fiscal crisis limited the possibilities for additional resources and Ministries were advised to reprioritize recurrent expenditure in favor of investment projects.

Dimension rating = B

16.2 *Medium-term expenditure ceilings*

In the Federal Budget Strategy (2016-18), MoF recommends the Council of Ministers pass a resolution requiring ministries and spending units to comply with the ceilings established in the strategy as a basis for preparing estimates. It also notes that ceilings encourage spending units to develop realistic spending plans, and support investments and focus on high priority services with. GoI has incorporated ceilings in the budget strategy since 2010, and the chart below indicates the positive impact of this change. As can be seen In **Table 3.13** below, the difference between the budget proposed by MDAs and the approved budget has declined, as officials have gradually shifted to planning for the medium-term.

Table 3.13: Difference between ceilings and actual expenditure



Source: FBS 2016-18

Dimension rating = B

16.3 *Alignment of strategic plans and budgets*

The country's national investment program is set out in the the *'National Development Plan 2013-17'* (NPD), and MDAs are prioritizing the projects contained in this plan, within the policy shift away from recurrent expenditure. However, the difficult fiscal environment means that while all MDAs do have medium-term plans linked to the NDP, progress is restricted by the (unpredictable) availability of annual allocations.

Dimension rating = B

16.4 *Consistency of budgets with previous year estimates*

The FBS states that *"the budget for fiscal year 2016 is consistent with the medium-term fiscal framework, which broadly continues the policy started in 2014".* As discussed previously, total planned expenditure for FY 2016 has changed, and there is a shift from recurrent to investment expenditure, as a result of the expenditure prioritization policy, as well as the adjustments necessary to deal with the fiscal crisis: i.e. these changes are explained.

Dimension rating = C

PI-16 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Medium-term perspective in expenditure budgeting		**D+**	**B**		
16.1	Medium-term expenditure estimates	C	B	Estimates are presented for budget and following 2 FYs using administrative & economic classifications.	Related to former PI-12 (i), but not comparable
16.2	Medium-term expenditure ceilings		B	Budget ceilings are contained in the 'Federal Budget Strategy'.	New dimension
16.3	Alignment of strategic plans and medium-term budgets	D	B	MDAs do have medium-term plans linked to the NDP	Related to former PI-12 (iii) & (iv), but not comparable
16.4	Consistency of budgets with previous year estimates		C	Adjustments caused by the fiscal crisis are explained.	New dimension

Ongoing reforms: No major reforms.

PI-17 Budget preparation process

This indicator assesses the budget formulation process that allows for an effective top-down and bottom-up participation of the MDAs, including their political leadership represented by Cabinet. It also assesses the extent to which the annual budget preparation process supports the linking of the draft budget to public policy objectives. Dimensions 1 and 2 are assessed using the last budget submission, for FY17. Dimension 3 is assessed on the basis of the last three approved budgets: i.e. the FY 2014, 2015, 2016.

17.1 Budget calendar

Section 6 of the Financial Management and Public Debt Law 95 of 2004 stipulates a timetable for the preparation of the annual budget, as follows: the process starts in June each year where the Minister of Finance, in consultation with the Minister of Planning and Development Cooperation, and based on the priorities for fiscal policy established by the Council of Ministers, issues a circular setting guidelines and objectives of fiscal policy for spending units for the preparation of their budgets. Each July, spending units submit budget proposals to the Minister of Finance, who uses these to prepare the draft federal budget and submit it to the Council of Ministers for approval. The Minister of Finance submits the budget by October 10th to the Parliament. This calendar is clear, provides sufficient time for agencies to prepare submissions and was followed for the last budget cycle for most agencies.

Dimension rating = B

17.2 Guidance on budget preparation

Financial Management and Public Debt Law 95 of 2004 section 6 paragraph 3 requires the Minister of Finance, in consultation with the Minister of Planning and Development Cooperation, and based on the priorities for fiscal policy established by the Council of Ministers, to issue a budget call circular setting guidelines and objectives of fiscal policy for spending units for the preparation of their budgets. The requires the circular to include key economic parameters, based on the macroeconomic framework, the procedures and timetable for budget preparation, as well as total levels of expenditure for each spending unit. This will serve as the basis for the spending unit to prepare its budget request. The Budget call circular of 2017, for both investment recurrent expenditures, was a reissue of the previous year's circular, but provides total budget expenditure for the full fiscal year, and administrative ceilings.

Dimension rating = A

17.3 Budget submission to the legislature

Financial Management and Public Debt Law 95 of 2004 section 6 paragraph 8 requires the Minister of Finance to complete the draft annual federal budget by September of each year and submit it to the Council of Ministers (CoM) for approval. The Minister of Finance by not later than October 10th to submit it to the body vested with the national legislative authority for approval. Under the Constitution, legislative authority is vested in two bodies; the Council of Representatives (CoR) and the Council of Union. The CoR consists of 275 members who are elected for four year terms. The CoR approves federal laws, oversees the Executive, ratifies treaties, and approves nominations of specified officials. It elects the president of the republic, who selects a prime minister from the majority coalition in the Council18. The Council of Union, or Federation Council (Majlis al- Ittihad), is to consist of representatives from Iraq's regions. Its precise composition and responsibilities are not defined in the Constitution and are to be determined by the CoR. The Finance Committee reviews the Budget and provides a report to the CoR.

The Budgets of 2017 and 2016 were submitted to the CoR two months before the start of the fiscal year, October 23, 2016 and November 1, 2015, respectively. While the 2015 budget was submitted late to the CoR (December 25, 2014). The executive slightly did not adhere to the Organic Budget Law 94/2004 on the submitted of the budget to CoR for 2017 and 2016, while the 2015 budget was submitted very late (a week before the start of the fiscal year.

Dimension rating = B

PI-17 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Budget preparation process		**NA**	**B+**		
17.1	Budget calendar	B	B	A clear annual budget calendar exists and is largely adhered to. The calendar allows budgetary units at least four weeks from receipt of the budget circular. Most spending units are able to complete their detailed estimates on time.	No change, budget calendar is clear and provides sufficient time for agencies to prepare submissions and majority of spending units complies in submitting their detailed estimates on time.
17.2	Guidance on budget preparation	D	A	The Budget call circular of 2017 was a reissue of the previous year, but does provide totals and ceilings.	The scores are indirectly comparable as the 2016 calibration includes externally financed projects/programs which were excluded in 2008 assessment.

PI-17 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
17.3	Budget submission to the legislature	NA	B	The executive submitted the draft budget of 2017 to the Parliament in Sept, budget of 2016 was submitted to the CoR in Nov. 2016, while budget of 2015 was submitted in Dec 25, 2014.	Not comparable: new dimension.

Ongoing reforms: No major reforms.

PI-18 Legislative scrutiny of budgets

This indicator assesses the legislative scrutiny and debate of the annual budget law as described by the scope of the scrutiny, the internal procedures for scrutiny and debate and the time allocated to that process, in terms of the ability to approve the budget before the commencement of new FY, and also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature.

18.1 Scope of budget scrutiny

Good practice envisages that the legislature will be able to have an impact on the Government's fiscal policy proposals, the medium-term budget framework, medium-term budgetary priorities, and budget revenue and expenditure estimates, through its scrutiny and discussion of the budget proposals. The CoR along with other political institutions, has suffered from the deteriorating security situation and the political gridlock that has paralyzed the GoI. In April 2016, protesters stormed the parliament and set up camp outside its premises in protest of the continued deadlock. A couple of months later the Federal Court nullified two controversial parliament sessions held on April 14 and 26, during which the critically divided MPs voted on removing the Speaker.

Despite the escalating political tensions, the CoR continues to perform its legislative and oversight functions. Among its responsibilities, the CoR is mandated by the Constitution (article 62) to review and adopt the annual budget law. The government submits to parliament the draft budget along with an economic impact assessment report prepared by the Ministry of Finance (MoF).

The legislature's review of the budget covers details of expenditure and revenue. These include the overall amounts allocated for investment projects, the estimated revenues and their sources, the estimated expenditures, and the budget deficit or surplus. However, the budget does not include medium or long term fiscal priorities or forecasts. The CoR does not analyse the investment budget in detail, but rather the total amount allocated to it. It does review some fiscal policies but on an ad-hoc basis. It has not discussed some of the major medium term development plans, such as the National Development Plan (2013-2017) nor its amendments.

Dimension rating = B

18.2 Legislative procedures for budget scrutiny

The Finance Committee is the standing committee tasked with scrutinizing the budget and government's fiscal policies. Upon receiving the Annual Budget Bill from the government, the bill goes through a first reading in the plenary. It is then referred to the Finance

Committee, which submits its report including proposed amendments to the budget. The budget then goes through a second plenary reading, during which MPs can discuss the budget, direct questions to the government, and finally vote to adopt the budget law.

The parliamentary bylaws offer general guidelines for committee work such as formation, reporting, and quorums (Bylaws, articles 68-118). However, some Members of Parliament (MPs) complained that the bylaws are only partially followed. The Finance Committee lacks internal rules of procedure that regulate internal organization, public consultation, technical support and analysis, coordination with other committees etc. Over the past two years, the Chair of the Finance Committee has opted to form subcommittees to study the budget of specific sectors, yet this was an informal procedure.

The Finance Committee does hold hearing sessions with representatives of ministries and other public bodies, especially Ministry of Finance, while discussing the draft budget. It also has some expertise available to it including in house advisors as well as support from multiple international organizations including UNDP and the World Bank among others.
Dimension rating = C

18.3 *Timing of budget approval*

GoI is required to submit the draft budget bill to parliament by October 10 each year, which was not achieved in 2016 budget (draft budget was submitted to the Parliament on November 1, 2015). The parliament is required to vote and adopt the budget law by 31st of December, which gives the CoR around two and a half months to discuss and adopt the budget.

The Parliament did not approve the budgets of 2016 and 2015 before the start of the new fiscal years as both budgets were approved in January of respective fiscal years. For budget of 2015, the parliament did not receive the budget from the government in time and was unable to adopt it before the beginning of the new fiscal year (see **Table 3:14** below). The 2014 budget proved to be particularly problematic as there was no consensus among the political parties in parliament; the budget proposals submitted were rejected and the legislature requested government to revise the estimates.

Table 3:14: Budget Submission to CoR and Adoption (2014-2016)

Budget Year	Draft Budget Submitted to CoR	Budget Adopted by Parliament
2014	March 2014	Not approved
2015	December 2014	January 2015
2016	November 2015	January 2016

Dimension rating =C

18.4 *Rules for budget adjustments by the executive*

PEFA defines good practice as requiring the existence of clear rules limiting the government's power to make in-year budget amendments without the prior approval of the legislature.

The CoR has the power to reallocate or decrease budgeted funds of different units (FMPDL, section 7.3). However, the law does grant the Minister of Finance to carry-out in year adjustments according to the following conditions (FMPDL, section 9.8):

- The Minister can reallocate a maximum of 5% of the total appropriations of the annual or supplemental budget of the spending unit whose budget was reduced, with the condition that no funds are reallocated between the current expenditure of one spending unit and the capital expenditure of another, or between transfer payments of

one spending unit and other items, including salaries, goods, and services or capital expenditures, of another.
- Spending units may, with the approval of the Minister of Finance, reallocate their approved funds between line items by up to 5% of the total amount of funds approved provided that no funds can be reallocated from capital to current expenditures or between transfer payments and other current expenditures, including salaries, goods and services. Virement from salaries or current spending to capital spending of up to 5% may be permitted with the approval of the Minister of Finance.

According to the CoR's Finance Committee, approximately 10-20% of the budget funds have been reallocated in the past few years. Furthermore, reallocations have not always respected the conditions for reallocation, for example the Board of Supreme Audit (BSA) 2014 report shows that funds were reallocated from investment to operational budgets. The Ministry of Finance is required to submit on a quarterly basis a report of these transfers to the COR. For 2015, the Ministry published monthly report on the status of the budget implementation on its website. These reports show that the government often faces challenges implementing the budget and disbursing the allocated funds. This prompts Parliament to question Ministers, for example, the CoR to the Minister of Electricity in August of 2015. However, the pressure on spending the budget fast may create perverse incentives to increase operational costs, raise expenses etc.

The FMPD law also grants extensive rights to the government to amend the budget through passing a supplementary budget, but only on the basis of a significant and unexpected change in economic circumstances or national priorities (FMPDL, section 7.5). The Minister of Finance recommends the supplementary budget to the Council of Ministers, who approves it and then submits it to the CoR for approval. In 2012, the government approved a supplementary budget of 9.3 billion Dollars (approximately 10% of the total annual budget adopted) and submitted it to parliament for approval, however the parliament voted against approving the budget.

As clear rules exist that are adhered to in some instances, and extensive administrative reallocations as well as expansions of total expenditure are allowed, a C rating is considered appropriate.

Dimension rating = C

PI-18 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Legislative scrutiny of budgets		**D+#**	**C+**		
18.1	Scope of budget scrutiny	C	B	Budget strategy is attached to budget proposal submitted to the Parliament; which includes fiscal policies and aggregates for the coming years, besides details of revenue and expenditures, however: it does not appear that fiscal policies are reviewed and challenged.	No change.
18.2	Legislative procedures for budget scrutiny	C	C	Finance Committee lacks internal rules, but has adopted informal procedures	No change.

PI-18 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
				to hold hearings with Ministries etc., (especially MoF) & has support from e.g. UNDP and WB.	
18.3	Timeliness of budget proposal approval	B	C	The legislature approved the budgets of FY16 and FY15 within a month of the start of FY	Rated B in 2008, based on the time parliament spent ***debating*** the budget rather than when it was approved.
18.4	Rules for budget adjustment by the executive	D	C	Clear rules exist and are adhered to in some instances: however, extensive administrative reallocations as well as expansions of total expenditure are allowed, Over the past few years approximately 10-20% of the budget funds have been reallocated.	The 2008 report emphasized that in addition to GoI partially adhering to reallocation rules, there was no proof of a supplementary budget being submitted. This area witnessed some improvement in the following years, with a supplementary budget submitted to & rejected by CoR in 2012.

 # Was PI-27 in 2008 version of the Framework

Ongoing reforms:

A technical assistance support program, funded by the EU and managed by the World Bank, is under preparation aiming to enhance budget oversight and accountability mechanisms in the use and management of financial resources of relevant institutions in the Federal Government of Iraq and the Kurdistan Regional Government. Some of the project priorities are supporting the Supreme Audit Institutions; Parliamentary Budget Oversight; and the Anti-Corruption Institution.

Pillar V. Predictability and control in budget execution

PI-19 Revenue administration

The assessment of this indicator cuts across the entire revenue administration of central government including tax and non-tax revenue. Two MoF departments are responsible for collections, the General Commission of Taxes (domestic tax collection) and the General Commission of Customs (customs and excise duties and other import tariffs). The indicator has four dimensions: 19.1 assesses the rights and obligations of taxpayers; 19.2 measures the risk associated with revenue management; 19.3 looks at audit and fraud investigation measures; and 19.4 assesses the mechanisms for monitoring and collecting revenue arrears.

19.1 Rights and obligations for revenue measures

Information on taxpayer obligations and rights to redress is quite comprehensive, clear and simple to understand. Dissemination of information on taxpayer obligations and right to redress is limited, to a minimal distribution of leaflets and internet access on tax authorities' web portals with links to MoF website. Media (both print and electronic) campaigns have been reduced drastically, according to officials, mainly due to the high cost of advertising.

Income Tax

Income Tax Law 113 of 1982 outlines comprehensive and simple measures regarding direct and indirect tax obligations. Article 2 details sources of taxable income; Article 3 talks about tax assessment; Article 7 and 8 provide information on exemptions and deductions respectively. Whereas Articles 11, 12, and 13 describe loss transfer, chargeable allowances and effective tax rates respectively, Article 14 mentions tax on corporate chargeable income. Details on filing and submission of tax returns are provided under Article 27. Further, Article 56 provides detailed information on offences and penalties. In addition to Law 113 of 1982, there are also a number of tax instructions from MoF, one of which is Instruction No.1 of 2005 which relates to tax regulations on direct deduction (deduction from source).

There is a ‘Large Taxpayer Unit’, which deals with approximately 55,000 companies, and the 2010 amendment No.19 of Law 113 of 1982 changes the tax imposed on the profits of oil companies from 15% to 35%, with a 7% tax on ‘secondary’ companies.

According to Articles 33 to 34, taxpayers have the right of objection to tax assessed. Taxpayers have the right to administrative tax appeal as provided for under Articles 35 to 36 where they can appeal within 21 days after notification of tax liabilities. If administrative appeal remains unresolved, both taxpayer and the General Commission of Taxes can appeal to a Tax Appeals and Cassation Committee, chaired by a judge with other two members of financial acumen, within 21 days following from the date of rejection. Interactions with officials suggest that this is functional; it was however impossible to triangulate with views from civil society organisations and members of the business community due to the precarious security situation in Iraq.

Customs

Law No. 23 of 1984 is the main provision on customs duties and levies, and is clear and comprehensive. Part III, Articles 8 to 21 outlines vividly the tariff regime as well as goods subject to customs tariffs. Part IV, Articles 22 to 29 talks about restrictions and prohibitions on goods entering or leaving Iraq. Whereas Articles 34 to 37 describe valuation of goods imported into or exported from Iraq, Articles 54 to 61 outline customs declaration framework and documentation requirements. The most elaborate part of the customs law are Articles 191 to 220, regarding offences and penalties. Article 239 allows for administrative prosecution where the Director General of Customs imposes fines and penalties in accordance with Law No.23 of 1984. Where there are objections by the taxpayer, a customs court is set up to hear cases as provided for under Articles 241 to 246. If the taxpayer fails to respond to the administrative judicial process within 15 days, the Customs has the right to file a case to the Customs Court. In general, risks are perceived to be low and collections are good.

Legal provisions for both Income Tax and Customs are clear, simple and elaborate; however, public access to information on tax obligations and redress processes are very limited.

Dimension rating = C

19.2 *Revenue risk management*

Tax authorities in Iraq do not apply risk-based management processes for revenue administration and collection, as the bulk of revenue is generated from a small number of oil-related companies.

There is no tax self-assessment in Iraq; tax administration and assessment are manual, based on historical data of taxpayers. Risk management is fundamental to ensuring compliance, regarding taxation and revenue collection. An efficient risk management environment coupled with functional tax audit and fraud investigation systems in addition to deterrent tax penalty regime combine effectively to deter tax evasion. Whiles there appears to be a deterrent tax penalty framework, the other two legs are missing, thereby significantly reducing the effectiveness of tax administration and revenue collection.

Dimension rating = D

19.3 *Revenue audit and investigation*

Tax audit and fraud investigations are not fully functional: neither Customs or the General Commission on Taxes do not prepare tax audit and investigations annual work plans. In the last three completed fiscal years, no tax audits and fraud investigations have been conducted and reported on. That said, there is an internal audit department that examines tax assessments against historical taxpayer information as a way of checking compliance. The General Commission of Taxes (income tax division) imposes a 3% flat rate on the value of imports as part of the pre-assessment mechanism; this is set off against income tax payable whenever tax returns are filed.

It is not clear how the tax authorities in collaboration with the Ministry of Oil monitor the activities of oil companies in Iraq; the 2016 *'Extractive Industries Transparency Initiative'* (EITI) Report recommends that national oil companies be audited according to international standards even though the country is EITI compliant, based on 2013 data[8]. This therefore raises serious concerns regarding tax compliance of these companies.

Dimension rating = D

19.4 *Revenue arrears monitoring*

Neither of the tax authorities monitor or keep records of tax revenue arrears; therefore, there are no records of tax arrears. Information from Ministry of Oil regarding revenue forecasting and data on arrears from sale of crude oil was not readily available. As regards tax revenues, officials state that the main reason for there is no data on arrears is that domestic tax revenue constitutes less than 5% of total government revenue, and hence is insignificant; more than 95% of central government domestic revenue is from crude oil and natural gas. Another important reason is the absence of an accurate taxpayer database with up-to-date information on taxpayer, address, type of business and tax identification

[8] 2013 data is the latest available information

number even though taxpayer files have unique file numbers. These and many more (including political considerations) make it extremely difficult to identify taxpayers, let alone monitor and record tax arrears.

Customs duties are levied and paid at source, therefore, with little arrears if at all they exist, officials have confirmed; the only situation where arrears arise is out of fraud investigations and audits to determine whether taxpayer(s) under-declared the value of their imports. Inland Revenue on the other hand re-iterated that whereas arrears could be significant in relation to tax assessed, poor and inaccurate data on taxpayers inhibit any tax arrears collection efforts; that said there are no arrears on pay-as-you-earn (PAYE) since this is deducted at source from employees' salaries.

Dimension rating = D*

PI-19 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Revenue administration			**D**		
19.1	Rights and obligations for revenue measures	N/A	C	The majority of revenue collecting agencies provide clear, comprehensive & simple information on taxpayer obligations. Also, an administrative and judicial mechanism for redress.	Dimension reformatted to include tax & non-tax revenue arrears; performance not comparable
19.2	Revenue risk management	N/A	D	Tax authorities do not apply risk-based processes for managing risk	New dimension: performance not comparable.
19.3	Revenue audit and investigation	N/A	D	Both Customs and General Commission of Taxes do not prepare tax audits and fraud investigations annual plans; no tax audit has been done in the last three years.	Subject matter maintained, but data requirements revised; therefore not directly comparable
19.4	Revenue arrears monitoring	NR	D*	There are no records of the stock of revenue (tax and non-tax) arrears. Whereas revenue officials attest to the fact there could significant tax arrears, poor and inaccurate record make it difficult to track and record tax revenue arrears. No information from Ministry of Oil about arrears on sales of crude oil.	Dimension reformatted to include tax & non-tax revenue arrears; performance not comparable.

Ongoing reforms: No major reforms.

PI-20 Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, and has three dimensions. Dimension 20.1 examines the information provided by all revenue collecting agencies to MoF; 20.2 measures the effective transfer of revenue from all revenue collecting agencies to MoF; and 20.3 assesses the revenue reconciliation mechanism in terms of assessment, collections, transfers to MoF and revenue arrears.

20.1 Information revenue collections

Oil revenues constitute 82% of total federal government domestic revenue as of September 2016, at IQD29trillion (unaudited). The Central Bank of Iraq is responsible for oil revenue collections, and reports to MoF on daily collections and performs monthly reconciliations. It does so with inputs from the national oil marketing company – SOMO. On the other hand, two departments within MoF, the General Commission of Taxes (responsible for domestic tax collection) and the General Commission of Customs (responsible for customs and excise duties and other import tariffs) each prepare monthly tax revenue reports, which are consolidated and presented by MoF as part of the in-year budget execution reports. MoF also reports on revenue from oil and other non-tax revenues such as property income and income on investments.

The monthly report from the General Commission of Taxes shows that revenue from income tax on employees (pay-as-you-earn (PAYE)) in June 2016 amounted to IQD161.15billion, made up of IQD123.53billion and IQD37.62billion for the public and private sectors PAYE respectively. Income tax on telecommunications and hoteliers was IQD271.36billion and IQD0.93billion respectively. The cumulative revenue from income tax for the half-year ending June 2016 amounted to IQD1.57trillion. Evidence adduced by the General Commission on Taxes shows a sturdy improvement in domestic revenue mobilization; the total revenue from income tax was IQD1.47trillion and IQD1.72trillion in FY2014 and FY2015 respectively, an increase of 17% over the 2014 figure. Customs on the other hand reported total customs revenue of IQD514.64billion and IQD416.36billion in 2014 and 2015 respectively; these were broken down monthly into revenue types. The reports provide statistical analyses indicating revenue trends of revenue type. The tax to GDP ratio has been improving year-on-year; in 2013, it was 0.5% and 0.92% compared to GDP including oil and excluding oil respectively. In 2014 and 2015, these increased to 0.57% and 1.8% of GDP with oil respectively, and 1.03% and 2.69% of GDP without oil in that order. Oil revenues on the other hand constitute 92% of total federal government domestic revenue for FY2014, and 77% of FY15, and 82% for FY16 as of September (unaudited).

Dimension rating = B

20.2 Transfer of revenue collections

Oil and gas sales (77% to 98% of total federal government domestic revenue) through the national oil marketing company (SOMO) are deposited directly to Treasury Account (300600) at CBI, no funds from oil sales are received by SOMO. Both the General Commission of Taxes and the General Commission of Customs maintain holding bank accounts, approved by MoF, with three state banks head office branches in Baghdad for revenue collection across Iraq. In addition to these holding accounts, there are other subsidiary bank accounts with state banks in each governorate with branch offices of tax authorities. Taxpayers pay either directly into the nearest bank branch or at the offices of the tax authorities. Whereas both GCT and GCC transfer tax collections from branch bank accounts into the holding accounts daily, transfer from the holding accounts to the State Treasury Account is rather monthly; it should be noted that tax revenue constitutes between 2% to 23% of total federal government domestic revenues.

Dimension rating = A

20.3 Revenue accounts reconciliation

There is no mechanism for complete and comprehensive revenue accounts reconciliation within the revenue administration framework. The only reconciliation that occurs is between revenue collections and transfers to MoF, which occurs monthly between revenue collecting agencies and MoF. A 'Complete Revenue Accounts Reconciliation' refers to the process of comparing total revenue (Tax and non-tax) assessed in a given period to actual revenue collected, then arrears which arise because of the difference between revenue assessed and revenue collected, and finally comparing actual revenue collections to total revenue transferred to the Treasury. The national oil company – SOMO, under the supervision of Ministry of Oil performs monthly revenue transfer reconciliation with MoF and CBI; this reconciliation involves total revenue collected and deposited into treasury account No. 300600 held at CBI. As indicated in PI-19.4, poor taxpayer database remains a major concern in Iraq, and therefore does not lend itself to ensuring systematic and sustainable revenue account reconciliation.

Dimension rating = C

PI-20 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Accounting for revenue		**N/A**	**C+**		
20.1	Information on revenue collections	N/A	B	MoF obtains monthly revenue reports disaggregated into revenue types from most revenue collecting agencies; these are consolidated and reported in the in-year budget execution reports.	New dimension.
20.2	Transfer of revenue collections	B	A	Oil and gas revenues are deposited directly to State Treasury Account (300600). However, transfers from revenue collecting agencies is monthly from tax authorities' holding bank accounts into State Treasury Account; that said, daily sweeps are made from tax agencies' branch account into holding accounts.	Subject matter comparable, but data requirements increased to include non-tax revenue.
20.3	Revenue accounts reconciliation	D	C	Complete and comprehensive revenue accounts reconciliation is not done; only monthly reconciliation is between revenue collections and transfers to State Treasury Account; oil, gas and tax included.	Subject matter maintained but data requirements revised: hence not directly comparable, but performance appears unchanged since 2008.

Ongoing reforms:

As part of measures to improve domestic revenue, government has introduced a number of income tax and customs tariffs on importation of vehicles, tobacco, alcohol, mobile telephony and internet usage. These tax measures began in January 2016 and are expected to continue in the long term.

PI-21 Predictability of in-year resource allocation

This indicator examines the extent to which a consolidated cash balance is prepared for all central government bank accounts (21.1), a forecast cash flow statement is prepared and undated regularly (21.2), timely transmittal of expenditure commitment ceilings to line ministries and budget entities (21.3), and budget reallocation mechanisms (21.4) For effective budget execution, it is crucial that MDAs receive reliable information on the availability of funds, and for all three dimensions, the assessment is based on the last completed FY, 2015.

21.1 Consolidation of cash balances

Consolidation of government cash balances is crucially important for efficient and effective cash management, particularly where central government revenues, majority of which is from oil, continue to fall because of the incessant decline in global crude oil prices. Further, proper cash management ensures that government borrows only when it is necessary in order to reduce high borrowing cost and, also crowding out liquidity for the private sector – which might not be extremely important in Iraq because of a state-led economy, but may become imperative for private sector growth, going forward.

The Treasury operates two main bank accounts held by the Central Bank of Iraq. There are other MoF authorised bank accounts held by line ministries for projects and programmes; these are held in state banks. Line ministries receive monthly cash allotments from MoF into their individual authorised bank accounts for expenditure payment. Officials of MoF say consolidation of government cash balances takes place each month, and includes treasury balances and balances from line ministries.

Dimension rating = C

21.2 Cash forecasting and monitoring

Legislative budget approvals are usually late in Iraq, and in 2016, this only occurred in March contrary to Section 7(4) of FML, which requires parliament to pass the budget law by December 31 before the commencement of the new fiscal year. Line ministries and budget entities prepare annual cash flow plans based on their approved budget allocations, for consolidation by MoF; but this is not effectively monitored and updated regularly, either monthly or quarterly The volatile security situation in Iraq coupled with low inflows from oil exports due to the incessant fall in crude oil prices has made it extremely difficult to effectively forecast and monitor cash flows, the resultant of which is the inability of budget entities to deliver on their core mandate (education, health, water and sewerage, transport, electricity, just to mention a few).

Dimension rating = C

21.3 Information on commitment ceilings

Delays in passing the appropriations bill affects budget execution. Section 7(4) of the Financial Management Law gives authority to the Minister of Finance to allocate one-twelfth of the previous year's budget appropriations to each line ministry and budget entity should the appropriations bill for the current year be delayed. The budget department of MoF under the authority of the Minister of Finance issues annual expenditure commitment ceilings to each budget entity once the budget is approved. As indicated in PI-21.2 above referencing the late passage of the appropriations bill, the annual commitment ceilings in effect will only cover three quarters of the fiscal year since the first quarter commitments and expenditures will be based on the one-twelfth allocations. Whereas annual commitment ceilings are issued, actual cash allocations are monthly based on available cash inflows from tax and non-tax revenue; any gap is financed by borrowings from domestic and foreign sources.

Dimension rating = A

21.4 Significance of in-year budget adjustments

In-year budget reallocations are frequent, numerous and fairly transparent. Budget reallocations within votes tend to be very frequent. In FY2015 for instance, MoF approved at least eight thousand (8,000) budget virements at the request of line ministries and budget agencies. Budget reallocations within and across votes are allowed by law, as provided for under Section 9(8)(b) of the FML 2004, up to 5% of total approved budget of budget entities including between salaries and/or recurrent expenditure to capital budget but with the approval of the Minister of Finance. Budget reallocations across votes have become more frequent, due to extreme pressures on government resources as described in PI-21.2 above, mandates the Minister of Finance to report on a quarterly basis, all such virements to the Council of Representatives; in practice this is adhered to.

Dimension rating = C

PI-21 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Predictability of in-year resource allocation		**C**	**C+**		
21.1	Consolidation of cash balances	C	C	Most consolidation of government cash balances takes place each month.	Rating is directly comparable, and shows no change in performance.
21.2	Cash forecasting and monitoring	C	C	Budget agencies submit annual cash flow plans to MoF for consolidation but this is not updated regularly, either monthly or quarterly.	Rating is directly comparable, and shows no change since 2008. However, at that time there was no pressure on GoI revenues hence effective monitoring was not required; this has changed in the last three years.
21.3	Information on commitment ceilings	C	A	MoF issues annual expenditure commitment ceilings: nonetheless cash allocations are monthly.	improvement. Expenditure commitment ceilings are set for three quarters of the year for all categories of expenditure which was not the case in 2008.
21.4	Significance of in-year budget adjustments	C	C	In-year budget reallocations within and across votes may be frequent but are transparent.	Rating is directly comparable, and shows no change since 2008.

Ongoing reforms: No major reforms.

PI-22 Expenditure Arrears

This indicator has two dimensions: 22.1 assesses the level of stock of expenditure arrears; while 22.2 examines the framework for monitoring expenditure payments arrears.

22.1 Stock of expenditure arrears

Central government expenditure arrears appear to be increasing alarmingly. Officials from MoF and MoP have indicated that the main reasons for the rise in expenditure arrears are the continuous fall in oil prices leading to a fall in government revenues for budget financing, and the volatile security situation in Iraq emanating from the ISIS insurgence, which requires additional government funding for security operations. As reported by IMF Article IV report on Iraq dated August 2015, preliminary expenditure arrears amounted to US$8.8bn (USD 2 billion for domestic contractors/suppliers plus USD 6.8 billion for International Oil Companies) for the fiscal year ended 31st December 2014. Data obtained from the Public Debt Department (PDD) of MoF shows an increase of USD 1.4 billion from the 2014 IMF figures to USD 10.2 billion in 2015. It is believed that a significant amount of expenditure arrears is not captured in the above figures on the basis that there is no systematic framework for monitoring arrears from line ministries that might be engaged in unauthorised spending. Line ministries have confirmed the existence of expenditure payment arrears; however, figures were not available. There is also no data on expenditure arrears from state owned enterprises (SoEs). As shown in **Table 3.15** below, expenditure arrears based on available data represent 11.28% of total government expenditure in FY2014; this increased sharply by 3.99% of the 2014 figure to 15.27% in FY2015.

Table 3.15: Analysis of stock of expenditure arrears

	FY2013	FY2014	FY2015
Domestic arrears (USD)	No available data	2,000,000,000	6,000,000,000
Foreign arrears (USD)	No available data	6,800,000,000	4,200,000,000
Total arrears (USD)	No available data	8,800,000,000	10,200,000,000
Exchange rate @ 31st Dec	No available data	1,453.92[9]	1,232.57[1]
Total arrears (IQD)	No available data	12,794,496,000,000	12,572,214,000,000
Total GoI expenditure	No available data	113,473,517,460,463	82.333,363,750,000
% of total arrears to total exp		**11.28%**	**15.27%**

Source: IMF Article IV report CR15/235, August 2015 & data from Public Debt Department

Dimension rating = D

22.2 Expenditure arrears monitoring

Presently, central government has no system of monitoring expenditure payment arrears. Since 2014, following from the economic crisis coupled with the insurgence of ISIS, government budget has been running on deficit, thereby requiring domestic and foreign financing which has not been sufficient during the budget implementation year. It therefore presupposes that expenditure payment arrears do arise for works, goods and services. The absence of a systematic monitoring framework for expenditure arrears provides an avenue for excessive government spending, huge accrued payment arrears with fiscal risk implications on the economy. Further, government sector priorities are likely to be derailed because of the need to settle outstanding commitments in favour of present (current) service delivery requirements. Fiscal discipline is potentially undermined by the lack of proper expenditure arrears monitoring mechanism.

Dimension rating = D

[9] Exchange rate from EU website: http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm

PI-22 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Expenditure arrears		**NR**	**D**		
22.1	Stock of expenditure arrears	NR	D	IMF Article IV and MoF data indicate that expenditure arrears represent 11.28% and 15.27% of total expenditure for FY2014 & FY2015 respectively. This reflects an increase of 3.99% from 2014. No available data on arrears in FY2013.	Not comparable: scoring criteria have been tightened in 2016. NR in 2008 for lack of reliable data.
22.2	Expenditure arrears monitoring	D	D	There is no framework for generating and monitoring expenditure payment arrears.	Scores not directly comparable as criteria reformatted: however, performance appears unchanged.

Ongoing reforms:

The World Bank PFM Institutional Development and Capacity Building Project will improve financial management information and transparency, cash management and debt management, public investment management and public procurement modernization at federal and selected governorate levels. IFMIS design and implementation will automate core budget execution functions (management of appropriations; commitments; payments; receipts; cash management; accounting and fiscal reporting) at the MoF, MoP, two MDAs, and two governorates: once operational, arrears monitoring will improve significantly.

PI-23 Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled and how consistency with personnel records management is achieved.

23.1 Integration of payroll and personnel records

The payroll function in Iraq is decentralized at the ministry, department and agency level. There is no centralized payroll operations or supervisory activity form MoF or any other central authority. For this assessment, The Ministry of Interior has been selected, as it has the largest single payroll (excess of 594K employees) after the Ministry of Defence. In addition, a review was made of the Ministry of Education, the second largest employer within central government, and identified a very similar set of payroll processes and procedures.

Each public entity is responsible to manage and process its own public servants' database: i.e. there is no central database for all personnel. Each public entity maintains a list of its personnel along with their fixed data, and variable data. The respective human resources department manages the processing of payroll by consolidating monthly changes that are communicated by the respective departments. Nevertheless, the personnel database is updated based on changes in status (promotions, etc..), however, this database is stand-alone, and is not connected with the system that processes payroll ('visual.net' in the MoF), where changes are re-entered manually, thus increasing the risk of error and non-reconciling data between those two. It should also be noted that public entities may use a different database application from that used by MoF, further reducing the possibility of integration of records. Staff hiring and promotion is in general checked against the approved budget prior to authorization.

Dimension rating = D

23.2 Management of payroll changes

Staff promotions and increase in salaries are defined in a law, the latest of which is updated in 2015. The law includes schedules that reflect the amounts of increase per number of years of service and the grade level. A public servant is entitled to a yearly salary increase, as per the law. Nevertheless, the employee is responsible to notify his superior about that increase, otherwise no HR action is taken. The head of the respective department, once the request is received from the employee, prepares the required approval and notifies the Human Resources department (HR) for processing. As for increase in salaries resulting from grade promotion, approval is required from the dead of department as well as the Director General of the respective Ministry. Upon obtaining the required approvals, HR prepares the increase and makes changes to payroll. Nevertheless, changes to payroll, whether related to promotions or systematic annual increase are not effective immediately, and may take more than a month to take effect – mainly explained by limited coordination between HR and accounting. This is penalizing the employee, as changes are not retroactive; rather they are effective from the date of approval by the respective head of department and DG (whenever it is needed). In addition, any changes due to retirement are not taken in consideration in budget estimates, and no deductions are reflected in case of no envisaged headcount replacement, thus overestimating the budget in some instances. As there is insufficient data to provide a definitive rating, “D*” is used.

Dimension rating = D*

23.3 Internal control of payroll

An annual budget process exists for payroll that is the foundation for an effective control system and monitoring. However, and as described in the other parts of this section, the absence of central database, the lack of effective integration of personnel database, the use of manual recording of personnel attendance, non-existence of employees fixed coding number, and lack of effective computerized integrated applications, render the internal controls related to payroll prone to errors and manipulations. In fact, the applications and software used to account for employees’ fixed personal data, as well as changes are not interlinked and no automatic synchronization takes place, which leads to inconsistency of personnel details from one application to another until HR manually, updates the changes. In some instances, errors occur and not corrected until after the monthly compliance audit takes place. Employees do not have their own code identification number, which makes traceability often lengthy and time consuming.

Attendance of employees, as detailed in the next section, are only evidenced by a manual signature of the respective employee and confirmed by the Head of the department. No other verification is conducted to account for employees’ presence, and absence. Scanning computerized system for attendance exist only in few public entities, and the majority of entities relies on the manual signature method.

In addition, the MDAs process their own payroll and use separate and different payroll application with limited consistency with the respective Ministry rendering verification and controls limited in that regard.

Irregularities noted in the earlier PEFA assessment are still valid, and no effective reforms have taken place in this critical area where payroll of public servants constitute a large portion of the government public expenditures.

Dimension rating = D

23.4 Payroll audit

Each public servant signs a manual attendance sheet on daily basis: these are in the custody of the Head of department, and are used to account for any sick days, annual leave, and number of hours of attendance. These practices are made manually in majority of public entities thus increasing significantly the risk of manipulation by either the civil servants or their superiors. These sheets are sent to human resource department at the respective public entity to feed into the computation of the employee net monthly salary.

The audit conducted is generally a review of monthly variances rather than undertake of audit checks. In addition, there is no audit conducted on the payroll sheets, meaning that the risk of 'ghost' employees is high (signatures and actual attendance are not verified or audited by other than the respective head of department).

Dimension rating = C

PI-23 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Payroll controls		**D+**	**D+**		
23.1	Integration of payroll and personnel records	D	D	Payroll and personnel records are not integrated to ensure data consistency	No substantial progress in this area
23.2	Management of payroll changes	D+	D*	There are considerable delays in effecting changes to the payroll, but are impossible to quantify.	Efforts are made to effect changes to payroll however delays are still witnessed.
23.3	Internal control of payroll	D	D	Sufficient controls to ensure integrity of the payroll data do not exist	No substantial progress in this area
23.4	Payroll audit	C	C	Partial audits are conducted.	Substantial evidence of sound audit is not available

Ongoing reforms:

There is ongoing effort to improve the payroll audit and payroll system. This is part of the World Bank support to the government of Iraq through the programmatic Development Policy Fund (DPF) 2016. A number of actions related to improving the controls over payroll have been agreed upon. For instance, the installation of biometric identification systems to verify civil servants' daily attendance by 2018, which has been already carried out through issuance of a decree. Other actions requiring the shift by 2020 to electronic payments of civil servants' salaries.

PI-24 Procurement

This indicator is based on the last completed FY, 2015 and examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.

Public procurement is a major component of the national economy, cutting across every sector and area of planning, program management, and budgeting. For example, in 2013, out of a total budget of nearly USD 130 billion, over 40% passed through the public procurement system (includes capital investment).

Despite its sizable share in the economy, capital investment budget is often underspent. There is a broad consensus among stakeholders that federal and regional governments continue to struggle to spend their procurement budgets. Nationally, an average of less than 64% of capital expenditures was executed for the years 2010-2013. Moreover, doing business with the Iraqi government presents considerable challenges and high fiduciary risks. Issues with corruption and transparency in Iraq, as evidenced by the country's consistently low rankings in international surveys such as ranking 161 out of 168 countries under Corruption Perception Index of Transparency International (2015), exacerbate these challenges.

Public Procurement in Iraq was governed by the Coalition Provisional Authority (CPA) Order No 87 of 2004 and the implementing regulations No. 1 for 2008 promulgated by Council of Ministers and prepared by the Ministry of Planning since 2004. However, the Council of Ministers issued a Resolution dated May 16, 2011 to abolish the existing procurement framework, namely CPA Order No 87 of 2004. A draft Law was developed by an inter-ministerial working force with the assistance of the World Bank and reviewed by the Sharia Council as an appropriate legal framework for the country, but there were calls to discard the draft Law and instead to prepare a new concise By-Law or Regulation. Consequently, and in the absence of a new legal framework, the Ministry of Planning has issued a set of regulations in 2014 to replace the 2008 regulations.

Under World Bank previous engagements, general Standard Bidding Documents (SBDs, and sector SBDs were developed, piloted, issued for mandate in July 2016; consequently, achieving efficiency gains through speeding-up bidding operations with minimum risk of discretion or omission. Additionally; training needs strategy had been completed and working with universities on sustainable capacity building program had been developed and launched.

24.1 Procurement monitoring

Ministry of Planning – Directorate of General Governmental Contracts (DoGGC) has established a system for collection of information on procurement activities; however, public access to that information had not yet been established. Publication requirements currently are applicable only to advertisements in newspapers and ministry's website. In general, one of the weakness of the current institutional and organizational arrangements of public procurement in Iraq is lack of a procurement database indicating procurement methods, contracts, values, additional costs and variation orders, and other relevant data. To address this weakness, MOP – DoGGC collects data for all contracts above IQD 10 M.

Dimension rating = C

24.2 Procurement methods

The legal framework (Regulations no 1 for 2014 – Execution of Public Contracting) provides a number of procurement methods, including open tendering, limited tendering, and the procedures for use in open tendering are generally in line with international standards. There are weaknesses and gaps in those provisions, including: lack of clarity as to the hierarchy among the procurement methods (although to one extent or another a semblance of a hierarchy could be figured out through a deductive process). Based on the data received from DoGGC for contracts signed as of January 2016, the majority of contracts used competitive methods as shown in **Table 3.16** below.

Table 3.16: Procurement methods used

Procurement methods	Total procurement value	
	Amount IQD	Percentage
Open bidding	109,135,121,088	75
Restricted bidding and Direct Contracting	36,378,373,696	25

Source: MoP- DoGGC data January 2016

Dimension rating = B

24.3 *Public access to procurement information*

Key procurement information to be made available to the public is listed in **Table 3.17.**

Table 3.17: PEFA requirements to rate this dimension, FY2015

The following key procurement information is available to the public through appropriate means:		
1	Legal and regulatory framework for procurement	**Yes**
2	Procurement plans: The procurement planning process is not well defined, and the budget is prepared independently from any multi-year planning. Linkages between the procurement system and other systems are impacted by the slow nature of the procurement process, including the long time typically required for each of the internal approvals involved in the process. Based on MOP circular no 4/7/16422 dated August 4, 2014, it became a mandate for all implement agencies to submit their annual procurement plans to MOP DoGGC. In the recent years, many ministries started to publish the annual procurement plans on their websites and it became a requirement for	**No**
3	Bidding opportunities: In the 2014 regulations – decree no 2, advertising requirements in 3 newspapers are required. There is no single-portal website, and no single newspaper of wide circulation has been designated for the publication of record for advertisements, and no official gazette in which procurement notices are published. Nevertheless, MOP is planning for development of e-portal for all contract advertisement and awards.	**Yes**
4	Contract awards (purpose, contractor and value) Provisions on publication contents of contract awards are incomplete in the current legal framework	**No**
5	Data on resolution of procurement complaints Complaints submitted to MoP- DoGGC and General Secretariat of Council of Ministers through Citizen E-Government are published on MOP and www.ca.iq	**Yes**
6	Annual procurement statistics	**No**

Dimension rating = C

24.4 *Procurement complaints management*

Regulations 1 for 2014 establish the right of bidder to raise a complaint to a centralized committee at each procuring entity. However; bidders do not have adequate access to independent administrative review and appeal processes. Although civil courts have jurisdiction over civil and commercial matters, access to them is perceived as inadequate by participating bidders, and the administrative review and court systems are not operating adequately under current circumstances. Although CPA 87 of 2004 stipulated the right to file a protest with the Administrative Tribunal; however; the administrative tribunal was not created. It cannot be said that the complaint procedure meets the test of independence from the officials that are involved in the actions, omissions and decisions that may be the subject of the review. The implementing entity is the body to which the complaint is brought, is also the body that approves the key aspects of the proceeding under review (in particular, the contents of the bidding documents and the award decision). In the absence of formal independent complaint mechanism, bidders are appealing to MoP-DoGGC or through the applications of General Secretariat of Council of Ministers through Citizen E-Government

Table 3.18 below lists the features of an independent administrative procurement complaint system. National legislation prescribes these features, and all six criteria are met: however, in GoI the system has yet to be tested, as no complaints have been registered.

Table 3.18: Mechanisms for reviewing procurement complaints

Complaints are reviewed by a body which:		
1	is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	√
2	does not charge fees that prohibit access by concerned parties	√
3	follows processes for submission and resolution of complaints that are clearly defined and publicly available	X
4	exercises the authority to suspend the procurement process;	X
5	issues decisions within the timeframe specified in the rules/regulations	X
6	issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	√

Dimension rating = C

PI-24 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Procurement			**C+**		
24.1	Procurement monitoring	NR	C	To address weaknesses in data collection, MoP – DoGGC now collects data for all contracts above 10 million IQD	*Indicator changed: not comparable.*
24.2	Procurement methods	NR	B	Data from MOP had been collected.	*Indicator changed: not comparable.*
24.3	Public access to procurement information	NR	C	Three of the elements of 'key procurement information' are public	*Indicator changed: not comparable.*
24.4	Procurement complaints management	NR	C	3 criteria out of 6 were met including criteria # 1	*Indicator changed: not comparable.*

Ongoing reforms:

There have been recent positive steps in reforming public procurement system at the federal level namely: i) Standard Bidding Documents (SBDs) were developed, piloted, and mandated for use in July 2016; ii) a national implementation manual was published on the Ministry of Planning website; and iii) a training strategy was prepared and collaboration with universities have started to build capacity of procurement professionals.

The World Bank will continue its support to the Iraqi authorities on a multi-year engagement under new PFM project by providing implementation support at the Federal and KRG levels to use of the issued SBDs, create a sustainable capacity building program including online courses, establishment of a web-based single portal for procurement information, and strengthen management and monitoring of procurement activities.

PI-25 Internal controls on nonsalary expenditure

This indicator covers a wide range of processes and type of payment across central government including existence of segregation of duties, effectiveness of expenditure commitment controls and effectiveness of the payment controls systems.

25.1 Segregation of duties

The "Law for Financial Administration and Public Debt No. 94 of 2004" regulates the activities and operations of line ministries and other public institutions. This law defines the processes for budget preparation and budget execution. In addition, MoF Law No. 92 of 1981 provides the regulation of public funds and monitoring the adequacy of the use of such funds, in addition to description of roles, responsibilities, and authorities over public expenditures. In general, key elements of basic payment, control systems are in place with multiple level approvals at every stage of the transaction is required as per the law and regulations. Nevertheless, the current information system processing capacity is limited given the significant number of transactions taking place, which undermines the payment controls, and compliance monitoring. The main incompatible responsibilities (i) authorization, (b) recording, (iii) custody of assets, and (iv) reconciliation or audit are segregated. However, precise definitions of important responsibilities are lacking and are not well documented.

Dimension rating = C

25.2 Effectiveness of expenditure commitment controls

Controls over expenditure commitments are mainly based on liquidity management rather than on a clear control procedure. Therefore, line ministries commit to expenditure only when they have enough budgeted liquidity, i.e. MoF allocates the necessary funds for their respective budgets. Indeed, during the last couple of years and due to liquidity problems facing the country with the falling oil prices, line ministries and other public entities have faced serious shortage of liquidity, as MoF did not transfer the respective funds to meet the budget allocations. Although commitments on capital expenditures were in line with the allocated budget, a serious gap in financing arose leading to a high level of unpaid commitments and accordingly to lawsuits from contractors and suppliers. The payments for CAPEX for the year 2015 represented only 30% of the total commitments of the year, resulting in substantial expenditures arrears. For the current year 2016, although line ministries received an allocated approved budget, but without any financing to support it, accordingly many CAPEX expenditures were frozen until further notice, Nevertheless, the Council of Ministers approves any urgent contracts so that the necessary financing is allocated to it. Moreover, the FBSA 2014 annual report mentioned many irregularities in several ministries related to expenditure commitment. Instances of spending over commitments were noted, and these overrun in expenditures were recorded in incorrect classifications to conceal the overspending. In addition, some governmental entities, when faced with budget limitations in their operating expenditure, began to record overruns in these types of expenditures as CAPEX.

Dimension rating = D

25.3 Compliance with payment rules and procedures

Payment rules and procedures are reflected in the laws and guidance notes issued in that regard. Nevertheless, major exceptions were noted to payments and advances throughout the last three years where a major project was granted exceptional ceiling for advances to suppliers and contractors (from 20% up to 60%) at the Ministry of Education. Although this was justified and approved by the Council of Ministers, the override of the applicable laws and regulations constitute a substantial exception (project worth USD 2 billion/ years 2011-2014).

However, the only substantial exceptions noted in the year of assessment (2015) occurred in the Ministry of Education.

Dimension rating = D*

PI-25 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Internal controls on nonsalary expenditure		**D+**	**D+**		
25.1	Segregation of duties	NA	C	Although segregation of duties for main functions exist, definitions and roles are not documented, and not sufficiently clear.	This is a new dimension introduced in 2016, therefore; a comparison is not possible.
25.2	Effectiveness of expenditure commitment controls	D	D	Controls are linked to liquidity availability due to the economic and financial situation of the country.	Exceptional circumstances affecting he effectiveness of commitment controls.
25.3	Compliance with payment rules and procedures	C	D*	Material exceptions regarding advances ceiling did take place in the Ministry of Education, but overall, the majority of payments are compliant.	Override of rules and procedures to accommodate exceptional needs and circumstances.

Ongoing reforms: No major reforms.

PI-26 Internal audit

International good practice in public financial management looks for the operation of internal audit as a service to management, with the function to identify ways of correcting and improving systems, to improve the efficiency, economy and effectiveness of the delivery of public services.

26.1 Coverage of internal audit

The Internal audit "function" in Ministries is carried out by the "Internal Audit Department" that reports to the respective line Minister. These new reporting lines were effective since 2013 where amendments to the legal framework were introduced to provide more independence to the internal audit function by shifting its reporting from the Director General. The Internal Audit departments performs ex-ante control as well as some ex-post reviews on the respective line Ministry revenues and expenditures. The internal bylaws dictate the responsibility and coverage of the work to be performed. An annual program is prepared that list the tasks along with the frequency. The work performed is compliance in nature with existing procedures and regulations so that to have assurance on balances and figures rather than internal audit as per the modern definition.

As stated earlier, each ministry has its own internal audit department and cover most total budgeted expenditures and collecting most budgeted government entities, though the internal audit as explained in later paragraphs, is more of a compliance function than an internal audit as per the modern definition of it.

In addition, the capacity of these departments to date is limited and the ability to undertake modern internal audit function in line with the International Standards for the Professional

Practice of Internal Auditing depends on a large extent to the availability of technical assistance to develop manuals, procedures, and required training,

An Inspector General (IG) is established in each Ministry and public institution for the purpose of reviewing, auditing and investigating. Each IG submits his or her annual report to the Minister, hence impairing independence. The IG is performing three tasks: (1) Ex-post Internal Audit; (2) Inspection; and (3) limited ex-ante review. To what relates to ex-post internal audit, IG is involved in basic financial and compliance audit only. IG has the legal capacity to monitor and inspect all the departments related to a ministry including the "Internal Audit department". The latter's work on internal audit (mainly compliance) complements that of IG though the IG law #57/2004 is silent in respect to the relationship with those "internal audit departments" and other monitoring bodies.
Dimension rating = B

26.2 Nature of audits and standards applied

Although the Law of Administrative Finance and Public debts allows the issuance, of procedures for carrying out internal audit in line ministries and other public institutions, this remains theoretical as the standards were not identified nor translated and the necessary requirements for implementing those standards were not developed and made applicable. As described earlier, the nature of the work performed by those internal audit departments is rather a compliance in nature rather than internal audit as per the modern definition of this function. The audit is conducted on all transactions regardless of their value with due care to compliance with laws and regulations.

On the other hand, the IG is the government inspection body rather than internal auditors also lacks a clear legal definition of its application of technical and professional standards as well as code of ethics as there are no specific reference to these. The IG does not have a defined methodology, nor a set of policies and procedures to provide guidance on the work carried out as evidence of a systematic and disciplined approach. As for independence, this is limited as IG staff reside at each line Ministry and report to the respective Minister.
Dimension rating = C

26.3 Implementation of internal audits and reporting

The Internal Audit department in government entities performs daily, weekly, monthly and annual tasks of compliance and review of the entity's operations through a defined program that lists all compliance and review activities to be performed. In general, these programs are the same from one year to another and may include minor additions according to needs. These departments have an audit manual; however, it is not comprehensive and is not based on international standards. In addition, the reports that are prepared, more of a "memo" form, are not standardized, and do not detail the audit work covered, unless there is a major element to be raised for immediate remediation in terms of compliance with procedures. Nevertheless, these audit reports are submitted to the concerned parties and may include hand written remarks and recommendations for compliance. In fact, irregularities are investigated and errors are corrected as they arise.

The IG has annual simplistic plans that are not based on a documented risk assessment. These annual plans are not linked to the key risk areas and policy objectives of the Line Ministries. Nevertheless, there is in place a standard operating procedures manual that is only used on consultative basis. The audit documentation is limited thus it cannot provide evidence that sufficient, relevant and useful information were gathered to reach the conclusions as mentioned in the final report. The respective reports produced including recommendations are submitted to the Minister who may either accept or reject the report.

In case of rejection, the reports are submitted to the General Commission on Public Decency (Integrity).
Dimension rating = B

26.4 Response to internal audits

The response to audit/ compliance reports are generally not documented, and if it is, it is mentioned in hand written remarks on the report by the auditee. In general, the comments raised by the audit are taken in consideration for immediate application.

The IG does perform follow up on audit finding and recommendations and whether these were implemented or not. Nevertheless, these follow ups are limited as there is no structured approach carried out to monitor the progress of recommendations and action plans implementation.
Dimension rating = C

PI-26 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Internal audit		**D+**	**C+**		
26.1	Coverage of internal audit	C	B	Limited independence for IA, and IG. Most activities are compliance in nature and not adhere with the international standards on IA. Nevertheless, IA is present in each ministry and covers most of budgeted expenditures and revenues.	IA units in each ministry are covering now most of budgeted expenditures and revenues.
26.2	Nature of audits and standards applied	NA	C	Primarily focused on financial compliance, with non-alignment with international standards and good practices.	This is a new dimension introduced in 2016, therefore; a comparison is not possible.
26.3	Implementation of internal audits and reporting	C	B	Limited documentation, non-standard reports, majority of audits are completed, as evidenced by the distribution of the reports to concerned parties, etc.	Although non-standard reports are issued from IA units, they are done systematically.
26.4	Response to internal audits	D	C	Management provides Partial responses to internal audit, while there is limited response to IG recommendations with lack of structured follow up approach	More partial responses are witnessed.

Ongoing reforms:

A World Bank project "Modernization of Public Financial Management systems" is under preparation that include a component that aims to increase the efficiency of the internal audit function at MoF. This component builds on the work completed under the *"Public*

Finnacial Management Reform project[10]", closed in June 2013, and the program on *"Improving Governance through Strengthened Financial Management[11]"* closed in November 2014. This component includes the following schemes:

1. Supprting MoF in the risk assessment process that aims to optmize the direction of the audit resources to areas of higher risks through a comprehensive understanding of the audit universe and the risks associated with the ministry. Ultimately, the risk assessment will lead to the selection of audit assignements to be included in a 3-year audit plan. The risk assessment process will include the following key stags:
   a) Plan the risk assessment;
   b) Develop understanding of MoF's business;
   c) Develop General understanding of MoF's major processes;
   d) Indetify and asess MoF's significant risks;
   e) Prepare risk assessent report
2. Upon the completion of the above risk assessment process, a stratigic audit plan and annual audit plans will be developed for MoF;
3. The final stage is a pilot audit execution of two major processes in MoF. This will involve: (i) field testing of the developed internal audit methodological framework and guidance materials in actual audit conditions; and (ii) detailed examination/testing of the process, methodology and outputs, and iii) audit report writing.

10 The project financed a study on financial internal controls and the roles of internal auditors and Inspectors General (IGs). The study assessed the current internal financial controls, including the roles of Internal Auditors and IGs arrangements in four ministries and prepared a roadmap for implementing reforms to the internal financial control environment.

11 Under this TA, tools were developed for MoF to reform the internal audit function in line with international lead practices and Iraq context. Project developed: i) new organizational structure for Internal Audit Department, ii) jobs responsibilities and duties as per the new organization structure, iii) new internal audit charter, iv) new internal audit methodology that is based on risk. Necessary on-hands trainings were provided to internal auditors at MoF on those new tools.

Pillar VI. Accounting and reporting

PI-27 Financial data integrity

Reliable reporting of financial information requires a system of consistent checking and verification of accounting records and practices as a critical part of internal controls to ensure quality decision-making information. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

27.1 Bank account reconciliation

At present, there is no functional Treasury Single Account within central government even though Section 4(9) of the Financial Management Law (FML) 2004 makes provision for the establishment and operation of a Treasury Consolidated Account linked to a Treasury Single Account. MoF operates two bank accounts at the Central Bank of Iraq (CBI); the USD Account and the IQD Account. The IQD Account is the operations accounts whereas the USD Account is used for foreign reserves. The Cash Accounting Division of the Accounts Department of MoF receives monthly bank statements from CBI for reconciliation purposes. Section 8(4) of the FML 2004 requires all public corporations including line ministries to reconcile all financial transactions including bank accounts no later than 10 days after the end of the preceding month. In practice, however, reconciliation of treasury-managed bank accounts is completed within two months after the end of the preceding month. The opening of any central government bank account requires the prior authorisation and approval of the Minister of Finance or his/her authorised representative as prescribed by law under Section 4(10) of the FML 2004; this is the practice. Line ministries do operate bank accounts with state-owned commercial banks (Rafidain Bank, Rasheed Bank and Trade Bank of Iraq – all of which are state-owned). Unfortunately, MoF has no database of the number of such line ministries bank accounts that are operational or dormant. Reconciliation of these line ministries bank accounts held in state banks is done but with significant delays of up to three months. There is no reliable information regarding public corporations bank reconciliations.

Dimension rating = D

27.2 Suspense accounts

The audited financial statements for FY2013 which were finalised in January 2016 were however available; there was no suspense account balance at 31st December 2013. The unaudited financial statements for FY2015 provides an aggregate closing balance of (both suspense and advances) IQD74.7trillion for recurrent and capital budget expenditures; this is yet to be reconciled and acquitted. A number of issues contribute to suspense accounts including but not limited to misclassification of financial transactions, delays in bank accounts reconciliation, transposition errors, among others. The existence of, and failure to fully reconcile and clear suspense account balance provides a fertile ground for financial malpractices.

Dimension rating = D

27.3 Advance accounts

The use of advance accounts continues to be a major phenomenon in central government operations following from 2008 PEFA assessment. These advances include the one-twelfth of the previous year's actual expenditure advanced to line ministries in accordance with Section 7(4) of the FML 2004, because of delays in passing the appropriations bill by parliament, and cash advances to staff on official government duties. Reconciliation and acquittal of staff cash advances takes place within two months after the preceding month; there are however un-reconciled balances brought forward at the end of the financial year. Advances to line ministries for operational purposes prior to budget approval continue unabated and remain un-reconciled at the end of the financial year; nevertheless, attempts are made to reconcile these advances at least annually. For instance, as at the end of January 2015 the closing balance in the advance account to lines ministries stood at IQD 351.54 billion and IQD 20.05 billion for recurrent and investment budget respectively. By close of FY2015, advances to line ministries increased to IQD 115.2 trillion[12]; this is very alarming. According to the FBSA, cash advance increased by 23.1% from the 2012 figures, total unretired advances (staff cash advance plus advances to line ministries for their operations) stood at IQD 113 trillion[13] between 2005 and 2013. The existence of balances in the advance accounts, therefore, raises serious concerns regarding the credibility and accuracy of financial data.

Dimension rating = D

27.4 *Financial data integrity processes*

In general, the FBSA opines that there are two main weaknesses referencing central government annual financial statements; these are financial weaknesses and organisational weaknesses. Data security is a major concern. MoF uses FoXPro Program Language, a simple Visual or DOS application for recording and reporting financial transactions. Access is denied to unauthorised persons. Each authorised staff is granted access through passwords generated and administered by the system administrator; the passwords are changed thrice a year. The data is not encrypted. Data storage and backup is rudimentary; at present data storage and backup are done daily on Compact Disks (CDs) as well as on external hard-drive and distributed to authorised senior staff for safekeeping. There is no offsite data storage facility. The Unification Division of MoF is responsible for ensuring the accuracy of financial transactions. This they do by reviewing transactions submitted by line ministries monthly. That said, capacity constraints undermine the quality of financial data generated. The FBSA raised a number of issues in the 2013 audit report; key issues include bank reconciliation challenges, resulting in an un-reconciled figure of IQD601million, ineffective internal audit units, missing financial records, falsified financial records, among others.

Dimension rating = D

PI-27 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Financial data integrity		**D+**	**D**		
27.1	Bank account reconciliation	C	D	Reconciliation of all active Govt. bank accounts does not take place within 8 weeks after the end of month or quarter. Whereas treasury managed bank accounts are reconciled within two months, line ministries reconcile theirs within three months. There is no reliable information on public corporations' bank reconciliations.	Not directly comparable; scoring requirements have been strengthened.
27.2	Suspense accounts	D	D	As at end of FY2015, aggregate suspense and advances stood at IQ74.7trillion; this is	Not directly comparable, as subject matter separated from dimension 27.2.

12 Unaudited financial statements FY2015

1313 This is equivalent to about USD97bn

PI-27 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
				yet to be reconciled and acquitted.	
27.3	Advance accounts	N/A	D	Advances to line ministries & staff for official duties continue unabated. Whiles some advances are reconciled at least annually within two months, significant un-reconciled balances are brought forward.	Not directly comparable, as subject matter separated from dimension 27.2.
27.4	Financial data integrity processes	N/A	D	The Unification Division of MoF verifies financial transactions received from line ministries; however, the unit is constrained with human capacity. While there are restrictions to data usage in addition to some level of data storage, it is rudimentary and lacks standardized data protection and storage framework	Not comparable: new dimension.

Ongoing reforms:

The World Bank sponsored implementation of IFMIS is expected to improve financial accountability, data accuracy and integrity

PI-28 In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

28.1 Coverage and comparability of reports

At present, coverage of in-year budget execution reports is limited to the actual revenue and expenditure outturns at aggregate levels only. The consolidated monthly reports produced by the Ministry of Finance based on monthly budget execution reports submissions from line ministries and agencies allow direct comparison with, and provide an impetus for statistical analysis of the original approved budget at the aggregate level of main administrative and economic classifications. Nonetheless, commentary on statistical analyses is lacking. The implementation of the Integrated Financial Management Information System (IFMIS[14]) scheduled for 2016-2020 has been extremely slow, thereby affecting negatively both integrity and timeliness of financial reporting as well as coverage and comparability of budget execution reports at detailed level. That said, these reports, at present are produced from an excel-based application. Whiles a new budget classification

[14] IFMIS implementation plan 2016-2020 as captured in paragraph 5.3 of the Iraq Emergency Fiscal Stabilization Development Policy Financing dated December 3, 2015

model, coupled with the development of a new chart of account with segments for reporting on administrative, economic, functional and geographical classifications have been progressive, delays in implementing and rolling out IFMIS potentially defeats the overall purpose of an integrated good financial management reporting.

Dimension rating = C

28.2 Timing of in-year budget reports

Monthly in-year budget execution reports are prepared and published on MoF website but with significant delays of at least three months. Officials of MoF have indicated that these delays principally occur due to delays from line ministries monthly in-year report submissions. Section 9(7) Annex A of the Financial Management Law and Public Debt Law 2004 requires all budget entities and spending units including governorates to prepare and submit monthly budget execution reports to the Minister of Finance or his/her authorised representative within 30 days after the expiration of the previous month. The monthly budget execution report must capture both revenue and expenditure. Furtherance to that, the law, under the same Section mandates the Ministry of Finance to prepare a consolidated monthly in-year budget execution report within 15 days thereafter based on submissions from budget entities and spending units and make these reports available to the public through appropriate means, including official government gazette, the website and any other media. At present, publication of consolidated in-year monthly budget execution reports are done mainly through the official government website as well as MoF website; but issued 12 weeks following the end of the previous month.

Dimension rating = D

28.3 Accuracy of in-year budget reports

Generally, the usefulness of financial data for budget execution analysis is not undermined by the concerns regarding financial data integrity and accuracy. These concerns are not highlighted in these in-year budget execution reports. The Federal Bureau of Supreme Audit (FBSA), over the assessment period (FY2013, FY2014, FY2015), raised reservations regarding the accuracy of the financial statements submitted for external audit, contrary to the views of officials of the Ministry of Finance. Concerns raised by FBSA regarding financial data accuracy include but not limited to bank reconciliation challenges, procurement regulations breaches, un-acquittal of cash advances, transposition errors, among others. Delays in, and accuracy of accounts reconciliations (bank, suspense, and advances - ref PI-27 above) point to concerns over financial data integrity. Nonetheless, in-year budget execution reports are consistent and comparable with original approved budget but no statistical analysis is provided; however, these reports capture expenditure at payment stage only (not at commitment stage).

Dimension rating = C

PI-28 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
In-year budget reports		**D+**	**D+**		
28.1	Coverage and comparability of reports	C	C	In-year budget execution reports produced by MoF allow for easy comparison with the original approved budget at aggregate administrative and economic main headings only.	The scores are not directly comparable, although data requirements are unchanged. That said, there appears to be no improvement.
28.2	Timing of in-year budget report	D	D	MoF produces consolidated monthly budget execution	As above

PI-28 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
				reports within 12 weeks following the end of the previous month. These reports are published on MoF website as well as the official government website	
28.3	Accuracy of in-year budget reports	C	C	Expenditures are reported only at the payment stage but not at the commitment stage; further, there are data accuracy concerns but these are not highlighted in the reports.	The subject matter remains unchanged but scoring criteria has been reformatted to include budget analysis. Nonetheless, there appears to be no change

Ongoing reforms

The World Bank is providing support for the implementation of IFMIS under the Iraq Public Management, Transparency, and Regulatory Reform TA Support, aimed at significantly improving financial accountability, accurate and timely reporting, among others. Further, Cabinet has approved on 19th July 2016 the draft amended PFM bill for onward submission to parliament.

PI-29 Annual financial reports

This indicator uses three dimensions to assess the extent to which annual financial statements are complete, submitted by MoF to the Federal Board of Supreme Audit (FBSA) in a timely manner, and whether accounting standards are consistently used and disclosed. This is crucial for accountability and transparency in the PFM system.

29.1 Completeness of annual financial reports

The legal requirements for information to be included in the audited annual financial statements are comprehensively spelt out under Section 11(7) of the FML 2004. These include:

- External audit report from the Board of Supreme Audit;
- A report of differences between budgeted and executed receipts and payments and on the financing of any deficit or the use of any surplus;
- A statement of spending from contingency reserves;
- Opening and closing balances of the Treasury Consolidated Account and a summary of movements for the year;
- A statement of all federal government borrowings for the year, and the total debt outstanding, including any payment arrears;
- A statement on federal government guarantees issued during the fiscal year;
- A statement on all borrowings by regional governments and governorates;
- A statement on outstanding amounts on capital contracts and retentions (carryovers) due on contracts;
- A statement on letters of credit entered into, for which funds have been placed but for which goods have not been received; and

- A statement on all guarantees by regional governments and governorates.

According to the FBSA, the consolidated annual financial statements are 90% complete. The draft financial reports for 2014 and 2015 were available for the team's review in terms of determining the completeness of annual financial statements; these should be audited and finalised in due course.

Table 3.19: Information Contained in FBSA Audited Financial Statements of FY13

Financial heading	Sub-financial heading	Presence in Financial Statements
Revenue	Direct tax	Direct and indirect tax reported but not segregated
	Indirect tax	
	Non-tax revenue (incl. IGF)	Yes
	Grants	Yes
Expenditure & transfers	Personnel Emolument	Yes
	Administration	Yes
	Service	Yes
	Investments	Yes
	Statutory payments	Yes
	Subsidies & Transfers	Yes
	Retained IGF (own revenue) expenses	Yes
	Donor funded projects	Yes
Assets	Cash & Bank balances	Yes
	Advances	Yes
	Public loans (receivable)	Yes
	Equity & other investments	Yes
	Revenue arrears	No
Liabilities	Public debts (domestic)	Yes
	Public debts (foreign)	Yes
	Statutory obligations	Yes
	Expenditure arrears	No

The financial report is comparable to budget estimates. As shown in **Table 3.19** above, information on tax revenue is provided but not segregated into direct and indirect tax. The report also provides information on all economic category of expenditure including subsidies, transfers and own revenue expenses. Information on cash, advances, loan receivables, financial assets is provided but for revenue arrears. Likewise, there is no information on expenditure arrears and guarantees but public debt (domestic and foreign), as well as statutory obligations is provided.

Dimension rating = C

29.2 Submission of reports for external audit

Section 11(6) of the Financial Management Law 2004 mandates the Minister of Finance to prepare and submit consolidated annual financial statements (AFS) to the Federal Board of Supreme Audit (FBSA) by the 15th of April after the end of the previous financial year, for external audit. The first draft of the 2013 AFS was submitted to FBSA on 30th November 2014; this was re-submitted on 10th June 2015 due to fundamental misstatements in the report. The main reason for the delay in submission of AFS to FBSA is the late completion of line ministries reports. Whereas the 2013 annual financial statements (AFS) have been audited, the 2014 and 2015 reports are not; 2014 AFS have not been submitted to FBSA because of the absence of an approved budget. According to MoF officials, there has been a major disagreement between MoF and FBSA regarding the 2014 AFS; whereas FBSA contends it cannot audit the 2014 reports on the basis that there was no approved budget in 2014 MoF has a contrary view. This disagreement will delay the audit of 2015 figures.

Interactions with the Auditor-General suggest that the issues surrounding the 2014 AFS will be resolved soonest following from FBSA's recommendations to parliament to retroactively approve the 2014 federal budget. The assessment team opines that FBSA can still go ahead and audit the 2014 actual revenue and expenditure figure and issue a disclaimer or a qualified opinion on the final accounts in order that the 2014 closing balances can be used for 2015 opening balances.
Dimension rating = D

29.3 Accounting standards

Central government has adopted and used cash-based accounting standards for financial reporting as required by Section 11(7) of FML 2004. Cash accounting requires that revenue and/or expenditure is recognised only when actual revenue is received and/or expenditure payment is made. Public corporations established by law however prepare and present their financial statements on accrual basis in consonance with international best practices. Cash accounting standards were used and disclosed in 2013 audited final accounts; these standards were consistently applied in preparing the 2014 and 2015 AFS in accordance with the legal framework.
Dimension rating = C

PI-29 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Annual financial reports		**D+**	**D+**		
29.1	Completeness of annual financial reports	C	C	Consolidated annual financial statements of central government are prepared each year; these are comparable with approved federal budget. The AFS provide information on revenue, expenditure, financial assets, liabilities but no disclosure of guarantees	Ratings not directly comparable, as scoring requirements expanded to improve transparency such as disclosure of govt. guarantees. That said, there appears to be no change
29.2	Submission of reports for external audit	C	D	The 2013 financial statements were submitted to FBSA 11 months after the end of the financial year	Ratings not directly comparable. Time required for submission of AFS to FBSA shortened, & hence more stringent. There appears to be no change
29.3	Accounting standards	D	C	Cash accounting standards were consistently used over the last three completed financial years in accordance with the legal framework	Ratings not directly comparable, as. subject matter expanded to require more explanation of accounting standards. There appears to be no change.

Ongoing reforms:

The World Bank sponsored implementation of IFMIS is expected to improve financial accountability, data accuracy, timeliness of preparation and submission of annual financial statements as well as completeness of financial reporting.

Pillar VII. External scrutiny and audit

PI-30 External audit

This indicator assesses the quality of the external audit in terms of the scope and coverage of the audit, adherence to appropriate audit standards (including independence of the external audit institutions), the focus on significant and systemic PFM issues in its reports, and the performance of a full range of financial audits, such as the reliability of financial statements, the regularity of transactions and the functioning of internal control and procurement systems. The assessment covers all government institutions, including MDAs and extra-budgetary funds (where they exist). The timeliness of submission of audit reports to the legislature is also important in ensuring timely accountability of the executive to the legislature and the public, much as it is for a timely follow up of the external audit recommendations. The assessment focuses on the last audited financial year, FY2014.

30.1 Audit coverage and standards

The Federal Board of Supreme Audit (FBSA or BSA) is Iraq's supreme audit institution (SAI). FBSA Law No. 31 for the Year 2011 grants the FBSA's an extensive mandate that includes auditing public finance, as well as conducting value for money (VFM) or performance audits. Auditing is conducted in compliance with auditing standards detailed in auditing manuals published by the Council of Accounting and Auditing Standards in Iraq.

The FBSA is a member in international and regional SAI bodies, such as INTOSAI and ARABOSAI, and has taken several steps towards adopting modern auditing approaches. For example, risk-based performance audit was introduced in the 2016 audit plan, while audit of systems and programs (performance auditing) was introduced in 2015 audit plan. Comparing FBSA's auditing activity for 2013 and 2016, there is a noticeable shift towards diversification of activities. While most reports published by FBSA in 2014 focused on financial auditing (FBSA's 2014 annual report), the FBSA has conducted performance audits of several institutions, as well as fields visits, and contract auditing, in addition to financial auditing (FBSA, First Quarterly Report, 2016). **Table 3:20** below shows the FBSA's ability to implement its annual audit plan despite the political challenges.

Table 3:20: FBSA's capacity to implement its annual work plans during the past 3 years (%)

Year	Contracts %	Performance Audit %	Periodical Reports %	Action Results %	Final Accounts %
2013	147	82	74	83	57
2014	135	93	89	62	67
2015	35	77	85	64	28

Final accounts include revenues, expenses, assets, and liabilities (see above, dimension 29.1 and **Table 3.19**), Auditing complies with audit manuals issued by the Accounting and Auditing Standards Council in Iraq, based on ISSAIs. Examples include the auditor responsibility for post events; financial accounts audit report, basic auditing standards, etc.). ISSAIs are complied with for activities that are not covered in those manuals. Examples include risk-based audit, performance audit, etc... A peer review of the performance audit function completed by the Netherlands Court of Audit in 2013 found that the performance audit function of the FBSA meets most of the ISSAIs. Nevertheless, due to the deteriorating political and security conditions, the FBSA was unable to complete the audit reports for all audited bodies. For example, the public institutions located in the areas occupied by ISIS like Ninawa, Salahudinne, and Anbar were excluded.

Dimension rating = C

30.2 Submission of audit reports to legislature

The FBSA is required to submit an annual report to the CoR within 120 days of the end of the fiscal year (Law no. 31, article 28). The report details the status of implementing the FBSA's annual strategy, the findings and proposed recommendations.

During the past three years, the FBSA submitted three annual reports (for 2012, 2013, 2014) and 12 quarterly reports to parliament, as well as reports requested by the CoR:

- 53 performance reports of programs and policies;
- 25 performance reports of public auditing offices;
- 159 reports on contracts auditing.

The FMPDL (section 11.6) requires the Minister of Finance to submit the Annual Final Accounts of the federal budget, including special budgetary funds to the FBSA by April 15th of the succeeding year. The FBSA audits the accounts and provides an audit report to the Ministry June 15th. The Council of Ministers then submits the final accounts and the related audit report to the CoR by June 30th.

The final accounts have been problematic in Iraq over the past few years. For the most part, the government had delayed or avoided submitting its final accounts to the FBSA for auditing. As a result, the final accounts for the years 2005-2012 were only submitted to parliament at the beginning of 2015. The FBSA received the final accounts of 2013 from the MOF on 30/11/2014. The audit was completed and the audit report was sent to the parliament on 4/1/2016. It has not been yet discussed in parliament to this date. The final accounts for 2014 were received from MOF on 9/11/2016; however, the FBSA is still debating with MOF how to audit them, given that no budget was passed that year. This delay has caused severe criticisms by parliamentarians, civil society and media about the government's financial performance and the parliament's oversight capacity in light of accusations of corruption and mismanagement. Thus, no audited final accounts for 2014 and 2015 have been submitted to parliament.

Table 3.21: Schedule of date of receipt of Audited Reports by Parliament

Name of Audit Report	Date of receipt by Parliament		
	2013	2014	2015
GoI Audited Final Accounts	4/1/2016	-	-

Dimension rating = D

30.3 External audit follow-up

Good practice envisages that audited units will respond constructively to audit recommendations, which may address how to improve the performance of systems and how to strengthen discipline over employees as well as strictly financial issues, and also that information will be collected about the extent to which recommendations are followed, and the results obtained.

The FBSA has a specialized Scrutiny and Follow up Unit (SFU) responsible for following up on recommendations issued by the FBSA and the actions taken by the audited bodies. These recommendations and actions taken, or lack thereof, are documented in the FBSA's annual and periodical reports. The SFU also follows on these recommendations with the Accounting and Oversight Standards Council (which is also headed by the BSA's president and includes representatives of several ministries (MoF, MoP, etc.), and the official responses received from the audited bodies. In 2015, the Prime Minister's Office formed a specialized committee tasked with following up with the different ministries and providing official responses to the BSA's questions and recommendations.

Dimension rating = C

30.4 *SAI Independence*

The FBSA is the highest financial controlling body in Iraq. It is a financially and administratively independent body with a judicial personality, and is attached to the CoR (BSA Law 31, article 5). The President of the FBSA is appointed by the CoR for a term of four years, based on a proposal from the council of ministers, by a majority vote. The President has the authorities of a Minister of Finance regarding the Board's issues, staff and budget. The FBSA is independent in preparing its annual work plans and preparing its annual budget, which is submitted to the CoR.

The FBSA has a wide scope of authority as previously mentioned, which includes:

- Auditing and control over accounts and activities of the entities under the Board jurisdiction and verifying sound disbursement of public funds and efficient implementation of laws, regulations and provisions;
- Conducting performance evaluation of entities subject to the Board’s control;
- Providing technical support in the fields of audit, accounting and administration and the related organizational and technical matters;
- Evaluating overall financial and economic plans and policies
- Conducting administrative audit on issues requested for review by the CoR.

To carry its mandate, the FBSA law granted it the authority to access information needed, including: all the documents, transactions, orders and decisions, and obtain clarifications from all relevant bodies (BSA law no 31, article 13). The FMPDL (sections 14.1 & 2) also subject the federal budget and any supplementary budgets to the FBSA’s audit and required the Minister of Finance to make available to the BSA the following:

- The approved federal budget and any supplementary budgets, and any accompanying documents;
- The reported results of all internal audits;
- The quarterly and annual reports on loans, borrowings, guarantees, and debt;
- Final accounts of public corporations and the results of all audits;
- Documents discussed by the Council of Ministers its role of oversight of operations, as well as the results of any internal audits; and
- Any other documents, information and explanation requested by the FBSA in connection with the performance of its audit functions.

Despite its vast mandate and knowledge gathering powers being enshrined in the laws, the FBSA continues to face significant obstacles in accessing information in a timely manner. The case of the delay of final accounts is a good example of how this has hindered the role of the FBSA in the past, and made its findings almost irrelevant or obsolete as many of the findings involved officials that are no longer in charge. The last couple of years have witnessed some improvement although the final accounts continue to be received later than the deadlines. The government submitted the final accounts for 2013 on 30 November 2014 (the deadline being 15 April). The FBSA was only able to finish auditing the final accounts on January 4th 2016 given the delays they faced in obtaining the needed information and reports from the Ministry of Finance. The scenario is similar for the 2014 final accounts that were submitted late to the FBSA (on 9 November 2015) and are still being audited by the FBSA.

This dimension is more focused on the extent that the independence of the SAI is protected by law, as well as the extent of its mandate, specifically regarding financial, compliance and performance audits of government's annual financial reports, which are different than performance audits covered under PI-8.

Table 3.22 below assesses each of these elements in accordance to the core elements of INTOSAI standards.

Table 3.22: Independence of SAI in relation to INTOSAI standards

INTOSAI Standards	Adherence of external audit practices to INTOSAI standards
AG Independence i.e. appointment, termination, salary	**Yes.** independence is stipulated in the Constitution and specified in Law of State Audit
Financial Independence of OAG and Staffing Arrangements	**Yes**
Access to Public Records	**Yes.** 100% access to documents by law, but delays in practice.
Independence in Preparation of Annual Audit Work Plan	**Yes**

Dimension rating = B

PI-30 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
External audit			**D+**		
30.1	Audit coverage and standards	B	B	The FBSA has an extensive mandate that includes auditing public finance, as well as conducting value for money (VFM) or performance audits, which are conducted in compliance with international auditing standards. The final accounts include revenues, expenses, assets and liabilities. However, despite the deteriorating political and security conditions, the FBSA was able to complete the audit reports for all audited bodies, except those governorates under ISIS rule.	The FBSA had a revised law No. 31 for the Year 2011 that grants it an extensive mandate that includes auditing public finance, as well as conducting performance audits. Over the last 3 years, the FBSA has taken concrete steps towards adopting modern auditing approaches. Risk-based audit was introduced in the 2016 audit plan, while audit of systems and programs was introduced in 2015 audit plan. A peer review of its performance audit function was completed by the Netherlands Court of Audit (NCA) in 2013 found that the performance audit function of the FBSA meets most of the ISSAIs. Comparing FBSA's auditing activity for 2013 and 2016, there is a noticeable shift towards diversification of activities. The FBSA confirmed that they audit all public expenditure (with the exception of the Kurdistan region).
30.2	Submission of audit reports to the legislature	**D**	D	The FBSA is required to submit an annual report to the CoR within 120 days of the end of the fiscal year. It	The final accounts for the years 2005-2012 were only submitted to parliament at the beginning of 2015. The

PI-30 (M1)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
				is also mandated with auditing the governments Final Accounts. During the last 3 years, it submitted 3 annual reports and 12 quarterly reports to CoR. However, it could not submit the final accounts audit report to government as they were not made available to it.	2013 final accounts were only submitted in January 2015, but not discussed yet. The FBSA is working with the Ministry of Finance on how to audit the final accounts of 2014, given that no budget was passed that year.
30.3	External audit follow-up	**D**	C	The FBSA has a specialized Scrutiny and Follow up Unit (SFU) that is responsible for following up on the recommendations issued by the FBSA and the actions taken by the audited bodies, which are documented in the FBSA's annual and periodical reports.	The SFU also follows on recommendations with the Accounting and Oversight Standards Council. In 2015, the Prime Minister's Office formed a specialized committee tasked with following up with the different ministries and providing official responses to the FBSA's questions and recommendations.
30.4	SAI Independence	**NA**	B	The FBSA is a financially and administratively independent body with a judicial personality, and is attached to the CoR. The President of the FBSA is appointed by the CoR to carry its mandate the FBSA law granted it the authority to access information needed. However, the FBSA continues to face significant obstacles in accessing information in a timely manner.	This is a new dimension introduced in the 2016 PEFA Framework; therefore, a comparison of scores is not possible.

Ongoing reforms: The FBSA had received support from the World Bank at the beginning of 2016 to enhance the audit report effectiveness and as well to improve its audit of refugees and internally displaced peoples aid audit. The FBSA is also working with the Netherlands Court of Audit on developing its communication strategy.

PI-31 Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature, or (b) their parent or controlling unit must answer questions and take action on their behalf. There are four dimensions that focus on the timing of audit report scrutiny (over the last three years), the hearings conducted, the legislature's recommendations, and the transparency of the legislative scrutiny. The assessment of the first dimension is based on the audit reports submitted to legislature within the last three years, while other dimensions are assessed on the last 12 months.

31.1 Timing of audit report scrutiny

The CoR had been unable to conduct proper scrutiny of audit reports over the past three years due to the fact that the government failed to submit its final accounts for almost a decade despite it being required by the Constitution (article 62) to submit the draft general budget bill and the final account to the CoR for approval.

At the beginning of 2015, the CoR received the final accounts for the years 2005-2011. The CoR adopted the final accounts for the years 2005-2006 in October 2015, and the accounts for 2007 in March 2016. The backlog of accounts will require time for the parliament to be able to go through and approve. The 2013 final accounts were submitted to the CoR in January of 2016 but have not been discussed yet. The final accounts that were submitted did have significant findings. For example, the 2007 final accounts showed that almost 75 trillion Iraqi Dinars were unaccounted for.

Table 3.23: Timeliness of Examination of Audit Reports by Parliament

Year	Receipt by Parl'nt	Laid in Parl'nt	Status at PAC level	PAC Reports laid in House	Motion adopted by Parl'nt
FY 2013	4/1/2016	-	-	-	-
FY 2014	-	-	-	-	-
FY 2015	-	-	-	-	-

Source: FBSA

Dimension rating = NA

31.2 Hearings on audit findings

The CoR committees can hold hearing sessions for any public official, as well as members of the civil society or private sector (Parliamentary Bylaws, article 76). The CoR can also question members of the executive in general assembly sessions, which are public. For example, since 2014 the economic committee held several hearings for different government officials including the Minister of Commerce, the Minister of Planning, the Central Bank's Governor, and the Ministry of Industry. On average, the CoR holds 3-6 hearing sessions a year. The FBSA representatives are present in some of these sessions. The depth of the hearings could not be determined. There was no discussion of audited final accounts since 2012.

Dimension rating = NA

31.3 Recommendations on audit by the legislature

The CoR in its general assembly issues recommendations on actions to be implemented by the executive based on requests submitted by MPs and committee reports. Some of these recommendations are based on findings of audit reports or committee reports, and others are a result of debates and hearings initiated by the legislature as part of its oversight role. The follow up on the implementation of these recommendations is mostly carried out in the relevant committees. There is no systemic mechanism in place for follow up on the status of implementation of these recommendations; however, some of the standing committees have opted to form subcommittees for this purpose. For example, the Finance committee formed two subcommittees in 2015 (on oil and non-oil revenues, and on licensing), and one in 2016 (on Iraqi money smuggled outside Iraq). There was no discussion of audited final accounts since 2012.

Dimension rating = NA

31.4 *Transparency of legislative scrutiny of audit reports*

On the transparency of the legislative scrutiny of audit reports, the committee meetings held to discuss these reports are in camera, and their reports are, currently, not published online on the CoR's website. The general assembly sessions are public and covered by the media. There was no discussion of audited final accounts since 2012.

Dimension rating = NA

PI-31 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
Legislative scrutiny of audit reports		**D**	**NA**		
31.1	Timing of audit report scrutiny	**D**	NA	The CoR was unable to scrutinize the audit reports on annual financial reports as they had not been submitted to parliament on time during the past three years.	At the beginning of 2015, the CoR received the final accounts for the years 2005-2011. The CoR adopted the final accounts for the years 2005-2006 in October 2015, and the accounts for 2007 in March 2016. The backlog of accounts will require time for the parliament to be able to go through and approve. The 2013 final accounts that were submitted to the CoR in January of 2016 but have still not been discussed.
31.2	Hearings on audit findings	**D**	NA	The CoR committees can hold hearing sessions for any public official, as well as members of the civil society or private sector, and it can question members of the executive in general assembly sessions. But since it has not received the reports in a timely manner, it did not hold hearing sessions.	Despite the fact that the CoR has not received the audited reports from the government, it does hold hearing sessions, for example in 2014 the economic committee held several hearings for different government official including the Minister of Commerce, the Minister of Planning, the Central Bank's Governor, the Ministry of Industry on companies related to ministry. On average the CoR holds 3-6 hearing sessions a year.
31.3	Recommendations on audit by the legislature	**D**	NA	The CoR did not receive audited reports in a timely manner to discuss and issue recommendations.	There is no systemic mechanism in place for follow up on the status of implementation of CoR recommendations, however some of the

PI-31 (M2)	Dimension	Score 2008	Score 2016	Justification for 2016 score	Performance change/other factors
					standing committees have opted to form subcommittees for this purpose. For example, the Finance committee formed two subcommittees in 2015 (on oil and non-oil revenues, and on licensing), and one in 2016 (on Iraqi money smuggled outside Iraq).
31.4	Transparency of legislative scrutiny of audit reports	**NA**	NA	The CoR did not receive audited reports in a timely manner to discuss them.	This dimension was introduced in the 2016 PEFA framework so a comparison of scores is not applicable. For the overdue final accounts reports that were received, the committee meetings held to discuss these reports are in camera, and their reports are currently not published online on the CoR's website. The general assembly sessions are public and covered by the media.

Ongoing reforms: None.

4 Conclusions of the analysis of PFM systems

4.1 Integrated assessment of PFM performance

Budget reliability

Whereas the GoI does well in terms of the management and use of contingency fund (which is 0.1% of total federal government expenditure), the credibility of the entire budget for both revenues and expenditures leaves much to be desired. Expenditure budget outturn compared to originally approved budget deviated more than 15% in two of the last three completed fiscal years. Actual expenditure budget deviations were -13.9% in FY2013 and -31.2% in FY2015; these deviations reflected significant under spending mainly from the capital budget, understandably due to the volatile security situation in Iraq. Budget reallocations across both economic and administrative expenditure categories have been rampant, up to 31% and 43% respectively, the effect of which is budget implementation lacking policy intent. Aggregate revenue was satisfactory at 4.6% below budget in FY2013 but poor at 29.3% short of budget in FY2015; whiles it is acknowledged that there was no approved budget in FY2014, the significant deviations in aggregate revenue outturn in 2015 points to weaknesses in revenue budgeting particularly so when Iraq's domestic revenue largely depends on oil. Revenue composition variance performed better in 2013 at 0.2% but considerably weak in 2015 at 14.1%; this further confirms weaknesses in federal government budgeting framework, thereby raising questions with regards to budget reliability.

Transparency of public finances

GoI's budget formulation, execution and reporting are based on administrative and economic classification which produces consistent documentation according to GFS 2001 standards. There has been significant improvement in information included in the national budget, fulfilling seven of the nine PEFA benchmarks; these include forecast of fiscal deficit, presentation of previous year's and current year's budget in the same format as originally approved budget, revenue estimates at the aggregate level, deficit financing with breakdown of sources of finance, and medium term fiscal and expenditure frameworks. Both expenditure and revenue outside the budget are quite significant, but for lack of data from government; on the side of development partners, this represents at least 12.1% of the federal budget.

Whilst there are simple and clear (but ad hoc) rules for sub-national transfers, these rules are not approved by Parliament each year, but Article 121 of the Constitution lays the foundation for such transfer rules. The most challenging issue with sub-national transfers is the unreliability of and delays in transfers. Key performance indicators (KPIs) form part of most sector strategies; however, these KPIs are not published. Again, performance outcomes are not made public except for some performance audits reports by the FBSA. Resources (both cash and kind) received by frontline service delivery units is unknown as there is no framework for tracking such resources. Public access to fiscal information is still a challenge: very little information is publicly available.

Management of assets and liabilities

The threat posed by state-owned enterprises and parastatals remain a major concern; currently, there is no mechanism for monitoring SOEs fiscal risks. That said, a recent study commissioned by the Prime Minister Advisory Commission (PMAC) on the status of SOEs is welcoming and provides some assurance of practical steps taken by Government to address this challenge. Likewise, monitoring of sub-national government is weak as well as information relating to both explicit and implicit contingent liabilities arising out of government operations. Public investment management, given the current security situation in Iraq, was not assessed in the light of low execution rate of capital budgets and government's inability to monitor and evaluate capital investment projects. Going forward, the federal government through the Ministry of Planning has developed Iraqi Development Management System (IDMS) as part of efforts to institutionalise and strength public investment management (PIM). The framework for monitoring all government financial assets is very weak, likewise non-financial assets in a consolidated manner, even though line ministries and other budget entities maintain fixed asset registers. The legal framework (procurement, sale and lease law) enumerates in detail steps and composition of committees for disposing all public assets, carried out through public auction.

Government's debt portfolio is huge, at a little over USD 52 billion at June 2016; discrepancies in debt figures necessitated the commissioning of an external debt audit, pointing to a fragile debt management system. The acquisition of DMFAS has not improved debt management services largely due to weak human resource capacity to effectively and efficiently administer this role. The law permits the Minister of Finance as the sole government official responsible for contracting loans and issuing guarantees on behalf of government; the approval of loans and guarantees are supposed to be contracted within set limits but very little information, especially regarding domestic borrowing is made public.

Policy-based fiscal strategy and budgeting

Despite the very difficult political and security situation, this aspect of GoI's PFM system works reasonably well, as all five indicators concerned with 'policy-based fiscal strategy and budgeting', (PIs 14 to 18) received satisfactory – or better – overall ratings, and demonstrate that the processes to allocate budgetary resources in accordance with GoI's declared strategic objectives are essentially sound. In particular, the two new indicators 'Macroeconomic and Fiscal Forecasting' (PI-14) and 'Fiscal Strategy' (PI-15) both score reasonably well, as do the medium-term focus on expenditure budgeting and the budget preparation process (PIs 16 and 17 respectively).

The 'Federal Budget Strategy for Fiscal Years 2016-2018' (FBS) – effectively a Budget Framework Paper – includes information and developments in GoI policies that impact on revenues and expenditures, as well as macroeconomic data such as GDP, CPI, population growth, exchange rates and the Oil price. However, the FBS does not explicitly include assessments of the impact of alternative macroeconomic assumptions, given the sensitivity of markets to such information (PI-14).

GoI is facing a financing gap of more than 9% of GDP, and hence the strategy has been reactive to deal with the immediate crisis, although there is a medium-term vision aimed at strengthening the link between budget allocations and GoI priorities for utilizing resources.

The country's national investment program is set out in the 'National Development Plan 2013-17' (NPD), and MDAs are prioritizing the projects contained in this plan, within the policy shift away from recurrent expenditure. The budget preparation process has incorporated ceilings since 2010 (PI-16.2), although the difficult fiscal environment means that while MDAs do have medium-term plans linked to the NDP, progress is restricted by the (unpredictable) availability of annual allocations (PI-16.3 & 4).

The budget calendar is clear and provides sufficient time for agencies to prepare submissions (PI-17.1), and while the Budgets of 2017 and 2016 were submitted to the CoR two months before the start of the fiscal year (PI-17.3), they were not approved before the FY commenced (PI-18.3), nor did the CoR discuss the major medium term development plans, such as the National Development Plan. Approximately 10-20% of the budget funds have been reallocated in the past few years, although mostly following the clear rules that exist (PI-18.4).

Predictability and control in budget execution

Tax revenue administration is satisfactory in terms of providing taxpayer information on tax liability; the Ministry of Oil also collaborates well with oil and gas companies both in the upstream and downstream oil and gas industry. A Functional administrative appeal mechanism exists for both tax and non-tax, to resolve disputes. Enterprise risk management is non-existent particularly for taxpayers; this assures effective controls against tax (and non-tax) evasion. Government, to a large extent has control over the oil and gas sector but needs to be strengthened in the light of the delays in reconciling revenue and royalties paid by oil companies. Of major concern is the absence of a tax audit and investigations plan to guide the audit of taxpayers; whereas Iraq was EITI compliant in 2013, questions have been raised on the level of government's commitment towards transparency of the extractive industry, as pointed out by 2016 EITI report which recommended the audit of oil companies in accordance with international standards. Monitoring of both tax and non-tax revenue arrears is weak. Information on both tax and non-tax revenue is compiled monthly and submitted to MoF. Tax revenue (between 2% to 23%) transfers to MoF State Treasury Account is monthly but transfers from oil and gas revenues (between 77% and 98%) are daily. Given the importance of complete revenue account reconciliation, it is sad to note that this is not performed by both tax revenue and non-tax revenue authorities; the only reconciliation carried out is between collections and transfers to State Treasury Account.

Consolidation of government cash balances takes place once a month; line ministries and budget entities submit monthly cash flow forecasts to MoF for consolidation but this is not updated regularly. Budget entities are given a whole year's expenditure commitment horizon; this assures predictability of expenditure commitment. Payment is however monthly. Budget virements are significant but done in a transparent manner. Expenditure arrears pose significant fiscal risk on federal government; these were quite significant at a little below 18% of total federal government expenditure in 2015. At present, there is no systematic mechanism for generating and reporting on stock of expenditure arrears. No payroll audits have been carried out in the last three completed fiscal years. Payroll controls are generally weak, with considerable delays in personnel and payroll changes. To ensure personnel and payroll data integrity, automatic linkages ought to exist between personnel and payroll data; currently, this is not the case. Central government procurement management is at acceptable levels though needs to be improved especially with regards to public access to all procurement information, namely procurement plans, bidding opportunities, contract awards, and resolution of procurement complaints. The administrative framework for resolving all procurement complaints needs to be strengthened in terms of strictly adopting laid down procedures for resolution of procurement disputes, issuing decisions timely and exercising the authority to suspend procurement process during resolution of disputes.

The general internal control framework is weak. Processes for non-salary expenditure are not clearly defined for purposes of segregation of duties; compliance with laid down expenditure commitment and payment rules remains a challenge. Internal audit functions are widespread across line ministries, but the level of application of international standards leaves much to be desired. Periodic internal audit reports are produced and distributed to audited institutions and other stakeholders, management providing written responses to audit queries where necessary.

Accounting and reporting

A time lag of more than eight weeks occurs in reconciling all treasury managed and active central government bank accounts. Suspense and advances accounts continue to reflect huge un-reconciled balances. The overall effect of un-reconciled suspense and advance accounts, and delays in bank reconciliations is the accuracy of financial data. A centralised process exists for assuring financial data integrity; this is done by the Unification Division of MoF but its efficacy is hampered by lack and weak human resource capacity. In-year budget reports are consistent with originally approved budget at aggregate levels for both administrative and economic expenditure categories. Nonetheless, there are significant delays in producing these in-year budget execution reports of at least 12 weeks after the end of the preceding month. These in-year reports show expenditure at payment stage only but not at commitment stage. The Annual Financial Statements provide information on revenue, expenditure, financial assets, liabilities but no disclosure of guarantees; the statements are comparable with the originally approved budget. Delays in submission of AFS, which are consistently prepared on cash basis for external audit, are disturbing, averaging 11 months after the end of the financial year.

External scrutiny and audit

The coverage of external audit is wide across most federal government budgeted entities. In addition to financial audits, performance audits are also carried out by FBSA according to INTOSAI standards. In recent times, however, the deteriorating security situation in Iraq has negatively affected the successful completion of FBSA audits. Submission of external audit reports to the legislature has consistently been delayed over the last three years, thereby affecting effective parliamentary scrutiny, a necessary tool for accountability. In addition, final accounts have been completed by MOF with months of delay. It is encouraging to state that FBSA enjoys considerable administrative and financial independence including appointments, termination, and hiring of staff; that said, timely access to financial information to carry out its legitimate mandate remains a major concern. The FBSA has developed a formalised audit recommendation follow-up mechanism to effectively track the status and progress of all audit recommendations. The FBSA strategic plan for 2018-2022 set an ambitious road map for strengthening external audit through enhancing transparency and accountability. In particular, the FBSA had committed to utilize the PEFA framework to assess strengths and weaknesses in PFM.

Parliamentary scrutiny of FBSA audit reports has been weak mainly due to delays in receiving these reports (delays due to inability of FBSA to complete audits as a result of the volatile security situation in Iraq). Whereas public hearings form part of the CoR scrutiny process, the failure to receive FBSA audit reports on time has contributed to its inability to carry out any public hearings within the last three completed fiscal years; consequently, CoR recommendations have not been issued

4.2 Effectiveness of the Internal Control Framework

Control environment

The Law for Financial Administration and Public Debt No. 94 of 2004 includes definitions of monitoring of the execution of the budget. Specifically, Section 11 of the Law covers the internal monitoring, accounting and auditing requirements for the execution of the federal budget and that those personnel applying the federal budget shall assume responsibility for the financial management and the internal monitoring of transactions for revenues and expenditures in their spending units and sub units. The Law requires that the Minister on behalf of the government has the obligation to ensure that there are sufficient arrangements in place for financial management, internal supervision, accounting procedures, and reports on the application and recording.

Ministry of Finance Law no. 92 of 1981 reflects the obligation of the MoF to the administration and regulation of public funds and monitoring the appropriateness of the use of such funds. Mechanism of internal monitoring have been established in the MoF in addition to those provided by other bodies as established in the bylaws of the MoF No. 1 of 1990.

There is no specific code of ethics of conduct for financial controllers in public entities. All employees are aware of the "Public Servants Discipline law #14 for year 1991" and the Public Servants Code of Conduct.

Risk assessment

Section 13 of the law for "Financial Administration and Public Debt" grants the Minister of Finance the authority to specify the means and procedures to be followed by internal audit departments and spending units in all public institutions. Section 13 requires that internal audit activities mainly shall be as follows:

(a) Preparing the systematic estimations for the efficiency and activation of the decision adoption process followed by the ministries and the **limitation of risks** and internal monitoring;
(b) Submitting reports regarding the key findings from internal monitoring activities and developing the monitoring procedures
c) Reviewing the efficiency of the use of the provided services and suggesting methods of providing said services

Control activities

The task of the Ministry of Finance (MOF) includes the fulfillment of the objectives for which it was established and the administration and regulation of public funds and monitoring appropriateness of the use of such funds. Mechanisms of internal monitoring have been established within the MOF. The law of the Ministry of Finance No.92 of 1981 includes the provisions for the regulation, administration and controlling of the public funds. The different department within the MoF has each a responsibility to manage, control and monitor the execution of the activities in addition to accounting, and internal financial control activities. The accounting department serves an important controlling role for the supervision of cash flow in the public treasury, developing the appropriate accounting system, accounting control on the financial activities and the developing of internal monitoring systems for the management of public funds, along with investigating the financial violations. Although segregation of duties exists in practice to what relate to (i) authorization; (ii) recording; (iii) custody of assets; and (iv) reconciliation and audit, roles and responsibilities are not clearly spelled out.

Two monitoring departments exist: (a) inspection general and (b) internal auditing department. They are responsible for the monitoring and execution of laws, regulations, instructions, procedures, and means of work in addition to conducting audits and following up with the reports of FBSAA and monitoring the financial affairs. Nevertheless, each has its own role that is complimentary to the other.

Information and communication

The MoF and line ministries prepare monthly and periodic reporting from the accounting and financial records. The financial departments maintain records and generate several accounting ledgers for the preparation of the daily general statements. Reports are generated for the public revenues and public expenditures.

Both the inspection general and the internal audit departments monitor and conduct verification activities. The related recommendations and reports are shared with the Minster to whom they report since both the inspection general and the internal audit deportment report to the line Minister. The former performs three functions: 1) Ex-post Internal Audit; (2) Inspection; and (3) limited ex-ante review. The related report is submitted to the line Minister. As for the internal audit departments, they perform compliance reviews systematically with a predetermined list of verification and monitoring activities detailed in their bylaws. They have access to information for all departments and have the authority to request the necessary evidence for their auditing work.

Monitoring

Every department within a public entity has a specific role in terms of executing procedures and processes as defined in the related law and bylaws. Several monitoring activities are in place whether internal to that respective department or "external" be it the inspection general or the internal auditing department. These two departments are responsible for the execution of the laws, regulations, instructions, procedures and means of work in addition to conducting audits and with following up with FBSA reports.

4.3 PFM Strengths and Weaknesses

Aggregate fiscal discipline

As might be expected in the very difficult circumstances in which the country finds itself, fiscal discipline is not good, and most elements in the overall PFM system that contribute to achieving this objective are not functioning well. In addition, a lack of consensus in parliament meant that the budget proposed by the Executive was not approved for the FY2014, while in the last completed year (2015) there is significant under-spending, particularly on investments (only 33%) while the execution rate for recurrent expenditure was 70% – both are the result of low cash inflows from tax and non-tax revenues: it must be borne in mind in excess of 90% of revenue is generated via petroleum products, raised from a very small number of tax payers or via royalties paid into the SOMO, and hence the volatility of world oil markets has caused huge disruptions to GoI spending plans, and required very significant adjustments to be made. This can be seen in the variances in income against the original budget (PI-3) and also in expenditure (PI-20), which is further distorted by payment arrears, although the stock of these is declining (PI-22).

In addition, several risks to attaining fiscal discipline are apparent, such as significant unreported operations (PI-6); a lack of monitoring fiscal risks from other Public Sector entities including contingent liabilities and 'Public Private Partnerships' (PI-10). However, the recording of government debt and the inclusion of donor funded project bank accounts into the consolidation of government cash/bank balances is sound (PI-13); and the multi-year focus in fiscal planning is good (PI-16.3 and 4). There are two new indicators that relate to this budgetary outcome: 'Macroeconomic and Fiscal Forecasting' (PI-14) and 'Fiscal Strategy' (PI-15) both of which score reasonably well.

Overall, the various elements of the system concerned with budget execution – including internal controls – are no more than 'functional' and are unable to ensure that aggregate fiscal discipline is attained.

Strategic allocation of resources

The five indicators concerned with 'policy-based fiscal strategy and budgeting', (PIs 14 to 18) all received satisfactory – or better – overall ratings, and demonstrate that the processes to allocate budgetary resources in accordance with GoI's declared strategic objectives are essentially sound, in particular, the medium-term focus on expenditure budgeting and the preparation process (PIs 16 and 17).

Most of the other indicators that contribute to the strategic allocation of resources function well, notably the comprehensiveness of the budget documentation, and its classification in accordance with international norms (PIs 5 ('B') and 4 ('C') respectively). However, and as mentioned above, the indicators related to revenue collection (PIs 19 and 20) are concentrated on a very small number of tax payers (or on royalties paid into the SOMO) and the volatility of world oil markets has caused huge disruptions to the planning of services, and required very significant short-term adjustments to be made.

There are two completely new indicators relevant to this budgetary outcome, the first of which 'Public Investment Management' (PI-11) was not rated in the context of the fiscal crisis facing GoI – which has meant that the very scarce resources available for investment are allocated to meet ongoing emergency needs rather than well-thought through plans. The second innovation relates to the way a government manages its assets, and except for financial assets, the practice in GoI reflects "generally accepted good practice", with 'B' ratings for two of the four dimensions (PI-12).

Efficient use of resources for service delivery

Financial management is not an end in itself, but rather a tool to assist a government to deliver services to its citizens, and of course, services cannot be delivered in the absence of funds. In this respect, GoI's PFM system works reasonably well, as can be seen in the good ratings for the processes that plan services (PIs 16 and 17 mentioned above), as well as for the revenue indicator (PI-20 – despite the negative consequence of the fall in world oil prices), and that fact that despite the very difficult circumstances, there is a reasonable degree of predictability in the availability of funds that support expenditure during the year (PI-21, 'C+').

However, although these indicators might suggest a satisfactory level of performance, the rating for PI-8, 'performance information' – which can demonstrate the efficiency with which services are delivered – (rated 'D') is disappointing, and it is also a matter of concern that the mechanisms in place to reduce possible leakages in the system, such as internal controls, controls over payroll and basic accounting controls (PIs 25, 23 and 27 respectively) are weak, and are only partly compensated by measures in place regarding procurement (PI-24), and the fact that the Internal Audit function (PI-26) is still developing.

Lastly, it must be noted that the oversight arrangements (addressed in PIs 30-31) are less than effective. While the FSAB is independent and has an extensive mandate that includes using international audit standards, the deteriorating political and security conditions has meant that audit have not been completed for all audited bodies, and backlogs are evident. Moreover, the Council of Representatives was unable to scrutinize audited financial reports as they had not been submitted on time, and while there are powers to hold hearings, none have taken place.

In summary, most aspects of the PFM system are functioning at a barely satisfactory level – one that will make it difficult for GoI to attain its fiscal and budgetary objectives: there are many areas where significant improvements will be required in the years ahead.

4.4 Performance changes since a previous assessment

This is the first assessment using the upgraded Framework, and the guidance issued by the PEFA Secretariat (October 2016) states that only 14 dimensions are directly comparable with the 2011 version (it should also be noted that PIs-2, 3 and 19 were amended in 2011, after the previous assessment). The directly comparable dimensions are (using the numbers in **this** report) PI-4.1; PI-5.1; PI-13.1; PI-17.1 & 2; PI-18.1 & 4; PI-21.1, 2, 3 & 4; PI-23.3 & 4; and PI-25.2: these are shown in Table 0.1 in the Introduction (above). For completeness, **Table 4.1** below shows **all** applicable ratings from the 2008 assessment.

Table 4.1: Comparison with previous assessment, by indicator and dimension

No.	Indicator	Score 2016	Score 2008	'Old' PI #	Performance change
PI-1	**Aggregate expenditure outturn**	**D**			
1.1	Aggregate expenditure outturn	D	D	1	Indirectly comparable.
PI-2	**Expenditure composition outturn**	**D+**	D*	2	**** indicator changed in 2011***
2.1	Expenditure composition outturn by function	D			Not comparable.
2.2	Expenditure composition outturn by economic type	D			Not comparable.
2.3	Expenditure from contingency reserves	A			Not comparable.
PI-3	**Revenue outturn**	**D+**	A	3	**** indicator changed in 2011***
3.1	Aggregate revenue outturn	D			Not comparable.
3.2	Revenue composition outturn	C			Not comparable.
PI-4	**Budget classification**	**C**			
4.1	Budget classification	C	C	5 (i)	Directly comparable.
PI-5	**Budget documentation**	**C**			
5.1	Budget documentation	C	D	6 (i)	Indirectly comparable.
PI-6	**Central government operations outside financial reports**	**D**			
6.1	Expenditure outside financial reports	D*	D	7 (i)	Not comparable.
6.2	Revenue outside financial reports	D*			New.
6.3	Financial reports of extra-budgetary units	D			New.
PI-7	**Transfers to subnational governments**	**C+**			Indirectly comparable.
7.1	System for allocating transfers	C	A	8 (i)	Indirectly comparable.
7.2	Timeliness of information on transfers	B	D	8 (ii)	Indirectly comparable.
PI-8	**Performance information for service delivery**	**D**			
8.1	Performance plans for service delivery	D			New.
8.2	Performance achieved for service delivery	D			New.
8.3	Resources received by service delivery units	D	D	23 (i)	Not comparable.
8.4	Performance evaluation for service delivery	C			New.
PI-9	**Public access to key fiscal information**	**D**			

No.	Indicator	Score 2016	Score 2008	'Old' PI #	Performance change
9.1	Public access to fiscal information	D	D	10 (i)	Not comparable.
PI-10	**Fiscal risk reporting**	**D**			
10.1	Monitoring of public corporations	D	D	9 (i)	Not comparable.
10.2	Monitoring of subnational governments	D	D	9 (ii)	Not comparable.
10.3	Contingent liabilities and other fiscal risks	D			New.
PI-11	**Public investment management**	**NU**			
11.1	Economic analysis of investment proposals				New.
11.2	Investment project selection				New.
11.3	Investment project costing				New.
11.4	Investment project monitoring				New.
PI-12	**Public asset management**	**C+**			
(i)	Quality of central government financial asset monitoring	D			New.
(ii)	Quality of central government non-financial asset monitoring	B			New.
(iii)	Transparency in the sale of non-financial assets	B			New.
PI-13	**Debt management**	**D+**			
13.1	Recording and reporting of debt and guarantees	C	C	17 (i)	Directly comparable.
13.2	Approval of debt and guarantees	C	C	17 (iii)	Not comparable.
13.3	Debt management strategy	D			New.
PI-14	**Macroeconomic and fiscal forecasting**	**C**			
14.1	Macroeconomic forecasts	B			New.
14.2	Fiscal forecasts	B			New.
14.3	Macrofiscal sensitivity analysis	D			New.
PI-15	**Fiscal strategy**	**C**			
15.1	Fiscal impact of policy proposals	C			New.
15.2	Fiscal strategy adoption	C			New.
15.3	Reporting on fiscal outcomes	C			New.
PI-16	**Medium-term perspective in expenditure budgeting**	**B**			
16.1	Medium-term expenditure estimates	B	C	12 (i)	Not comparable.
16.2	Medium-term expenditure ceilings	B			New.
16.3	Alignment of strategic plans and medium-term budgets	B	D	12 (iii)	Not comparable.
16.4	Consistency of budgets with previous year estimates	C			New.
PI-17	**Budget preparation process**	**B+**			
17.1	Budget calendar	B	B	11 (i)	Directly comparable.
17.2	Guidance on budget preparation	A	D	11 (ii)	Directly comparable.
17.3	Budget submission to the legislature	B	B	27 (iii)	Not comparable.
PI-18	**Legislative scrutiny budgets**	**C+**			
18.1	Scope of budget scrutiny	B	C	27 (i)	Directly comparable.
18.2	Legislative procedures for budget scrutiny	C	D	27 (ii)	Not comparable.

No.	Indicator	Score 2016	Score 2008	'Old' PI #	Performance change
18.3	Timeliness of budget proposal approval	C	A	11 (iii)	Indirectly comparable.
18.4	Rules for budget adjustment by the executive	C	D	27 (iv)	Directly comparable.
PI-19	**Revenue administration**	**D**			Indirectly comparable.
19.1	Rights and obligations for revenue measures	C	B	13 (ii)	Not comparable.
19.2	Revenue risk management	D			New.
19.3	Revenue audit and investigation	D	B,B,B	14 (i-iii)	Not comparable.
19.4	Revenue arrears monitoring	D*	NR	15 (i)	Not comparable.
PI-20	**Accounting for revenue**	**C+**			
20.1	Information on revenue collections	B			New.
20.2	Transfer of revenue collections	A	B	15 (ii)	Not comparable.
20.3	Revenue accounts reconciliation	C	D	15 (iii)	Not comparable.
PI-21	**Predictability of in-year resource allocation**	**C+**			
21.1	Consolidation of cash balances	C	C	17 (ii)	Directly comparable.
21.2	Cash forecasting and monitoring	C	C	16 (i)	Directly comparable.
21.3	Information on commitment ceilings	A	C	16 (ii)	Directly comparable.
21.4	Significance of in-year budget adjustments	C	C	16 (iii)	Directly comparable.
PI-22	**Expenditure arrears**	**D**			
22.1	Stock of expenditure arrears	D	NR	4 (i)	Directly comparable.
22.2	Expenditure arrears monitoring	D	D	4 (ii)	Directly comparable.
PI-23	**Payroll controls**	**D+**			
23.1	Integration of payroll and personnel records	D	D	18 (i)	Indirectly comparable.
23.2	Management of payroll changes	D*	D	18 (ii)	Indirectly comparable.
23.3	Internal control of payroll	D	D	18 (iii)	Directly comparable.
23.4	Payroll audit	C	C	18 (iv)	Directly comparable.
PI-24	**Procurement**	**C+**			**** indicator changed in 2011***
24.1	Procurement monitoring	C			New.
24.2	Procurement methods	B			
24.3	Public access to procurement information	C			
24.4	Procurement complaints management	C			
PI-25	**Internal controls on nonsalary expenditure**	**D+**			
25.1	Segregation of duties	C			New.
25.2	Effectiveness of expenditure commitment controls	D	D	20 (i)	Directly comparable.
25.3	Compliance with payment rules and procedures	D*	D	20 (iii)	Not comparable.
PI-26	**Internal audit**	**C+**			
26.1	Coverage of internal audit	B	C	21 (i)	Indirectly comparable.
26.2	Nature of audits and standards applied	C			New.
26.3	Implementation of internal audits and reporting	B	C	21 (ii)	Not comparable.
26.4	Response to internal audits	C	D	21 (iii)	Not comparable.
PI-27	**Financial data integrity**	**D**			

No.	Indicator	Score 2016	Score 2008	'Old' PI #	Performance change
27.1	Bank account reconciliation	D	C	22 (i)	Indirectly comparable.
27.2	Suspense accounts	D	D	22 (ii)	Indirectly comparable.
27.3	Advance accounts	D	D	22 (ii)	Indirectly comparable.
27.4	Financial data integrity processes	D			New.
PI-28	**In-year budget reports**	**D+**			
28.1	Coverage and comparability of reports	C	C	24 (i)	Indirectly comparable.
28.2	Timing of in-year reports	D	D	24 (ii)	Indirectly comparable.
28.3	Accuracy of in-year budget reports	C	C	24 (iii)	Not comparable.
PI-29	**Annual financial reports**	**D+**			
29.1	Completeness of annual financial reports	C	C	25 (i)	Indirectly comparable.
29.2	Submission of reports for external audit	D	C	25 (ii)	Indirectly comparable.
29.3	Accounting standards	C	D	25 (iii)	Indirectly comparable.
PI-30	**External audit**	**D+**			
30.1	Audit coverage and standards	C	B	26 (i)	Not comparable.
30.2	Submission of audit reports to the legislature	D	D	26 (ii)	Not comparable.
30.3	External audit follow-up	C	D	26 (iii)	Not comparable.
30.4	SAI Independence	B			New.
PI-31	**Legislative scrutiny of audit reports**	**NA**			
31.1	Timing of audit report scrutiny	NA	D	28 (i)	Indirectly comparable.
31.2	Hearings on audit findings	NA	D	28 (ii)	Indirectly comparable.
31.3	Recommendations on audit by the legislature	NA	D	28 (iii)	Not comparable.
31.4	Transparency of legislative scrutiny of audit reports	NA			New.

5 Government Reform Process

5.1 Approach to PFM reforms

Iraq is facing a double shock arising from the war with ISIS and the sharp drop on global oil prices, which put the public finances of Iraq under severe strain. The fiscal pressure forced GOI to run a cash-rationed budget with security spending taking priority, although financing from CBI (via depleted reserves and short-term treasury bills) has covered some of the gap for payments to workers and contractors, critical services, and payments to oil companies. This fiscal pressure has magnified weaknesses in public financial management, notably controlling commitments and cash management. Cash shortage have led to the accumulation of expenditure arrears estimated to be in the region of IQD 12.7 trillion representing 17.8% of total government expenditures.

5.2 Recent and on-Going Reform Actions

The GoI continues to place priority on PFM reforms and these are at the heart of the General Framework of Government Program 2014–2018, which aims to achieve economic and financial reforms, including supporting the transition from a single-resource economy to one that is diversified, in which the private sector plays an important role and the tax base is expanded. The implementation of PFM reforms has been delegated to a committee established by Cabinet Decree No. 88 of 2012. The Committee has developed a work plan and road map for carrying out its duties in coordination and cooperation with relevant local experts and international organizations: recent progress includes:

- **Draft Budget Law:** In consultation with the IMF and the World Bank, a new general financial management law has been drafted and approved by the Executive, and presented to the Council of Representatives of Iraq end of FY 2016 for review;

- **Integrated Financial Management Information System (IFMIS)**: The World Bank is currently working with the authorities on the preparation of a Public Financial Management (PFM) Development Project aiming to contribute to better fiscal management and improve GoI budget management practices at both federal and governorate levels, including in the KRG. The IFMIS design and implementation is the backbone of the project and will introduce the IFMIS through a comprehensive turnkey procurement which includes all necessary IFMIS-related work, including the planning, designing, configuring, testing, commissioning, training, and implementing the IT solution and all related services and goods in the MoF, MoP, two line ministries, and two governorates (Baghdad and Babil) or such other governorates as may be agreed by the Borrower and the Bank.

- **Public Investment Management (PIM):** Under the same project, a comprehensive program of technical assistance and related support will be carried out to modernizing and strengthening of the PIM system at the federal level, including through: (i) the carrying out of a capacity needs assessment for MoP; (ii) PIM capacity building for MoP staff and relevant government stakeholders; (iii) updating and improving project appraisal methodologies and guidelines, including instructions, guidelines and templates; (iv) development of a framework for ex-post project evaluation; (v) supporting the establishment of a specialized PIM unit within MoP; (vi) development of an integrated bank of investment projects, to support investment planning and decision making, to track and monitor investments, and to serve as an investment project registry; (vii) updating and strengthening the Borrower's legal and regulatory framework for PIM; and (viii) developing a PIM/IDMS interface within the IFMIS developed under Part 1 of the Project.

- **Decentralization**: Iraq has achieved a significant level of political decentralization comprised of a partial federal and partial unitary state. The 2005 Constitution provides for a federal structure with respect to regional government(s) and a unitary structure with respect to the governorates. To date, no governorates that are not organized in a region have chosen to form a region. Authorities of regions are not subject to federal statutory changes; governorate authorities are determined by federal legislation. For governorates, the Constitution characterizes the governance structure as administrative decentralization. The Second Amendment to the Law on Governorates (Law 19, 2013) provides for the devolution of "sub-directorates, departments, tasks and competencies of parts of eight federal ministries.15 Devolution was supposed to have been carried out over a two-year period, to be completed by August 2015. The Ministry of Housing, Municipalities and Public Works is the most advanced in this process, though no formal transfer of staff, facilities and budgets have taken place as of late 2015. Based on H.E. The Prime Minister request, the World Bank performed an assessment of Iraq decentralization. The assessment provides a snapshot of the status of decentralization process. It, as well, identifies policy and process reform measures that are necessary to strengthen service delivery by the 15 Governorates of Iraq.

- **Public Financial Management, Transparency, and Regulatory Reform** (funded by DFID, implemented in FY2016). Through this project, the World Bank has supported GOI in developing the following PFM areas:

  I. **Ministry of Finance (MOF) on-line Information and Transparency:** The MoF is collaborating with the World Bank to develop an "Open Budget Portal" to streamline publication of information and data on public expenditure accounts in Iraq. The portal will explore innovative ways to consolidate and improve public access to fiscal information in Iraq, including using data visualization tools to transform fiscal data and information into intuitive and user friendly formats. The portal will allow authorized MOF users to publish key budget documents in Word, Excel, PDF (Executive's budget proposal, enacted budget, monthly execution reports, year-end reports, and audited budgets). In addition, the portal will use dashboard-like formats and user friendly data visualization tools to illustrate the approved budget for the current fiscal year and three two past years, actual budget execution figures for the last available fiscal year; all classified according to the used budget classification categories by the GoI.

  II. **MOF Capacity Needs Assessment**: The World Bank is supporting MOF in objectively assessing its needs and how well it is operating in the realm of PFM, through identifying strengths, weaknesses, gaps and the constraints it faces, which may include scarce resources, low staff skills, mandate limitations, underdeveloped systems, among others. Once it has identified these challenges, the MOF will be in a position to develop an appropriate strategy for developing its capacity: one that builds on its strengths and addresses (or copes with) constraints that inhibit its effectiveness.

[15] These include the Ministries of Housing and Reconstruction, Municipalities and Public Works, Health, Education, Labour and Social Welfare, Sports and Youth, and Agriculture and Finance. With respect to the Ministry of Finance, devolution has meant only the creation of Finance Departments in the Governorates, and not a devolution of the Ministry of Finance authorities.

III. **Supporting the Federal Board of Supreme Audit (FBSA)**: this support included a review of a sample of audit reports completed by the FBSA (covering financial, compliance and performance audit) and recommendations for improvement, as well as exposure to international good practice in audit report preparation through targeted knowledge sharing activities with peer SAIs.

IV. **MOF PFM Assessment (PEFA Framework),** which is the subject of this report.

5.3 Institutional considerations

Government leadership and ownership have slightly improved over time and is reflected in the Federal Government strategies and action plans (Government Strategic Plan 2014 – 2018). This is likely to contribute to a more effective PFM reform process, better direction and pace, and more clarity regarding organizational responsibilities for the reform process, and addressing, in a timely manner, any resistance to change. Government leadership with donors has not strengthened. Responsibility for donor coordination is not clear where it lies. There is an urgent need for a new donor coordination mechanism, which should include database to provide sufficient information on ongoing financial assistance, projects, and programs with link to government strategic priorities.

The organizational arrangements within which PFM is conducted in Iraq operate is fair, yet coordination should be strengthened, especially on planning and budgeting capital spending while Iraq is in this critical fiscal situation. The link between the Government Strategic priorities (2014-2018) and budget MTEF capital expenditures should be reviewed and confirmed. For PFM reforms, the implementation has been delegated to a Special Committee established by Cabinet Decree No. 88 of 2012. The Committee has developed a work plan and road map for carrying out its duties in coordination and cooperation with relevant local experts and international organizations.

The more sustainable is the reform process, the likely to influence the impact of PFM reforms. The majority of PFM reforms include capacity-building programs yet enforcement to ensure the retention of trained staff is lacking. Also, information on funding of the recurrent costs resulting from the implementation of reforms is not easily accessible.

Transparency of the PFM program is important for setting expectations and soliciting contributions and collaborations from various stakeholders. Unfortunately, the Federal Government of Iraq is not managing this very well as neither the public nor the international community has easy access to such information.

6 Annexes

Annex 1: Performance Indicator summary

No.	Indicator	Score 2016		Score 2008	Performance change
PI-1	**Aggregate expenditure outturn**	**D**			
1.1	Aggregate expenditure outturn	D	Expenditure outturn was between 86.1% in FY2013 & 68.8% in FY2015: i.e. 2 of 3 years reviewed. *(N.B. no budget in FY2014)*	D	Indirectly comparable, as 2016 calibration includes externally financed projects (excluded in 2008).
PI-2	**Expenditure composition outturn**	**D+**		D*	**** indicator changed in 2011***
2.1	Expenditure composition outturn by function	D	The variance in the two years for which data is available is greater than permitted for a 'C' rating, i.e. -13.9% and -31.2%. *(N.B. no budget in FY2014)*		Not comparable; different data & scoring criterion in PEFA 2008.
2.2	Expenditure composition outturn by economic type	D	A contingency reserve is embedded in each MDA budget; cannot be rated.		New dimension
2.3	Expenditure from contingency reserves	A	The average contingency in the two years for which data is available was 0.1%.		New dimension
PI-3	**Revenue outturn**	**D+**		A	**** indicator changed in 2011***
3.1	Aggregate revenue outturn	D	Revenue outturns for FY2013 & FY2015 were 95.4% & 70.7%, of approved budgets. *(N.B. no budget in FY2014)*		Scores not comparable: revenues from external sources now included.
3.2	Revenue composition outturn	C	Revenue composition variance was 0.2% in FY2013 and 14.1% in FY2015 *(N.B. no budget in FY2014)*		New dimension.
PI-4	**Budget classification**	**C**			
4.1	Budget classification	C	Budget formulation, execution, and reporting are	C	Directly comparable: a new budget classification has been adopted, which is less

No.	Indicator	Score 2016		Score 2008	Performance change
			based on administrative & economic classifications that can produce consistent documentation comparable with GFS standards (at least level 2 of the GFS standard – 2 digits)		comprehensive that the 2007(more GFMS 2001-based) version. The classification framework does not allow direct derivation of the main analytical measures of fiscal policy.
PI-5	**Budget documentation**	**C**			
5.1	Budget documentation	C	Budget documentation fulfills 6 elements, including at least 3 basic elements.	D	Scores not directly comparable, although subject matter is similar to previous PI-6 of 2008 framework, but new elements now included. Only 6 of 12 elements fully met, as in 2008: no improvement in performance
PI-6	**Central government operations outside financial reports**	**D**			
6.1	Expenditure outside financial reports	D*	No information from GoI on expenditure outside financial reports and budget. Expenditure from donor funded projects & programs was 11.4% of total GoI exp in FY2015	D	Rating not directly comparable, as dim reformulated & scope widened to include donor expenditure in addition to GoI expenditure.
6.2	Revenue outside financial reports	D*	No information from GoI on revenue outside financial reports and budget. Revenue from donor funded projects & programs constitute 12.1% of total govt. revenue for FY2015		Not comparable: new dimension.
6.3	Financial reports of extra-budgetary units	D	Majority of extra budgetary units do not provide regular financial reports to GoI. Technical Assistance is not reported to GoI		Not comparable: new dimension.
PI-7	**Transfers to subnational governments**	**C+**			Indirectly comparable.

No.	Indicator	Score 2016		Score 2008	Performance change
7.1	System for allocating transfers	C	The horizontal allocation of ***some*** transfers to subnational Governorates from central government is determined by transparent, rule-based systems, based on population.	A	Indirectly comparable. GoI put in place several policy and procedural steps supporting decentralization, however, intergovernmental fiscal relations & service delivery remain highly centralized.
7.2	Timeliness of information on transfers	B	Subnational Governments' budget calendar is consistent with the applied national one; Subnational governments receive information on their annual transfers through the regular budget calendar.	D	Indirectly comparable.
PI-8	**Performance information for service delivery**	**D+**			
8.1	Performance plans for service delivery	D	Performance benchmarks are developed in sector strategies, long term, medium term and annual action plans; but are not published		New dimension in PEFA 2016.
8.2	Performance achieved for service delivery	D	Publication of performance achieved for service delivery is not routinely done in accordance with set KPIs; that said, MoE makes public student examination results as well as performance of schools		New dimension in PEFA 2016
8.3	Resources received by service delivery units	D	Over the last three completed fiscal years, no surveys (PETS) has been conducted. Further, there is no mechanism to track resources (both cash and kind) received by primary service delivery units	D	Subject matter unchanged, but rating & performance not comparable because additional information on two large line ministries is required
8.4	Performance evaluation for service delivery	C	Value for Money (VFM) studies are performed by the internal M&E		New dimension in PEFA 2016

No.	Indicator	Score 2016		Score 2008	Performance change
			framework in each line and limited performance audit by FBSA.		
PI-9	**Public access to key fiscal information**	**D**			
9.1	Public access to fiscal information	D	Only two of five basic elements are fully met. Nonetheless, two other elements – 1 basic & 1 additional are partially met; the main challenge is the delay in publication of information	D	Scores are not directly comparable, although the subject matter remains unchanged. In 2016, elements are split into 'basic' and 'additional' none of which were met in 2008; hence, there is a marginal improvement in performance.
PI-10	**Fiscal risk reporting**	**D**			
10.1	Monitoring of public corporations	D	MoF is making substantial efforts to monitor public corporations: however, at time of assessment, the majority of public corporations did not submit their financial statements	D	Comparable to 2008 PI-9 (dim ii): oversight of aggregate fiscal risk from other public sector entities.
10.2	Monitoring of subnational governments	D	Performance is less than required for 'C' as financial reports are not published.	D	Comparable to 2008 PI-9 (dim ii): oversight of aggregate fiscal risk from other public sector entities.
10.3	Contingent liabilities and other fiscal risks	D	There is no evidence suggesting monitoring and reporting of central government contingent liabilities		New.
PI-11	**Public investment management**	**NU**			
11.1	Economic analysis of investment proposals				New.
11.2	Investment project selection				New.
11.3	Investment project costing				New.
11.4	Investment project monitoring				New.
PI-12	**Public asset management**	**C+**			
(i)	Quality of central government financial asset monitoring	D	There is no reliable data on monitoring of government financial assets.		New.

No.	Indicator	Score 2016		Score 2008	Performance change
(ii)	Quality of central government non-financial asset monitoring	B	While GoI does not have a consolidated fixed asset register, each budget entity maintains a register which is audited by FBSA		New.
(iii)	Transparency in the sale of non-financial assets	B	Rules and procedures for the disposal of GoI fixed assets are established in the Public Procurement & Lease Law - Law 32 of 1981. Proceeds are reported in AFS.		New.
PI-13	**Debt management**	**D+**			
13.1	Recording and reporting of debt and guarantees	C	Total public debt records (foreign & domestic) are reconciled & updated annually based on creditor statements, with minor reconciliation differences. Monthly reconciliation is also done between PDD and Accounts Department but with major reconciliation differences	C	Directly comparable: score and performance unchanged
13.2	Approval of debt and guarantees	C	The Minister of Finance is the sole official authorised by law to contract loans and issue guarantees on behalf of GoI. DMU responsible for managing government debt portfolio. Loans and guarantees are approved by the Council of Representatives.	C	Not directly comparable, although the subject matter is unchanged from PI-17 (III) in 2008.
13.3	Debt management strategy	D	A 3-year medium-term DMS has been prepared for 2017-2019, which outlines composition of external borrowing but lacks detailed analysis of risks. No information on domestic		New.

No.	Indicator	Score 2016		Score 2008	Performance change
			borrowing for forecast period, & is not published.		
PI-14	**Macroeconomic and fiscal forecasting**	**C+**			
14.1	Macroeconomic forecasts	B	Projections of inflation, the Oil price, loans and other financing items are made but not published, nor reviewed by an independent entity.		New.
14.2	Fiscal forecasts	B	Revenue forecasting is formalized, driven by assumptions about oil prices.		New.
14.3	Macrofiscal sensitivity analysis	D	The FBS does not explicitly include quantitative or qualitative assessments of the impact of alternative macroeconomic assumptions.		New.
PI-15	**Fiscal strategy**	**C**			
15.1	Fiscal impact of policy proposals	C	In the context of the recent reduction in oil prices on the world market and the security situation in the country GoI (with IMF assistance), has adopted a number of short & medium-term measures to deal with the crisis (a deficit over 9% of GDP).		New.
15.2	Fiscal strategy adoption	C	The strategy reflects a medium-term vision to strengthen the link between budget allocations & GoI priorities for utilizing available resources for the coming FY; however, this is not presented to Parliament.		New.
15.3	Reporting on fiscal outcomes	C	GoI does not include an assessment of achievements against stated fiscal objectives available as part of the annual budget documentation		New.

No.	Indicator	Score 2016		Score 2008	Performance change
			submitted to the legislature.		
PI-16	**Medium-term perspective in expenditure budgeting**	**B**			
16.1	Medium-term expenditure estimates	B	Estimates are presented for budget and following 2 FYs using administrative & economic classifications.	C	Related to former PI-12 (i), but not comparable
16.2	Medium-term expenditure ceilings	B	Budget ceilings exist, and were enforced in 2016.		New dimension.
16.3	Alignment of strategic plans and medium-term budgets	B	MDAs do have medium-term plans linked to the NDP	D	Related to former PI-12 (iii) & (iv), but not comparable
16.4	Consistency of budgets with previous year estimates	C	Adjustments caused by the fiscal crisis are explained.		New dimension.
PI-17	**Budget preparation process**	**B+**			
17.1	Budget calendar	B	A clear annual budget calendar exists and is largely adhered to. The calendar allows budgetary units at least four weeks from receipt of the budget circular. Most spending units are able to complete their detailed estimates on time.	B	No change, budget calendar is clear and provides sufficient time for agencies to prepare submissions and majority of spending units complies in submitting their detailed estimates on time.
17.2	Guidance on budget preparation	A	The Budget call circular of 2017 was a reissue of the previous year, but does provide totals and ceilings.	D	Indirectly comparable as the 2016 calibration includes externally financed projects/programs which were excluded in 2008 assessment.
17.3	Budget submission to the legislature	B	The executive submitted the draft budget of 2017 to the Parliament in Sept, budget of 2016 was submitted to the CoR in Nov. 2016, while budget of 2015 was submitted in Dec 25, 2014.	B	New dimension.
PI-18	**Legislative scrutiny budgets**	**C+**			

No.	Indicator	Score 2016		Score 2008	Performance change
18.1	Scope of budget scrutiny	B	Budget strategy is attached to budget proposal submitted to the Parliament; which includes fiscal policies and aggregates for the coming years, besides details of revenue and expenditures, however: it does not appear that fiscal policies are reviewed and challenged.	C	No change.
18.2	Legislative procedures for budget scrutiny	C	Finance Committee lacks internal rules, but has adopted informal procedures to hold hearings with Ministries etc., (especially MoF) & has support from e.g. UNDP and WB.	D	No change.
18.3	Timeliness of budget proposal approval	C	The legislature succeeded to approve the budgets of FY16 and FY15 within a month of the start of FY	A	Rated B in 2008, based on the time parliament spent ***debating*** the budget rather than when it was approved.
18.4	Rules for budget adjustment by the executive	C	Clear rules exist and are adhered to in some instances: however, extensive administrative reallocations as well as expansions of total expenditure are allowed, Over the past few years approximately 10-20% of the budget funds have been reallocated.	D	The 2008 report* emphasized that in addition to GoI partially adhering to reallocation rules, there was no proof of a supplementary budget being submitted. This area witnessed some improvement in the following years, with a supplementary budget submitted to & rejected by CoR in 2012.
PI-19	**Revenue administration**	**D**			Indirectly comparable.
19.1	Rights and obligations for revenue measures	C	Revenue collecting agencies provide clear, comprehensive & simple information on taxpayer obligations. Also, an administrative and judicial mechanism for redress.	B	Dimension reformatted to include tax & non-tax revenue arrears; performance not comparable
19.2	Revenue risk management	D	Tax authorities do not apply risk-		New dimension.

No.	Indicator	Score 2016		Score 2008	Performance change
			based processes for managing risk		
19.3	Revenue audit and investigation	D	Both Customs and General Commission of Taxes do not prepare tax audits and fraud investigations annual plans; no tax audit has been done in the last three years.	B, B, B	Subject matter maintained, but data requirements revised; not directly comparable
19.4	Revenue arrears monitoring	D*	There are no records of the stock of revenue (tax and non-tax) arrears. Whereas revenue officials attest to the fact there could significant tax arrears, poor and inaccurate record make it difficult to track and record tax revenue arrears. No information from Ministry of Oil about arrears on sales of crude oil.	NR	Dimension reformatted to include tax & non-tax revenue arrears; performance not comparable.
PI-20	**Accounting for revenue**	**C+**			
20.1	Information on revenue collections	B	MoF obtains monthly revenue reports disaggregated into revenue types from most revenue collecting agencies; these are consolidated and reported in the in-year budget execution reports		New.
20.2	Transfer of revenue collections	A	Oil and gas revenues are deposited directly to State Treasury Account (300600). However, transfers from revenue collecting agencies is monthly from tax authorities' holding bank accounts into State Treasury Account; that said, daily sweeps are made from tax agencies' branch account into holding accounts	B	Not comparable.

No.	Indicator	Score 2016		Score 2008	Performance change
20.3	Revenue accounts reconciliation	C	Complete and comprehensive revenue accounts reconciliation is not done; only monthly reconciliation is between revenue collections and transfers to State Treasury Account; oil, gas and taxis included	D	Not comparable.
PI-21	**Predictability of in-year resource allocation**	**C+**			
21.1	Consolidation of cash balances	C	Most consolidation of government cash balances takes place each month.	C	Directly comparable: no change in performance.
21.2	Cash forecasting and monitoring	C	Budget agencies submit annual cash flow plans to MoF for consolidation but this is not updated regularly, either monthly or quarterly.	C	Directly comparable, and shows no change since 2008. However, at that time there was no pressure on GoI revenues hence effective monitoring was not required; this has changed in the last three years.
21.3	Information on commitment ceilings	A	MoF issues annual expenditure commitment ceilings: nonetheless cash allocations are monthly.	C	improvement. Expenditure commitment ceilings are set for three quarters of the year for all categories of expenditure which was not the case in 2008.
21.4	Significance of in-year budget adjustments	C	In-year budget reallocations within and across votes may be frequent but are transparent.	C	Directly comparable, and shows no change since 2008.
PI-22	**Expenditure arrears**	**D**	IMF Article IV and MoF data indicate that expenditure arrears represent 11.28% and 17.86% of total expenditure for FY2014 & FY2015 respectively. This reflects an increase of 6.58% from 2014. No available data on arrears in FY2013.	NR	Not comparable: scoring criteria have been tightened in 2016. NR in 2008 for lack of reliable data.
22.1	Stock of expenditure arrears	D	There is no framework for generating and monitoring expenditure payment arrears.	NR	Scores not directly comparable as criteria reformatted: however, performance appears unchanged.

No.	Indicator	Score 2016		Score 2008	Performance change
22.2	Expenditure arrears monitoring	D		D	Directly comparable.
PI-23	**Payroll controls**	**D+**			
23.1	Integration of payroll and personnel records	D	Payroll and personnel records are not integrated to ensure data consistency.	D	Indirectly comparable.
23.2	Management of payroll changes	D*	There are considerable delays in effecting changes to the payroll, but these cannot be quantified.	D	Indirectly comparable.
23.3	Internal control of payroll	D	sufficient controls to ensure integrity of the payroll data do not exist.	D	Directly comparable.
23.4	Payroll audit	C	Partial audits are conducted.	C	Directly comparable.
PI-24	**Procurement**	**C+**			**** indicator changed in 2011***
24.1	Procurement monitoring	C	To address weaknesses in data collection, MoP – DoGGC now collects data for all contracts above 10 million IQD.		New.
24.2	Procurement methods	B	Data from MOP had been collected.		
24.3	Public access to procurement information	C	Three of the elements of 'key procurement information' are public.		
24.4	Procurement complaints management	C	.3 criteria out of 6 were met including criteria # 1.		
PI-25	**Internal controls on nonsalary expenditure**	**D+**			
25.1	Segregation of duties	C	Although segregation of duties for main functions exist, definitions and roles are not documented, and not sufficiently clear.		New.
25.2	Effectiveness of expenditure commitment controls	D	Controls are linked to liquidity availability due to the economic and financial situation of the country.	D	Exceptional circumstances affecting effectiveness of commitment controls.
25.3	Compliance with payment rules and procedures	D*	Material exceptions regarding advances ceiling	D	Override of rules and procedures to accommodate

No.	Indicator	Score 2016		Score 2008	Performance change
			were taken place in the Ministry of Education		exceptional needs and circumstances.
PI-26	**Internal audit**	**C+**			
26.1	Coverage of internal audit	B	Limited independence for IA, and IG. Most activities are compliance in nature and not adhere with the international standards on IA. Nevertheless, IA is present in each ministry and covers most of budgeted expenditures and revenues.	C	IA units in each ministry are covering now most of budgeted expenditures and revenues.
26.2	Nature of audits and standards applied	C	Primarily focused on financial compliance, with non-alignment with international standards and good practices.		New dimension.
26.3	Implementation of internal audits and reporting	B	Limited documentation, non-standard reports, majority of audits are completed, as evidenced by the distribution of the reports to concerned parties, etc.	C	Although non-standard reports are issued from IA units, they are done systematically.
26.4	Response to internal audits	C	Management provides Partial responses to internal audit, while there is limited response to IG recommendations with lack of structured follow up approach	D	More partial responses are witnessed.
PI-27	**Financial data integrity**	**D**			
27.1	Bank account reconciliation	D	Reconciliation of all active central govt. bank accounts does not take place within 8 weeks after the end of month or quarter. Whereas treasury managed bank accounts are reconciled within two months, line ministries reconcile theirs within three	C	Not directly comparable; scoring requirements have been strengthened.

No.	Indicator	Score 2016		Score 2008	Performance change
			months. There is no reliable information on public corporations' bank reconciliations.		
27.2	Suspense accounts	D	As at end of FY2015, aggregate suspense and advances stood at IQ74.7trillion; this is yet to be reconciled and acquitted.	D	Not directly comparable, as subject matter separated from dimension 27.2.
27.3	Advance accounts	D	Advances to line ministries & staff for official duties continue unabated. Whiles some advances are reconciled at least annually within two months, significant un-reconciled balances are brought forward.	D	Not directly comparable, as subject matter separated from dimension 27.2.
27.4	Financial data integrity processes	D	The Unification Division of MoF verifies financial transactions received from line ministries; however, the unit is constrained with human capacity. While there are restrictions to data usage in addition to some level of data storage, it is rudimentary and lacks standardized data protection and storage framework		New.
PI-28	**In-year budget reports**	**D+**			
28.1	Coverage and comparability of reports	C	In-year budget execution reports produced by MoF allow for easy comparison with the original approved budget at aggregate administrative and economic main headings only.	C	The scores are not directly comparable, although data requirements are unchanged. That said, there appears to be no improvement.
28.2	Timing of in-year reports	D	MoF produces consolidated monthly budget execution reports within 12 weeks	D	As above

No.	Indicator	Score 2016		Score 2008	Performance change
			following the end of the previous month. These reports are published on MoF website as well as the official government website		
28.3	Accuracy of in-year budget reports	C	Expenditures are reported only at the payment stage but not at the commitment stage; further, there are data accuracy concerns but these are not highlighted in the reports.	C	The subject matter remains unchanged but scoring criteria has been reformatted to include budget analysis. Nonetheless, there appears to be no change
PI-29	**Annual financial reports**	**D+**			
29.1	Completeness of annual financial reports	C	Consolidated annual financial statements of central government are prepared each year; these are comparable with approved federal budget. The AFS provide information on revenue, expenditure, financial assets, liabilities but no disclosure of guarantees	C	Ratings not directly comparable, as scoring requirements expanded to improve transparency such as disclosure of govt. guarantees. That said, there appears to be no change
29.2	Submission of reports for external audit	D	The 2013 financial statements were submitted to FBSA 11 months after the end of the financial year	C	Ratings not directly comparable. Time required for submission of AFS to FBSA shortened, & hence more stringent. There appears to be no change
29.3	Accounting standards	C	Cash accounting standards were consistently used over the last three completed financial years in accordance with the legal framework	D	Ratings not directly comparable, as. subject matter expanded to require more explanation of accounting standards. There appears to be no change.
PI-30	**External audit**	**D+**			
30.1	Audit coverage and standards	C	The FBSA has an extensive mandate that includes auditing public finance, as well as conducting value for money	B	The FBSA had a revised law No. 31 for the Year 2011 that grants it an extensive mandate that includes auditing public finance, as well as conducting

No.	Indicator	Score 2016		Score 2008	Performance change
			(VFM) or performance audits, which are conducted in compliance with international auditing standards. The final accounts include revenues, expenses, assets and liabilities. However, despite the deteriorating political and security conditions, the FBSA was able to complete the audit reports for all audited bodies, except those governorates under ISIS rule.		performance audits. Over the last 3 years, the FBSA has taken concrete steps towards adopting modern auditing approaches. Risk-based audit was introduced in the 2016 audit plan, while audit of systems and programs was introduced in 2015 audit plan. A peer review of its performance audit function was completed by the Netherlands Court of Audit (NCA) in 2013 found that the performance audit function of the FBSA meets most of the ISSAIs. Comparing FBSA's auditing activity for 2013 and 2016, there is a noticeable shift towards diversification of activities. The FBSA confirmed that they audit all public expenditure (with the exception of the Kurdistan region).
30.2	Submission of audit reports to the legislature	D	The FBSA is required to submit an annual report to the CoR within 120 days of the end of the fiscal year. It is also mandated with auditing the governments Final Accounts. During the last 3 years, it submitted 3 annual reports and 12 quarterly reports to CoR. However, it could not submit the final accounts audit report to government as they were not made available to it.	D	The final accounts for the years 2005-2012 were only submitted to parliament at the beginning of 2015. The 2013 final accounts were only submitted in January 2015, but not discussed yet. The FBSA is working with the Ministry of Finance on how to audit the final accounts of 2014, given that no budget was passed that year.
30.3	External audit follow-up	C	The FBSA has a specialized Scrutiny and Follow up Unit (SFU) that is responsible for following up on the	D	The SFU also follows on recommendations with the Accounting and Oversight Standards Council. In 2015, the Prime Minister's Office formed a specialized

No.	Indicator	Score 2016		Score 2008	Performance change
			recommendations issued by the FBSA and the actions taken by the audited bodies, which are documented in the FBSA's annual and periodical reports.		committee tasked with following up with the different ministries and providing official responses to the FBSA's questions and recommendations.
30.4	SAI Independence	B	The FBSA is a financially and administratively independent body with a judicial personality, and is attached to the CoR. The President of the FBSA is appointed by the CoR to carry its mandate the FBSA law granted it the authority to access information needed. However, the FBSA continues to face significant obstacles in accessing information in a timely manner.		New dimension: not possible.
PI-31	**Legislative scrutiny of audit reports**	**NA**			
31.1	Timing of audit report scrutiny	NA	The CoR was unable to scrutinize the audit reports on annual financial reports as they had not been submitted to parliament on time during the past three years.	D	At the beginning of 2015, the CoR received the final accounts for the years 2005-2011. The CoR adopted the final accounts for the years 2005-2006 in October 2015, and the accounts for 2007 in March 2016. The backlog of accounts will require time for the parliament to be able to go through and approve. The 2013 final accounts that were submitted to the CoR in January of 2016 but have still not been discussed.
31.2	Hearings on audit findings	NA	The CoR committees can hold hearing sessions for any public official, as well as members of the civil society or private sector, and it can question members of the executive in general assembly sessions. But since it has not	D	Despite the fact that the CoR has not received the audited reports from the government, it does hold hearing sessions, for example in 2014 the economic committee held several hearings for different government official including the Minister of Commerce, the Minister of Planning,

No.	Indicator	Score 2016		Score 2008	Performance change
			received the reports in a timely manner, it did not hold hearing sessions.		the Central Bank's Governor, the Ministry of Industry on companies related to ministry. On average the CoR holds 3-6 hearing sessions a year.
31.3	Recommendations on audit by the legislature	NA	The CoR did not receive audited reports in a timely manner to discuss and issue recommendations.	D	There is no systemic mechanism in place for follow up on the status of implementation of CoR recommendations, however some of the standing committees have opted to form subcommittees for this purpose. For example, the Finance committee formed two subcommittees in 2015 (on oil and non-oil revenues, and on licensing), and one in 2016 (on Iraqi money smuggled outside Iraq).
31.4	Transparency of legislative scrutiny of audit reports	NA	The CoR did not receive audited reports in a timely manner to discuss them.		New dimension: comparison of scores is not applicable. For the overdue final accounts reports that were received, the committee meetings held to discuss these reports are in camera, and their reports are currently not published online on the CoR's website. The general assembly sessions are public and covered by the media.

Annex 2. Summary of observations on the internal control framework

"Information for this annex should be drawn from the PEFA assessment only. No new information should be collected. Where there is no information to provide a summary of findings, the table should include the words 'No information available from the PEFA assessment'".

(PEFA SECRETARIAT GUIDANCE)

Internal control components and elements		Summary of observations
1. Control environment		
1.1	*The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation.*	The Law for Financial Administration and Public Debt No. 94 of 2004 includes definitions of monitoring of the execution of the budget, and requires the Minister to ensure that there are sufficient arrangements in place for financial management, internal supervision, accounting procedures, and reports on the application and recording.
1.2.	*Commitment to competence*	The law expects personnel executing the budget to assume responsibility for financial management and the internal monitoring of transactions for revenues and expenditures in their spending units.
1.3.	*The "tone at the top" (i.e. management's philosophy and operating style)*	***No information available from the assessment.***
1.4.	*Organisational structure*	***No information available from the assessment.***
1.5.	*Human resource policies and practices*	There is no specific code of ethics of conduct for financial controllers, although all employees are aware of the "Public Servants Discipline law #14 for year 1991" and the Public Servants Code of Conduct.
2. Risk assessment		
2.1	*Risk identification*	***No information available from the assessment.***
2.2	*Risk assessment (significance and likelihood)*	Internal Audit is responsible for systematic evaluations of the efficiency and activation of the decision adoption process followed by the ministries and the limitation of risks and internal monitoring
2.3	*Risk evaluation*	Reviewing the efficiency of the use of the provided services and suggesting methods of providing said services
2.4	*Risk appetite assessment*	***No information available from the assessment.***
2.5	*Responses to risk (transfer, tolerance, treatment or termination)*	***No information available from the assessment.***
3. Control activities		
3.1	*Authorization and approval procedures*	MoF Law No.92 of 1981 includes provisions for the regulation, administration and controlling of public funds.
3.2	*Segregation of duties (authorizing, processing, recording, reviewing)*	Mechanisms of internal monitoring have been established within the MoF, and segregation of duties exists in practice with regards to (i) authorization; (ii) recording; (iii) custody of assets; and (iv) reconciliation and audit: however, roles and responsibilities are not clearly spelled out.
3.3	*Controls over access to resources and records*	The different department within MoF have a responsibility to manage, control and monitor the execution of the activities in addition to accounting, and internal financial control activities.
3.4	*Verifications*	***No information available from the assessment.***
3.5	*Reconciliations*	***No information available from the assessment.***
3.6	*Reviews of operating performance*	The accounting department performs a controlling role to supervise cash flow in the public treasury, developing the appropriate accounting system, accounting control on the financial activities and the developing of internal monitoring

		systems for the management of public funds, along with investigating the financial violations.
3.7	*Reviews of operations, processes and activities*	***No information available from the assessment.***
3.8	*Supervision (assigning, reviewing and approving, guidance and training)*	***No information available from the assessment.***
4. Information and communication		
		MoF and line ministries prepare monthly and periodic reporting from the accounting and financial records. The financial departments maintain records and generate daily statements. Reports are generated for the public revenues and public expenditures.
5. Monitoring		
5.1	*Ongoing monitoring*	Two monitoring departments exist: (a) inspection general and (b) internal auditing department. They are responsible for the monitoring and execution of laws, regulations, instructions, procedures, and means of work in addition to conducting audits and following up with the reports of FBSAA and monitoring the financial affairs. Nevertheless, each has its own role that is complimentary to the other.
5.2	*Evaluations*	Both the inspection general and the internal audit departments monitor and conduct verification activities. The related recommendations and reports are shared with the Minster to whom they report since both the inspection general and the internal audit deportment report to the line Minister. The former performs three functions: 1) Ex-post Internal Audit; (2) Inspection; and (3) limited ex-ante review. The related report is submitted to the line Minister. As for the internal audit departments, they perform compliance reviews systematically with a predetermined list of verification and monitoring activities detailed in their bylaws. They have access to information for all departments and have the authority to request the necessary evidence for their auditing work.
5.3	*Management responses*	The response to audit/ compliance reports are generally not documented, but if they are, this is usually mentioned in hand written remarks on the report by the auditee. In general, the comments raised by the audit are taken in consideration for immediate application. The Inspectorate General follows up on audit findings and recommendations and whether these were implemented or not. Nevertheless, these follow ups are limited as there is no structured approach carried out to monitor the progress of recommendations and action plans implementation.

Annex 3: Sources of Information

3A: List of Stakeholders Interviewed

WB PEFA mission July 30 - Aug 8, 2016

#	Name	Inst'	Title	E-mail	Telephone
1	Dr. Salahuddin H. Alhadeethi	MOF	MOF PMT Leader	saladin592000@yahoo.com	790-1919082
2	Ms. Taif Sami	MOF	MOF DG Budget	taifsame@yahoo.com	780-5439599
3	Ms. Snaa Jalal	MOF	Deputy DG Accounts	-	7901948095
4	Ms. Maysara Abdulraheem	MOF	MOF Deputy PMT Leader	abdulraheem_maysara@yahoo.com	790-2517260
5	Ms. Layla Mohammed	MOF	Head of Internal Auditing Unit	marwa.basil988@gmail.com	770-2523962
6	Mr. Waleed Kalid Alwan	MOF	MOF PMT	-	
7	Ms. May Moaid Ibrahim	MOF	Administrative Directorate	maealmulla@yahoo.com	7706001500
8	Ms. Layla Shalal Musa	MOF	Head of Decentralization Unit	-	7901574213
9	Dr. Ali Baiaty	MOF	Head finance Dep General Commission of Customs	albeaty71@gmail.com	7903396053
10	Ms. Najiha Ali	MOF	DG of Tax Commission	najiha_abbas@yahoo.com	7901708196
11	Ms. Rajaa Muhsen Abdulrasool	MOF	Head of Account Unification Unit	-	7901919076
12	Dr. Maher Johan	MOP	Deputy Minister in charge of Technical Affairs	maherjohan@yahoo.om , tech.deputy@mop.gov.iq	7813084606
13	Mr. Qassim E. Frez	MOP	MOP DG Investment Department	enayakassim@yahoo.com	790-2255051
14	Ms. Nidhal Mohammed Merza	MOP	MOP expert and head of budget Dep.	nedhalalnajafi@yahoo.com	7902437981
15	Mr. MAHDI HASAN AL-HUSSEINI	MOP	Engineer	mahdi.h_pl@yahoo.com	7902975930
16	Dr. Alaa Aldeen Jaafar Alameri	MOP	MOP DG Economic and Financial Policies Dept.	aladin.jp@gmail.com	7901763993
17	Dr. Azhar Salih	MOP	DG of Procurement	contracts.dp40@mop.gov.iq	7901918877
18	Dr. Mohammed Al-Said	MOP	DG Governorates	'mmassayed@yahoo.com'	790-3504460
19	Ms. Siham Khadir Jabor	MOP	Head of Dep.	sishamkj@yahoo.com	7812933803
20	Ms. Aida N. Ato	MOP	Deputy DG Accounts	aida_plan@yahoo.com	7702702180
21	Ms. Asma Al Shukri	MOP	Engineer	-	7728610901
22	Mr. Mumtaz Musstafa	MOCH	(financial Dep.)	-	7902341407
23	Mr. Mohammed Saeed Naji	MOCH	deputy DG	Alnaji2008@yahoo.com	7902341404
24	Mr. Firas Mahdi Saheb	MOCH	head of planning Dep.	firasmsu@gmail.com	7506050288
25	Mr. Abbas Adnan Atwan	MOCH	head of Internal Audit Dep.	-	7904174719
26	Ms. Amena Saheb Khalaf	MOCH	deputy DG of Financial Dep.	nene_zozo@icloud.com	7800068816
27	Ms. Zeena Nadhum Boros	MOCH	head of financial section	nene_zozo@icloud.com	7800101185
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3B: List of documents Consulted

Legal and regulatory framework

- Fuel Excise Tax/User Charge/Profit sharing: Law Number 9 of 1939, Revolutionary Command Council Resolution No. 82 of 1996 and the Order No. 66 of 1999 issued by the Economic Affairs Committee, CPA Orders No. 37 and 49 of 2004
- Customs Tax: Custom Law No (23) of 1984, Custom tariff law No (77) of 1955, CPA Order Number 54 - Trade Liberalization Policy 2004, CPA Order Number 38 - Reconstruction Levy, CPA Order Number 70 - Amendments to Reconstruction Levy, CPA Order Number 12
- Direct Tax: Income Tax Law No. 113 of 1982 (Corporate income tax, Wage Withholding tax, Contracts Withholding Tax, Individual Income Tax), Instructions No. (1) of 2005 Concerning Income Tax Deduction by Direct Deduction Method, The System of Depreciation and Elimination for Private, Mixed and Cooperative Sectors Regulation No. 9 of 1994, CPA Orders No. 37 and 49 of 2004
- Sales tax: Hotel Tax (Resolution No. 36) Republic of Iraq Revolutionary Command Council 5/4/1997, Resolution No. 36 of May 4th 1997 and Fiscal Instructions No. 7 of 1997, Car sale fee in accordance with Resolution Number 80 of 1998, CPA Orders No. 37 and 49 of 2004
- The Law for Financial Administration and Public Debt No. 94 of 2004
- The Law of Inspector General issued by virtue of Order No. 57 of 2004
- The Law of the Ministry of Finance No. 92 of 1981 and bylaws of the Ministry of Finance No. 1 of 1990.
- Iraq constitution of 2005;
- Law 130 (1963): Law of Municipality's Revenues
- Iraq Financial Management Law of 2004
- Law 21, 2008 as amended in 2010 and 2013. As enacted, Law 21, 2008[16] ("The Law of Governorates Note Incorporated into the Region"
- 2013 Amendments to Law 21: - Law 19, (Second Amendment of the Law of Governorates Not Incorporated in a Region (Law 21 of 2008).
- Parliamentary by-laws
- FBSA law no 21 of 2011

Budget documents

- Budget laws of 2013, 2014, 2015, 2016, and 2017.
- Budget proposal for 2013, 2014, 2015, 2016, and 2017.

Auditor-General annual reports

- FBSA annual reports of 2013 & 2014

Accountant General Reports

- Final accounts of 2013, 2014, and 2015
- In year budget execution reports

Other official documents

- Iraq Debt Strategy 2017-2019
- Public Debt Reports 2015, 2016
- National Strategy for Education and Higher Education 2011-2020)
- Government strategic plan 2014-2018
- IMF Art IV - Iraq Report Aug 2015
- Tax Department Strategic Plan 2014-2016

3C: Data used for scoring PI-1 & PI-2 & PI-3

Table 1.2A - Analysis for PI-1: Fiscal Year 2013

Data for year =	2013				
administrative or functional head	**budget**	**actual**	deviation	absolute deviation	percent
Ministry of Internal Affairs	9,929,494.00	10,872,364.61	2,327,394.6	2,327,394.6	27.2%
Ministry of Labor and Social Affairs	1,068,740.00	1,469,984.16	550,264.5	550,264.5	59.8%
Ministry of Health	6,750,431.00	6,272,867.32	463,686.1	463,686.1	8.0%
Ministry of Defense	9,206,856.00	5,683,287.27	-2,239,806.1	2,239,806.1	28.3%
Ministry of Justice	567,125.00	586,868.55	98,820.9	98,820.9	20.2%
Ministry of Education	8,811,060.00	8,057,252.31	474,766.9	474,766.9	6.3%
Ministry of Youth and Sports	533,478.00	612,325.69	153,233.5	153,233.5	33.4%
Ministry of Trade	6,362,886.00	6,341,535.00	865,861.2	865,861.2	15.8%
Ministry of Culture	390,235.00	220,208.64	-115,613.7	115,613.7	34.4%
Ministry of Transportation	1,474,043.00	658,016.21	-610,492.9	610,492.9	48.1%
Ministry of Public Works and Municipalities	2,705,930.00	2,102,540.38	-226,086.9	226,086.9	9.7%
Ministry of Housing and Construction	1,636,842.00	1,261,297.31	-147,310.8	147,310.8	10.5%
Ministry of Agriculture	1,057,847.00	922,611.42	12,265.9	12,265.9	1.3%
Ministry of Water Resources	1,336,748.00	1,196,971.17	46,613.3	46,613.3	4.1%
Ministry of Petroleum	21,509,513.00	15,456,384.33	-3,053,938.8	3,053,938.8	16.5%
Ministry of Planning and Development Cooperatic	76,058.00	60,915.63	-4,537.2	4,537.2	6.9%
Ministry of Industry and Mining	1,064,323.00	654,255.68	-261,662.9	261,662.9	28.6%
Min. of Higher Education & Academic Research	3,606,061.00	2,930,763.45	-172,484.6	172,484.6	5.6%
Ministry of Electricity	7,946,498.00	8,225,432.10	1,386,958.1	1,386,958.1	20.3%
Ministry of Science and Technology	229,533.00	177,817.93	-19,710.0	19,710.0	10.0%
21 (= sum of rest)	52,160,906.81	45,359,603.19	471,778.9	471,778.9	1.1%
allocated expenditure	138,424,607.81	119,123,302.36	0.0	13,703,287.8	
contingency	250,000.00	250,000.00			
total expenditure	138,674,607.81	119,373,302.36			
overall (PI-1) variance					13.92%
composition (PI-2) variance					11.5%
contingency share of budget					0.2%

Table 1.2B: Analysis for PI-1 Fiscal Year 2014

Data for year =	2014				
administrative or functional head	**budget**	**actual**	deviation	absolute deviation	percent
Ministry of Internal Affairs	0	18,752,369,443,478.70	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Labor and Social Affairs	0	16,498,942,756,495.90	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Health	0	14,213,271,259,170.50	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Defense	0	9,938,418,483,365.09	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Justice	0	7,839,898,947,332.64	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Education	0	7,376,495,724,901.28	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Youth and Sports	0	7,193,129,141,190.38	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Trade	0	6,637,173,028,044.35	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Culture	0	5,013,128,226,189.95	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Transportation	0	3,973,020,410,986.92	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Public Works and Municipalities	0	2,883,979,064,718.11	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Housing and Construction	0	2,280,785,917,448.00	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Agriculture	0	1,676,247,990,195.00	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Water Resources	0	1,278,111,236,049.38	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Petroleum	0	1,180,521,228,642.08	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Planning and Development Cooperatic	0	1,034,229,944,277.61	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Industry and Mining	0	907,465,262,947.32	#DIV/0!	#DIV/0!	#DIV/0!
Min. of Higher Education & Academic Research	0	897,010,410,133.65	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Electricity	0	730,365,862,249.20	#DIV/0!	#DIV/0!	#DIV/0!
Ministry of Science and Technology	0	545,545,277,328.00	#DIV/0!	#DIV/0!	#DIV/0!
21 (= sum of rest)	**0**	**2,623,407,845,318.51**	#DIV/0!	#DIV/0!	#DIV/0!
allocated expenditure	0	113,473,517,460,463.00	#DIV/0!	#DIV/0!	
contingency	0	0			
total expenditure	0	113,473,517,460,463.00			
overall (PI-1) variance					#DIV/0!
composition (PI-2) variance					#DIV/0!
contingency share of budget					#DIV/0!

Table 1.2C: Analysis for PI-1 Fiscal Year 2015

Data for year =	2015				
administrative or functional head	**budget**	**actual**	deviation	absolute deviation	percent
Ministry of Internal Affairs	13,052,558.94	9,895,348.08	913,111.5	913,111.5	10.2%
Ministry of Labor and Social Affairs	1,597,621.03	1,254,381.60	154,964.2	154,964.2	14.1%
Ministry of Health	5,417,292.30	4,147,379.14	419,420.4	419,420.4	11.3%
Ministry of Defense	10,780,537.03	7,697,884.51	279,160.4	279,160.4	3.8%
Ministry of Justice	489,113.12	473,813.39	137,225.8	137,225.8	40.8%
Ministry of Education	7,372,790.86	7,045,081.84	1,971,429.1	1,971,429.1	38.9%
Ministry of Youth and Sports	260,815.54	143,184.76	-36,297.8	36,297.8	20.2%
Ministry of Trade	4,322,023.78	1,562,323.73	-1,411,916.0	1,411,916.0	47.5%
Ministry of Culture	104,981.53	84,835.70	12,591.7	12,591.7	17.4%
Ministry of Transportation	532,116.17	354,301.38	-11,879.2	11,879.2	3.2%
Ministry of Public Works and Municipalities	1,129,769.14	612,722.45	-164,738.4	164,738.4	21.2%
Ministry of Housing and Construction	639,321.58	427,250.71	-12,704.2	12,704.2	2.9%
Ministry of Agriculture	888,788.20	809,333.04	197,705.4	197,705.4	32.3%
Ministry of Water Resources	532,308.05	439,715.06	73,402.5	73,402.5	20.0%
Ministry of Petroleum	14,999,593.20	20,754,137.91	10,432,032.1	10,432,032.1	101.1%
Ministry of Planning and Development Cooperatic	56,223.96	49,138.32	10,447.3	10447.28891	27.0%
Ministry of Industry and Mining	156,927.72	282,466.02	174,474.8	174474.7896	161.6%
Min. of Higher Education & Academic Research	2,757,663.56	2,383,402.80	485,691.7	485691.6645	25.6%
Ministry of Electricity	4,910,116.61	839,133.20	-2,539,808.0	2539807.971	75.2%
Ministry of Science and Technology	152,455.42	142,285.62	37,372.0	37,372.0	35.6%
21 (= sum of rest)	49,309,411.83	22,811,032.60	-11,121,685.3	11,121,685.3	32.8%
allocated expenditure	119,462,429.55	82,209,151.9	0.0	30,598,057.9	
contingency	125,000.00	124,211.89			
total expenditure	119,587,429.55	82,333,363.75			
overall (PI-1) variance					31.2%
composition (PI-2) variance					37.2%
contingency share of budget					0.1%

Table 3.2 D - Detailed Analysis of PI-2.2

Data for year =	**2013**				
Economic head	**budget**	**actual**	**deviation**	**absolute deviation**	**%**
Compensation of employees	33,830,281,000,000	42,797,811,320,717	13,684,672,722,162	13,684,672,722,162	47.0%
Use of goods and services	14,075,193,000,000	13,674,882,110,666	1,562,270,790,340	1,562,270,790,340	12.9%
Consumption of fixed capital	56,666,073,000,000	31,703,277,645,805	-17,061,532,705,158	17,061,532,705,158	35.0%
Interest, subsidies & grants	4,599,958,000,000	14,766,433,645,081	10,807,873,123,472	10,807,873,123,472	273.0%
Social benefits	15,790,865,810,000	6,744,198,109,276	-6,844,860,312,015	6,844,860,312,015	50.4%
Other expenses	13,462,237,000,000	9,436,699,532,483	-2,148,423,618,801	2,148,423,618,801	18.5%
Total expenditure	138,424,607,810,000	119,123,302,364,030	0	52,109,633,271,950	
overall variance					**86.1%**
composition variance					**43.7%**

Table 3.2 E - Detailed Analysis of PI-2.2

Data for year =	**2015**				
Economic head	**budget**	**actual**	**deviation**	**absolute deviation**	**%**
Compensation of employees	38,550,630,226,000	32,651,614,800,597	6,122,649,782,908	6,122,649,782,908	23.1%
Use of goods and services	6,437,389,846,000	2,665,721,935,404	-1,764,226,136,224	1,764,226,136,224	39.8%
Consumption of fixed capital	41,713,502,460,000	18,729,178,253,362	-9,976,345,911,591	9,976,345,911,591	34.8%
Interest, subsidies & grants	12,343,115,172,000	4,708,133,959,040	-3,785,892,433,982	3,785,892,433,982	44.6%
Social benefits	19,822,664,224,000	11,447,911,946,331	-2,193,233,805,968	2,193,233,805,968	16.1%
Other expenses	595,127,621,000	12,006,590,962,297	11,597,048,504,859	11,597,048,504,859	2831%
Total expenditure	119,462,429,549,000	82,209,151,857,034	0.0	35,439,396,575,534	

overall variance	**68.8%**
composition variance	**43.1%**

Table 3.2A: Analysis of revenue outturn - PI-3

Data for year =	**2013**				
Economic head	**budget**	**Actual**	deviation	absolute deviation	**%**
Taxes on income	2,743,806,180,000	2,518,683,251,627	-99,622,201,560	99,622,201,560	3.8%
Social security contributions	136,000,000,000	100,571,556,301	-29,207,851,671	29,207,851,671	22.5%
Grants from foreign governments	0.0	50,494,497,630	50,494,497,630	50,494,497,630	100.0%
Property income	53,051,870,000	62,386,812,367	11,761,516,187	11,761,516,187	23.2%
Oil and Minerals	116,363,805,046,000	111,107,939,689,217	66,574,039,414	66,574,039,414	0.1%
Total revenue	119,296,663,096,000	113,840,075,807,143	0.0	257,660,106,462	
overall variance					**95.4%**
composition variance					**0.2%**

Table 3.2B: Analysis of revenue outturn - PI-3

Data for year =	**2014**				
Economic head	**budget**	**actual**	deviation	absolute deviation	%
Taxes on income	0	1,402,093,751,257	#DIV/0!	#DIV/0!	100.0%
Taxes on goods and productions	0	2,239,186,125,661	#DIV/0!	#DIV/0!	100.0%
Social security contributions	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Other social contributions	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Grants from foreign governments	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Oil and Minerals	0	97,072,409,793,611	#DIV/0!	#DIV/0!	100.0%
Sale of Assets	0	66,775,488,706	#DIV/0!	#DIV/0!	100.0%
Fees	0	678,614,920,153	#DIV/0!	#DIV/0!	100.0%
Transfers not elsewhere classified	0	1,497,143,331,216	#DIV/0!	#DIV/0!	100.0%
Others	0	2,653,622,925,471	#DIV/0!	#DIV/0!	#DIV/0!
Total revenue	0	105,609,846,336,079	#DIV/0!	#DIV/0!	
overall variance					#DIV/0!
composition variance					#DIV/0!

Table 3.2C: Analysis of revenue outturn - PI-3

Data for year =	**2015**				
Economic head	**budget**	**actual**	Deviation	absolute deviation	%
Taxes on income, profit and capital gains	1,941,903,859,000	1,618,651,955,367	246,178,963,302	246,178,963,302	17.9%
Taxes on goods and production	3,475,073,000,000	2,549,644,308,601	93,578,414,375	93,578,414,375	3.8%
Social security contributions	0	0	0.0	0.0	#DIV/0!

Other social contributions	0	0	0.0	0.0	#DIV/0!
Grants from foreign governments	0	0	0.0	0.0	#DIV/0!
Sale of Assets	86,420,360,000	83,046,130,165	21,967,097,074	21,967,097,074	36.0%
Oil and Minerals	78,649,032,000,000	51,312,620,950,181	-4,273,896,256,524	4,273,896,256,524	7.7%
Fees	823,474,822,000	607,959,807,692	25,955,221,006	25,955,221,006	4.5%
Transfers not elsewhere classified	2,081,450,383,000	1,045,339,746,620	-425,760,082,422	425,760,082,422	28.9%
Others	6,991,009,715,000	9,252,989,544,847	4,311,976,643,187	4,311,976,643,187	87.3%
Total revenue	94,048,364,139,000	66,470,252,443,475	0.0	9,399,312,677,892	
overall variance					**70.7%**
composition variance					**14.1%**