

TABLE OF CONTENTS

<i>Table of Contents</i>	<i>(i)</i>
<i>List of Appendices</i>	<i>(iii)</i>
<i>List of Figures</i>	<i>(iv)</i>
<i>Acronyms, Abbreviations and Definitions</i>	<i>(iv)</i>
<i>Foreword</i>	<i>(vii)</i>

SECTION	PAGE
CHAPTER ONE INTRODUCTION	1
1. HOW TO USE THE MANUAL	3
CHAPTER TWO PROJECT SET-UP	5
2. ASSESSMENT OF CAPACITY	6
2.1 PURPOSE.....	6
2.2 BANK ASSESSMENT	6
2.3 LINE MANAGEMENT ASSESSMENT	7
3. PROJECT ORGANIZATION.....	8
3.1 STRUCTURE	8
3.2 PROGRAMS AND NATIONAL AND SUB-NATIONAL LEVELS	10
3.3 RESPONSIBILITIES.....	10
3.4 PROJECT MANAGEMENT	12
3.5 PROCUREMENT ORGANIZATION	15
3.6 FINANCIAL ORGANIZATION	16
4. HUMAN RESOURCES.....	17
4.1 STRATEGY AND POLICY	17
4.2 ESTABLISHMENT LEVELS	17
4.3 JOB DESCRIPTIONS	18
4.4 ETHICS AND CODE OF CONDUCT	18
5. OTHER RESOURCES.....	19
6. OPERATIONAL SECURITY	21
7. COMMUNICATIONS AND CORRESPONDENCE CONTROLS	22
8. DELEGATION AND LEVELS OF AUTHORITY	22
8.1 DELEGATION	22
8.2 LEVELS OF AUTHORITY	23
CHAPTER THREE PROJECT OPERATIONS	24
10. PROJECT CYCLE.....	25
10.1 IDENTIFICATION, PREPARATION AND APPRAISAL.....	25
10.2 IMPLEMENTATION	26
10.3 COMPLETION, EVALUATION AND AUDIT	28
11. PROJECT PLANNING	29
11.1 OVERALL PROCUREMENT PLANNING	29
11.2 OVERALL FINANCIAL PLANNING	30
12. SECURITY AND CONTRACTUAL RISK	30
12.1 OVERVIEW	30
12.2 RISKS AND INSURANCE	31
12.3 FORCE MAJEURE	33
12.4 TERMINATION.....	35
12.5 SECURITIES.....	35
12.6 GOVERNING LAW AND JURISDICTION.....	35
12.7 CONCLUSION.....	36

CHAPTER FOUR	PROCUREMENT	37
13.	BANK PROCUREMENT REQUIREMENTS	39
13.1	BANK GUIDELINES	39
13.2	ELIGIBILITY AND QUALIFICATION	39
13.3	NO OBJECTIONS	40
13.4	PROCUREMENT METHODS	41
13.5	PROCUREMENT PLANNING	43
13.6	DOMESTIC PREFERENCE	43
13.7	MISPROCUREMENT	43
14.	LEGAL AND REGULATORY FRAMEWORK	43
14.1	LEGAL FRAMEWORK	43
14.2	REGULATIONS	44
14.3	STANDARD DOCUMENTS	44
15.	THE INSTITUTIONAL FRAMEWORK	45
15.2	OFFICE OF GOVERNMENT PUBLIC CONTRACT POLICY	45
15.3	PROCURING ENTITY	46
15.4	APPROVALS COMMITTEE	46
15.5	CONTRACTING OFFICE	47
15.6	USERS	47
16.	PROJECT IMPLEMENTATION	47
16.2	PROCUREMENT PLANNING	48
16.3	PROJECT MANAGEMENT TEAM	53
16.4	RECORDS OF PROCUREMENT/CONTRACT MANAGEMENT	54
17.	PROCUREMENT AND CONTRACT PROCESS CONTROL	57
17.1	PURPOSE OF A CONTROL SYSTEM	57
17.2	MINIMUM PROCUREMENT AND CONTRACT CONTROL	58
18.	PROJECT MONITORING TABLES	61
18.1	PURPOSE OF PROJECT MONITORING TABLES	61
18.2	TYPES OF PROJECT MONITORING TABLES	61
18.3	CONTENT OF PROCUREMENT MONITORING TABLES	62
18.4	CONTENT OF THE CONTRACT MONITORING TABLES	63
18.5	REVIEW – PROCUREMENT AND CONTRACTS MANAGEMENT MONITORING TABLES	63
18.6	CONTENT OF THE PROJECT AND COMPONENT PERFORMANCE SUMMARIES	64
18.7	CONTENT OF THE PROJECT COMPONENT SPREADSHEETS	66
18.8	REVIEW - PROJECT AND COMPONENT PERFORMANCE SUMMARY TABLES	70
19.	CONTRACT COMPLETION, RECEIPT AND STORES	70
19.1	COMPLETING A CONTRACT	70
19.2	RECEIPT AND STORES	71
CHAPTER FIVE	FINANCIAL MANAGEMENT	75
20.	BUDGET AND BUDGET EXECUTION	76
20.1	BUDGET PREPARATION AND APPROVAL	76
20.2	BUDGET STRUCTURE	81
20.3	BUDGET/ACTUAL COMPARISON	82
20.4	BUDGET VARIATION	82
21.	ACCOUNTING	83
21.1	ACCOUNTING POLICIES AND STANDARDS	83
21.2	CHART OF ACCOUNTS	84
21.3	PROMPTNESS OF TRANSACTION RECORDING	85
21.4	DEPOSIT OF CASH RECEIPTS	85
21.5	TREATMENT OF IN-KIND FLOWS	85
21.6	COMMITMENT CONTROL	85
21.7	INVOICE PROCESSING AND DISBURSEMENT	86
21.8	PAYROLL	87
21.9	EXCHANGE DIFFERENCES	88
21.10	GENERAL LEDGER AND SUBSIDIARY ACCOUNTS, TRIAL BALANCES	88

21.11	RECONCILIATION OF CASH RECORDS WITH BANK STATEMENTS	89
21.12	ACCOUNTING AT SUB-PROJECT LEVEL	90
22.	REPORTING	91
22.1	IN-YEAR REPORTING	91
22.2	INTEGRATION OF EXPENDITURE, PROCUREMENT AND PROGRESS REPORTING	92
22.3	GENERAL PURPOSE ANNUAL FINANCIAL STATEMENTS	92
22.4	SPECIAL PURPOSE FINANCIAL STATEMENTS	93
22.5	PHYSICAL PROGRESS AND PROCUREMENT MONITORING.....	94
23.	BANKING AND TRANSFER ARRANGEMENTS	95
23.1	FUND FLOWS FROM ITF TO PROJECT.....	95
23.2	WITHDRAWAL APPLICATION PROCEDURE.....	97
23.3	OPENING AND MAINTENANCE OF BANK ACCOUNTS.....	100
23.4	CHECKING AND CUSTODY OF SECURITY DOCUMENTS.....	101
24.	INTERNAL CONTROL AND ASSET CONTROL	101
24.2	LEVELS OF AUTHORITY	102
24.3	ASSET CONTROL.....	102
24.4	INSURANCE	103
24.5	FINANCIAL RECORD KEEPING, DOCUMENT SECURITY	103
25.	INTERNAL AUDIT	103
26.	EXTERNAL AUDIT	104
26.1	APPOINTMENT AND TERMS OF REFERENCE	104
26.2	OPERATIONAL INDEPENDENCE	106
26.3	AUDIT STANDARDS.....	107
26.4	STAFFING AND EXPERTISE	107
26.5	REPORTS	107
26.6	FOLLOW UP OF REPORT FINDINGS	108

LIST OF APPENDICES

APPENDIX A	Code of Conduct
APPENDIX B	Sample Job Descriptions – Procurement Manager and Project Accountant
APPENDIX C	Levels of Authority Framework
APPENDIX D	Project Budget
APPENDIX E	Investment Budget
APPENDIX F	Recurrent Budget
APPENDIX G	Statement of Receipts and Payments
APPENDIX H	Statement of Uses of Funds
APPENDIX I	Receipts Cash Book
APPENDIX J	Payments Cash Book
APPENDIX K	Bank Reconciliation Statement
APPENDIX L	Output Monitoring Report
APPENDIX M	Procurement Status Report
APPENDIX N	Asset Register
APPENDIX O	Chart of Accounts
APPENDIX P	Withdrawal Application for expenditures already made - Bank Form 1903
APPENDIX Q	Application for Special Commitment – Bank Form 1931
APPENDIX R	Procurement and Financial Management Arrangements for Community Driven Development (CDD) Projects

TABLES		PAGE
<i>TABLES 1</i>	Matrix of responsibilities	11
<i>TABLES 2</i>	Resource requirements	18
<i>TABLES 3</i>	Typical file organization	55
<i>TABLES 4</i>	Example of a procurement register	59
<i>TABLES 5</i>	Example of contract register	60
<i>TABLES 6</i>	Example of contract information table	67
<i>TABLES 7</i>	Example of commitment section	68
<i>TABLES 8</i>	Example of disbursement section	69

FIGURES		PAGE
<i>FIGURE 1</i>	Nominal project management structure	9
<i>FIGURE 2</i>	Institutional framework for public procurement	45
<i>FIGURE 3</i>	Plan review and revision	49
<i>FIGURE 4</i>	Simplified overall procurement pla	49
<i>FIGURE 5</i>	Individual procurement plan – example	52
<i>FIGURE 6</i>	Project and component performance summaries	64
<i>FIGURE 7</i>	Organization chart	78
<i>FIGURE 8</i>	Movement of ITF funds	97

ACRONYMS, ABBREVIATIONS AND DEFINITIONS

Bank	The World Bank (International Bank for Reconstruction and Development and the International Development Association), and acting as ITF administrator
Bidding document	Document prepared for the bid process which details the requirement(s) to be procured, stipulates the terms and conditions and provides instructions to bidders. The term is used generically but Request for Proposal is used where appropriate
BSA	Board of Supreme Audit
CAS	Country Assistance Strategy – produced in collaboration with the country the CAS is a three-year plan that identifies development priorities and outlines the Bank’s planned operations.
CFAA	Country Financial Accountability Assessment – not undertaken for Iraq
Component	Component of a project – component content is variable depending on project complexity and purpose and will contain a different set of activities and outputs. Will cover broad headings such as institutional strengthening and infrastructure improvements
DAC	Development Assistance Committee of the Organization for Economic Cooperation and Development
FMR	Financial Management Report
GDP	Gross Domestic Product
GOI	Government of Iraq
IAAC	Implementing Agency Approval Committee
IAS	International Accounting Standards

ACRONYMS, ABBREVIATIONS AND DEFINITIONS

ICB	International Competitive Bidding
IDA	International Development Association (part of the World Bank Group)
Incoterms	International Chamber of Commerce Terms of Trade – a set of international rules for the interpretation of the most commonly used trade terms in foreign trade – they define the obligations of buyers and sellers for the standard delivery terms (DDU, DDP, CIP, CFR, FOB, ex works, etc) used in international trade.
IFAC	International Federation of Accountants
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards issued by the International Federation of Accountants (IFAC)
IT	Information Technology
ITF	Iraq Trust Fund (within the International Reconstruction Fund Facility) administered by the World Bank
ITF Administrator	The Bank and the senior Bank appointee responsible for the Bank's administration of the trust fund.
LIB	Limited International Bidding
MDB	Multi-lateral Development Banks
MIM	Master Implementation Manual
MoF	Ministry of Finance
MoPDC	Ministry of Planning and Development Cooperation
NCB	National Competitive Bidding
NGO	Non-governmental Organization
OED	Operations Evaluation Department of the World Bank
OGPCP	Office of Government Public Contracts Policy
OP	World Bank Operational Manual
PAD	Project Appraisal Document – Bank document describing the project in detail to a prescribed format that forms the basis of the submission for Bank Board approval
PMT	Project Management Team – the resources responsible for the management of the project (whether fully integrated within the implementing agency or as a more discrete dedicated resource)
Post qualification	The process of qualification conducted once a call for bids has closed as part of evaluation whereby it is determined whether the Bidder selected as having submitted the lowest evaluated and substantially responsive bid is qualified to perform the contract satisfactorily
Pre bid conference (or meeting)	An optional conference or meeting held prior to the bid submission deadline for all bidders or their representative who choose to attend in which are explained issues relating to the procurement or the bidding document. It may also include or be held at the site in question (important for works, installation etc.)
Pre-qualification	The process of qualification conducted prior to the release of Bidding Documents to ascertain the bidders who are qualified to bid. This is usually conducted for large and highly complex procurement requirements so that bidding is limited to those shortlisted bidders and evaluation is of only those bidders who are qualified. See also post qualification.
Project	A temporary organization of managed resources and processes, which seeks to deliver a pre-defined set of products (or outputs) to a defined quality, using

ACRONYMS, ABBREVIATIONS AND DEFINITIONS

	defined resources and finances and within a defined and finite time scale. In this context a project to be funded from the ITF.
Project Board	Appointed by the executive (or the steering committee), from where it derives its authority. It represents at senior management level the business, financial and technical interests of the implementing agency. It approves, reviews and authorizes the organization, plans and resources for the project.
Project Manager	An individual appointed by the project board and given day-to-day responsibility for achieving the required outputs (products) to the required standard of quality, within specified constraints of time and cost.
Qualification	A process in which the capabilities of a bidder is assessed to establish whether that bidder has the financial, technical and physical resources to manage the size and complexity of the requirement
RFP	Request for Proposal for consulting services
SA	Special Account
SAI	Supreme Audit Institution
SNA	System of National Accounts
SOE	State Owned Enterprise
Steering Committee	Senior management group responsible for strategic direction to a program of projects
TOR	Terms of Reference
WA	Withdrawal Application

FOREWORD

The Iraq Trust Fund, administered on behalf of several donors by the World Bank, will provide an important contribution to the reconstruction of Iraq. It is the government's intention to ensure good practice in the management and procedures to satisfy those that have contributed to our future and to ensure that Iraq achieves the best possible development benefit from the facility. This puts those implementing agencies given responsibility for a project in a unique position of trust, with a duty to conduct themselves in an exemplary manner.

This manual has been prepared to encapsulate good practice that is in accordance with World Bank guidelines for financial management and procurement. The provisions of this manual must be reflected in projects funded by the Iraq Trust Fund and, in the future, for any projects funded by the International Development Association. It is our goal to instill such sound practices in the operations of government. In few other places does the conduct of the government and government agencies come to the public's notice more than in development projects and in the conduct of procurement. Here, as in other operations, we must act ethically and with transparency in achieving value with public money.

I introduce this Master Implementation Manual to you as evidence of our commitment to this goal.

Minister
Ministry of Planning and Development Cooperation

CHAPTER ONE INTRODUCTION

Purpose

The purpose of this chapter is to introduce this manual. Designed as a master implementation manual it shall be the basis for project specific implementation manuals, which will regulate and guide Iraq Trust Fund and, subsequently, International Development Association (IDA) funded project activity, in accordance with the World Bank guidelines.

Starting with the set-up arrangements for project management within an implementing agency, the manual covers the project life-cycle following project identification, through the buying process for project inputs and effective financial management and reporting. It aims to:

- introduce good practice;
- provide uniform policies and procedures for projects;
- encourage transparency, probity and accountability;
- facilitate optimum efficiency, effectiveness and value for money;
- ensure compliance with the World Bank guidelines and with the law.

Followed conscientiously, the manual will help to:

- minimize the necessity for making new judgments and decisions every time a new project is identified;
- provide a point of reference against which the project operations can be placed on a sound footing.

By itself the manual will not deliver the purpose. That will require the consistent application of its provisions by the management and staff involved. In dynamic circumstances, changes will occur. This manual will benefit from continuous upgrading to reflect the changing needs, business environment, and the emergence of new, improved practices.

Who is it for?

It is intended to provide guidance for Iraqi officials, donors and consultants engaged in project implementation. Specifically, it is aimed at the line management of the entity identified as the implementing agency (who must ensure the project is adequately resourced), the project management team and

procurement and financial management staff involved in support services to the project.

1. HOW TO USE THE MANUAL

- 1.1.1 This is a *master* implementation manual. It is intended that a specific project implementation manual adapted to the project needs, should be produced using this master as a model.
- 1.1.2 The manual is interspersed with guidance and explanation in order that the staff may know what they must do, what they must not do, be guided on how best to achieve something and have an explanation as to why an action should be handled in a particular way.
- 1.1.3 To assist with navigating through the manual it is presented as follows:
- a list of contents at the front;
 - abbreviations, acronyms and definitions used throughout the manual are also listed within the contents section;
 - Chapter One introduces the manual; and gives an overview of how it addresses the project lifecycle (at section **Error! Reference source not found.**);
- 1.1.4 It is further organized into three volumes to be of use to different audiences within an implementing agency:
- line management;
 - project manager;
 - the project management team;
 - staff (principally financial management and procurement staff) within the agency, providing services to the project management team.
- (i) **Volume 1** – contains the main text and is organized as follows:
- Chapter Two, aimed at senior line management and the project manager, describes project set-up and organization;
 - Chapter Four and Chapter Five cover procurement and financial management in some detail, principally aimed at the project management team;
 - in the appendices to volume 1 are contained tables, forms and other criteria referred to in the main text. These are separated in order that they may be reviewed periodically and updated, without requiring a rewrite to the text.
- (ii) **Volume 2** – as a companion to Chapter Four of volume 1, volume 2 is for procurement staff and provides a breakdown of the procurement process, giving detailed step-by-step guidance.

- (iii) *Volume 3* – contains standard bidding documents for procurement, model forms of contract, general conditions of contract and examples of special conditions of contract. These documents are also referred to throughout this volume 1.

CHAPTER TWO PROJECT SET-UP

The Bank's emphasis on quality at entry is essential to understanding this manual. Bank policy requires project-implementing entities to maintain financial management and procurement systems adequate for the implementation of the project and for the provision to the Bank of accurate and timely information regarding project resources and expenditures.

The Iraq Trust Fund (ITF), like other trust funds administered by the Bank, is administered under applicable Bank policies and procedures. In accordance with Bank policy on the harmonization of aid administration with other donor agencies, and alignment with the systems, organization and procedures of borrower countries, project implementation will follow the GOI systems as far as possible and parallel systems will not normally be established. If existing systems are inadequate they may be strengthened if this can be done in time for project implementation, or systems can be supplemented by special Bank inputs.¹ The preference is for national officers using national systems rather than Bank-funded officers using Bank systems.

The purpose of this chapter is to describe:

- what the line management will need to do in order that the project management is set-up to meet the Bank's policies and guidelines;
- what assessment of the project management capacity the Bank will require.

The chapter therefore, covers capacity, organization and resources, both human and other resources.

Mention of human resources introduces the subject of behavior. Therefore, the chapter also contains a section on a code of conduct and ethics, defining ethics and describing the behavior that is expected.

¹ This policy is expressed in the DAC Good Practice Paper 'Framework for Donor Cooperation' and the Rome Declaration, February 2003. Detailed application is being discussed by donors under the aegis of the OECD-DAC Working Party on Aid Effectiveness and Donor Practices and the MDBs' Harmonization Working Group. The policy does not prevent supplemental procedures being added to government practice where there are special risks. An example is the Bank's 'no objection' procedure for procurement contracts that are larger than a pre-determined threshold.

2. ASSESSMENT OF CAPACITY

2.1 PURPOSE

2.1.1 Arrangements for project implementation need to be suitable for ensuring that the project purpose can be achieved. They also need to follow good management practice and the guidelines of the Bank. In preparing projects therefore, the GOI and the implementing agency should consider not just the technical competence to deliver the project but the management/administrative capacity, particularly for procurement and financial management. There are various tools that can be used to assess organizational capacity. This section examines the expectation.

2.2 BANK ASSESSMENT

2.2.1 The Bank articles of agreement stipulate that funds should be used only for the purpose for which the credit was granted (only those goods and services needed to carry out the project are bought), with due attention to economy and efficiency. One of the objectives of the Bank's extended project preparation and appraisal process is to ensure that these fundamental concerns are satisfied, whilst at the same time ensuring that the requirements of the credit/grant can, realistically, be achieved.

2.2.2 Each project is to be reviewed before the project is negotiated to establish whether it has adequate financial management. If it does not, it cannot proceed without remedial work. A plan is needed to show how the project's financial management and other systems will be improved in order to satisfy the Bank's requirements. This includes whether the project is capable of producing quarterly financial management reports.

2.2.3 Similarly, as an integral part of project preparation and appraisal, an assessment of the capacity to administer procurement will determine the adequacy of procurement and related systems, identify the risks (institutional, political, organizational and procedural), develop an action plan to address any deficiencies, set-out prior review thresholds and propose a procurement supervision plan.

2.2.4 Assessment should commence as early as possible in the project preparation process. This allows for detection of any issues of capacity or risk related to the implementing agency (contributing to the project concept note) and resolution of these issues, ideally, before funding for the project is approved. Self-assessment is seen as a useful means by which to strengthen the implementing agency's responsibility.

2.3 LINE MANAGEMENT ASSESSMENT

Management/Administrative Capacity

2.3.1 The objective of the assessment is to determine whether the entity has sufficient capacity and resources to implement the project, is capable of conducting procurement in accordance with Bank guidelines and has acceptable systems for financial management: accounting, reporting, auditing and internal controls.

Financial Management

2.3.2 In financial management terms systems are acceptable if they are considered capable of recording correctly all transactions and balances, supporting the preparation of regular and reliable financial statements, safeguarding assets and are subject to suitable auditing arrangement (as detailed in Chapter Five);

2.3.3 Senior line management may assess the intended systems and internal control framework using the Bank's financial management questionnaire² supplementing their capacity for assessment through the use of consultants or external auditors, as necessary. In addition to the above, consideration should be given to:

- (i) complexity of the project, volume of transactions, geographical spread of project activities, and number of entities (including NGOs and community groups) involved in project implementation³ - see also subsection 3.2);
- (ii) integrity of project management;
- (iii) the make-up of the project management team and its relationships with the implementing agency's support functions;
- (iv) numbers of accounting staff for the financial management function;
- (v) fund flow arrangements from Bank, to special account⁴, to implementing agency to supplier/contractor, ensuring use for purpose;
- (vi) susceptibility of assets to loss or misappropriation;
- (vii) provision of quality and timely audit;
- (viii) staff qualifications, training requirements and performance review arrangements;

² Assessment of Financial Management Arrangements in World Bank Financed Projects issued by the Financial Management Sector Board.

³ The extent of the assessment and measures proposed should be appropriate to the size of the operation with credits/grants not exceeding USD5M seen as being of a less complex nature with lower risks and requiring simpler systems.

⁴ Where applicable.

- (ix) staff retention and turnover rate and risks related to the availability of appropriately qualified staff;
- (x) other resources.

Procurement

- 2.3.4 In procurement terms systems are acceptable if they are capable of: conducting free, fair and transparent procurement and complying with the basic norms of economy, efficiency and acceptable market and trade practices, providing equal opportunity for all qualified, eligible bidders to compete (i.e. the procurement control system and processes as detailed in Chapter Four and volume 2);
- 2.3.5 Similar criteria to those listed at section 2.3.3 (sub-paragraphs (i) to (x) above), will need to be considered. In addition the following will need to be considered:
- (i) organization and functions;
 - (ii) numbers and skills of procurement staff for the volume and complexity of procurement envisaged;
 - (iii) ability to handle each phase of the procurement cycle from overall planning, through the bid process to contract completion;
 - (iv) suitability of law, rules and regulations;
 - (v) adequacy of control systems and record keeping.
- 2.3.6 Senior line management may assess the intended procurement systems using the Bank's instructions for carrying out assessment to implement procurement and associated procurement capacity questionnaire.

Technical Capacity

- 2.3.7 Assessment should look at technical capacity, also considering the projects scope, size and complexity and looking at the sector specialisms, detailed tasks to be performed, workload and the outputs to be produced. This capacity need not be permanently within the implementing agency but would inform assessment of management capacity and will need to be factored into the overall procurement plan (see Chapter Three 11.1 and Chapter Four 16.2).

3. PROJECT ORGANIZATION

3.1 STRUCTURE

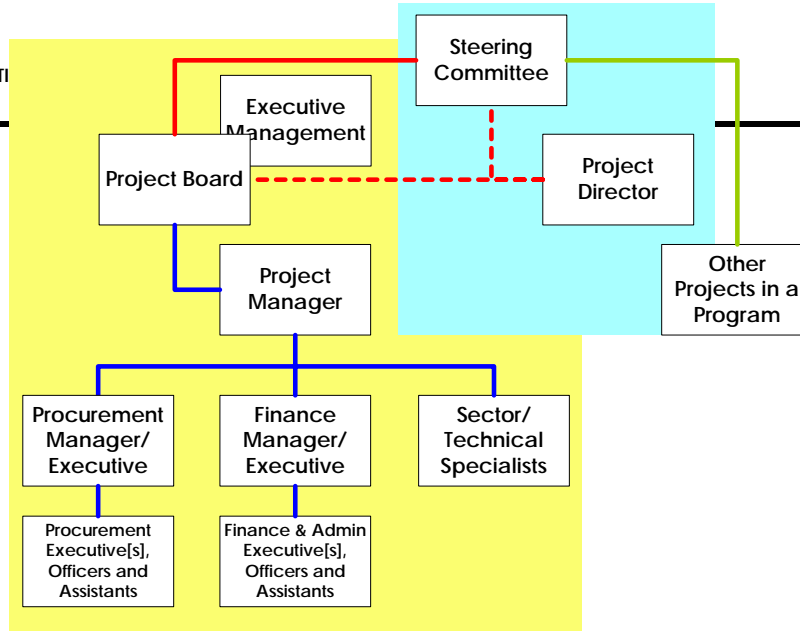
- 3.1.1 It is not possible to lay-down a model organizational structure for the management of an ITF funded project. This will depend upon the:

- (i) type, scope, size, duration and complexity of the project;
- (ii) geographical spread and possible involvement of sub-national and sub-implementation entities (and possible community level projects – see appendix R);
- (iii) nature of the implementation agency and its existing structure;
- (iv) capacity of the implementation agency;
- (v) degree to which the project activity may be integrated within the existing structure and systems and the level of dedicated project resource required.

3.1.2 Figure 1 shows a nominal structure modeled on the following principles:

- (i) wherever possible, project implementation will integrate with existing structures using existing systems, avoiding the creation of separate entities or dedicated organizational units and parallel systems;
- (ii) the senior line management role in delegation, authorization and project oversight shall be maintained;
- (iii) project oversight will be exercised through formal project management arrangements;
- (iv) recognition that beyond a certain complexity full-time resource will be necessary;
- (v) the interface of the project management team (PMT) with the implementing agency shall be clear with the role of the contracting office and the approvals committee factored into the structure, maintaining their roles and clarifying the arrangements for liaison, authorization and reporting lines (see Figure 2 in Chapter Four);
- (vi) the arrangements will facilitate the reporting of physical project progress, procurement and financial management, closely integrating these functions.

Figure 1: Nominal project management structure



3.2 PROGRAMS AND NATIONAL AND SUB-NATIONAL LEVELS

3.2.1 Section 3.1.1(ii) above refers to projects (or programs) that are implemented across a wide geographic area or, possibly, involving entities at a national and sub-national level or community level. In these circumstances the project structure would require additional levels of management, for example:

- a steering committee providing strategic direction to a program of projects or a project operating at national level with project board at sub-national level;
- a project manager at national level – i.e. a project director;
- sub-national structures consisting of project board, project manager and PMT;
- appropriate management structures for community driven development projects (see appendix R - Procurement and Financial Management Arrangements for Community Driven Development (CDD) Projects)

Service Level Agreements

3.2.2 To enable proper control and coordination would require service level agreements between the different levels, specifying services and performance level expectations between the program partners:

Program Partner	Agreement negotiated with:
Project Director (national)	National Steering Committee
Project Manager (sub-national)	Project Director (national) through Project Board
Project Management Team (sub-national)	Project Manager (sub-national)

3.3 RESPONSIBILITIES

3.3.1 Bank experience shows that for an investment to be successful, the project must be owned by the government and built in partnership with the Bank. A participatory approach by the parties concerned – government, stakeholders

and the Bank will serve well. This is reflected in the matrix of responsibilities (Table 1), which shows in simplified form which party takes the primary or secondary responsibility:

Table 1: Matrix of responsibilities

Project Cycle Action/Function/Document	Govt: Primary Bank: Advisory	Joint	Bank: Primary Govt: Advisory	Bank: Sole
Identification		✓		
Identification Missions			✓	
Project Information Document				✓
Preparation		✓		
Preparation Team and Report	✓			
Plan incl procurement plan	✓			
Capacity assessment		✓		
Appraisal			✓	
Safeguard Policies				✓
Negotiations		✓		
Board Approval				✓
Signing and Credit Effectiveness		✓		
Implementation	✓			
Management/Monitoring	✓			
Supervision				✓
Mid-term Review			✓	
Completion		✓		
Evaluation Report	✓			
Completion Report				✓

3.3.2 It should be noted that the project belongs to the partner government and the Bank acts simply as facilitator. To help ensure the recipient’s ownership of the project and responsibility for carrying it out, the Bank does not accept any responsibility related to project implementation⁵.

Line Management

3.3.3 The implementing agency has a responsibility in spending public funds to do so in an efficient, open and transparent manner. Line management therefore, has a governance function to oversee the performance of the PMT and regulate and control the financial management and procurement functions, creating clarity in delegation and setting levels of authority. They shall guard against the misapplication of funds and ensure that funds allocated are utilized in the most effective manner, providing value for money.

3.3.4 More specifically the line management shall:

- (i) ensure compliance of the PMT with the procurement and financial management chapters of this manual;

⁵ World Bank Operational Manual, OP 14.40, Trust Funds.

- (ii) monitor and control the procurement process for requirements that exceed the delegated authority of the PMT and the procurement function, ensuring that procurement decisions are not the responsibility of one person, however senior;
- (iii) determine on evaluation reports and recommendations for award of contract that exceed the authority of the PMT;
- (iv) approve any one-off deviations from the procedures and from the provisions of this manual;
- (v) approve any amendments to project procedures that alter the provisions of this manual;
- (vi) intervene in transactions where there is a suspicion of failure to comply with procedures, incompetence or abuse, taking corrective action;
- (vii) call ad-hoc meetings involving senior line management and the approvals committee in order to make specific procurement decisions or generally to ensure the proper supervision of the project;
- (viii) engage expert advice where necessary;
- (ix) exercise such powers or duties as may be conferred or imposed by the provisions of this manual and use its discretion in cases not specifically provided for, or strictly in accordance with this manual;
- (x) oversee the preparation of a project implementation manual using this manual as a model.

Task Manager

3.3.5 The task manager is the Bank's team leader responsible for many tasks, both at headquarters and on mission, throughout the project cycle (see Table 1). Typically, tasks would include:

- proposing development strategies and initiating project ideas;
- quality at entry and maintenance of quality;
- setting the tone for consultation, building consensus and encouraging stakeholder participation;
- removing obstacles to project progress.

3.3.6 Under the ITF several of the tasks performed by the task manager/team will be outsourced to the monitoring agent, in the first instance.

3.4 PROJECT MANAGEMENT

- 3.4.1 Even simple projects benefit from effective project management techniques used throughout the project lifecycle. The ITF project preparation process should ensure adequate problem analysis, clarity of purpose and the identification of, and measures to mitigate, risks. Project documentation should detail the project components, the expected outputs and the inputs and activities necessary to achieve these outputs. A project may itself be part of a program requiring careful coordination.
- 3.4.2 However, not all components may be designed to the level of detail necessary and further component planning, including procurement planning may be necessary. Additionally, arrangements need to be put in place for monitoring project activity and devising corrective measures (including partial redesign), should things go off-track or in order to overcome constraints. For this clear lines of responsibility and a formal structure will greatly assist project management. Project board and steering committee arrangements and terminology vary from methodology to methodology. Nevertheless, the principle is that arrangements similar to the following should be established.

Project Board

- 3.4.3 The project board should be a small group, of around five executive managers appointed from within the implementing agency taking ultimate responsibility for the project. A senior executive would chair and a secretarial role would be established. The board's constituents would be representatives of different parts of the implementing agency; both users of the project outputs plus representation from organizational elements with essential key inputs to the project⁶. The project manager would typically not be a member, especially if contracted from an external source, but would be invited to be present at each meeting. The Bank's monitoring agent or task team leader would not usually be a member but may be invited to attend, when available.
- 3.4.4 The board would appoint the project manager – a single person in charge of the day-to-day work directed by and reporting to the board. The board should not become involved with day-to-day management. The responsibilities of the board would include:
- appoint project manager and commit project resources;
 - commission, assess and approve project inception report, procurement plan and any revised project plans;
 - review project progress reports: project performance, any under-performance, summary of issue reporting, summary of change reporting, risk assessment, impending events and external requirements and otherwise obtain full information concerning the project;

⁶ Alternatively, senior officers concerned in the implementing agency or agencies, and representatives of beneficiaries and other stakeholders in the project.

- seek clarifications concerning project performance either from the project team or through an independent party;
- assess change control requests especially those that entail change in contract, or significant change in time, resources or outputs;
- assess the project's performance from the perspective of the implementing agency's business, user objectives and policies and procedures;
- assess project performance in terms of the business plan and expected benefits;
- assess the project's performance in the context of its plan;
- consider, seek, assess and authorize proposals for preventative or corrective actions pertinent to the project's execution;
- mobilize and direct non-project resources to participate as necessary in project activities.

3.4.5 The board would set and agree the project phasing. It would convene at predefined decision points (usually project milestone events and go/no-go phase-change events) and regular, not necessarily frequent, progress monitoring checkpoints. The project manager should also alert the board of the need for an extraordinary meeting whenever serious hindrance to the project would prevent ongoing work, or lead to cost or schedule overrun beyond tolerances deliberately and formally announced in advance by the board.

3.4.6 The project manager could request special instructions or actions to be undertaken by members of the board. The board may seek information on aspects not presented.

Steering Committee

3.4.7 In the event of a program of projects or a project at a national and sub-national level (see 3.2 above), a steering committee⁷ may be established which would monitor the achievement of the higher strategic dimension of the program, co-ordinating the activities of the project in the context of other co-existent projects and activities. A project manager attending a steering committee meeting would not stay necessarily for whole meeting to permit private deliberations by the committee. Minutes of committee meetings would be distributed as soon as possible to the steering committee, project boards and the organization's executive. The project manager[s] would receive a sub-set pertaining at least to the portion attended.

Project Manager

⁷ This reflects that in some project management methodologies the role of the project board and the steering committee is distinct, with the project board having a more immediate involvement and the steering committee, at a higher level of oversight, providing strategic direction towards the project.

- 3.4.8 The project manager would manage the project on a day-to-day basis giving instructions to the project management team. The project manager would present project status to the board and manage reporting to the Bank.

Project Management Team

- 3.4.9 This is the group of staff of the implementing agency who are given special responsibility for the management of a given project. The PMT will consist of a project manager (see above), plus other staff as necessary. Typically, this may include a project accountant and procurement staff, either attached to the team or supporting it, with additional subordinate staff according to the expected workload. If the project is large or complex, these officers should be dedicated, i.e. they should have no other responsibilities in the implementing agency or agencies. The PMT reports to the project board and is subject to direction by the management of the implementing agency.

3.5 PROCUREMENT ORGANIZATION

- 3.5.1 In a master manual it is not possible to be prescriptive about the organizational arrangements for procurement. This will depend on the volume and complexity of procurement and decisions on whether procurement can be handled by the implementing agency's existing procurement resource (providing a service to the PMT) or dedicated resource within the PMT, or some combination. The assessment of procurement capacity will help answer these questions. The complexity of the procurements and the contribution of procurement to project success should not be underestimated.

- 3.5.2 Nevertheless, structure and procedure must pay particular importance to the separation of duties such as certification of receipt and approval of invoices. Staff responsible for the placing of orders must not also be responsible for certifying receipt and/or for approving payment. Procedures will ensure that the following duties are separated in order to minimize the risk of abuse:

- application to spend;
- authority to spend (i.e. should the purchase be made, are funds available?);
- method of supplier selection;
- choice of supplier/product;
- negotiation of contract/placing of order;
- certification of receipt/completion;
- updating of stock records or asset register;
- approval of invoice;
- authorization of payment;

- accounting for payment.

3.5.3 An additional safeguard is the rotation of duties, in order to ensure that key decision areas are not continuously in the control of one individual. Rotation can also reduce the risk of too “cozy” relationships developing between a particular officer and a supplier, or the appearance that this is so.

3.6 FINANCIAL ORGANIZATION

3.6.1 The issues related to the organization of procurement similarly apply to financial management. Decisions on the use of dedicated resource located within the PMT or support to financial management being provided by existing financial resources, will have to be made based on the circumstances of the project and the nature and capacity of the implementing agency.

3.6.2 Under ITF rules, a credit/grant agreement requires the implementing agency to maintain an adequate financial management system, including records and accounts, and prepare financial statements to adequately reflect the operations, resources and expenditures related to the project being financed. The agreement would also require the agency to have its accounts, records and financial statements audited each year by a qualified auditor acceptable to the ITF administrator.

3.6.3 A recent paper says that “post-conflict budgeting should stick to basics: a simple functional classification complemented by the basic economic classification, with few line items; a cash-based budget; a streamlined procedure for allocative decisions; single-entry bookkeeping; an agile payments mechanism (even if contracted-out during an initial period); and robust but selective audit focused on financial integrity. In post-conflict situations the imperative of quick wins and rapid disbursement leaves for a later stage standard budgetary issues such as development of a medium-term expenditure framework, detailed estimation of the eventual recurrent costs of investment projects, etc. It is important, however, to provide for some interaction between investment decisions and current expenditure; to present capital expenditure alongside and in the same document as the recurrent budget; to ensure adequate debate and public approval; and to sow the organizational seeds for an eventual move to normal budgeting processes.”⁸

3.6.4 The organization of financial management and the system to be deployed should be planned during appraisal. The project appraisal document should address the design of the project accounts, procedures for consolidating reports from sub-projects, any use of statements of expenditure (SOE)⁹, and any other activities required to ensure accountability. This is especially important when

⁸ Salvatore Schiavo-Campo (2003) *Financing and Aid Management Arrangements In Post-Conflict Situations*, World Bank CPR Working Paper No. 6.

⁹ Not expected in ITF projects.

there are several implementing agencies and the procedure for consolidation is not apparent. The PAD should also outline the format for project reporting. The system is designed to properly manage the project resources to achieve the desired project development objectives. The project management system includes a series of inter-related tasks: planning, budgeting, disbursement, accounting, financial reporting, internal control, auditing, procurement, and physical performance tracking.

4. HUMAN RESOURCES

4.1 STRATEGY AND POLICY

4.1.1 Recruitment and appointment of external project staff can be one of the most problematic processes during the implementation. In any situation where (financial) resources appear to be controlled by one or more individuals, they are likely to be subject to pressure that could eventually lead to corrupt or fraudulent practices.

4.1.2 Care should be taken at the outset of the project to develop a clear human resources policy and guidelines that specify the transparent and merit-based appointment of project staff, remuneration and allowances, medical and other benefits. Salary scales should be consistent with GOI policy and practice, wherever possible and not seek to introduce unsustainable distortions.

4.1.3 Project staff may need to be recruited from the private sector and paid equivalent wages. Occasionally, there is a need to recruit international technical assistance to support the project activities. Contracts should specify probationary periods, performance criteria and termination circumstances.

4.2 ESTABLISHMENT LEVELS

4.2.1 The establishment for the PMT will be a matter of judgment for the implementing agency, based on the budget allocated for project implementation and the workload anticipated throughout the project.

4.2.2 The credit/grant agreement will define the total cost budgeted for project implementation but caution needs to be applied in interpreting the budget figure. Frequently, other downstream aspects of implementation are not included in the budgeted cost (such as local distribution or transport costs, inspection services, warehouse and storage charges etc., relating to supplies and goods imported). These costs should be quantified at an early stage.

4.2.3 Adjustments would be made to ensure that sufficient staff numbers are employed during the period of the project to implement effectively and efficiently. An examination of the overall project plan will reveal the periods

that require peak procurement, financial management and other specialist inputs. This should be compared to an analysis of anticipated workload, which in itself will vary and fluctuate during the project.

- 4.2.4 A typical resource requirement is illustrated at Table 2, where the number of procurement staff is greater during the first half of the project representing their respective higher activity levels but reducing over the remainder of the project, whereas the number of finance personnel is greater during the latter half of the project representing greater activities in payment and disbursement, reconciliation activities as a result of contracts placed.

Table 2: Resource requirements

Personnel	Year 1				Year 2				Year 3				Year 4				Year 5			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Project																				
Project Manager	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Project Assistant	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0
Sub total	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1
Procurement																				
Procurement Manager	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Procurement Executive	0	0	1	2	2	2	2	2	2	1	1	1	1	1	1	1	1	1	0	0
Procurement Assistant	0	0	1	1	1	1	1	1	1	1	1	1	1	1	0	0	0	0	0	0
Sub total	0	1	3	4	4	4	4	4	4	3	3	3	3	3	2	2	2	2	1	1
Finance																				
Finance Manager	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Finance Officer	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	0	0
Finance Assistant	0	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1	1	0	0	0
Sub total	0	1	2	2	2	2	3	3	3	3	3	3	3	3	3	3	3	1	1	1
Specialists																				
Specialist A	0	0	0	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0
Specialist B	0	0	0	0	0	0	0	0	1	1	1	1	1	1	0	0	0	0	0	0
Specialist C	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1	1	0	0
Sub total	0	0	0	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	0	0
Total	1	4	7	9	9	9	10	10	10	9	9	9	9	9	7	8	8	6	4	3

4.3 JOB DESCRIPTIONS

- 4.3.1 Clear and concise job descriptions should be prepared for personnel involved in project procurement and financial management and for the PMT in other roles. Sample job descriptions are provided at appendix B for the senior procurement and financial managers.

4.4 ETHICS AND CODE OF CONDUCT

- 4.4.1 Those involved in spending from the trust fund are in a position of trust. Ethical behavior is of the utmost importance and expected of all staff involved because their actions are subject to scrutiny by the auditors, the wider public

and the international community. It is one of the cornerstones of good governance. They should abide by the conduct defined in this section relating to fair dealing with suppliers, disclosure of interest, gifts and hospitality and confidentiality of information.

Definition

- 4.4.2 One dictionary definition of ethics is “rules of conduct”. Such definitions also refer to “morally correct” and “honorable” behavior. The reference to morally correct behavior is a reminder that the rules of conduct will, inevitably, reflect the law. But the reference to honorable behavior is a reminder that ethics go beyond legal requirements: they are about the rules of conduct which ensure that individuals and organizations are trusted and respected by those with whom they deal and that business will be conducted by all parties not only with efficiency but in a fair and reasonable manner – with **integrity**.

Guiding Principles

- 4.4.3 The guiding principles of ethical behavior (sometimes summarized as the “the three Is” – **Impartiality, Independence and Integrity**), are that:
- (i) the conduct of an individual should not foster the suspicion of any conflict between their official duty and their private interests;
 - (ii) the action of an individual in an official capacity should not give the impression to any member of the public, to any organization with which they deal or to their colleagues, that they have been or may have been influenced by a gift or consideration to show favor or disfavor to any person or organization;
 - (iii) ethical behavior must be promoted and supported by appropriate systems and procedures;
 - (iv) dealings with suppliers must at all times be honest, fair and even handed.
- 4.4.4 Appendix A looks at the practical implementation of the guiding principles, setting out the standard of conduct that should be adopted.

5. OTHER RESOURCES

Office Accommodation

- 5.1.1 The PMT will require facilities in which to base its operations. The size and nature of these facilities will require consideration by the implementing agency and will depend on the anticipated scope of project activities. The implementing agency must assess requirements for adequate floor space for

furnished office accommodation and any enlarged service support functions. It is important that this is not under-estimated because:

- (i) the dependence on computer equipment (desktop and keyboard or laptop with a printer - network or stand-alone - cabling and associated accessories) can severely restrict efficiency unless sufficient desk and working areas are provided;
- (ii) the need for additional floor space (either as shared or as dedicated facilities) must be recognized for use for bid openings, pre-bid conferences and areas for individual meetings with project personnel, bidders, suppliers, etc.;
- (iii) the emphasis on transparency and accountability in procurement requires that adequate filing and record keeping facilities must be allowed for within office facilities. This includes physical storage and security of files, records and stationery consumables;
- (iv) linked to the requirement for floor space is the availability of wall space to fix visual project charts, plans whiteboards, etc., necessary for monitoring of parameters for efficient project implementation

Communication

5.1.2 Project management and procurement requires timely communication. The PMT must explain itself and its activities internally to user departments, line management and externally with the Bank, MOPCD, MoF, other project stakeholders, suppliers/contractors and with banks. To carry this out successfully the implementing agency must provide a minimum availability and access to equipment. The following list gives some guide:

- Dedicated telephone extensions with external access;
- Fax machine(s);
- Photocopying/reproduction facilities;
- Computer facilities – desktop computers with a specification to allow the latest versions of compatible software to be run. It is important to include common or popular software including anti virus, project management, word processing and spreadsheet, communications (email) software together with any specialized software that may be beneficial to the project. The quantity of computers will depend on the number of personnel who will be engaged and be expected to draft documentation associated with the project and the complexity of the documentation to be produced. Networking software may also be required if a linked computer system is to be installed in the PMT, in addition to software to monitor the use of internet access by PMT personnel;
- Word processing, spreadsheet and database tools;

- Printing facilities;
- Computer connectivity – secure internet access, email and network;
- Transport for use on demand.

Electricity Supply

5.1.3 A reliable, constant electricity supply is essential to project efficiency. In locations where this is not available, consideration should be given to the purchase of a generator, fuel and generator support and maintenance.

Furniture, Filing and Storage

5.1.4 Complete records (kept for a minimum period), methodical filing and quick retrieval are essential to the project. The project functions shall have suitable file reference systems as described in the appropriate chapters (procurement Chapter Four, financial management Chapter Five). The implementing agency must provide adequate storage for these records including:

- safe for the secure retention of negotiable documents;
- record keeping furniture (filing cabinets and cupboards) for project and contract documents, supplier bid documents and equipment samples. ;
- office furniture, including desk, chairs, spare tables for the collation bidding documents, reports, plans and tables;
- accurate office clock for use in the timing of bid closings;
- a tender box - used for bidders to deposit their bids and proposals.

6. OPERATIONAL SECURITY

6.1.1 In view of the commercial confidentiality of much of the information stored by the PMT security considerations include the need for:

- secure lockable premises;
- controlled access through a security pass and the control of visitors;
- further secured areas (ideally through combination locks or swipe cards) and restricted access to file servers, network routers (lockable cabinets),
- lockable cupboards, filing cabinets;
- a safe;
- password access to IT systems;
- back-up and disaster recovery arrangements for IT data and applications/systems.

7. COMMUNICATIONS AND CORRESPONDENCE CONTROLS

- 7.1.1 Project set-up should include establishment of communications and correspondence controls. The purpose of these is to ensure that all project partners log project communications in a systematic manner. Guidance should be drawn from Chapter Four and volume 2 (procurement) and Chapter Five (finance), which detail the processes.

8. DELEGATION AND LEVELS OF AUTHORITY

8.1 DELEGATION

Principles

- 8.1.1 The authority of the implementing agency's executive is delegated to various employees and officers who are charged with particular duties and responsibilities so as to enable them to discharge their duties and responsibilities properly, efficiently and effectively. No employee may undertake any activity which commits the implementing agency to any course of action whatsoever, unless authorized to do so. Authority may be conferred by reason of an employee's position in the organization chart, their specific job description, or attached to any specific duties, responsibilities or obligations they are tasked to perform.
- 8.1.2 All employees of the implementing agency are responsible for the satisfactory performance of their duties and responsibilities, and accountable to their manager or other designated authority for the proper use of all resources entrusted to them for the performance of their duties and responsibilities. Though authority may be delegated, accountability ultimately resides with the person who delegates the authority.
- 8.1.3 To provide a fair and effective basis for employees to be properly and effectively accountable for their actions, the authority delegated to an employee must be commensurate with the responsibility, duty or obligation, which he or she is required to discharge. Failure to achieve such balance may lead to a lack of transparency or inefficient operations, and may have financial and cost implications. Accordingly, senior line management of the implementing agency shall ensure that there is always a careful balance or matching between delegated authority and responsibility within the organization.

Project Delegation

- 8.1.4 The proper delegation of authority is essential for the efficient functioning of the project. Delegation of project management, the procurement function and the

authority to enter legally binding contracts and financial management must be organized and controlled strictly in accord with this manual.

8.1.5 A written statement of delegation for the project will be produced based on the needs of the project:

- any requirement for delegation from the national level to sub-national (public sector) and/or local government/community level or state owned enterprise;
- within the implementing agency, clarifying the authority of the project manager, the PMT, their relationship with the IAAC and contracting committee and the existing procurement (see Chapter Four) and financial management functions (Chapter Five), of the implementing agency.

8.2 LEVELS OF AUTHORITY

8.2.1 The PMT and implementing agency staff members involved in the project will be expected to exercise such functions and perform such duties as are conferred upon them by the law or as delegated or assigned to them by the line management, in strict accordance with financial limits. The financial limits may not exceed the project levels of authority contained in the project implementation manual (see paragraph 24.2 of Chapter Five), nor the levels of authority of the implementing agency upon which they should be based. An attempt to exceed the appropriate level of authority will lead to disciplinary proceedings.

8.2.2 The levels of authority will vary depending on the implementing agency and the nature and complexity of the project but a structural basis is contained in appendix C hereto.

CHAPTER THREE PROJECT OPERATIONS

If Chapter Two describes the requirements for assessment and setting-up a project, this chapter focuses more on implementation. The title of the chapter is however, Project Operations as it covers the full life-cycle and not just project implementation. In doing so it traces the project life-cycle with a Bank centric emphasis on Bank requirements and terminology:

- identification, preparation and appraisal;
- implementation;
- monitoring and supervision;
- completion, evaluation and audit

The chapter then examines project planning and the importance of overall procurement and financial planning integrated with project planning. These issues are then explored in more detail in the following chapters on procurement (Chapter Four) and financial management (Chapter Five).

10. PROJECT CYCLE

10.1 IDENTIFICATION, PREPARATION AND APPRAISAL

10.1.1 This sub-section describes the project lifecycle from a Bank perspective. This stage of the lifecycle is normally conducted within the development framework for the country. It would include consideration of the IMF macro-economic presentation, national income accounts, the balance of payments and trade statistics, GDP statistics, interest rates, reserve statistics, percentage growth statistics, monetary and fiscal policy, etc.

10.1.2 Ideally project identification is a country owned process and collaborative between the country representatives and the Bank. The Bank task manager plays a pivotal role in translating an idea into a project. Identification missions lay the foundation for the project. Project ideas can be developed from:

- national development plans;
- economic and sector work;
- country assistance strategy (CAS);
- implementation completion reports;
- monitoring and evaluation reports;
- academic and NGO analysis and papers;
- other donor reports

10.1.3 Preparation is the process that converts a project idea into reality. It is detailed involving detailed studies, consultation with stakeholders, on-site investigation work. To ensure a high quality project at entry it may include examination of:

- technical designs;
- institutional arrangements;
- economic and financial viability;
- environment, social and gender issues;

10.1.4 The preparation report is a country/borrower document and should provide the rationale for the project, details of the project components and a draft project implementation plan. Appraisal (and possibly pre-appraisal) is a distinct activity within the Bank process, incorporating due diligence assessment checks on procurement and financial/expenditure management systems described in the previous chapter (Chapter Two).

10.1.5 The result of this phase in the lifecycle will be a robust project plan for inclusion within the credit/grant agreement. This will describe the project in detail and include budget line items and a procurement plan to support the project plan. The logical framework approach is a preferred methodology with the project goal, purpose, inputs, activities, outputs, assumptions/risks and verifiable indicators for monitoring being summarized in a logical framework matrix (see section 11 below for further guidance on project planning). A significant output from this phase is a project appraisal document (PAD), a comprehensive summary of the project that forms the basis of the submission for Bank Board approval.

Memorandum and Credit Agreement

10.1.6 The Bank covers all the principal issues raised prior to and during appraisal, converts the understandings into legal obligations, and sets these out in the agreement. This ensures that the government and the Bank are in agreement, not only on the broad objectives but also on the specific actions necessary.

10.1.7 The appraisal report, together with the President's report and the credit documents, are presented to the Bank's executive directors.

Authorized Signatories

In addition to notification of authorized signatories¹⁰ the Bank may require the recipient to provide evidence of the authority to sign, for these signatories.

10.2 IMPLEMENTATION

Monitoring and Supervision

10.2.1 There are four key sets of documents that are recommended for effective monitoring and evaluation. These are:

- project reports - service provider (contractor) progress reports on activities. The format and content can be agreed on a case-by-case basis between PMT, any partner entities and contractors;
 - quarterly management/monitoring reports;
 - annual (and mid-term) reviews assessing the progress made against the project (the logical framework matrix is a suitable basis for this review as it should contain time based quantitative and qualitative indicators of progress);
 - completion and evaluation reports.
- (i) Project reports – reports from service providers called for on a stage or periodic basis (e.g. monthly). These reports must indicate progress in

¹⁰ These may be different from those authorized to sign withdrawal applications – see Chapter Five23.2.

terms of agreed outputs for each activity. As contractual deliverables they may be accompanied by an invoice. It is important that the reports are reviewed and approved by the PMT before the invoices are paid.

- (ii) Quarterly monitoring reports – showing the progress made towards the output level indicators for a particular quarter. It assesses the progress against physical and financial targets and provides an updated assessment of the likelihood of achieving the project purpose. Key issues, constraints and interventions are identified, and recommendations made. Project managers must complete quarterly monitoring reports at the end of each quarter for project board approval and, where applicable, the steering committee.
- (iii) Annual and mid-term reviews – this annual review indicates overall project performance, with a key focus on the progress towards project purpose for a period of one year. It gives an indication of lessons of experience that should be shared with stakeholders. Furthermore, it recommends the necessity to revise the project (logical framework), identifies new risks, and updates and reviews the stakeholder analysis. It will identify key issues and recommendations for consideration by the key decision making bodies for a particular year/s.

An external team may be appointed by the PMT. However, it is the responsibility of the relevant PMT to facilitate the review and for the board and/or steering committee to decide, jointly with the Bank, how to re-align the project, should that be necessary.

Bank Supervision

- 10.2.2 The Bank has increased its resources devoted to supervision with the function being to ensure that credits are used for the purpose they are granted and the expenditure achieves its development objectives. The Bank works with governments/ implementing agencies in identifying and dealing with problems during implementation.
- 10.2.3 Another central objective of supervision is gathering accumulated experience to “feed back” into design and preparation of future credit/grants. An annual review of the supervision portfolio is conducted to identify major issues of implementation.
- 10.2.4 The credit/grant agreement will specify the schedule of progress reports to be submitted by the government/implementing agency. Problems that surface are dealt with by correspondence or by field missions; the field missions being tailored to the complexity of the project/agreement. An important element of project supervision concerns procurement through the no objection process. Detailed reporting requirements are described in Chapter Four, Procurement and Chapter Five, Financial Management.

10.2.5 Whilst this manual concentrates on the Bank's administrative and reporting requirements the ownership and development purpose is that of the GOI and the project must first satisfy the line management reporting requirements of the implementing agency and beyond that the MoPCD and MoF.

Monitoring Agent

10.2.6 Whilst the Bank carries out a lot of supervision from its own staff resources it also employs external consultants and organizations to carry out certification. A monitoring agent will carry out much of the supervision function in Iraq on behalf of the Bank.

10.3 COMPLETION, EVALUATION AND AUDIT

Completion

10.3.1 The end of project report provides an assessment of the extent to which the planned outputs have been achieved. It provides an opportunity to assess the likely wider and longer-term impact of the project and a guide to future monitoring of similar interventions. The government may appoint an external evaluation team to conduct an assessment and draft the end of project report. The government and the implementing agency should benefit from the evaluation process and from the lessons learned, in order to feed into future project design and preparation, completing the project-cycle.

10.3.2 All Bank administered credits are subject to project completion reports and ex-post evaluation carried out by the Operations Evaluation Department (OED). Whilst separate from the operating staff of the Bank (and reporting directly to the executive directors), OED meshes closely with the supervision activity of the bank. OED reviews supervision reports, including the final completion report and prepares an evaluation report. These are mostly desk reviews of all documentation but may include a field review.

Audit

10.3.3 The Bank's agreements contain covenants requiring the PMT to submit annual audited financial statements to the Bank, normally no later than six months after the end of each fiscal year. Non-compliance could lead, if other remedial steps fail, to suspension of disbursements. The Bank relies on audited financial statements to validate the FMRs¹¹.

10.3.4 All relevant documentation for withdrawals by the SOE method is to be maintained in a central location for the period specified in the agreement, for review by auditors and Bank missions. The minimum period is usually *one*

¹¹ Essential for special accounts where disbursements are allowed to proceed using the special account facility (where this facility is available). Credits using FMR-based disbursement have covenants in the agreement requiring that audit reports contain an opinion whether the FMRs submitted during the year can be relied on to support the withdrawals.

year after the Bank has received the audit report for the year in which the final disbursement under the credit was made. See Chapter Five, section 26 for more detail on audit requirements.

11. PROJECT PLANNING

11.1 OVERALL PROCUREMENT PLANNING

- 11.1.1 This activity is distinct from planning for an individual procurement transaction (for which see volume 2, stage 3). For a transactional procurement the planning questions are relatively straightforward: what is being procured (goods, works, services), the estimated cost, the procurement method applicable, consideration of issues related to sources, the particular risks faced, etc?
- 11.1.2 For overall planning there are a much wider set of questions: what is the purpose and scope of the project; the outputs/outcomes expected; the components; the budget; the timeline? The answers to these questions will have significant implications for the project, for its complexity, duration, and how it is to be delivered. The questions should also deliver answers about what resources are available, what expertise will be needed, what other inputs are needed, and the number and type of packages of procurement.
- 11.1.3 The questions and answers serve to illustrate that it is difficult to separate the planning associated with the project from that associated with procurement; both are important and interrelated elements in the strategy for the project. One should not be divorced from the other. Decisions on the nature of the project will have direct implications for procurement, for the type of expertise required, for the number and scale of procurements, for the choice of sample bidding document[s] and types of contract and for the relationships between the parties involved. Equally, considering the procurement issues will inform the overall plan in terms of costs, duration, phasing and critical path and provide a structured decision chain that complements the systematic management of the project.
- 11.1.4 A project plan that does not take account of the procurement process from the beginning, or leaves problems and risks to be resolved by procurement is likely to run into difficulties later. The earliest consideration needs to be given to these issues and what it will mean in terms of the procurement strategy and the way the procurement is to be organized. The procurement planning should contribute to the project plan. Procurement planning therefore, should start at the beginning of the project and indeed a procurement plan is a Bank requirement for the PAD. The initial procurement plan and subsequent annual updates prepared by the implementing agency are subject to approval by the Bank (see requirements on Bank website (www.worldbank.org/procure)).

- 11.1.5 Having considered the implications from the outset and established a procurement strategy and plan, the plan should be revisited annually or at the various stages mapped out in the plan (see Chapter Four16.2). At each stage additional information will be available to inform decisions.
- 11.1.6 An iterative approach allows the procurement to be "sliced" into manageable portions: for risks to be identified, for steps to be taken to minimize risk and for risks to be revisited in the light of developments. New risks may be identified or at least become recognized as having a greater significance. Factors influencing the procurement strategy are primarily concerned with risk identification and reduction and (in addition to the issues of scope listed above), will be influenced by :
- complexity;
 - length and rigidity of timescales for implementation;
 - priorities;
 - the technical specialist (e.g. engineering, IT systems) and project management skills available.
- 11.1.7 Remember, project/procurement timescales are always longer than anticipated (although certain elements can be relatively fixed based on guidelines for the bidding cycle).

11.2 OVERALL FINANCIAL PLANNING

- 11.2.1 Similarly, this planning process will have budget implications and the credit/grant agreement will contain a budget with high-level items of expenditure. This budget needs to be as accurate as possible if it is not to constrain project delivery. For further guidance on budgeting see Chapter Five, section 20.

12. SECURITY AND CONTRACTUAL RISK

12.1 OVERVIEW

- 12.1.1 The security situation in Iraq pertaining at the time of preparation of this manual poses some procurement and contractual risks that may need special consideration. Bidders may face difficulty in accepting contractual provisions that would apply in more normal circumstances or face difficulties in the performance of contract. This may impact on the way implementing agencies are required to approach procurements, draft documents or apply the standard provisions for the supply of goods, services and works. Some of the issues that may need consideration would include:
- Insurance;

- Force Majeure;
- Termination;
- Bid and Performance Securities;
- Governing Law and Jurisdiction.

12.1.2 This section examines these issues and provides additional guidance that may need to be applied when drafting invitations to bid or requests for proposals. Different considerations may apply depending on whether national or international bidders are involved. Further guidance can be found in the Bank Operations Procurement Review report for Iraq. The issues are complex and expert advice should be sought.

12.2 RISKS AND INSURANCE

12.2.1 In a poor security environment the following may be encountered:

- Supplier/contractor reluctance to work in Iraq;
- Unacceptably high costing of the risks of working in Iraq;
- Difficulties in ensuring value for money in procurement;
- Lack of availability of insurance cover in the market.

12.2.2 These factors require implementing agencies to adopt a moderate approach to risk allocation and, recognizing the constraints faced, a fair and pragmatic “partnering” relationship with suppliers/contractors.

12.2.3 The risks commonly considered by buyers and sellers include:

Goods in transit

12.2.4 The Incoterms that result in the lowest responsibility/risk resting with the buyer are:

- (i) DDP (delivered duty paid, named place of destination: i.e. the seller is obliged to deliver to the buyer's "door" where risk passes to the buyer and the seller must deal with all import and customs formalities and costs);
or,
- (ii) DDU (delivered duty unpaid, named place of destination) used, for example, where the implementing agency is exempt from customs duties.

12.2.5 These terms are particularly appropriate where the contract contains the additional services for assembly or installation. In the current Iraqi environment, suppliers external to Iraq will probably only consider contracting up to:

- (i) CPT terms (carriage paid to - where the seller is obliged to deliver only to the carrier at which point risk passes to the buyer but the seller has no obligation to obtain insurance for the buyer), or possibly;
- (ii) CIP terms (carriage and insurance paid to - where the seller is obliged to deliver the goods to the carrier whereupon risk passes to the buyer and the seller is obliged to obtain insurance cover on behalf of the buyer).

12.2.6 Considerations for the PMT would include:

- (i) CPT or CIP Incoterms can be used by implementing agencies subject to them being able to arrange clearance and inland transport from the named destination (normally the port of entry) to the final destination¹². Risks and insurance for this inland movement need to be considered.
- (ii) The PMT should weigh up the risks and costs, avoiding contracts for completely knocked down (CKD) or semi-knocked down (SKD) goods if there is lack of clarity on risk and responsibility for supply of assembled goods.

Personal Injury or Death

12.2.7 Where contractors/consultants are unable to insure for this risk a reasonable position needs to be agreed. In some jurisdictions it is not legally permitted for a contracting party to exempt itself from liability for death or personal injury caused by its negligence. Consideration: implementing agencies should seek through the contract to allocate this risk as a contractor/consultant responsibility (except to the extent that personal injury or death arises as a result of the implementing agency's own willful default or negligence).

Loss of or Damage to Work Sites, Works, Plant and Equipment

12.2.8 Again, these risks should be allocated on a fair basis. Consideration: seek through the contract to allocate these risks as a supplier/contractor responsibility (again except to the extent that loss or damage arises as a result of the implementing agency's own willful default or negligence).

Third Party Liability

12.2.9 The supplier/contractor should rightly assume risks of liability to third parties caused by its own activities. Consideration: seek through the contract to allocate this risk as a supplier/contractor responsibility.

12.2.10 With regard to the risks listed in paragraphs 12.2.7 to 12.2.9 above, suppliers/contractors may make counter-proposals. It is possible that some

¹² In the absence of a suitable agent for import clearance, or nominated government/national importation/clearance agency, the implementing agency should seek advice on import clearance services, possibly arranged via a GOI competitive bid process for private sector bidders to provide services under the IIF.

suppliers/contractors will take a robust position on “war risk” and insist that the implementing agency holds harmless and indemnifies the supplier/contractor from any damage or injury resulting from such risk. It would not be unreasonable for implementing agencies to accept such a position. But with regard to "non-war risks" much would depend on the availability of insurance, which may be problematic.

- 12.2.11 There are specialized insurance brokers who may be prepared to underwrite Iraq risk. However, whilst they may consider requests for insurance for goods in transit (i.e. a "moving target"), insurance for static sites, such as warehouses or construction sites, would be difficult to find (or prohibitively expensive). Specialized commercial insurance brokers who are prepared to undertake Iraq-based risks do exist, but they tend to insert conditions such as insistence on armed escort for goods in transit. Clearly anyone contracting for such insurance would need to take legal advice on the terms of the relevant policy as war, civil disorder etc are often listed as "exceptions".
- 12.2.12 Large international contractors often have group global/worldwide insurance policies for "All Contractor Risks" which could include Iraq on its list of applicable countries (i.e. the larger contractors are in a better position to negotiate the inclusion of Iraq in a long list of more secure countries). Often contractors mitigate these risks by building into their bids the costs of non-repatriation/write-off of capital equipment (i.e. they leave the equipment on site for the client or sell it locally).
- 12.2.13 One possible solution to the reluctance of the insurance market to underwrite Iraq risk is for GOI, to "self-insure" some or all of the risks in question, as do many governments and international organizations. However, self-insuring may hinder the development of the insurance sector within and in relation to Iraq and act as a constraint to reconstruction.

12.3 FORCE MAJEURE

- 12.3.1 Force Majeure clauses work in favor of suppliers/contractors but for good reason. Model contracts in Bank standard bidding document include “force majeure” or “release from performance” (works) clauses, which in specified events, relieve the supplier/contractor from inter alia:-
- Performance of the contract within fixed delivery dates;
 - Liquidated damages for delay;
 - Performance of the contract at all.
- 12.3.2 The models contained in the manual (volume 3) list events of force majeure such as “outbreak of war”. Under The Hague Convention the term "war" is defined by reference to formal declarations of war, which would not automatically apply to many heightened security situations. Specific

consideration should always be given to the list of the events that the parties wish to be regarded as force majeure. From the supplier's perspective rather than the word "war", perhaps the word "conflict" would be seen as more appropriate or "hostilities" (whether war be declared or not) or "civil unrest". Other clauses take a more broad approach by using phrases such as "any event outside the reasonable control of the supplier" and/or "which renders performance impossible" or a combination of these approaches. Whichever approach is taken the security situation may arguably constitute a "force majeure" before the contract has even started. Therefore, the parties may wish to specify levels of security alert which trigger "force majeure" clauses to be confirmed by a third party body (e.g. Commander of the Iraqi security forces in the particular area of the works). Alternatively force majeure clauses sometimes exclude *"any event which a diligent party could reasonably have been expected to both a) take into account at the time of the conclusion of the contract and b) avoid or overcome in carrying out its obligations under the contract."*

- 12.3.3 Where possible implementing agencies should seek to control the "force majeure" procedure by making it a condition of applicability that the project manager must send a written notice of confirmation to the supplier/contractor that force majeure applies. This is likely to be resisted by suppliers/contractors - but in any event a system of mutual written notice procedures should, at least, be agreed to minimize uncertainty as to whether force majeure is being claimed/applicable in any given situation.
- 12.3.4 The parties should also consider on a case-by-case basis when preparing the contract the implications of termination of the contract in the event of force majeure. They may wish to specify who is liable for the work, what happens to the insurances, retention moneys, performance securities and other duties under the contract. Clauses could include a right for the implementing agency to dispose of contractor's equipment if abandoned for more than a specified period and provisions dealing with how much the contractor can recover in winding-up costs. However, to avoid precipitous terminations, a right of suspension for an agreed period could be built into the force majeure provisions so that both parties can assess the prevailing security conditions.
- 12.3.5 It should be borne in mind that in most civil law countries the doctrine of force majeure applies in any event (notwithstanding the express terms of the contract), so that where exceptional or unforeseen events threaten excessively onerous loss to one of the parties, the law itself may excuse performance or limit the loss. Where the governing law of the contract is the law of Iraq, legal advice should be sought from Iraqi lawyers as to whether this type of doctrine of force majeure would be applicable and/or whether the contract is subject to any Iraqi law similar to "frustration" or "impossibility" which could also excuse a supplier from performance.

12.4 TERMINATION

12.4.1 Irrespective of the inclusion of a force majeure clause or its precise wording, it would also be advisable for the buyer to reserve a right of termination for convenience (i.e. termination for *any* reason at will), in order to retain flexibility in an uncertain trading environment. Such early termination would need to be conditional upon certain protective provisions in favor of the supplier/contractor (for example, full compensation to the supplier/contractor for work carried out to the date of termination and reasonable “winding-up” costs). Again to avoid precipitous terminations, a right for the buyer to *suspend* the contract "for convenience" and for an agreed period could be built into the provisions so that both parties can assess the prevailing security conditions.

12.5 SECURITIES

12.5.1 Bid and Performance Securities and Advance Payment Guarantees are an essential requirement where prevailing conditions are unpredictable but, given the weaknesses of the commercial banking system in Iraq, the form of security may provide insufficient protection to implementing agencies. Where international bidders are involved, securities could be issued directly to the implementing agency by a first class bank outside Iraq. Any payments demanded under such securities should be payable to a special account or project account of the beneficiary preferably held in a US or European first class bank (see section 22.3xx of volume 1). As confidence grows in the commercial banking sector within Iraq helped by the increased presence of international banks, securities can be issued locally.

12.6 GOVERNING LAW AND JURISDICTION

12.6.1 Bank models assume that contracts will be governed by the borrowing country law and this should be the starting point. Given uncertainty or lack of confidence, international suppliers/contractors may seek alternative governing law. In circumstances where key international sources are involved the concession may be necessary but such demands should be treated with caution, given the need for contract review/advice to be from lawyers specialized in the governing law.

12.6.2 With regard to jurisdiction supplier/contractors are likely to insist on the referral of disputes to arbitration (for example in accordance with ICC, UNCITRAL or LCIA rules). With regard to the location of such arbitration, international supplier/contractors are unlikely to agree to arbitration in Baghdad¹³. The parties may wish to consider agreeing to hold arbitration in Jordan, which is a signatory to the New York Convention. This would provide

¹³ Quite apart from the security and logistical problems, Iraq is not yet a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958.

a relatively cost effective alternative with easy access for the parties and Iraqi legal experts.

12.7 CONCLUSION

12.7.1 The security situation has the potential to present a range of related challenges. Issues relating to applicable laws, payment securities, risk allocation and insurance will require careful consideration and adequate specific provision (often through additions to the Special Conditions of Contract [SSCs]), requiring legal advice to safeguard the implementing agency's position¹⁴.

¹⁴ Consult with Iraqi lawyers on the specific issue and generally with regard to the status of existing laws in Iraq. If the governing law of contract is to be other than Iraqi law then it will be essential for those involved to consult with lawyers specialized in the law governing.

CHAPTER FOUR PROCUREMENT

The Bank's articles of agreement require that credits administered by the Bank be used to procure goods works and services through fair, transparent and competitive bidding procedures. Detailed guidelines are applicable covering:

- general and specific procurement notices;
- the definition of procurement methodologies;
- use of standard bidding documents;
- expectations for public opening, the use of evaluation criteria etc.;

The importance attached to procurement for good project implementation and the achievement of the project purpose, and the complexity of the procurement activity, means that procurement is a dominant issue with a substantial volume of material related to procurement contained in this manual. This is organized as follows:

- Volume 1 (this chapter and other references) – describes how procurement is to be organized and managed. In particular, this chapter describes recording systems for the control, monitoring and reporting of procurement and physical progress of the project;
- Volume 2 – provides detailed procurement procedures to be applied to procurement transactions. In view of the length these are contained in a separate volume;
- Volume 3 – contains sample documentation.

Attention is also drawn to:

- Chapter Two, Project Set-up, which describes the assessment of procurement capacity necessary to meet the Bank's requirements;
- Chapter Three (section 11.1), which introduces the subject of overall procurement planning – covered in more detail in 16.2 of this chapter.

The Bank draws a clear distinction between the principles for i) procurement of goods and works, and ii) selection of consultants, using different terminology (e.g. bid versus proposal and bidder versus candidate). ICB, LIB and NCB are used for goods and works, not for selection of consultants. Nevertheless, in this chapter (and in volume 2) there are some descriptions of procedure that are generic in nature. For simplification a single term is applied, such as "supplier", which should also be taken to designate contractor, service provider or

consultant as the context may require. Where referring to the selection of consultants specifically, the appropriate terms are used.

13. BANK PROCUREMENT REQUIREMENTS

13.1 BANK GUIDELINES

13.1.1 The Bank has established comprehensive procurement rules detailed in their Procurement Guidelines and (for the selection and employment of consultant services), Consultant Guidelines, which together with a range of supporting material such as standard bidding documents¹⁵, give a structured and organized approach to procurement. The guidelines are incorporated by reference in the credit/grant agreement and are binding on the borrower. Projects implemented in Iraq will be governed by the May 2004 Bank Guidelines for the procurement of Goods and Works and for the selection of Consultants.

13.1.2 As a general principle, the Bank prefers methods of procurement that maximize competition, to methods that are less competitive; for e.g. for goods, international competitive bidding is seen as the most competitive. To promote transparency the Bank requires public notification of procurement opportunities, public bid openings and disclosure of the results of bidding processes.

13.1.3 The following subsections summarize some of the Bank's requirements. Refer to volume 2 for more detailed stage and step-by-step procedures based on these guidelines.

13.2 ELIGIBILITY AND QUALIFICATION

13.2.1 The issues of eligibility and qualification, although closely related in the procurement process, are distinctly different. Eligibility governs a bidder's ability to participate in a bidding opportunity, while qualification determines whether a bidder is capable of producing goods, works or services required by examination of their financial resources, supply or manufacturing capacities and experience.

Eligibility

13.2.2 The Bank has specific eligibility criteria: which permits any firm from any country being able to compete for Bank financed contracts except where as a matter of law or regulation, or in compliance with a decision of the United Nations Security Council, the borrower country prohibits commercial relations with certain countries. Reference should be made to the full text of the Guidelines¹⁶ when considering eligibility.

¹⁵ Additional instructions and guidance material are provided in the Procurement Manual and Consultants Manual.

¹⁶ May 2004 Guidelines – Goods and Works paras 1.6 to 1.8, and Consultants paras 1.11

13.2.3 Eligibility criteria would be unlikely to change significantly during a project's life, however qualification criteria would be modified in each bid document to suit the nature, size and complexity of the requirement. For example, the qualification criteria for 80 mini-buses valued at USD7M would clearly differ from the criteria for the supply, delivery, distributions of multi item medical test kits valued at USD1.5M throughout a country over a six month period.

Qualification

13.2.4 Bank guidelines require the use of procurement methods that ensure free, fair and transparent procurement based on competition, which includes a qualification methodology to determine the capacity and capabilities of bidders to perform the contract. The use of any company registration schemes to determine suitability should not be used in preference to a qualification methodology. Additionally registration in any scheme should not be a pre condition to participation in the bidding process – see further guidance at Stage 4, in volume 2.

13.3 NO OBJECTIONS

13.3.1 The procurement provisions are enforced by a system of “no-objections”, whereby the Bank supervises procurement decisions throughout project implementation. The scope of this supervision is based on the level of risk from an assessment of the capacity of the implementing agency (see Chapter Two2.2). The competition provisions, of open specifications, conflicts of interest and suitable evaluation criteria come under particular scrutiny. Procurement of specialized goods and services may require specific provisions. The procurement rules applicable would be specified in the credit/grant agreement, and further explained in the PAD.

13.3.2 Within the guidelines prior-review requirements include revisions to the procurement plan and with respect to all contracts, which (in accordance with the credit agreement), are subject to prior review (also see the Introduction of volume 2, table 1):

- draft documents for pre-qualification and the evaluated results thereof;
- draft bid documents;
- evaluation reports;
- extensions to bid validity;
- protests or complaints;
- any resulting change in contract award recommendations;
- any change to terms and conditions that are materially different from those on which the bids were invited;

- material extension to the time for performance of contract, modification/waiver of conditions or change orders which would increase the contract value by 15%.

13.3.3 Documentation for contracts not subject to no-objection (but subject to post review) would be retained for 2 years after the closing date of the credit or grant agreement.

13.4 PROCUREMENT METHODS

13.4.1 The thresholds for applying procurement methods are not standardized but would be described in the PAD, where the criteria for thresholds may be complex. They may anticipate the use of procurement agents and may take account of acceptable country specific arrangements. The criteria may vary, based partly on the type of procurement and the expected maximum values by type (e.g. resulting from phasing of the project and whether ICB procedures are seen as not practical or not anticipated).

13.4.2 The methods of procurement for goods and works are defined as follows:

- (i) International competitive bidding (ICB) – open, internationally advertised, formal bidding giving all eligible prospective bidders timely and adequate notice and equal opportunity. The procedure is prescribed in detail and includes the use of standard bidding documents.
- (ii) Limited International Bidding (LIB) – a formal bidding process using international bidders selected for participation.
- (iii) National competitive bidding (NCB) – the competitive bidding procedure normally used for public procurement in the country where, by the nature or scope, the exercise is unlikely to attract foreign competition. Advertising may be limited to the national press or official gazette. The Bank may require the procedures to be modified to assure economy, efficiency and transparency and to conform to the other formal bidding requirements (such as required for ICB).
- (iv) Shopping - defined as being a comparison of price quotations of a minimum of three bids. Intended for readily available off-the-shelf or standard commodities or simple civil works of low value.
- (v) Direct contracting – without competition (single source). May be appropriate where: an existing contract may be extended for additional goods or works; for proprietary equipment and/or spare parts only available from one source.
- (vi) Force account – use of GOI/implementing agency own personnel and equipment may be justified where quantities of work cannot be defined in

advance, works are small, scattered or remote and work is required not to disrupt ongoing operations.

13.4.3 The methods of selection for Consultants are:

- (i) Quality and Cost Based Selection (QCBS) – a method based on the quality of proposals and the cost of services to be provided and is the most frequently used selection method. It is most appropriate when the scope of work can be precisely defined and the TORs are clear and well specified and the consultants time and related inputs can be reasonably and accurately estimated;
- (ii) Quality Based Selection (QBS) – a method based on the quality of proposals and the cost of services to be provided is negotiated with the consultant who submitted the highest ranked technical proposal. This selection method is most appropriate where the quality of the services is an overriding project importance, or the scope of assignment work is difficult to define or the assignment could be carried out in different ways that would make difficult the comparison of cost;
- (iii) Fixed Budget Selection (FBS) – a method based on disclosing the available budget for assignment and selecting the consultant with the highest ranking technical proposal within the budget. This permits the consultants to tailor their proposals to meet the TORs. The implementing agency/PMT therefore needs to ensure that the budget is compatible with the TORs;
- (iv) Least Cost Selection (LCS) – a method based on setting a minimum qualifying mark for the technical score and selecting the consultant with the lowest evaluated cost from the proposals that exceeded the qualifying technical score.
- (v) Consultants Qualification (CQS) – a method used for very small assignments where a full selection process is justified. Under this method consultants submit expressions of interest against prepared TORs. The implementing agency/PMT establishes a short-list and selects the consultant with the best qualifications and references to submit a combined technical and financial proposal and is invited to negotiate a contact if the technical proposal is acceptable.
- (vi) Single Source Selection – where the implementing agency/PMT selects a consultant to prepare technical and financial proposals, which is then negotiated. This method is used in very specific circumstances as there is no competition but is suited to assignments that are natural extensions of previously awarded competitive contracts, or where the quick selection is essential in emergency operations, or very small assignments or assignments where only one consultant has the necessary experience or qualifications of exceptional worth to carry out the assignment.

13.4.4 The introduction of volume 2 of this manual gives further guidance on the differences in procurement types (goods, works, services) and procurement methods (ICB, NCB, shopping etc.). Further guidance on the selection of procurement method is provided at Stage 3 of volume 2.

13.5 PROCUREMENT PLANNING

13.5.1 Procurement planning – drawn up as part of project design (and required within the PAD), a procurement plan shall define the methods for procurement, applying the most competitive method appropriate to the specific procurement. Any revisions to the plan require the Bank's no-objection.

13.6 DOMESTIC PREFERENCE

13.6.1 The Bank permits borrowers to give a margin of preference in evaluation of domestic bids under ICB procedures (15% domestically manufactured goods, 7.5% domestic contractors for works) under conditions specified in the procurement guidelines.

13.7 MISPROCUREMENT

13.7.1 The Bank reviews the Implementing Agency's procurement procedures, documents, bid evaluations, award recommendations, and contracts to ensure that the procurement process is carried out in accordance with the agreed procedures. The credit/grant agreement shall specify the extent to which prior and post review procedures shall apply in respect of the different categories of goods, works and consulting services to be financed, in whole or in part, from the credit/grant.

13.7.2 The Bank does not finance expenditures for goods, works or consulting services which have not been conducted in accordance with the agreed procedures and it is the policy of the Bank to cancel that portion of the credit/grant allocated to the goods, works or consulting services that have been misprocured. The Bank may, in addition, exercise other remedies under the Grant Agreement. The Bank's declaration of misprocurement will therefore render the procurement or the payments in respect of particular requirements ineligible against the project.

14. LEGAL AND REGULATORY FRAMEWORK

14.1 LEGAL FRAMEWORK

14.1.1 Public procurement in Iraq is subject to recent legislation¹⁷. This sets out the institutional framework for the public procurement system and establishes the basic principles with which all procurement rules and procedures must comply. Key provisions of include:

- establishment of the Office of Government Public Contracts Policy (OGPCP), as the office with responsibility for the regulation of public procurement in Iraq;
- decentralization of procurement responsibility to individual procuring entities;
- establishment of a contracting office within each procuring entity to be responsible for all the contracting activities of the procuring entity;
- establishment of qualified government agencies or committees in all procuring entities, as the body with authority to obligate government funds and award and sign government public contracts;
- the principle that public procurement should normally be conducted through full and open competitive procedures;
- establishment of a mechanism to exclude bidders and suppliers from public procurement;
- the right of all bidders and suppliers to protest against procurement decisions by procuring entities that are in breach of the law.

14.1.2 The law recognizes the role that will be played by international and donor organizations in Iraq and that procurement conducted under donor-funded agreements or treaties may be carried out in accordance with the donor guidelines.

14.1.3 Although the procurement law may not be fully established this chapter reflects its provisions. In the detailed procedures (here and in volume 2) however, the Banks guidelines have been reflected, as required by the ITF.

14.2 REGULATIONS

14.2.1 The OGPCP is responsible for issuing public procurement regulations, to provide a more detailed framework of rules. Where the OGPCP regulations are in conflict with the provisions of the credit/grant agreement, the latter shall take precedence.

14.3 STANDARD DOCUMENTS

14.3.1 Similarly, the OGPCP is required to issue Standard Contract Provisions for Procuring Entities for use in all public procurement activities in Iraq.

¹⁷ Prime legislation contained in Coalition Provisional Authority Order Number 87 came into force on 16 May 2004, and provides the legal basis of the Government of Iraq's Public Procurement System.

However, the implementing agency of any project to which Bank guidelines apply, will be required to utilize documents based on the Bank standard bidding documents (SBDs), and such other documents and forms for use by PMTs involved with the ITF.

- 14.3.2 The use of the standard bidding documents, with minimum changes (acceptable to the Bank) as necessary to address project-specific conditions, is mandatory for all projects unless otherwise agreed with the Bank in writing.

15. THE INSTITUTIONAL FRAMEWORK

- 15.1.1 The institutional framework for public procurement in Iraq as laid down by the law is shown graphically at Figure 2 below. A summary of the role of each of the key parties is given in the following paragraphs.

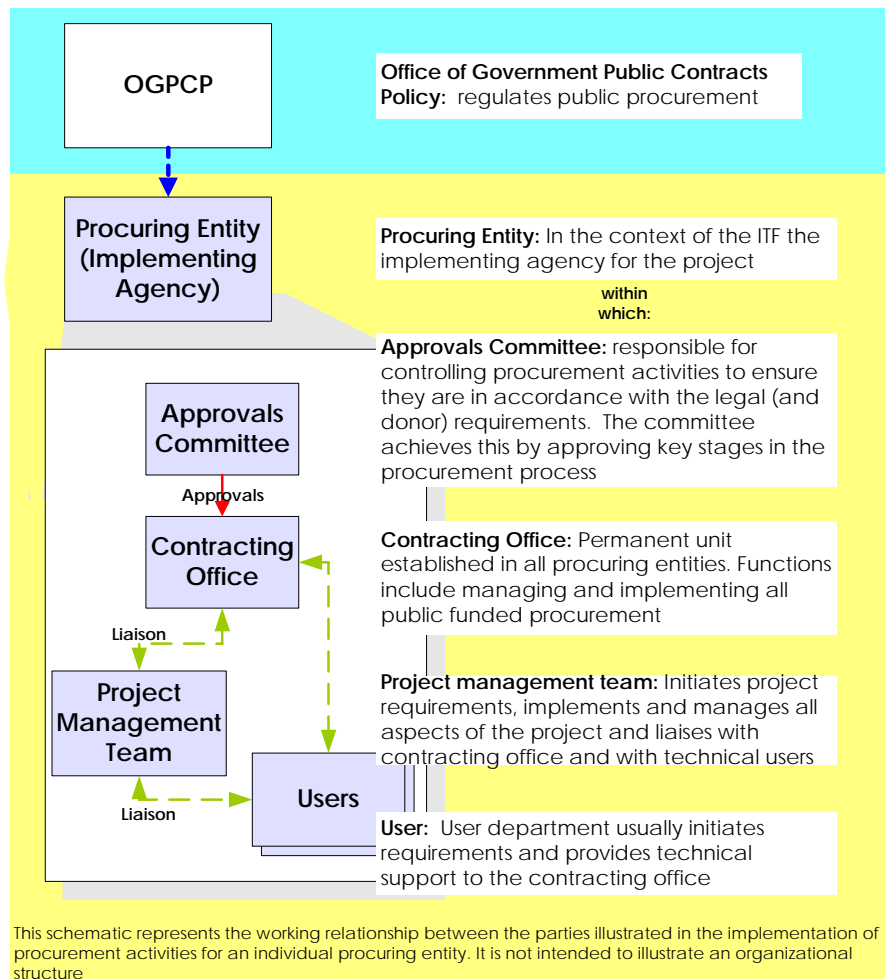
15.2 OFFICE OF GOVERNMENT PUBLIC CONTRACT POLICY

- 15.2.1 The Head of the Office of Government Public Contract Policy is a public office, responsible for the regulation of public procurement in Iraq. As a regulatory body, the OGPCP is not involved in conducting procurement activities or approving procurement decisions.

- 15.2.2 The main functions of the OGPCP are:

- (i) policy, which includes provision of procurement regulations and administrative instructions, and the recommending of amendments to procurement law and other related laws;
- (ii) regulatory, which includes issuing standard documents, establishing rules for an independent tribunal to have jurisdiction over complaints and disputes relating to the award of public contracts, and the development of standard government public contract provisions;
- (iii) capacity building, which includes developing capacity building plans for human resource development in public procurement.

Figure 2: Institutional framework for public procurement



15.3 PROCURING ENTITY

15.3.1 “Procuring entity” is the term used to define all government bodies conducting public procurement. It includes ministries, departments, agencies, statutory bodies and parastatal organizations, including state owned enterprises.

15.3.2 Procuring entities are responsible for managing their own procurement activities, in accordance with the law. In the context of this manual the procuring entity is the implementing agency for a project or a sub-project.

15.4 APPROVALS COMMITTEE

15.4.1 Each procuring entity must appoint a qualified government agency or committee, which shall have the authority to enter into obligations using public funds. In this manual this is referred to as the “implementing agency approvals committee” (IAAC)¹⁸. Further details for the IAAC may be released with future procurement regulations issued by the OPGCP.

¹⁸ As at the time of writing this body had yet to be nominated a particular title.

15.4.2 The IAAC's main authority includes:

- obligation of government funds;
- award of public contracts;
- signature of public contracts;
- modification of public contracts;
- payment of public contracts; and
- payment of claims.

15.5 CONTRACTING OFFICE

15.5.1 Contracting offices are responsible for conducting all procurement activity, in consultation with users and subject to approval of the approvals committee. The precise role of the contracting office will vary but includes the management of all procurement for the procuring entity where the procurement is funded by public funds, in addition to acting as a secretariat to the approvals committee.

15.6 USERS

15.6.1 Although not defined by law, within each procuring entity, users are responsible for initiating procurement requirements and preparing technical descriptions of their requirements. Users will often be called on by the contracting office to provide technical inputs, particularly to evaluations. The user may also be assigned responsibility for the day-to-day administration of contracts, particularly for services and works. Although the procurement process is managed by the Contracting Office, this will always be done in consultation with the user, to ensure the user needs are met.

16. PROJECT IMPLEMENTATION

16.1.1 In addition to the normal stipulations for procurement for an entity, arrangements for project procurement have additional complexity and the need for consideration of several issues.

16.1.2 In the following sub-sections are described approaches to procurement planning and recording of progress which are very much facilitated by computer applications. These can be proprietary products, or developments of more simple office products for example:

- project management software such as Microsoft Project or Primavera;
- procurement management modules of proprietary software;

- in-house developed database or spreadsheet solutions providing procurement records for tracking, management information and reporting purposes.

16.2 PROCUREMENT PLANNING

16.2.1 This subsection deals with overall procurement planning. The subject has been introduced in Chapter Three, section 11, Project Planning, where the importance of linking procurement planning with project planning was stressed. The planning necessary for an individual procurement transaction is covered in volume 2, stage 3. Here a methodology for overall procurement planning is provided, together with arrangements for annual update.

Master Project Plan

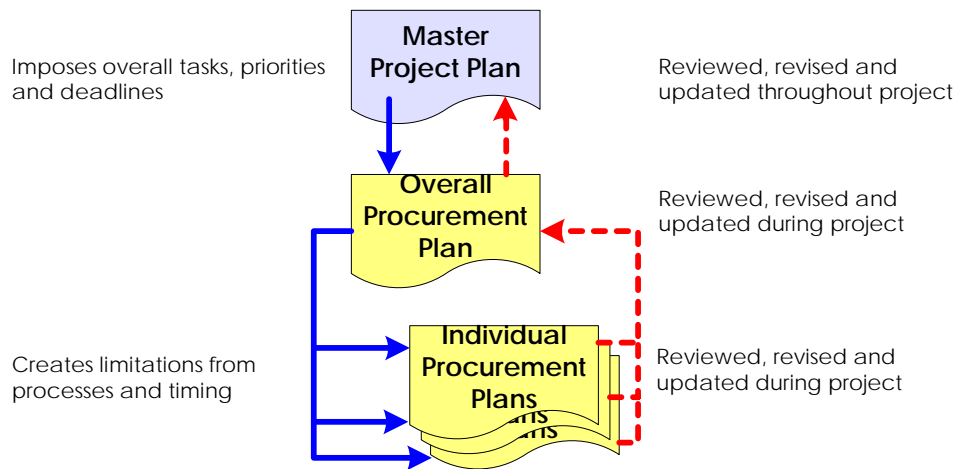
16.2.2 The project plan that emerges from the design phase of the project cycle will provide the overarching schedule of tasks, inputs, and timescales for achievement of outputs. Most projects entail some level of procurement of inputs (goods, services or works). The master plan will identify these and set key parameters of budget, priorities and targets, which will form the basis of the overall procurement plan.

16.2.3 Planning is essential for estimating workloads and allocating resources. Procurement planning enables the implementing agency to plan, organize, and schedule its activities. Procurement plans should not be static, but updated on a regular basis. They should be integrated with financial planning and conducted as part of the annual budgeting process and updated at key stages of the budget year and at regular stages of the project.

Overall Procurement Plan

16.2.4 The overall procurement plan will include a time based summary of the key tasks with their corresponding input requirements, expanding the detail to translate these into a prioritized schedule for the various procurement processes, complete with deadlines for completion. It is this overall procurement plan that the procurement manager will seek to manage and the project manager should monitor closely.

Figure 3: Plan review and revision



16.2.5 The overall procurement plan therefore, reflects the priorities and timescales of the project. Ideally, these will match with the timescales for the individual procurements. However, there will be transactions that fall outside the timescales required by the master project plan and priorities will differ as will the solution to resolve these. Additionally, as circumstances or priorities within the master plan are necessarily modified or changes made to better achieve objectives, these may impact negatively on individual procurement plans either requiring a rescheduling of tasks or resources to accommodate.

Figure 4: Simplified overall procurement plan (Gantt format)

ID	Task Name	Duration	Year 1				Year 2				Year 3				Year 4							
			M1	M3	M5	M7	M9	M11	M13	M15	M17	M19	M21	M23	M25	M27	M29	M31	M33	M35	M37	
1	task 1	95 days	█																			
2	Inventory Identification	60 days	█																			
3	Listing basic and long terms needs	10 days		█																		
4	Specification drafting	25 days		█																		
5	Drafting TORs Procurement Assistance	10 days			█																	
6	Planning procurement schedules	10 days				█																
7	task 2	715 days	█																			
8	Tender for Procurement Assistance	110 days	█																			
9	Procurement Assistance - Contract Period	590 days	█																			
10	Contract expiry	0 days																			04/01	
11	task 3	581 days	█																			
12	Procurement of emergency needs	213 days	█																			
13	Shopping- Consumables & basic equipment	66 days																				
14	Shopping - drugs & medicines	66 days																				
15	Estimated Contract deliveries	60 days																				
16	Goods available for issue	30 days																				
17	Procurement of reconstruction needs	449 days																				
18	ICB - Medicines & drugs	200 days																				
19	ICB- Consumables	200 days																				
20	NCB - Repair of emergency facilities (8 Sites)	120 days																				
21	Estimated Contract deliveries	159 days																				
22	Estimated Works (8 Sites)	183 days																				
23	Goods available for issue	20 days																				
24	Works completed	10 days																				

Compilation of an Overall Procurement Plan

16.2.6 The primary data for the overall procurement plan is derived from the master project plan. This will comprise:

- the key procurement tasks to be accomplished;
- a list of key project tasks linked to the procurement priority deadlines;

- the timescales to be achieved for the key procurement tasks;
- the estimated budget to perform these tasks;

16.2.7 The key procurement tasks will need to be examined and broken down into component parts to determine the procurement to be identified in detail. This will require discussion with users project personnel to determine all components are identified. A sub component of a project to rehabilitate a damaged hospital may require the procurement of:

- (i) consultants (by national RFP) to assess and quantify the building damage to be repaired and draft necessary bidding documents;
- (ii) works (by NCB) for the building repairs to the hospital budgeted at USD3.4M;
- (iii) medical specialists to provide a list of basic equipment and consumables required to return the hospital to full operational status;
- (iv) medical consumables and equipment (by ICB) budgeted at USD9.3M.

16.2.8 The sequencing of these sub-components would need to be determined, in particular the tasks and sub-task that are linked and dependant on other tasks or sub-tasks. In the example above the procurement of works could not be commenced until the consultants had assessed the damaged building and quantified the repairs and drafted the necessary bidding documents (to commence the procurement process). This in turn would impact on the ability of the hospital to take delivery of consumables and equipment to be procured by ICB.

16.2.9 Once the sequencing of these tasks and sub-tasks has been determined, individual procurement plans for each sub task could be drawn up to ensure that the parameters and targets of the master project plan can be met. The overall procurement plan should include a list of all expected contracts for goods, works and services and the following information should be included for each:

- a breakdown of the items/listings to be included in each contract;
- estimated prices for each item/list/lot including estimated ancillary costs for freight, insurance, delivery, reimbursables etc;
- expected funding for each procurement requirement;
- a timetable of when the goods, works or services are required, including any requirement for phased deliveries or a precise date, when a contract is required to be in place prior to the expiry of another contract e.g. where a contract for ongoing services, such as consultancy services, is due to expire;

- expected sources of supply for the goods, works or services, including an assessment of whether procurement will be local or international;
- expected method of procurement for each procurement activity/contract;
- anticipated timetable for conducting the procurement process, including any pre-qualification required, and expected delivery period, installation, mobilization or completion times, as appropriate;
- proposed contracting approach for each requirement e.g. lump sum contracts, time based, ad measurement, etc.

16.2.10 Based on the information for each contract, summary information should be calculated, relating to the overall procurement workload, program and budget. This should be related to the existing resources in the PMT, both physical and human, and any recommendations for changes in resources made. The overall procurement plan should also identify any requirements for specialist resources, such as technical specialists for preparing specifications or conducting technical evaluations.

16.2.11 Where the procurement plan shows that targets and deadlines of the master project plan cannot be achieved, the specific areas need to be identified and possible solutions sought. The solutions may be to reschedule certain other tasks/sub tasks that do not impact on the master project plan, re-prioritize other tasks or sub tasks or plan (and budget for where necessary) increased resource or a combination of these.

Revising the Overall Procurement Plan

16.2.12 Throughout any project there is a need to constantly review the master project plan and the overall procurement plan to incorporate changes that will or may affect the multitude of tasks underway. A delay in one small task early in the project may have a significant impact on several other later tasks, which may threaten to destabilize the performance of the whole project. It is important that the are identified and resolved as early as possible.

16.2.13 Revising the overall procurement plan will be necessary as a result of changes to:

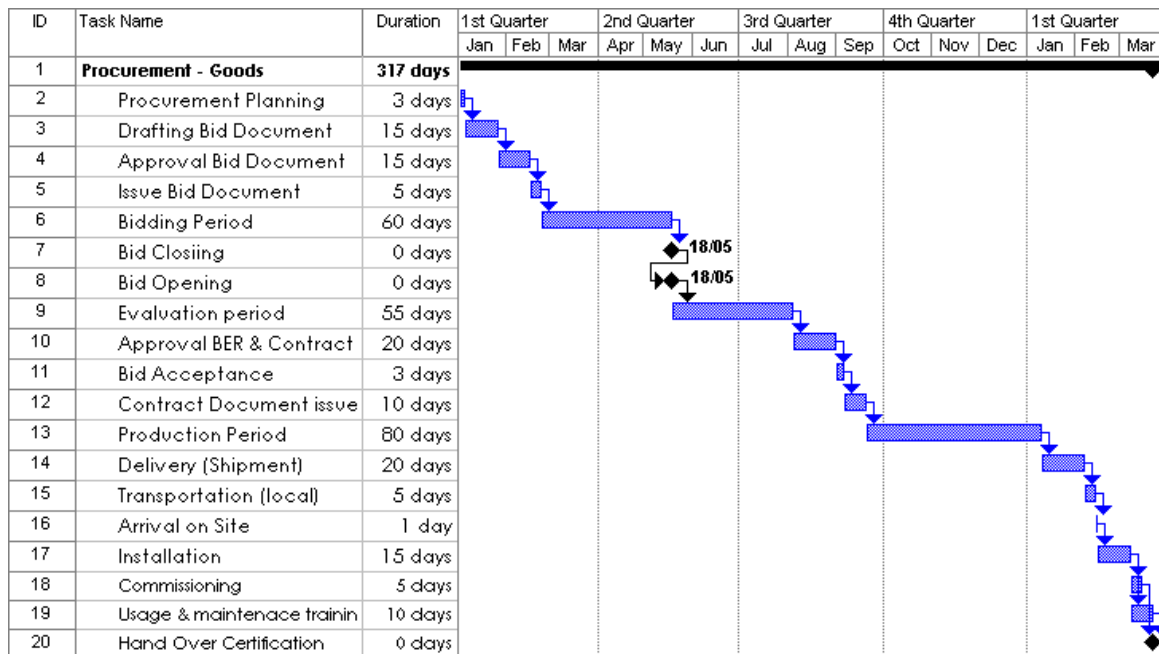
- the master project plan, where priorities may need to be modified at times,
- the individual procurement plans where delays may have occurred or deliveries/works may have been completed early;

Individual Procurement Plans

16.2.14 Planning for an individual procurement is covered in the procurement procedures (volume 2). The method will impact on the plan. An ICB procurement procedure is obviously more complex than a shopping exercise.

Therefore, bidding process will have a much greater impact on any plan. It is important also to incorporate within the plan the post-contract timescales, in particular those for the production or delivery period, as well as local transportation, a period for arrival and where appropriate project stores receipting, checking, and installation or distribution or issue of items/equipment to the users.

Figure 5: Individual procurement plan – example (Gantt format)



16.2.15 In the example shown above the additional tasks may be outside the contractual responsibility of the supplier of the equipment/items but these are tasks that should be included in individual procurement plans as they form an integral part of the project and its implementation. Individual procurement plans should be monitored constantly by the procurement staff for indications of delay or advances in schedule projections.

Procurement Plan Conflicts

16.2.16 It is not unusual for deadline and resource conflicts to arise between individual and overall procurement plans and overall plan and master project plan.

16.2.17 The master procurement plan dictates the project limits that need to be worked within and these, coupled with the sequencing of tasks and the length of tasks (which may be governed by non project as well as project rules), will often be the source of difficulties to project and procurement managers. The essence of these plans is for the holder responsible for the plans to be able to see clearly the scope and magnitude of the numerous tasks to be performed for the project over the complete project period, so that correct resources can be identified and allocated at the appropriate time.

16.2.18 Additionally plans need to display the sequencing of all tasks in order that tasks follow logically and identify the critical path. In the examples used above the identification of inventory needs in the damaged hospitals must be completed prior to drafting the bidding document for the necessary consumables and equipment for the hospitals. Likewise the building repairs to the hospitals must be complete prior to the delivery of the equipment resulting from the ICB procurement activities (or alternative storage arrangements and additional funding to meet the costs for alternative storage for the equipment must be located). Normally, the procurement manager is responsible for the monitoring of performance of the overall procurement plan and other procurement personnel ensure that the schedule for an individual procurement is maintained.

16.2.19 The importance of project and procurement planning and regular reviews cannot be understated. Good planning reduces significantly the occurrence of crisis or emergencies and provides a beneficial work ethic for the personnel associated with the project. It promotes personal and professional efficiency and project teamwork, all essential components of successful projects.

16.3 PROJECT MANAGEMENT TEAM

IAAC Oversight

16.3.1 The Bank's intention is for projects to be integrated to the implementing agency, avoiding parallel or duplicating systems as far as possible. Nevertheless, a project requires project management resource with overall responsibility for delivering the project, herein called the project management team (PMT). The scope and scale of the PMT will vary depending on the size and complexity of the project. The relationship between the PMT and the agency's other functions will need to be determined:

- communication arrangements with the IAAC;
- documentation that is to be submitted to IAAC prior to review by the Bank;
- the expected frequency of IAAC meetings;
- OGPCP involvement;
- whether the IAAC have any additional requirements or conditions in respect of project procurement.

Other Interfaces

There also needs to be clarity in the interface between the PMT and the contracting office and the financial management function within the implementing agency.

- 16.3.2 Upon clarification of these points the scope of activity of the PMT can be defined and the approval processes that will apply to its activities under the project finalized and build into its operational procedures.

Procurement Thresholds

- 16.3.3 The credit/grant agreement will define the procurement thresholds for procurement methods to be used for the project. Additionally, the project manager should agree and issue in writing a schedule of delegation to provide thresholds for duties to be performed by PMT members.

Correspondence/Communications

- 16.3.4 Correspondence issued from the PMU may have implications of committing the implementing agency or binding it to a course of action with legal, contractual or financial implications. Further, correspondence and communications provide a key medium in the management of the PMT relationships with its suppliers and other bodies. All correspondence and communications issued by the PMT should be made by persons authorized to do so in accordance with their duties and responsibilities or delegated authority.

Documentation/Records

- 16.3.5 Proper documentation, whether stored in hard copy or electronic format, provides an essential basis for the PMT management and operation. It provides the appropriate audit trails for the transparency, accountability and effectiveness of the operations.
- 16.3.6 In general, the PMT are responsible for ensuring that there is appropriate and relevant documentation in support of any and all transactions and/or activities for which they are responsible or which they authorize.

Filing/Record Management System

- 16.3.7 Efficient records management is essential to ensure cost-effective storage, retrieval and use with due regard to security, integrity and confidentiality. The PMT are responsible for ensuring that appropriate and proper documentation is maintained for the transactions handled, consistent with the records management system maintained by the PMT.
- 16.3.8 It is crucial to any record management system that the PMT holds in their files exact hard copies of all documents sent to bidders and suppliers so that in any dispute a response can be determined by the PMT, based upon the precise documents on which the supplier/bidder is basing their dispute.

16.4 RECORDS OF PROCUREMENT/CONTRACT MANAGEMENT

Period of Record

- 16.4.1 The PMT will need to maintain records of bidding proceedings and contract management for a minimum period of 2 years¹⁹ from the closing date of credit or grant agreement. If a contract is challenged or involves a dispute or is expected to involve a dispute, the records should be kept for a longer period or until the completion of the settlement of the dispute.

Organization of Records

- 16.4.2 The record needs to encompass the complete process of acquisition, from the identification of a requirement through to the closure of the file after delivery and payment. Practically, this results in a succession of different but interlinked files and box files being maintained. Typically, an ICB for a goods procurement may result in the following file organization:

Table 3: Typical file organization

Step	Procurement Stage	File
Requisition		
1	Individual procurement plan	Procurement File
2	Development of estimate including all costs (inspection, shipping, customs, clearance etc).	Procurement File
Specification Development		
3	Preparation of schedule/item specifications	Procurement File
Bidding Document/ITQ Preparation		
4	Procurement strategy for bidding	Procurement File
5	Preparation of bidding document	
6	Price of bidding document (i.e. for sale to bidders)	
Advertising		
7	Preparation/publication of tender notice	Procurement File
Bidding		
8	Distribution/sale bidding documents	Procurement File – bid securities would be recorded on file but kept in a safe
	Requests for clarifications and clarifications issued	
	Bid Documents Amendments	
9	Public Tender Opening/Approval of Minutes	
Evaluation of Bids		
10	Determination of evaluation team (i.e. team to conduct evaluation and prepare report)	Procurement File - at this stage the procurement file can contain several bids but the final document on the file should be the evaluation report and its associated approvals/No Objection from the Bank.
	Requests for clarifications and clarifications received	
11	Approval of evaluation report and recommendation of award	
Contract Award		
12	Approval of award notification document	Contract File - it is possible for more than one contract to result from one bidding process. Each resulting contract should have its own file in which to record contract performance. The first document on the contract file should be the bid acceptance to the bidder followed by the signed contract document.
13	Approval of contract document	
14	Contract signature (i.e. committing PMT/implementing agency to a contract)	
15	Receipt of performance security and return of bid securities	
16	Letter of credit (L/C) application	
Contract Performance Management (pre-delivery)		
17	Contract amendments	Contract File
18	L/C amendments	
19	Approval of clearance & delivery expenses	
Contract Performance Management (post-delivery)		

¹⁹ Or to correspond with relevant limitation periods for legal proceedings, tax audits etc.

Step	Procurement Stage	File
20	Issue of acceptance certificate	Contract File
21	Payment of supplier invoice[s]	
22	Contract close-out	
23	Performance guarantee claim[s]	
Post-Delivery Services		
24	Warranty claim[s]	Contract File
25	Performance guarantee return	

Content of Procurement Records

16.4.3 All bidding records maintained by the PMT should contain at least the following documents, where appropriate:

- the request that initiated the procurement activity (requisition) from the user;
- a copy of the published advertisement(s) or shortlist of suppliers;
- a copy of the pre-qualification document and pre-qualification evaluation report (as applicable) and invitation to bidding/proposal invitation or invitation to quote and any amendments or clarifications requests;
- the records of bid closing and bid openings;
- copies of all bids evaluated and any clarifications requested from bidders and responses received;
- the evaluation report including the recommendation of award;
- minutes of any meetings related to the procurement, including pre-bid and negotiation meetings;
- all documents approving and authorizing certain tasks including all submissions to and all decisions of the project manager;
- copies of all No Objections from the Bank (as applicable);
- copies of all other communications from bidders, suppliers, contractors or providers in relation to the procurement/contract, in particular any bid and securities (originals to be stored in a safe) and record of their return.

Content of Contracts Records

16.4.4 All contract records maintained by the PMT should contain the following documents:

- the notice of acceptance to the supplier;
- the signed contract document including any signed contract amendments;
- all post contract documentation relating to the fulfillment of contract obligations in particular photocopies of performance securities or advance payment guarantees (originals kept in a safe);

- minutes of any meetings related to the contract management, including contract progress or review meetings including any meeting held with the supplier;
- all delivery documentation evidencing deliveries of supplies or completion certificates in relation to contracts for services or works under the contract;
- copies of all invoices for goods including papers verifying the accuracy of payments claimed and details of the actual payment authorized;
- copies of cumulative payment worksheets evidencing management of all payments made;
- copies of any claims made by the PMT in respect of any warranty, non warranty, short supply, damage and other claims upon the supplier or upon the PMT;
- all correspondence between the PMT and supplier/contractor; and
- all documents authorizing certain tasks, including all submissions to and all decisions of the project manager authorizing particular tasks and any decisions related to the contract management.

Records Management

16.4.5 For all records the following should be complied with:

- (i) Each procurement file should be separately numbered with the reference number allocated to it from the procurement register;
- (ii) Each contract file should be separately numbered with a reference number derived from the procurement file reference number and recorded from the contract register. This provides an audit trail for financial and accounting purposes but also for procurement audit reasons;
- (iii) All papers on each procurement or contract file should be filed sequentially so as to facilitate the complete chronology of the procurement and contract process;

16.4.6 Consideration should be given to the electronic capture (scanning) of key documents at the start of the project. The GOI may require the PMT to retain copies of important procurement and contract documentation off-site in a secure, fireproof location. In any case this is a prudent measure to be taken by the PMT.

17. PROCUREMENT AND CONTRACT PROCESS CONTROL

17.1 PURPOSE OF A CONTROL SYSTEM

- 17.1.1 Whilst paper based records can be used, as mentioned at paragraph 16.1.2, computerized tools for the control systems give greater flexibility in terms of compiling data and management information. These need not be complex systems and a development of a spreadsheet application would be adequate. In this section a series of descriptions of suitable procurement records are made, with representations of the desired data input/output.
- 17.1.2 The purpose of a procurement control system is to be able to control the key activities of the procurement process throughout the project, to ensure:
- (i) any procurement activity undertaken has been authorized by the correct project authority prior to commencement of any associated work;
 - (ii) administratively that each activity of the project that requires procurement action is recorded into a register so that it can be identified as a specific activity,
 - (iii) each procurement activity is provided with a unique identifier for clear identification throughout its life, particularly important during commitment and payment stages;
 - (iv) adequate monitoring of activity from its procurement through to its contract thereby providing a control and an audit trail.

17.2 MINIMUM PROCUREMENT AND CONTRACT CONTROL

- 17.2.1 There are two forms of control that are the minimum arrangement and consisting of separate registers held by the project manager and through which the control is exercised. These are:
- (i) *procurement register* - in which any activity requiring procurement should be registered. This should be updated on a daily basis by the project manager. Such a register provides information on the total authorized load on the procurement section;
 - (ii) *contract register* - effectively an extension of the procurement register, recording the complete list of all contracts placed. Its information is crucial as this register should contain the full list of commitments against project funds.

Content of the Procurement Register

- 17.2.2 The procurement register would typically include only the key summary information relating to each piece of procurement. This would normally cover data recorded on both a horizontal and vertical basis. Vertically the information would relate to the actual key data of the procurement while horizontally the data would relate to that of the actual requirement.
- 17.2.3 The procurement information would normally include:

- procurement reference number allocated to the requirement;
- lot number also allocated to the procurement of part[s] of the requirement;
- the date the requirement was received in the PMT;
- the project component against which the requirement will be actioned;
- a brief, general description of the requirement;
- the anticipated cost or budget that has been allocated to the requirement;
- the procurement method that will be applied to the requirement;
- the type of Bank review that will apply to the procurement method.

17.2.4 The procurement register therefore, provides the manager with a complete list of all procurement being undertaken and with a list of work against which project reports and tables can be cross-checked. The register enables the manager to verify the authority to commence any particular procurement prior to any actual work being commenced. The register also provides a total of the estimates of all requirements (a simplified process if kept in spreadsheet form). A sample of such a procurement register is illustrated at Table 4 below.

Table 4: Example of a procurement register

PROCUREMENT REGISTER							
Ref #	Lot	Date	Project	Description of procurement	Estimate	Proc	Bank
		receipt	Component		USD	Method	Review
30040		30-Sep-04	PMU	Office equipment	25,000	IS	Prior
30041		30-Sep-04	PMU	Vehicles	54,000	IS	Prior
30042		10-Oct-04	Schools rehab	School Furniture	1,500,000	NCB	Prior
30043		12-Oct-04	Schools rehab	School Textbooks (Primary)	980,000	NCB	Prior
30044		12-Oct-04	PMU	Office Computers	47,000	IS	Prior
30045		24-Oct-04	City Drainage Impr	Consultancy Pump Specialist	120,000	CQS	Post
30046		29-Oct-04	Schools rehab	Computers	1,890,000	ICB	Prior
30047	/A	01-Nov-04	University Med College	Medical equipment	470,000	ICB	Prior
30047	/B	02-Nov-04	University Med College	Emergency Medical Supplies (2004)	90,000	IS	Prior
30047	/C	03-Nov-04	University Med College	Forecasted Medical Supplies (2005)	700,000	ICB	Prior
30047	/D	04-Nov-04	University Med College	Office equip,computers & consumables	60,000	IS	Prior
30047	(/E)		University Med College	No bid items from Lot B.	3,000	Direct	Post
30048	/A	11-Nov-04	City Public Works Dept	Repair of municipal school roads	150,000	NCB	Post
30048	/B	11-Nov-04	City Public Works Dept	Repair of municipal school fence	900	Direct	Prior
30049		12-Nov-04	City Sanitation Dept	Water treatment chemicals	480,000	NCB	Prior
30050		16-Nov-04	Regional School South	Office furniture	36,000	IS	Prior
30051							
30052							
30053							
30054							
				Budgeted USD(equiv)	6,605,900		

17.2.8 The contract register is illustrated in Table 5 and in a spreadsheet application would be located on the same worksheet and alongside the procurement register (Table 4) providing the linkage between the two registers at the individual requirement level. Additionally, the contract register can provide (on its right, but not shown above) a breakdown by component should this be required at this stage of the project by the project manager.

Review Using the Procurement and Contract Control System

17.2.9 This basic procurement and contract control system should be used to manage the incoming workload and control the workload processed by the procurement resources. It should be reviewed regularly on at least a weekly basis by the project manager, involving the procurement manager.

17.2.10 New requirements should be entered in the procurement register as soon as they are known. Possible requirements may be included as these represent workloads that may need to be factored into future workload calculations. Procurement requirements or contract entries should not be deleted, but annotated when all action has been completed.

18. PROJECT MONITORING TABLES

18.1 PURPOSE OF PROJECT MONITORING TABLES

18.1.1 The purpose of any project monitoring system is to monitor and report on a regular basis the current status of all procurement and contract activities being conducted and to provide an overview of project activity. This assists with the management and planning and the efficient scheduling of resources. The project monitoring tables described in this section are the means by which this is achieved.

18.2 TYPES OF PROJECT MONITORING TABLES

18.2.1 Whilst various computer software project management applications are available a basic procurement and contract monitoring system can be adequately and efficiently managed by a spreadsheet-assisted system, updated on a weekly basis by the PMT personnel. There are essentially two types of basic reports that are recommended for standard project monitoring presented. These are:

- procurement monitoring table, reporting the status of each piece of procurement up to the stage of contract award;

- contract monitoring table, reporting the progress of each contract placed i.e. from contract placement.

18.2.2 These tables permit the monitoring of actual progress against planned progress for each individual piece of procurement and each contract, to enable slippages and delays to be identified and for measures to be taken to resolve the delay or slippage.

18.2.3 Two additional reports are recommended, which allow a general review of the project:

- project and component performance summary;
- project component sheet.

18.2.4 Both should be constructed on spreadsheet formats to automatically transfer and collate data from the component contract breakdown sheets.

18.3 CONTENT OF PROCUREMENT MONITORING TABLES

18.3.1 The procurement monitoring table should be split into four tables to permit separate reporting of the:

- procurement of goods;
- procurement of works;
- selection of consultants;
- other²⁰.

18.3.2 The tables record the following information:

- reference number of the procurement
- lot number of the procurement;
- general description of the items/works or services to be procured;
- estimated cost or budget for the procurement;
- procurement method being used for the procurement.

18.3.3 The middle section of the procurement monitoring tables record the status of the procurement against each entry. These differ slightly for the selection of consultants but generally permit the recording of:

- the deadlines originally planned for each stage of the procurement process; and
- the actual stage reached in the procurement process;

²⁰ Such as cases of supply and installation, physical services and/or community driven sub-projects (which may include a mix of categories).

and the table records:

- the type of Bank review the procurement is subject to; and
- any specific comments or notes against each procurement entry.

18.3.4 The table completed will therefore, provide a full summary of the status or current progress of all procurement activities currently being actioned.

18.4 CONTENT OF THE CONTRACT MONITORING TABLES

18.4.1 The contract monitoring tables would include key data and information summarizing the current status of each contract placed. Vertically the information would relate to the procurement status while horizontally the data would relate to that of each contract placed. The contract information would include a listing of the main procurement activities;

- contract reference number allocated to the contract from the contract register;
- a general description of the content of the contract (items/works or physical services);
- contract currency[ies];
- actual contract value or total (or value in different currencies);
- exchange rate used to convert to the currency of the credit/grant;
- contract totals in the currency of the credit;

18.4.2 The “stage” of contract section of the table requires the following information to be recorded:

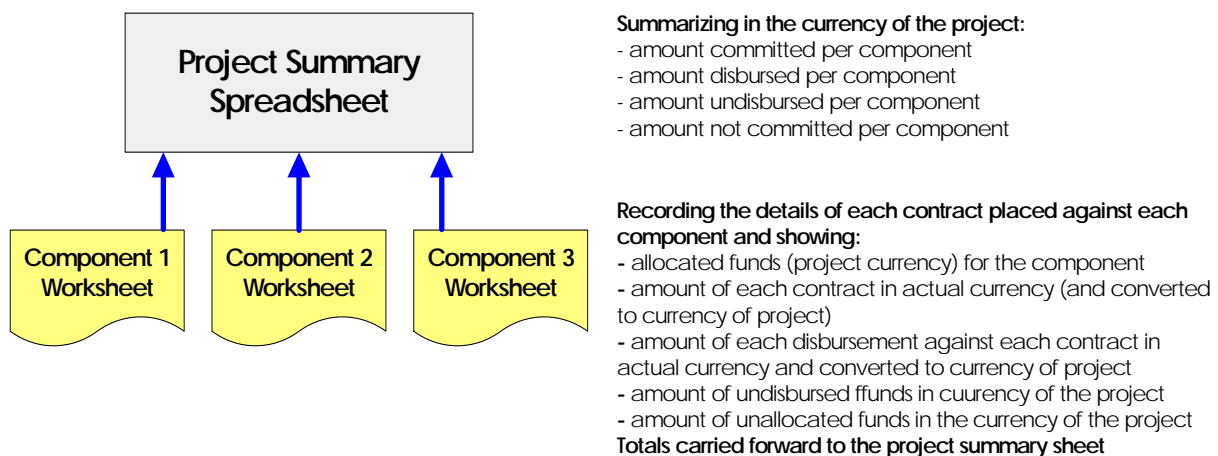
- date of contract effectiveness;
- date of the first delivery/milestone or output expected against the contract;
- dates of the subsequent deliveries/milestones or outputs expected against the contract;
- date that payments will be completed;
- date of warranty expiry (this is usually the last contract obligation to fall due);
- any specific comments/notes to explain or highlight against each contract entry.

18.4.3 The table completed will therefore, provide a full summary of the status and current progress of all contract activities currently being actioned.

18.5 REVIEW – PROCUREMENT AND CONTRACTS MANAGEMENT MONITORING TABLES

- 18.5.1 The procurement and contract monitoring tables should be used to monitor the progress of all individual procurement and contract activities throughout the course of the project to determine and resolve delays, shortfalls and other problems identified.
- 18.5.2 Both tables should be regularly examined by the project manager and reviewed with the procurement staff, and
- (i) new requirements should be entered as soon as they are known and authorized and possible requirements included also as these represent workloads that will need to be factored into future workload calculations.
 - (ii) past or completed requirements should not be archived until every procurement action is complete (including the settlement of any outstanding warranty, short shipment or insurance claims and the return of any performance or advance payment Bank Guarantees).
- 18.5.3 Actual procurement and contracts monitoring tables for a specific project will need to be customized to reflect the specifics of each individual project. For certain projects it may be anticipated that there will be a large proportion of procurement of goods, the selection of a small number of consultants' services but no procurement of works envisaged. These tables can therefore be constructed at the commencement of the project with this in mind.

Figure 6: Project and component performance summaries



18.6 CONTENT OF THE PROJECT AND COMPONENT PERFORMANCE SUMMARIES

- 18.6.1 At the commencement of any project there is a need to establish a mechanism to continually monitor the financial status of procurement work to ensure that the overall budgets within the project are not exceeded. Typically one project component may require the placement of, possibly, ten or more contracts, each in different currencies (or potentially contracts in more than one currency). It is crucial that there is a means to monitor this total commitment to individual

project and component budgets (or allocations) to ensure that there is a control of total overall commitment.

18.6.2 This can be achieved with a project and component performance summary (see Figure 6), which utilizes spreadsheet tables to collate automatically information received from the basic data entered in the component spreadsheets. The project performance summary outlines the overall financial status of the project by showing the project allocation of each component against the achievements of the project represented as the component commitments, component disbursements, alongside the uncommitted and undisbursed sums by component. Only an intermediate level and knowledge of the use and versatility of spreadsheets is necessary to work or even customize these spreadsheets. The spreadsheet can be developed to automatically produce three graphics to illustrate the following:

- breakdown of the total project allocation, (including any contingencies and interest);
- breakdown of the total project allocation against total project commitments and total uncommitted funds;
- breakdown of the total project disbursements against total project commitments and the total undisbursed sums.

18.6.3 These three tables therefore, permit an overview of the complete status of the project by commitment and by disbursement, to determine the general progress of the project at each review. The project and component performance summary also calculates, in percentage terms, progress of each of the primary indicators as follows:

- percent of component allocation that has been committed;
- percent of component commitment that has been disbursed;
- percent of component allocation that remains uncommitted;
- percent of component commitment that is undisbursed;
- percent of total project allocation that has been committed;
- percent of total project commitment that has been disbursed;
- percent of total project allocation that remains uncommitted;
- percent of total project commitment that is undisbursed.

18.6.4 Further significant percentages can be calculated such as the percentage of total spending (disbursed and/or committed) as a percentage of allocation.

18.6.5 The review of this table should include preparation of a narrative report to summarize the current status of the project and progress made since the previous review for line management and project board purposes. Actual project and component performance summaries for a specific project will need

to be customized to reflect the specifics of each individual project. For certain projects it may be anticipated that there will be goods contracts in more than one currency. These tables can therefore, be constructed with additional contract or currency columns so that actual procurement data is captured and included in the overall spreadsheet for the project.

18.7 CONTENT OF THE PROJECT COMPONENT SPREADSHEETS

18.7.1 The project component sheets are formatted on spreadsheet tables collating and totaling information received from the basic data entered within the component sheets. Vertically each component sheet is split into four main column sections relating to (there is a fifth column for any general notations):

- Activities and Contracts,
- Allocation,
- Commitments; and,
- Disbursements.

18.7.2 Horizontally each component sheet is divided into activities or sub components under which the various contracts (and any contract amendments) are listed.

18.7.3 This form of project reporting provides a degree of beneficial control and forward monitoring of commitments against allocations during initial stages of a project. It enables forward planning during initial project implementation, when few disbursements have been made. Where a large proportion of contracts are placed in currencies other than the credit/grant currency and with widely fluctuating exchange rates the accuracy of the project and component summary table yields project data that is within a tolerance of ± 5 to 7%.

18.7.4 Measures can be taken to increase the accuracy by including under the disbursement equivalent column the actual amounts of each disbursement in the currency of the credit/grant once known and dispensing with the amount converted using the exchange rate entered.

18.7.5 Additionally, the advantages of being able to compare a contract disbursements total for each contract to a total contract commitment is an advantageous cross check on the individual management of each contract. Towards the later stages of a project reporting based on actual disbursements assumes greater importance and reliability and the commitment becomes a less significant parameter.

18.7.6 It is suggested that a total of ten component sheets are included in the basic draft. These sheets and their entries on the project and component summary table may be deleted where there are less than 10 components to a project.

Activity and Contract and Allocation Sections

18.7.7 At the commencement of the project each component sheet is completed to reflect the details of the activities of each component in accordance with the agreed breakdown of each project component. These details are entered under the 2 columns on the left of each sheet titled “activity and activity description”. Also, when known, the total allocated sum for each activity can be entered and this is totaled automatically at the bottom of the column to provide the total allocated sum for the component, which is automatically carried forward to the project and component summary table against that component.

18.7.8 Against each activity the details can be entered of each contract as it is placed. As a standard format this contract information is structured as partially illustrated below (Table 6):

Table 6: Example of contract information table

COMPONENT 1		
Act'y	Activity description	Allocation
	Contract & Ref	Credit Agrmt
		SDR
A	Sensitization Workshops	50,000.00
	Contract [30049/1] [Currency 1]	
	[Currency 2]	
	[Currency 3]	
	[Currency 4]	
	Amendment 1	
	<i>Contract Total SDR (Equiv)</i>	
	Activity total SDR (equiv)	
B	Phase 1 Training Workshops	75,000.00
C	Phase 2 Training Workshops	200,000.00
D	Certification Planning	35,000.00
E	Certification Examinations	145,000.00
	Allocation Total SDR	505,000.00

18.7.9 The structure of each horizontal entry is based upon the details of each contract placed under the activities of the component. The contract details permit up to four different contract currencies to be entered (where applicable) and provision for one amendment to contract to be entered. More amendments can be added if required by inserting an additional line but there is a need to ensure that the range of summation for the contract total includes any additional entries.

Commitment Section

18.7.10 Under the commitment section (Table 7) the vertical entries are made in the five column headings for each individual contract (or its amendments) as it is placed. As actual contracts can be placed in up to four different currencies (local currency and three foreign currencies), currencies and values are recorded in the first two columns of this section followed by the exchange rate to convert the contract currencies to the currency of the project (expressed in SDR) in order for the equivalent amount to be calculated in the following fourth column of the commitment section. This column enables all the contract amounts to be totaled and compared meaningfully to the total allocation amount (also in the currency of the project) on the project and component summary table. The fifth column under this section provides an activity total, which is automatically totaled at the bottom of the component sheet.

Table 7: Example of commitment section

COMPONENT 1		Type Component 1 description				
Act'y	Activity	Commitment				
	Contract & Ref	Actual	Actual	Exch rate	Equivalent	Activity Total
		Curr	Value	to SDR	SDR	SDR
A	Sensitization Workshops					
	Contract [30049/1] Curr 1	USD	19,000.00	1.00	19,000.00	
	Currency 2	EUR	5,000.00	2.90	1,724.14.00	
	Currency 3	IQD	2,000.00	9.00	222.22	
	Currency 4					
	Amendment 1					
	Contract Total SDR (Equiv)		20,946.36			
	Activity total SDR (equiv)					20,946.36
B	Phase 1 Training Workshops					
	Activity total SDR (equiv)					65,517.24
C	Phase 2 Training Workshops					
	Activity total SDR (equiv)					174,555.56
D	Certification Planning					
	Activity total SDR (equiv)					19,000.00
E	Certification Examinations					

	Activity Total SDR (equiv)				19,000.00
	Total Allocation				
	Total Commitment			308,019.16	308,019.16

18.7.11 Should any particular worksheet require expansion this may be achieved by increasing the component sheet using copy and paste functions of the spreadsheet of the five rows from Contract [Ref] to Contract Total SDR (equiv) to ensure that formats and formulas are reproduced correctly for the worksheet to function as intended.

Disbursement Section

18.7.12 Under the disbursement section (Table 8) the vertical entries are made in the five column headings for each individual disbursement as it is processed. Actual disbursement currency and value is recorded in the first two columns of this section followed by the exchange rate to convert the payment/disbursements currency to the currency of the project (usually USD) in order for the equivalent amount to be calculated in the following fourth column of the commitment section. This column enables all the disbursement amounts to be totaled and compared to the total allocation or commitment amount (also in the currency of the project) on the project and component summary table. The fifth column under this section provides an activity total, which is automatically totaled at the bottom of the component sheet.

Table 8: Example of disbursement section

COMPONENT 1		Disbursement				
Act'y	Activity	Disb Curr	Disb Value	Exch rate to SDR	Equivalent SDR	Activity Total SDR
	Contract & Ref					
A	Sensitization Workshops					
	Contract [30049/1] Curr 1	USD	4,000.00	1.00	4,000.00	
		USD	1,300.00	1.00	1,300.00	
	[Currency 2]	EUR	765.00	2.90	263.79	
		EUR	630.00	2.90	217.24	
	[Currency 3]	IQD	398.00	9.00	44.22	
	[Currency 4]					
	Amendment 1					
	Contract Total SDR (Equiv)		5,825.26			
	Activity total SDR (equiv)					9,825.26
B	Phase 1 Training Workshops					

	Activity total SDR (equiv)					21,651.72
C	Phase 2 Training Workshops					
	Activity total SDR (equiv)					125,309.33
D	Certification Planning					
	Activity total SDR (equiv)					5,300.00
E	Certification Examinations					
	Activity total SDR (equiv)					5,300.00
	Total Allocation					
	Total Commitment				167,386.31	167,386.31

18.7.13 Disbursement details in respect of letter of credit payments should be entered on receipt of the advising bank's notification of claims made/paid.

18.8 REVIEW - PROJECT AND COMPONENT PERFORMANCE SUMMARY TABLES

18.8.1 The project and component summary tables can be used to monitor the overall progress of the projects key parameters throughout the course of the Project. The key parameters summarized in this project and component performance summary tables are:

- total commitments entered into against the total allocations at a project and component level;
- total disbursements made against total commitments at a project and component level;
- total uncommitted funds against total allocations at a project and component level;
- total undisbursed funds against total commitments at a project and component level;

18.8.2 The summary tables should be reviewed regularly by the project manager.

19. CONTRACT COMPLETION, RECEIPT AND STORES

19.1 COMPLETING A CONTRACT

19.1.1 Detailed processes for completion (and terminating) a contract are given in volume 2. Payment and asset management needs a clear interface with

financial management and is dealt with under Chapter Five, sections 21.7 and 24.3 respectively.

19.2 RECEIPT AND STORES

Stores Function

19.2.1 These procedures assume that the implementing agency will already have arrangements for the receipt (and issue) of goods – i.e. a location[s] and procedures (hereinafter referred to as the stores function) – and that parallel systems should not be necessary. However, this is such an important part of the supply chain that this subsection lays down some principles.

19.2.2 Depending on the nature of the project detailed procedures may need to be revisited or written in order for the PMT to be able to take responsibility and report in accordance with the ITF requirements. This would need to describe the interface of stores with the project procurement and finance functions and the user departments. The procedure may need to differentiate between stock and non-stock items. Contract completion arrangements for services and works would also need to be elaborated and for the procedures to be clear for all staff involved. Stores-held records need to be updated and periodic stock-taking, stores audit and reporting to the asset register undertaken.

Who is Involved?

19.2.3 This function involves a number of parties:

- stores (or procurement) staff involved in the function of receipt, issue and record keeping for goods;
- user department staff involved in signing for the issue of goods from stores and in signing for partial completion and/or completion of contracts for services and works (not involving stores);
- finance staff in terms of entry on the asset register (see Chapter Five24.3);
- PMT staff in updating procurement and other records;
- finally, internal audit have a role in audit of assets/stores.

Receipt Policy Statement

19.2.4 Policy will be dependent on the project structure; for example whether it is being managed by a single implementing agency or has national and sub-national dimensions. A clear policy statement should be developed on whether all procurement will be centralized and whether all goods, (stock items, non-stock/capital expenditure items²¹) for the project should be received at a

²¹ There will be exceptions such as items received for direct installation e.g., air-conditioner.

central stores. For expedience there may need to be exceptions where owing to exceptional requirements or in order to take advantage of a suppliers inland transport arrangements, delivery will be arranged directly to the sub-national or decentralized destination. In these circumstances special arrangements must be made for receipt and updating of records, to which the principles contained within this section (e.g. update to asset register), will still apply.

Process and Documentation

Copy Contracts/Purchase Orders

- (i) It is good practice for stores to be provided with a copy of all relevant contracts/purchase orders. These should be filed numerically. Stores should attempt to estimate space requirements, alerting the line manager and the PMT if insufficient storage space is anticipated to receive projected deliveries.

Goods Received/ Goods Received Notice

- (ii) Information on inward consignments should be recorded. The following data is suggested:
 - Date;
 - Carrier;
 - Way bill number;
 - Supplier;
 - Contract/purchase order (if evident from delivery note);
 - Signatory to delivery note.
- (iii) Stores should inspect the consignment, preferably prior to any requirement to sign a delivery note. Otherwise the delivery note should be annotated “received in apparent good order but unexamined”. In the event of damage the delivery note should be so annotated. For severe damage to domestic supplied items consideration should be given to the consignment being refused. Advice of a refused consignment should be sent to:
 - the PMT who would update contract records and stop payment processing, expedite replacement items and consider noting any supplier records.
 - finance staff where adjustments to a creditor register are necessary;
- (iv) Otherwise for damaged goods the PMT should determine the sellers obligations to deliver goods and which party bore the risks under the terms (e.g. Incoterms) to which the contract was placed. PMT will pursue replacement and/or an insurance claim.

- (v) The consignment should be checked against the enclosed packing list and the associated contract/purchase order compared to the packing list, determining:
 - is the consignment in compliance with contract/purchase order?
 - is the contract/purchase order complete?
- (vi) Actions in response to these questions may be:
 - *no* - file in partial contract/purchase order file noting any discrepancies. Included in the file should be the purchase order and copy of the delivery note;
 - *yes* - file in completed contract/purchase order file. Included in the file are contract/purchase order and copy of delivery note. File by purchase order number.
- (vii) Stores should update the stores-held record and advise of receipt of goods.
- (viii) The officer signing the delivery note and raising the goods received note must not have been responsible for authorizing the original contract award/purchase order and may not authorize the related invoice for payment.
- (ix) Receipt should be advised on a goods received notice to the:
 - PMT and/or project procurement staff for update of the contract/purchase order record and validation of invoices;
 - project finance staff for update to the asset register
 - user department.
- (x) The PMT would liaise with the user-department and stores regarding the timing of issue, instructing stores to issue as appropriate. A goods issue note should be raised with users checking the goods issue note to confirm that the items specified have in fact been delivered in accordance with the stated content quantities. The user should sign for goods issued, noting any discrepancies. Users may be permitted to collect from stores subject to their signing for the issue but stores should not act on issue instructions that are not confirmed by the PMT.
- (xi) Stores should identify items in sufficient detail, including the invoice number (where this is shown on the delivery note), requisition and contract/purchase order number as far as possible at the time of preparation of the goods received note. Prior to issue difficulties of reconciliation should be resolved.
- (xii) Stores should update the stores-held record on issue.

Goods Received other than by stores

(xiii) Where goods are received by user, procurement unit or finance unit the delivery should be directed to stores. If this is not possible the PMT and stores must be advised of receipt. Stores should determine if items are on a purchase order. If:

- *no* – stores have no other involvement. The PMT/finance staff should investigate further and add items to the asset register as appropriate;
- *yes* – stores will request a delivery note, packing list and/or invoice from the receiver.

(xiv) Thereafter the normal receipt process would apply.

Services, Works

19.2.5 For receipt of services (including consultancy, IT services etc) and works (maintenance, repair, construction, installation etc), the user department should advise of stage completion or completion (or final acceptance), signing stage or acceptance certificates as per the contract and advising the PMT accordingly that payment is owing. Procurement staff will arrange supplier payments via the finance staff in accordance with the purchase order/contract and this manual.

Asset Register

19.2.6 The finance staff should receive notice of goods received and goods issued and update the asset register and allocate an asset identity code. The finance staff should from time to time, examine discrepancy reports for items of budgeted or ordered capital expenditure for which no fixed asset identity code has been allocated.

Stock-Take and Audit

19.2.7 Stores staff should undertake a stores-held review (stock-take) on a periodic basis and on an ad-hoc basis (in the event of any discrepancies being identified) and on instructions from the PMT. A report on the stores-held and the result of the stock-take should be advised to the PMT.

19.2.8 Internal audit should conduct an annual audit of stores-held, reconciling physical stores with the stores record. Ad-hoc audits may also be conducted at the discretion of internal audit. Discrepancies should be investigated and the audit updated from the findings. Discrepancies that cannot be resolved should be subject to the write-off procedure at the appropriate level of authority. Procedures should allow for disciplinary action to result from stores write-off.

CHAPTER FIVE FINANCIAL MANAGEMENT

This chapter describes the requirements for financial management for ITF funded projects, the ITF being administered by the Bank and subject to Bank operational policies and Bank procedures including reporting, principally financial management reporting, requirements.

The chapter is divided into seven sections, covering:

- Budget and budget execution;
- Accounting;
- Reporting;
- Banking and transfer arrangements;
- Internal control and asset control;
- Internal audit;
- External audit.

Importantly, in describing the financial management reporting, the procedure provides a link between the physical project progress, the procurement records and the financial status.

20. BUDGET AND BUDGET EXECUTION

20.1 BUDGET PREPARATION AND APPROVAL

20.1.1 This section explains how a project budget is prepared and approved as part of an implementing agency's budget, in accordance with GOI regulations and procedures. It is important to ensure that project planning and budgeting is fully aligned and integrated with the implementing agency's management systems.

Purposes

20.1.2 The purposes of budget preparation and approval are as follows:

- ensure that budgets reflect the goals and strategic priorities of the agency;
- reveal problems, enabling management to take early steps to solve them;
- inform all managers of what is expected of them and to provide a basis for coordination and control;
- motivate all officers involved in budget preparation and execution;
- provide a legal basis for spending.

Legal Framework and Status of the Implementing Agency

20.1.3 The laws affecting budgeting are as follows:

- Law No. 107 (1985) on Consolidated Government Budget, as amended by Law No. 48 (1990);
- Coalition Provisional Authority Orders and regulations in force, in particular Order No. 95, Financial Management Law, June 2004, Order No. 71, Local Governmental Powers and Regulation No. 7, International Donor Assistance;
- Public Accounting Law;
- Budget Implementation Manual.

20.1.4 The legal status of the implementing agency should be established. Is it legally part of the GOI or does it have 'autonomous' status under some law? What are the powers and authority of the agency, e.g. to design its own financial system, to approve its own budget, to raise revenues, to enter into contracts, to borrow funds, to open bank accounts, to have an overdraft, to provide guarantees, to establish its own accounting policies? What are its legal obligations, e.g. to provide staff and logistical support to the project, to establish effective internal controls, to keep accounts and render reports, to

have them independently audited? The legal framework should be reviewed and assessed against the supervising requirements of the ITF Administrator, and any problems that may arise should be discussed with the implementing agency and the relevant GOI authorities, and resolved.

Coverage

20.1.5 This manual covers projects in Iraq that are administered through the multi-donor Iraq Trust Fund. The trust fund finances investments and capital expenditures, including incremental recurrent costs directly related to the investment, and technical assistance and training. Projects must be consistent with the Bank's Articles, operational policies and the Country Assistance Strategy, be anchored in country policy/sector analysis, reflect lessons learned from the Bank's experience, be economically justified, and contribute to poverty reduction and sustainable economic growth.²² Projects are supported in the following 14 areas:

- Health;
- Employment creation;
- Water and sanitation;
- Transport and telecommunications;
- Electricity;
- Housing and land management;
- Urban management;
- Agriculture;
- Water resources and food security;
- Finance;
- State-owned enterprises;
- Investment climate;
- Government institutions;
- Macroeconomic management;

20.1.6 By law, all external assistance has to be integrated into the Iraqi national budget. This includes aid-in-kind as well as cash aid.

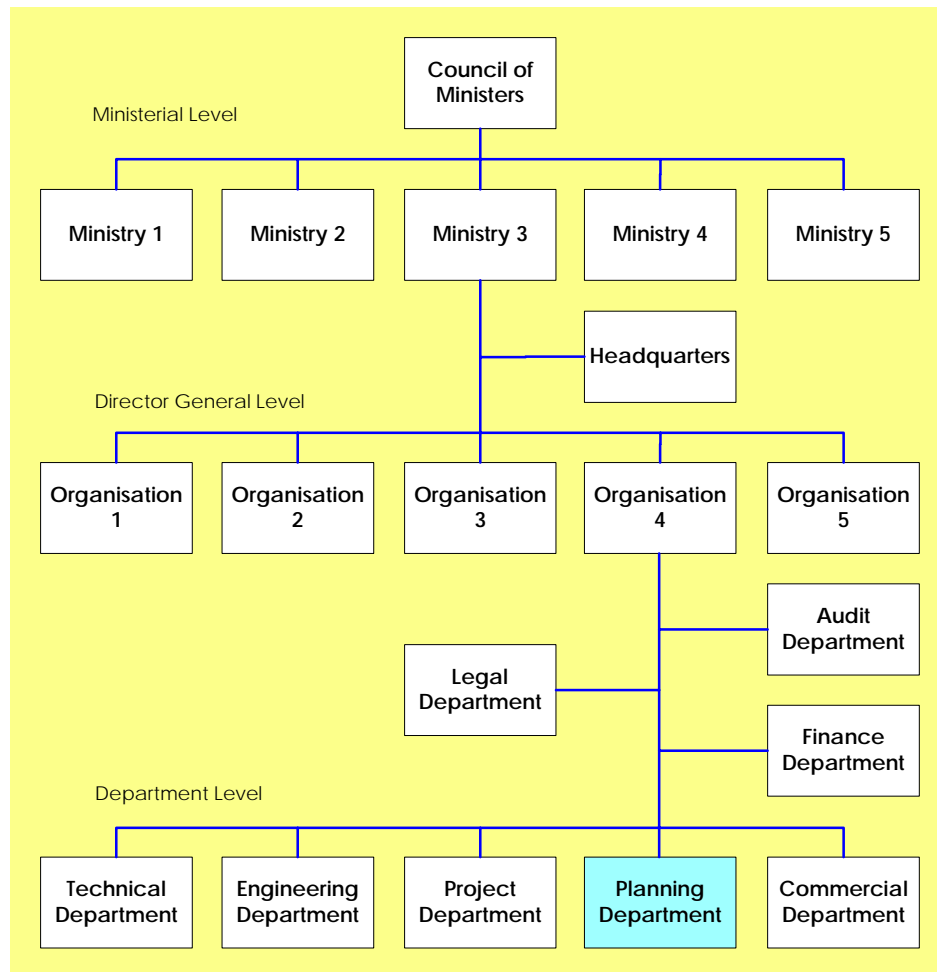
Organization

20.1.7 In a ministry, planning and budgeting responsibility should be delegated to heads of directorates and project managers. The planning department in each directorate provides technical assistance and coordination, but is not directly

²² World Bank Operational Manual, OP 10.00, *Investment Lending: Identification to Board Presentation*, June 1994.

responsible for budget preparation or execution. See the organization chart at Figure 7 below.

Figure 7: Organization chart



Timetable

20.1.8 The annual budget timetable is set by the Financial Management Law and Public Debt Law. The financial year runs from January 1 to December 31. In June of the previous year, the Ministry of Finance Budget Office issues “Instructions on Preparing the Budget” to all ministries, asking all agencies to submit their budgets by August 15 for discussions with itself by September 5. This circular includes key economic parameters, the procedures and timetable for budget preparation, and ceiling limits of expenditure for each spending agency. The consolidated budget is cleared by the Council of Ministers and submitted to parliament by October 10.

Method

20.1.9 This section outlines the general procedure for projects (including ITF projects) of central government ministries. Similar procedures are followed by other implementing agencies.

- (i) Each ministry distributes the MoF budget circular to its directorates.
- (ii) Each ministry and directorate sets up a budget committee to discuss the budget. The purpose is to ensure that all senior officers participate in the preparation of budgets and are well informed on the details.
- (iii) Ministries submit an *investment budget* for new and reconstruction projects and continuation of existing projects, and an *ordinary (recurrent) budget* that covers recurrent expenditures and any capital expenditures²³ not included in the investment budget. All must be cleared with the Ministry of Planning and Development Cooperation before submission to the Ministry of Finance.²⁴
- (iv) The format for submission of each new project to MoPDC is given at appendix D. For ITF/IDA funded projects, data should agree with the Bank's Project Appraisal Document (PAD). The format is completed by the Project Accountant (or staff), signed by the Project Manager, and submitted through the Budget Committee and the head of the implementing agency to MoPDC, with a copy to MoF. The format is mostly self-explanatory. Note that it shows the total project expenditure and the expected expenditure each year. The industrial classification should be in accordance with the International Standard Industrial Classification (ISIC) of All Economic Activities, used by the System of National Accounts (SNA). This will facilitate international reporting and comparisons. If the project is being implemented on behalf of another government agency, the benefiting agency should be shown as well as the implementing agency.
- (v) The budget should be drafted first by the managers responsible for the work to be done, both new projects and ongoing projects. The basis for expenditure projections is the Project Implementation Plan as agreed between the Bank and the government. This includes financial projections (forecasts) for the life of each project, broken down by quarter, and a procurement plan. It is updated each year so that comparisons of budget and actual during the year are not distorted by variances in project progress, etc in the previous year. It is very important that the procurement plan and expenditure projection are based on an agreed and realistic work program. If expenditure projection is based on last year's

²³ 'Capital expenditures' are defined in the Financial Management Law of 2004 as: the use of funds to acquire or upgrade capital assets, such as buildings, structures, machinery and equipment, and financial assets. All other expenditure is called 'current' or 'recurrent'.

²⁴ The Ministry of Planning and Development Cooperation is also responsible for the medium-term national development plan.

budget, or last year's actual expenditure, or some notional ceiling of allowed expenditure, it will put the "cart before the donkey". The physical plan comes first, and the resources follow. The budget document should show the separate projects and their components and their costs. A typical format is shown at appendices D and E.

- (vi) Budgets are prepared by multiplying the quantity of each required resource by its unit cost. In effect this is an accrual basis, ignoring early or late payment for resources, so that the cost figures correspond with the outputs. This is true irrespective of the basis of accounting, cash or accrual, used by the agency.
- (vii) If the project is expected to receive counterpart funding by the government, or local revenues such as user fees or local contributions, these are separately estimated and shown in the budget document.
- (viii) The budget is reviewed by senior officers who have supervisory responsibility and by the budget committee, signed by the head of the implementing agency, and submitted to MoPDC and the Iraqi Strategic Review Board (ITF projects only) by July 15. MoPDC should review the investment budget, agree with the implementing agency any necessary changes, and forward the budget to MoF by August 15.
- (ix) Following discussions, review and approval, the Ministry of Finance consolidates agency budgets and submits the consolidation to the Council of Ministers for executive approval. It is then submitted to Parliament and enacted into law. The annual budget law authorizes the Minister of Finance to make payments out of the treasury consolidated account. The authorization expires on December 31st. After that date, payments can be made out of the prior year's budget *only* if the payment is made for goods or services that were validly ordered *and* received before December 31st.

Inclusion of New ITF Funded Projects in the Government Budget

20.1.10 ITF/IDA funded projects come within the investment budget and are included in the budget of the implementing agency at the time it prepares its annual budget. These projects follow the same procedures as other investment projects. They must be classified to conform to the official GOI chart of accounts, so they can be consolidated with all other resource allocations. Details of preparation are given above. The MoF will include each ITF/IDA funded project as a separate line in the investment budget, in the same way as other projects.

20.1.11 Individual governorate budgets are approved by the respective Governorate Council. Individual regional budgets are approved by the regional governments.

20.1.12 The budget of a public corporation is prepared by the responsible officers within the corporation, approved by its board of directors and competent minister, then submitted to the MoF for final review and approval. It is not included in the central government budget, nor submitted for parliamentary approval.

20.1.13 Approved annual budgets, and any supplementary budgets, are published in the *Official Gazette* and other media as appropriate.

20.2 BUDGET STRUCTURE

20.2.1 A new GOI chart of accounts is being introduced. This section describes a typical chart of accounts for a project. It will need to be amended in the light of the actual system in use by the implementing agency, or the adoption of the new chart of accounts, so that project budgets and accounts can be fully incorporated in the ministry budget.

20.2.2 The Financial Management Law, 2004, requires transparency, comprehensiveness and unity in the management of the central government budget. The principle of transparency requires that budget information be classified according to accepted international standards, and presented in a way that facilitates policy analysis and promotes accountability. The budget should therefore, be classified to break down expenditure according to:

- (i) who is responsible;
- (ii) what is the purpose;
- (iii) whose funds are being used;
- (iv) which geographical area is benefiting; and,
- (v) what object is being purchased.

20.2.3 Initially, the printed budget will display only the responsible agency and the objects of expenditure in each agency, treating projects and project components as separate objects. Other classifications may be added as the need for more information drives budget development. An initial budget structure is shown at appendices D and E. The full chart of accounts is given at appendix O.

20.2.4 The same structure should be used for project planning and costing, annual budgeting, accounting for budget execution, financial management reports (FMR), the annual audited financial statements of the project, and implementation completion reports.

20.2.5 World Bank-funded projects are often large, and broken down into components and activities. An example is an urban transport project, broken down as shown in appendix E.

20.3 BUDGET/ACTUAL COMPARISON

20.3.1 Actual expenditures should be compared to the budget monthly, and explanations sought for significant variances in each activity. What is significant depends on the absolute amount involved, the percentage of variance to budget (over 10% is usually considered significant), and the possibility of getting back on track by taking corrective actions. Variances are caused by:

- progress more or less than planned;
- physical inputs for actual progress more or less than planned;
- unit costs/prices more or less than planned; and
- payments made before or after the delivery of resource inputs.

20.3.2 The project manager should enquire into significant expenditure variances due to progress or inputs being more or less than planned. The project accountant should investigate any significant variances that are due to financial causes such as variation in prices or in the timing of payments. The results of this analysis are included in the Financial Monitoring Report each quarter (see subsection 22.1).

20.4 BUDGET VARIATION

GOI rules for Variation of Budgets

20.4.1 If an agency is unable to achieve its planned programs within the approved budgets for particular line items, it may reallocate funds between line items by up to 5% of the approved budget, with the approval of the Ministry of Finance. For instance, if salaries or other current expenditure budgets will not be fully used, up to 5% may be reallocated for capital projects. There are two exceptions:

- (i) unused investment (capital) budget cannot be reallocated for any current expenditure;
- (ii) unused budget for transfer payments cannot be reallocated for any other current expenditure.

20.4.2 The responsible directorate or governorate sends a letter of request to the MoF. MoF processes the request and allow or disallow the variation.

- 21.1.2 Public enterprises and other self-financing institutions (state owned enterprises) use an accrual basis. They are required to comply with the same International Accounting Standards (IAS), issued by the International Accounting Standards Committee, as apply to privately owned businesses. The United States “generally accepted accounting principles (GAAP)” are similar.
- 21.1.3 The MoF may issue rules to facilitate accurate financial reporting during the period in which Iraq is undergoing the transition to international accounting standards. This is a transitional arrangement that will apply only for transitional fiscal years.

21.2 CHART OF ACCOUNTS

- 21.2.1 The Project Accountant will need to decide what details of project expenditure will be required for regular reports and whether these can be met by the GOI chart of accounts (see 20.2.1 above). If not, then the implementing agency and PMT should establish a sub-system that will provide the additional data. An example of a project accounting sub-system is given at appendix O. The totals coming out of this sub-system should feed into the main accounting system, so that they are fully integrated. Whatever system is used, it must be capable of clear and timely disclosure of project costs by components agreed on by the implementing agency and ITF Administrator, and operating costs analyzed in enough detail to provide control of incremental budget expenditure. It should provide the basis for all claims for disbursement from the ITF.
- 21.2.2 If the grant includes funding of incremental current expenditures, i.e. expenditures above a base level as agreed with the implementing agency, it will be necessary to agree also on how such incremental expenditures are to be determined.

21.3 PROMPTNESS OF TRANSACTION RECORDING

- 21.3.1 Transactions may be recorded in a manual system or a computerized system, such as the financial management system being installed in all treasury offices and ministries. Large or complex projects require a computerized system. There are several software packages suitable for cash-based accounting and many more for business accrual accounting.
- 21.3.2 Receipts and payments should be entered in the system at least daily, so that in-year reports and annual financial statements can be prepared with minimum delay. If records fall behind events, it is very difficult to catch up.

21.4 DEPOSIT OF CASH RECEIPTS

- 21.4.1 If the project involves collection of revenues, such as user fees or charges, there should be a procedure for their prompt collection, depositing and accounting. Internal controls are important, particularly where there are multiple collectors or collections are made over a large area. Collectors should be authorized in writing. It is good management practice to ensure that all cash collections are banked on the same day or kept in a safe and banked the next day. Only official receipts should be given for amounts received, and counterfoil receipts should be classified to the appropriate accounts code, entered in a cash book the same day, and daily totals of counterfoils and cash book agreed. A typical receipts cashbook is shown at appendix I.

21.5 TREATMENT OF IN-KIND FLOWS

- 21.5.1 In section 20.1 above, it was stated that all external assistance has to be integrated into the Iraqi national budget, and that this includes aid in kind as well as cash aid.
- 21.5.2 The same applies to the accounts. All resources used in a project should be brought to account as project expenditure, whether they are paid for by the project itself, or by the implementing agency, a central agency (such as the MoF single treasury account), or a donor agency (such as through the ITF). The project accountant should determine what assistance will be provided in kind, and set up procedures to capture data on its cost and enter it in the general ledger. Normally, aid in kind is valued at its cost to the donor, as evidenced by invoices. If cost cannot be precisely determined, it should be approximately determined by reference to prices on the open market. It is better to use an approximate value than to ignore the resource altogether, which would value it at nil. The project accountant raises a journal voucher, debiting the respective accounts in the general ledger and subsidiary ledger, and crediting resources provided in kind account.

21.6 COMMITMENT CONTROL

21.6.1 A spending agency may not commit to making a payment if this would result in exceeding its budget. Spending agencies maintain manual records showing their budgets, commitments (such as contracts and purchase orders), and available balances on each line item.

21.6.2 The Project Accountant should ensure that:

- (i) the amount of each contract is entered in a running commitment control record (such as the contract register described in Chapter Four^{17.2} above;
- (ii) commitments are reduced by the actual disbursements made; and,
- (iii) the final disbursement on a contract clears the commitment. It should be possible to see at any time, for each component and each activity, how much of the budget allocation has been committed or spent, and how much is still available for spending.

21.7 INVOICE PROCESSING AND DISBURSEMENT

21.7.1 Imported goods and large local purchases will be made by the Bank directly, on application by project management under the direct payment or special commitment procedures (see 23.2.13 and 23.2.14). This section covers only the processing of invoices arising out of small domestic purchases.

21.7.2 The division of responsibilities for processing and paying invoices will depend on the capacity of the implementing agency's procurement and finance functions. It is assumed in the following procedure that all invoices under ITF projects will be routed through the PMT (project accountant and project procurement officer), and that the procurement officer has authority to authorize ITF project invoices for payment. In any procedure, there should be segregation of the functions of processing invoices for payment and actual payment (handling checks or cash). It is assumed, therefore, that the issue of checks will remain with the implementing agency's finance department.

- (i) Suppliers and contractors submit their invoices for goods supplied and work done to the PMT. The project accountant (or staff), enters details of date of receipt, payee and amount in a claims register (or computer entry), then raises a payment voucher showing the amount payable, payee details, and the account(s) to be charged (this may be partly computerized); invoice and payment voucher are passed to the project procurement officer;
- (ii) Stores department receives and inspects goods to confirm that they are according to the order and specification, raises a goods received note , and sends it to project procurement officer;

- (iii) In the case of work done, the PMT verifies (through the engineering department if necessary), that the work is in accordance with the contract, and sends an inspection certificate to project procurement officer;
- (iv) Project procurement officer checks all documentation and approves payment by signing the payment voucher; if the amount is below the limit for direct payment by ITF, the procurement officer returns the payment voucher with documentation attached to finance department (cashier) for payment; if the amount is above the limit, procurement officer passes the payment voucher and documentation to the project accountant to raise a withdrawal application (see subsection 23.2);
- (v) Cashier prepares a check, and enters the amount payable, payee name and payment voucher number (serial number for each project) (check preparation may also be computerized), the check number is entered on the payment voucher;
- (vi) The authorized signatories sign the check;
- (vii) Cashier issues check (or obtains and issues cash, as the case may be), obtains the payee's receipt, attaches all documents to the payment voucher, and passes them to the project accountant;
- (viii) Project accountant enters details of payment in the claims register and the payments cash book (see appendix J). Enter date of the check, the payment voucher number and check number (to provide an audit trail), the name of the payee, the amount, and the same amount in the analysis column for the relevant project component. The totals of the analysis columns are posted monthly to the general ledger, while individual payments are posted to the respective subsidiary ledgers.
- (ix) Project accountant obtains reimbursement of each eligible payment by making a withdrawal application, with all documentation attached - see subsection 23.2. On receipt of transfer advice from ITF administrator, enter in the claims register (that the claim is discharged), and raise a journal voucher, debiting the appropriate expenditure code in the subsidiary ledger, and crediting ITF withdrawals.

21.8 PAYROLL

21.8.1 Payrolls are the most frequent source of fraud. The following principles need to be applied where a project has a periodic payroll.

- (i) The project manager and project accountant should jointly authorize payroll changes (additions and subtractions), i.e. no changes to the names of employees, salary rates, deductions, etc should be made except with

their knowledge and approval (note that staff to be paid from ITF funds should not be GOI employees, and they must be cleared by the Bank)

- (ii) There should be separation of duties between those who authorize personnel changes (the project manager and project accountant), those who prepare the payroll and those who cash the check and disburse pay;
- (iii) A personnel file should be kept for each employee, containing all documentation relating to the recruitment, job description, terms and conditions of service, promotion, placement, loans and repayment, vacation and training records. This file should be accessible only to those authorized (such as the project manager, project accountant and auditors)
- (iv) There should be physical identification of each employee at the point that cash is handed over (no 'ghost' workers);
- (v) The project accountant should independently verify all payroll calculations, preferably by reconciling the total net pay with the total net pay of the previous period (by adding new employees and salary increments, and deducting the salaries of those who leave, etc) and check the accounting entries.

21.9 EXCHANGE DIFFERENCES

21.9.1 The project accounts are kept and the financial statements rendered in the national currency (IQD) as they are part of the GOI accounting system. In order to comply with international accounting standards, receipts and payments in USD or any other currency are converted to IQD at the exchange rate on the respective dates of receipt or payment. Opening cash and bank balances are translated at the exchange rate on January 1, and closing cash and bank balances are translated at the rate on December 31.

USD Accounts

21.9.2 The PMT may use a USD account or an Iraqi Dinar account to effect payments from its own resources. Reimbursement will be made in the currency of expenditure and to the account from which payments were made.

21.9.3 In the event of any special account it should be held in USD to minimize the risk of exchange loss. Local expenditures in IQD are made only when they are due, i.e. the PMT will use the USD funds in the special account to purchase local currency at the prevailing exchange rate when the expenditure is due for payment. If the value of dollar rises during the year, there will be an exchange gain to the project. This is shown on the statement of receipts and payments as a separate item of income. Conversely, if the IQD gains against the dollar, there will be an exchange loss, an expenditure item.

21.10 GENERAL LEDGER AND SUBSIDIARY ACCOUNTS, TRIAL BALANCES

21.10.1 If the volume of transactions is high, say more than 20 a day, the project should have a computerized system for keeping the accounts, such as the Financial Management Information System, introduced in certain ministries in 2004.

21.10.2 If the project has only a manual system, the project accountant needs a general ledger in which there is:

- a single control account for expenditure on each component of the project;
- an account for each revenue item (including ITF withdrawals and resources provided in kind);
- cash and bank accounts; and,
- advance/imprest accounts.

21.10.3 The total debit balances on these accounts should be equal to the total credit balances at all times. A monthly trial balance should be drawn up by the project accountant, and submitted to the chief accountant of the implementing agency and to MoF.

21.10.4 The detailed expenditure accounts for each project component are kept in a subsidiary ledger, with a folio for each object (line item) of each activity. Receipts and payments should be posted (entered) into the general ledger in total and into the appropriate subsidiary ledgers in detail at least monthly, and the balances on each subsidiary ledger agreed with the control account in the general ledger.

21.10.5 When a cash receipt is posted to the general ledger, the ledger folio is entered in the receipts cashbook, column 6 (see appendix I). When a payment is posted to the general ledger or subsidiary ledger, the ledger folio is entered in the payments cashbook, column 14. Ledger folio numbers provide a quick check that all transactions have been posted. In the ledger, the corresponding cashbook folio is entered so as to provide an audit trail back to the original documents.

21.11 RECONCILIATION OF CASH RECORDS WITH BANK STATEMENTS

21.11.1 'Expenditure' takes place at the point that a check is drawn and issued to a payee, or an instruction is issued to the implementing agency's bank to make a transfer into the payee's account²⁵. As it takes a few days for the bank to make the transfer or for checks to be cleared through the banking system and charged against the project bank account, there is a difference between expenditure as shown in the cash book, and the corresponding items shown in

²⁵ Expenditure is also incurred by the ITF administrator making payments direct to third parties on request from the PMT. This expenditure is brought into the project accounts from journal entries on receipt of transfer advices from the ITF administrator. They do not affect the reconciliation of the implementing agency's bank account.

the bank statements. It is a vital internal control to ensure that the difference is explained and justified. Legitimate causes of difference are

- delays in transfer or clearance of payments as described above;
- delays in depositing receipts; and,
- bank charges not yet entered in the payments cash book.

21.11.2 Illegitimate causes of difference are:

- errors in the cashbook;
- errors in the bank statements; and,
- fraudulently issued checks.

21.11.3 At least monthly, for each bank account used for project expenditures, the project accountant should ensure that a bank reconciliation is made and that differences are followed up and satisfactorily explained. The reconciliation should be done, or at least checked by, a person independent of the cashier or other officer having access to the checkbooks or cashbooks. Copies of the bank reconciliation statement should be attached to withdrawal applications and Financial Monitoring Reports.

21.11.4 The format of a bank reconciliation statement is shown at appendix K. The starting point is the balance shown in the bank statement on the last day of the month. The project accountant (or staff) ticks off all the checks that have been cashed (debited in the bank statements), ensuring that check numbers and amounts agree in both records, and add-lists the un-ticked checks that are presumed to be outstanding. If any checks remain outstanding beyond their validity period (normally six months), the cashbook entries are reversed. The remaining outstanding checks are entered in the bank reconciliation.

21.11.5 Similarly, any debits in the bank statements that do not appear in the cashbook are investigated. Legitimate bank charges are entered in the cashbook to bring it into agreement with the bank account. Lastly, credits to the bank account are compared with the receipts side of the cashbook. Any errors or omissions in the cashbook are rectified, and any errors or omissions in the bank statements are notified in writing to the bank and the project accountant follows up to ensure they are corrected. Until they are corrected, they appear as adjusting entries on the bank reconciliation. After adding and subtracting for these adjustments, there should be agreement with the cash balance at the end of the month.

21.12 ACCOUNTING AT SUB-PROJECT LEVEL

21.12.1 Sub-projects are project components managed in other implementing agencies or at sub-national level such as municipalities or governorates. They will not normally be given advances to open bank accounts and make payments

themselves, except for small imprests for petty cash. Normally, sub-project managers will submit their invoices to the central PMT for payment and accounting. However, they will be responsible for preparing sub-project budgets, for executing their budgets and for ensuring that they do not commit the project to expenditures beyond their approved budgets.

21.12.2 A sub-project should be formally established by means of written agreement between the central project director and the project manager (see 4.2.2). The Project Manager, together with his/her staff, will prepare an annual sub-project budget according to the procedure laid down by the ministry and PMT (see chapter 20 above)

21.12.3 Following approval of the sub-project budget, the project manager will have a Commitment Control Register opened, with a page for each line item in the budget showing the budget for that item (see para. 21.6). Each local purchase order, request for PMT payment, payroll request or other commitment of project funds should be entered in the register and deducted from the available balance of the budget. If there is insufficient available balance, the project manager may apply to the central PMT for a variation of the budget (see 20.4 above). No commitment should be made if this would result in an excess over the budget.

21.12.4 The central project accountant should monitor commitment and actual expenditures at each sub-project and ensure budget discipline. This may be facilitated by issue of monthly reports to each sub-project, requiring the project manager to compare sub-project expenditure to date with the local Commitment Control Register, and reconciliation of the two records. The project manager should send a copy of the reconciliation to the central project accountant within 30 days of the end of each month.

21.12.5 The project accountant should ensure that any revenues received at sub-project level are promptly banked to the credit of the main project bank account and reported to the centre, and not used for any local expenditures.

21.12.6 The project accountant should also ensure that each sub-project has a good system of internal control, and that it opens and maintains an asset register (see chapter 24).

22. REPORTING

22.1 IN-YEAR REPORTING

22.1.1 The ITF rules (WB-MENA, January 14, 2004) require each ITF-supported project to prepare a Financial Monitoring Report (FMR) every quarter,

starting the second quarter after the project becomes effective (see section 22.4 below).

22.1.2 ITF projects do not normally require any counterpart funding by the government except contribution in kind, such as office space and utilities and Iraqi personnel.

22.1.3 If counterpart funds are agreed but domestic revenue collections are less than budgeted, there is a risk that the government would be unable to meet its counterpart obligations. In this case, MoF allocations might be restricted and the affected projects would be delayed. In such a case, the project manager should inform the MoF and the ITF Administrator as early as possible of the risk to the project so that either further funding can be made available or the work program and procurement program can be amended.

22.2 INTEGRATION OF EXPENDITURE, PROCUREMENT AND PROGRESS REPORTING

22.2.1 Financial information should be linked with information on physical progress and procurement to give assurance that financial and physical progress are consistent. The financial monitoring reports required by the Bank (see subsection 22.4 below) should mention any difficulties in matching expenditure with progress, such as a lack of correspondence between the cut-off date for including expenditure and the date at which physical progress is assessed and reported. Where progress is reported on the 'milestone' method, there may be a significant lag between the attainment of the last milestone and the report date. There will also be differences between the timing of use of resources and payment for them, due to a cash basis of accounting.

22.3 GENERAL PURPOSE ANNUAL FINANCIAL STATEMENTS

22.3.1 The Financial Management Law (section 11) makes the Minister of Finance responsible for the central government accounts. The minister may prescribe the format of the final accounts of all spending units and issue orders for the rendering of accounts. The minister has to submit the annual final accounts of the federal budget to the Board of Supreme Audit by April 15th of the following year. Following audit, the Council of Ministers submits the audited final accounts to parliament by June 30th. After approval by parliament, the final accounts are published in the *Official Gazette* and made publicly available.

22.3.2 The final accounts must be in accordance with the classification of the budget, and meet international accounting standards. Specifically, they must include:

- (i) The audit report of the Board of Supreme Audit;
- (ii) The initial and final balance on the treasury consolidated account and a summary of receipts and payments during the year;

- (iii) A report on the differences between budgeted and actual receipts and payments, and the financing of any deficit or the use of any surplus;
- (iv) Reports on all central government borrowings, and total debt outstanding including any payment arrears, central government guarantees issued, and all borrowings and guarantees by regional governments and governorates;
- (v) A report on spending from the budget contingency reserve;
- (vi) Outstanding amounts on contracts, retentions due, and letters of credit issued for which goods have not been received (Financial Management Law, section 11-7).

22.3.3 The Bank requires annual audited financial statements of the project within six months of the end of the financial year, i.e. by June 30th. The Bank also requires audited financial statements of the implementing agency

- (i) if its financial viability is vital to project success; or,
- (ii) if one of the project objectives is to improve its institutional capability (World Bank Operational Manual OP 10.02, paragraph 3).

22.3.4 Financial statements must adhere to accounting standards acceptable to the Bank, such as the international public sector accounting standards issued by IFAC (see subsection 21.1 above).

22.3.5 Annual financial statements may be prepared from the Financial Monitoring Reports (FMRs) over the project year (see subsection 22.4 below).

22.4 SPECIAL PURPOSE FINANCIAL STATEMENTS

WB Financial Monitoring Reports

22.4.1 Bank policy requires that projects be supervised to ensure that grant proceeds are used only for the purposes for which the grant was made, with due regard to economy, efficiency, and the sustainable achievement of the project's development objectives. The Bank therefore, requires submission of Financial Monitoring Reports (FMRs),²⁶ normally at quarterly intervals (end of March, June, September and December). FMRs contain financial, physical progress and procurement information on the project as a whole (including funds from any other donors and contributions in kind such as labor and accommodation). Physical progress and procurement monitoring is explained in subsection 22.5 below. This section explains the financial content of the FMR.

²⁶ Financial Monitoring Reports were formerly called Project Management Reports. For full details, see *Financial Monitoring Reports: Guidelines to Staff*, issued by the Financial Management, Operational Services and Procurement Sector Boards, November 30, 2001. This replaces the Loan Administration Change Initiative (LACI) Implementation Handbook (1998) and the Project Financial Management Manual, Exposure Draft (1999).

- 22.4.2 To the extent possible, in order to avoid parallel or duplicative systems, FMRs should be drawn from the implementing agency's own management information system. If the implementing agency's own system cannot meet the needs, and cannot be improved to meet the needs before the grant becomes effective, the project management should ensure that a project system is developed to meet not only the FMR needs but also the implementing agency's needs and general GOI requirements with respect to the project. For instance, project-monitoring reports required by the MoPDC, should be an output of the project system.
- 22.4.3 The format and content of the FMR is agreed between the ITF administrator and the implementing agency during project preparation²⁷. If other donors are involved in the project, common reporting and monitoring arrangements should be agreed with them to harmonize and avoid duplication. As a general rule, the FMR should show for the quarter and for the year to date: cash receipts by source, expenditures classified by type of payment, and the beginning and ending cash balances. An example is given at appendix G. A supporting statement analyses the uses of funds by component and sub-component, and compares this with the budget (see example at appendix H. All financial data are reported in IQD. The rate of exchange to USD is shown at the bottom of each statement. These two statements enable the Bank to see that all resources are accounted for, either as expenditure or in the closing cash balance, that all expenditure is for the intended purposes, and that expenditures are within the budget.
- 22.4.4 If there is more than one implementing agency, the reporting arrangements should be agreed during appraisal and stated in the grant agreement. The central PMT would collect and consolidate reports from all the implementing agencies and submit a single FMR to the ITF administrator each quarter. In some cases, however, this may not be practicable, and it will be necessary for each implementing agency to submit its FMRs directly to the ITF administrator.
- 22.4.5 FMRs are prepared by the project accountant or assistant staff, signed by the project manager and project accountant, and sent to the ministry chief accountant, monitoring agent, ITF administrator, MoPDC and MoF. They are due within 45 days of the end of each quarter (i.e. by May 15, August 15, November 15 and February 15). An FMR should not be delayed, e.g. for lack of valuation of contributions in kind. The FMR should be submitted on time with a note that the missing information will be attached to a subsequent FMR.

22.5 PHYSICAL PROGRESS AND PROCUREMENT MONITORING

²⁷ The Bank may request that additional information should be added to the format. Examples of such additional information include updated forecasts of expenditure, schedules of assets financed by the Bank, an analysis of Bank financing by credit disbursement category, year-to-date financial results, supporting schedules or notes that provide a more detailed analysis of key activity areas or one or more line items in the expenditure reports, and fuller narrative explanations of performance and actions to be taken to address identified problem areas.

- 22.5.1 Every ITF project has a set of key performance indicators, one or more for each component of the project. These are agreed between the Bank and the implementing agency during project preparation and appraisal, and listed and time-phased in the PAD, appendix 1. These indicators are the intended outputs of all project expenditure.
- 22.5.2 The project manager (or staff) completes an output monitoring report, as part of the FMR each quarter. An example is shown at appendix L. The physical progress to date is shown as a percentage of completion of each activity, in physical terms, using the key performance indicators (KPIs) wherever they are appropriate. Note that many activities are *means* to project ends rather than final project ends, so KPIs will not always apply: the appropriate measures of physical progress will depend on the nature of each activity. The status of relevant procurements and contracts in each activity, drawn from the project monitoring tables (see subsection 18.5), provides a guide to physical progress. Note that not all progress is outsourced, so the contract status provides only part of the story. It is still necessary to review each activity, and assess its percentage of completion.
- 22.5.3 The actual cost to date of each activity is drawn from the subsidiary ledgers. Planned progress and planned cost to date are drawn from the annual work plan and budget, broken down by quarter.
- 22.5.4 The procurement officer completes a procurement status report, which is also part of the quarterly FMR. An example is shown at appendix M²⁸. Details are drawn from the procurement and contracts monitoring tables (see subsection 18.5).
- 22.5.5 The PMT jointly consider cost and progress to date, and what changes need to be made, either changes to operations to bring them back on track, or changes to the estimated final cost and completion date. Changes to the operating plan must be cleared with the project board (unless the project manager has delegated authority to make the changes). Any revisions to the estimated final cost or completion date for each activity are entered in columns 8 and 9 of the output monitoring report. This and the procurement status report are included as part of the FMR and distributed as explained in paragraph 22.4.5 above.

23. BANKING AND TRANSFER ARRANGEMENTS

23.1 FUND FLOWS FROM ITF TO PROJECT

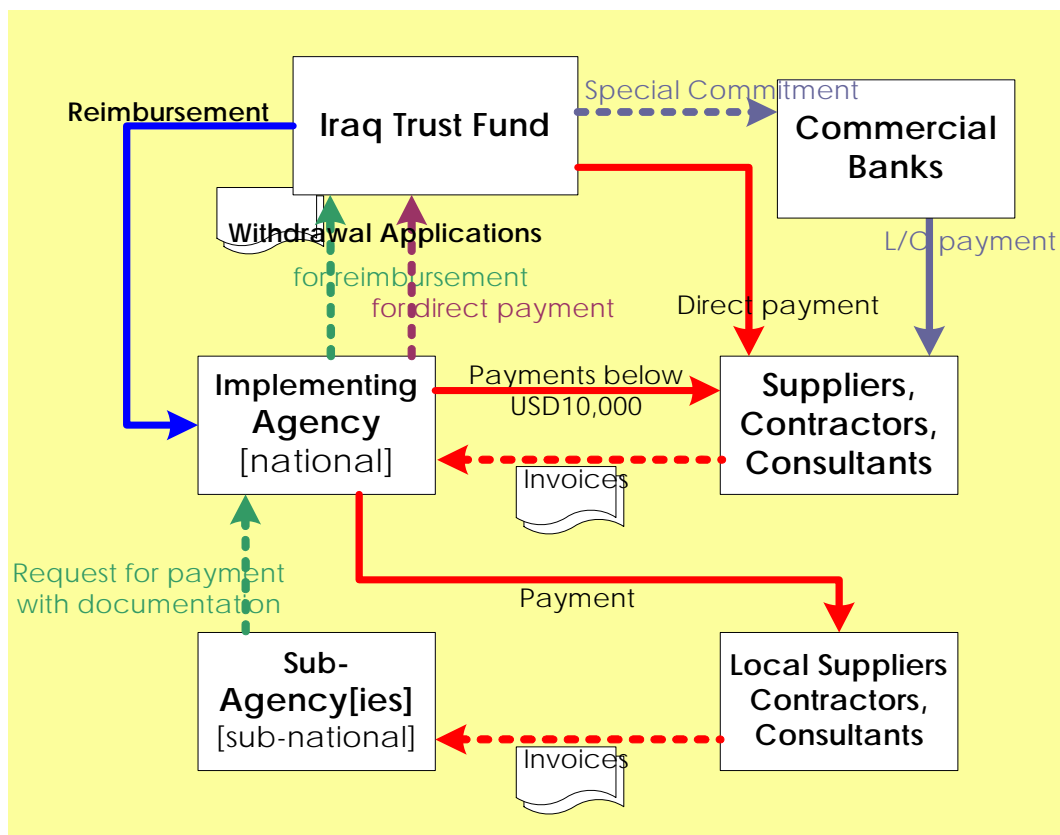
²⁸ This is based on the World Bank *Financial Management Reports: Guidelines to Staff*, Annex A. It is preferred to include all significant contracts in the status report, even though contracts subject to prior review are already known to the Bank, as the status report is distributed not only to the Bank but also to the government and ITF donors.

- 23.1.1 The Bank administers the ITF, which is provided with grant funds by a group of multilateral and bilateral donors. When a project is appraised and meets all the criteria, the ITF administrator and the GOI negotiate and sign an agreement spelling out the terms and conditions under which disbursements will be made available. Once an agreement is signed, the official representative of the recipient indicated in Article VI to the agreement submits a letter to the ITF administrator designating officials (along with their specimen signatures) from the PMT or the implementing agencies to authorize them to withdraw funds from the proceeds of the grant.
- 23.1.2 The grant may be disbursed in two ways:
- (i) Expenditures below an agreed threshold as stated in the credit/grant agreement (e.g. USD10,000), are paid by the implementing agency from its own resources, then reimbursed under the withdrawal application procedure (see section 23.2.10 below).
 - (ii) Where payments to third parties (such as suppliers, contractors and consultants), exceed an agreed amount (e.g. USD10,000 or equivalent), the project manager may request the ITF administrator to make a direct payment of the amount due (see section 23.2.13 below).
- 23.1.3 Additional bank accounts complicate accounting, reconciliation and cash management, but it may be necessary to open additional project bank accounts if the project receives funds from other sources. Note that project components (sub-projects) managed by different implementing agencies or geographically distant, e.g. governorate components, will not normally be given advances or allowed to operate their own bank accounts. Their expenditures will be met from the central PMT bank account, or by ITF by means of application through PMT.
- 23.1.4 An exception is a petty cash imprest. Petty cash expenditure is brought into the project accounts by journal entry. The project accountant debits the respective expenditure accounts (main and subsidiary ledgers) and credits the imprest account. Replenishments are debited to the imprest account and credited to cash account.
- 23.1.5 If the implementing agency has adequate administrative capability, internal controls, and accounting and auditing procedures, a special account may be agreed to receive amounts withdrawn from the grant and to make project expenditures. In this case, the implementing agency selects which bank will hold the special account, normally a commercial bank, but has to have the Bank's agreement, obtained through the ITF administrator. Any interest received on the balance held in the special account belongs to the implementing agency.

23.1.6 Any special account is kept in US dollars, or some other fully convertible and stable currency. It acts as a reservoir for holding donor funds and a conduit for passing them to the project as it incurs expenditures. Foreign expenditures are paid directly by the special account. Local expenditures in IQD are paid after converting USD to IQD.

23.1.7 The GOI is moving to a Treasury Single Account. This will be a bank account, or a set of linked bank accounts, of the government through which all government receipts and payments are channeled. It will be controlled by the MoF and maintained at the central bank (Financial management law, sec. 2-39, 4-9 and 15-3). Following agreement between GOI and ITF, all project Special Accounts will be merged, or linked with, the Treasury Single Account. This will pool all GOI cash balances and reduce idle cash and borrowing costs.

Figure 8: Movement of ITF funds



23.2 WITHDRAWAL APPLICATION PROCEDURE

General Requirements

23.2.1 The project is funded by withdrawals from the ITF credit/grant. The project accountant prepares withdrawal applications (WAs):

- (i) for reimbursements of small expenditures made from implementing agency resources (see 23.2.10 below); and,

- (ii) for direct payments to third parties such as suppliers and consultants, where these exceed an agreed amount (see 23.2.13 below).

The monitoring agent (once appointed - see paragraphs 3.3.6 and 10.2.6) screens and endorses WAs on behalf of the ITF administrator.

- 23.2.2 The minimum WA is for USD10,000 equivalent. Project managers should aggregate eligible expenditures until they reach the minimum.

Ineligible Expenditures

- 23.2.3 Grants/credits cannot be used to pay for certain ineligible expenditures. All expenditures must be project related and for the purposes intended under the project, with due consideration to economy and efficiency. Domestic and foreign expenditures are financed 100%, unless otherwise indicated in schedule 1 to the agreement.
- 23.2.4 WAs are numbered sequentially, starting at 1. If more than one agency is authorized to submit applications, each should identify its applications, using a prefix e.g. MF-1 = Ministry of Finance first WA.
- 23.2.5 Payments made *before* the grant agreement was signed are not eligible for reimbursement unless they are specifically identified in the grant agreement for retrospective financing. In this case, a separate withdrawal application for reimbursement should be prepared and submitted promptly after the grant becomes effective. The payee in this case would be the implementing agency, or whoever made the original payments.
- 23.2.6 It may be a condition of effectiveness that counterpart funds, if any, are deposited by GOI before a WA can be processed.
- 23.2.7 A WA is signed by the designated officials (whose specimen signatures are on the Bank's files), and submitted to the ITF administrator (2 copies), with copies to the ministry[ies] responsible and as required for the purposes of internal control and audit. On approval, funds will be transferred to the implementing agency or paid to a third party, depending on the beneficiary and the banking instructions specified on the WA.
- 23.2.8 Once a payment is effected, a payment advice is sent to the implementing agency. The Bank also sends a monthly disbursement summary showing disbursements for the month, credit/grant and category balances, and amounts reserved for special commitments (see 23.2.14 below). This information will also be available through the Bank's online information system, the Client Connection service (see paragraph 23.2.9 below).

Monitoring the State of the Account (Client Connection Portal)

23.2.9 The Bank encourages any PMT having Internet access to register for access to their account kept by the Bank. This is a secure, on-line, real-time portal to the relevant part of the Bank's database of loans and credits. On registration, the user goes to www.worldbank.org, selects 'Resources to Client Governments', and enters his ID number and password. The database shows all transactions to date and the available balance. Any difference between the database and the PMT's records should be investigated, and the difference corrected.

Application for Reimbursement of Expenditures (basic procedure)

23.2.10 Applications for reimbursement of expenditures are made at regular intervals, usually monthly. It is made on WA form 1903 (appendix P), with the following attachments:

- (i) a summary sheet;
- (ii) copies of contracts (when applicable), invoices or progress claims, no-objection statements (where relevant), evidence of shipment (for goods) or delivery of services, evidence of payment;

23.2.11 Original WAs must be signed by the authorized officials and sent to the ITF Administrator in a set of two. Copies of the application should be sent to the ministry chief accountant, MoF and MoPDC. On approval, funds will be transferred to the beneficiary account indicated on the application. A payment advice is sent to the PMT who should make sure the financial officer receives a copy. The payment advice is also made available as soon as the payment is funded for viewing online on the Bank's Client Connection.

Application for Reimbursement of Expenditures (SOE procedure)

23.2.12 If the implementing agency has sufficient administrative and accounting capability, the grant agreement may allow reimbursement of individual expenditures below a given limit under the statement of expenditure (SOE) procedure. Instead of submitting invoices and other documentation in support of each eligible expenditure, expenditures are paid from the project's own resources and listed individually on a SOE and submitted in a WA for reimbursement of the total expenditures covered in the SOE to a single account. Original supporting documents are retained by the implementing agency and have to be available for inspection and verification by independent auditors and Bank supervision missions. This is more efficient where many expenditures are small and the documentation is voluminous. Schedule 1 to the agreement and the technical annexes will indicate the SOE thresholds for expenditures that may be reimbursed from the project accounts. Currently the SOE threshold has been set at USD10,000.

Direct Payments

23.2.13 Where payments to third parties (such as suppliers, contractors and consultants), exceed an agreed amount (e.g. USD10,000 or equivalent), the project manager may request the ITF administrator to make a direct payment of the amount due. The project accountant raises a WA form 1903 (appendix P), with supporting documentation such as invoices, and shipping documents, and 'No Objection' (if relevant), obtains the signatures of the authorized signatories, and sends copies as above. Invoices from a single supplier (all payable in the same currency to the same bank account) can be combined in a WA. Otherwise, a separate WA is made for each invoice. The Bank makes the payment directly to the bank account of the third party, and sends a payment advice to the PMT.

Special Commitments

23.2.14 Project management may need a Bank guarantee to raise a letter of credit in favor of a supplier. The application for a Special Commitment (Form 1931 – appendix Q) is used to request the Bank to issue a special commitment to a commercial bank to guarantee payment for expenditures contracted under the project where payment terms are covered by a letter of credit. Two copies of an application for a special commitment are submitted to the ITF Administrator, together with two copies of the contract or purchase order (unless previously submitted to the Bank) and two copies of the letter of credit that the commercial bank proposes to use. When approved, the Bank sends a Special Commitment (form 2018) to the commercial bank guaranteeing payments directly to the negotiating bank for the amount requested in the application and covered in the LC and through the validity period of the letter of credit, falling within the lifespan of the grant, i.e. the LC expiry date may not go beyond the grant closing date. Upon payment or negotiation of documents by the commercial bank according to the terms of the credit, the commercial bank claims payment directly from the Bank following the terms of the special commitment. The Bank undertakes to pay within 30 days. The Bank charges no fee for these commitments.

23.2.15 Any material amendments to a letter of credit guaranteed by the Bank must be approved by the Bank in advance. This includes amendments to the amount of the credit, the description or quantity of the goods, the beneficiary, extension to the expiry date by more than six months, or an advance before the goods are shipped of more than 25 percent of their value.

23.2.16 Special commitments are irrevocable and may only be amended or canceled by the negotiating bank to whom the Bank has issued its commitment. The Bank retains sufficient funds to cover all outstanding Special Commitments in full, within the limited amounts in each grant.

23.3 OPENING AND MAINTENANCE OF BANK ACCOUNTS

- 23.3.1 Since project expenditures are paid either directly through the Bank or from the implementing agency's bank account, no separate or specific bank account will normally be required for the project. Since the implementing agency will be reimbursed for small project expenditures, its bank account must be capable of receiving funds transferred through the international banking system.
- 23.3.2 Where the Bank has sufficient confidence in the administrative and accounting controls to allow advances ahead of expenditure, a Special Account may be opened in a commercial bank capable of receiving funds transferred through the international banking system and otherwise acceptable to the ITF administrator. A comfort letter will be required by ITF to guard against use of the special account for any purpose other than the respective project operations (World Bank Operational Manual OP/BP 12.20, Special Accounts).
- 23.3.3 The MoF has overall responsibility for the opening, recording and reconciliation of all government bank accounts (Financial Management Law, section 12-1-m). This includes Special Accounts. The Special Account and any other project bank accounts must have titles that include the words 'central government' (Financial Management Law, sec. 4-10). The names and posts of persons authorized to sign checks drawn on project bank accounts, and their sample signatures, should be sent to the ITF Administrator, MoF and the relevant bank(s).

23.4 CHECKING AND CUSTODY OF SECURITY DOCUMENTS

- 23.4.1 Security documents are documents that can be used fraudulently to obtain value from public funds. Examples are check books, official receipt books and bid securities. An implementing agency should maintain a register showing, for each type of security document, full details of each document received, including the name of the officer responsible for holding the document. When blank check books are received, the Project Accountant should ensure that all check forms are included and record their numbers in the register. Security documents should be kept in a locked safe whenever they are not in use.

24. INTERNAL CONTROL AND ASSET CONTROL

- 24.1.1 Internal control is control by management over its own operations. By contrast, external control is exercised by agencies external to the organization, such as the Board of Supreme Audit. The effectiveness of external control depends primarily on internal controls. The internal control system should ensure that financial records are reliable and complete. They should ensure adherence to management policies, orderly and efficient conduct of business, and proper recording and safeguarding of assets and resources.

- 24.1.2 Overall responsibility for internal control lies with the Ministry of Finance, which prescribes internal control arrangements through Iraqi laws and Financial Regulations. It is the responsibility of the implementing agency head²⁹ to ensure that these are respected and enforced.
- 24.1.3 An inspector general supports the implementing agency head. In each Directorate there is an audit department, headed by an Inspector General (see section 25 below on Internal Audit).
- 24.1.4 A fundamental principle of internal control is the division or segregation of duties in such a manner that no one person has sufficient control over a transaction to facilitate fraud, and that errors are picked up by routine checks. One example is the division of responsibility for ordering goods and services and certification that the goods/services have been delivered. Another example is division of responsibility for issuing checks and for reconciling the cashbook with the bank statements. This issue arises particularly where staff are few, and some are absent sick or on vacation. The project manager should be aware of the risks and take sensible precautions against fraud and error

24.2 LEVELS OF AUTHORITY

- 24.2.1 Levels of authority for procurement disbursement, disposal of assets, write-offs, etc., should be implementing agency and project specific. A suggested framework is contained in appendix C hereto. The levels of authority should, from time to time, be revised by line management and reissued.

24.3 ASSET CONTROL

- 24.3.1 In each agency, it is part of the head of agency's responsibility for internal control to ensure that assets purchased from public funds or provided by donors are safeguarded against loss, undue deterioration and unauthorized use. The main instruments of control are the asset register and annual independent verification of each asset's location, security and condition. An example of an agency asset register is given at appendix N. This serves various purposes:
- Accountability, to ensure that assets are used for intended purposes;
 - Efficiency in operation and maintenance;
 - Insurance (where the government has a policy of insuring certain types of assets, such as vehicles).
- 24.3.2 Project assets such as computers and equipment, furniture and vehicles should be the delegated responsibility of the project manager. On his behalf, the

²⁹ The Financial Management Law, section 11-1, makes 'budget executors' responsible for all accounting and internal control of transactions relating to receipts, commitments, and payments of spending units and sub-units falling within their jurisdiction.

project accountant ensures that entries are made in the asset register for all purchases, relocations, ownership transfers and disposals of project assets. A single folio of the asset register may be used where there is a number of assets of the same type, e.g. office chairs. At least once a year (more often for small easily removable assets) the project manager checks the existence and location of each asset, and signs the asset register entries accordingly. Any discrepancies should be immediately investigated and corrected. On any change of ownership of assets, e.g. between the Bank and the government, this should be agreed in writing and referenced on the relevant folios of the asset register.

24.4 INSURANCE

24.4.1 If project assets are to be insured, e.g. vehicles, the project accountant arranges the insurance, and notes the policy number, insurer, premium and period of cover on the asset register. Policy documents should be kept separately and securely.

24.5 FINANCIAL RECORD KEEPING, DOCUMENT SECURITY

24.5.1 Accountability and transparency depend on the existence and accessibility of records. There is an increasing awareness of records management as a distinct professional discipline, embracing document creation, custody and ownership of records, their preservation and integrity, retrieval, movement and reproduction of records, both paper and electronic, and archiving and disposal. The PMT should establish a filing structure that will ensure that any particular record can easily be retrieved when it is needed.

24.5.2 Essential computer records should be backed up regularly and backup files kept at a separate location in case of office catastrophe. Cashbooks, ledgers and other key paper records should be kept in fireproof safes overnight.

24.5.3 All financial documentation (cash books, ledgers, registers, payrolls, bank statements, invoices, counterfoil receipts and other vouchers) shall be retained by the implementing agency and be available for inspection by external auditors and ITF/monitoring agency personnel as they may require. The documents should be retained till 12 months after receipt by ITF of the audit report for the year in which the last withdrawal is made to the project, or the legal minimum period in Iraq, whichever is longer.

25. INTERNAL AUDIT

25.1.1 The Financial Management Law, section 13, makes the MoF responsible for ensuring that internal audit is undertaken in ministries, spending units and public corporations. Internal audit is defined to include:

- Providing regular assessment of the adequacy and effectiveness of the ministries' decision-making processes, minimization of risk and internal control;
- Reporting significant internal control issues and improving the control processes and information systems in order to minimize risk;
- Reviewing the efficiency and effectiveness of existing services and proposing more efficient ways of providing these services;
- Liaising with the external audit agency, and
- Providing periodic information on the status of execution of the annual audit plan.

25.1.2 An Inspector General (IG) was established in each ministry by the CPA Order No. 57 of February 2004. The IG conducts investigations, audits, evaluations and inspections in accordance with generally accepted professional standards. The scope of audit includes financial audit and operational (efficiency) audit. The IG reports to the relevant minister or, where allegations are made against the minister, to the parliament. The IG functions include training ministry employees in the prevention and identification of waste, fraud and abuse. Full powers of access to persons and records are given by the order. IG offices are funded from budget allocations.

25.1.3 The PMT will not usually be large enough to have its own internal audit staff. Project staff should cooperate with the Inspector General.

25.1.4 The project manager should receive a copy of any internal audit report touching on his own operations, and ensure that any queries are answered and issues settled. The inspector general may exchange reports with the Board of Supreme Audit, which is entirely independent of any ministry.

26. EXTERNAL AUDIT

26.1 APPOINTMENT AND TERMS OF REFERENCE

National Requirements

26.1.1 The central government budget accounts are subject to audit by the Board of Supreme Audit (BSA). The Minister of Finance is required by law to provide the BSA with the approved central government budget, any supplementary budgets, internal audit reports, reports on loans, borrowings, guarantees and debt, final accounts and audit reports on all public corporations, and any other documents, information and explanation requested by the BSA (Board of Supreme Audit Law, No. 6 of 1990, and the Financial Management Law, section 14-2). The BSA has to provide its annual report on the final accounts by June 15. The audit report is not provided directly to parliament but to the

Council of Ministers, which must submit the final accounts and audit report to parliament by June 30, i.e. six months after the end of the financial year.

- 26.1.2 The BSA has been reconstituted to be entirely independent of the executive branch of government by the Financial Management Law. It works in conjunction with the Commission on Public Integrity and Inspectors General of individual ministries to ensure that the GOI remains honest, transparent and accountable to the people of Iraq.
- 26.1.3 If records are not made available to the BSA within a reasonable time, the BSA may make a written request to the Inspector General of the ministry under review. The ministry has 20 days to comply. If it fails to comply or show just cause, the BSA may refer the matter to the Commission on Public Integrity for further investigation and/or enforcement. On any financial irregularity, the BSA instructs the Inspector General of the relevant ministry to take action, with a copy to the Commission on Public Integrity.

World Bank Requirements

- 26.1.4 The Bank requires the implementing agency to have the annual financial statements³⁰ audited by an auditor acceptable to the Bank, on terms of reference also acceptable to the Bank, and to provide annual audited statements to the Bank within six months of the end of the financial year (the same deadline as Iraqi law). The audit includes:
- (i) An assessment of the adequacy of accounting and internal control systems to monitor expenditures and other financial transactions and ensure safe custody of assets, at the beginning of project implementation, and at annual intervals;
 - (ii) A determination as to whether the implementing agency/agencies have maintained adequate documentation; and,
 - (iii) A verification that expenditures submitted to the Bank for financing are eligible, and identification of any ineligible expenditures;
 - (iv) Where the use of a special account (SA) is agreed by the Bank, the financial statements should include a summary of SA receipts and payments and the auditor's report should state whether, in the auditor's opinion, the summary gives a true and fair view of the financial position of the SA;
 - (v) Where the use of statements of expenditure (SOEs) is agreed by the Bank, the financial statements should include a summary of SOE disbursements, and the auditor's report should state whether adequate

³⁰ Financial statements of the project. The Bank also requires audited financial statements of the implementing agency if its financial viability is vital to project success or if one of the project objectives is to improve its institutional capability.

supporting documentation has been maintained to support claims to the Bank for reimbursement.

26.1.5 Audits for the Bank are normally *financial* audits: they do not extend to operational or *performance* audits. Instead, projects are *evaluated*:

- (i) an interim valuation is conducted by project management during implementation as a first review of progress and a forecast of the likely impact of the project;
- (ii) terminal evaluation is undertaken at the end of a project, resulting in a Project Completion Report;
- (iii) impact evaluation may be undertaken, usually several years after the final disbursement and measures the changes attributable to the project. The latter is done independently, e.g. by the Operations Evaluation Department of the Bank (Operational Manual, OD 10.70, Project Monitoring and Evaluation).

26.1.6 The Bank favors the use of independent professional accounting firms for the audits of all revenue-earning and commercial-type projects that would use accrual accounting. The audits of non-commercial projects and implementing agencies may be undertaken by the Board of Supreme Audit, subject to its independence and technical competence, and the prompt availability of draft audited financial statements and audit reports to the ITF Administrator (without awaiting approval by the Council of Ministers and parliament). Every effort should be made to select auditors that can apply International Standards of Auditing (ISAs) issued by the IFAC International Auditing Practices Committee. Audit fees are normally provided for in the project budget.

26.1.7 As the audit terms of reference include an initial review of the adequacy of internal controls, auditors should be appointed *before* the grant becomes effective and implementation starts.

26.2 OPERATIONAL INDEPENDENCE

26.2.1 Auditors should be impartial and independent of the control of the institutions and persons appointing them. No auditor, for instance, should be employed by the agency that engages him/her, nor have any financial or close business relationship. Auditors should not be asked to undertake any accounting, asset verification, supervisory or training duties that may compromise their independence. Auditors are normally asked to give their opinions on changes in financial management systems, and may do so, but it should be made clear that they reserve the right to give an adverse opinion if the system breaks down. The design and implementation of systems remains a management responsibility.

26.3 AUDIT STANDARDS

26.3.1 The Bank requires adherence to the International Standards of Auditing (ISAs) promulgated by the International Federation of Accountants (IFAC). In addition, the International Association of Supreme Audit Institutions (INTOSAI) sets similar standards targeted to the work of SAIs. The BSA is a member of INTOSAI. For further information, see the websites of these institutions, www.ifac.org and www.intosai.org, or World Bank Financial Accounting, Reporting and Auditing Handbook Annex XVI.

26.4 STAFFING AND EXPERTISE

26.4.1 To meet the INTOSAI standard of competence, the SAI should command the full range of skills and experience necessary for the effective discharge of the audit mandate, and all work should be carried out by persons whose education and experience is commensurate with the nature, scope and complexities of the task. The SAI should adopt policies and procedures for the development, training and advancement of its employees. Similar standards apply if the auditor is from a professional firm. Normally, the auditor should be a member of a professional body recognized by IFAC.

26.5 REPORTS

26.5.1 The Board of Supreme Audit Law, as amended, requires the BSA to investigate and report on matters relating to the efficient disbursement and use of public funds as requested by the Parliament, and to prepare and publish an Annual Report that discusses in detail the audits and performance evaluations undertaken during the year. It has to include a statement of audits, evaluations and related work initiated on formal request by the Commission on Public Integrity or parliament. It shall assess the overall adequacy of and effectiveness of government measures taken to ensure efficiency and transparency in the use and disbursement of public funds in Iraq, and include any legislative or other proposals determined by the Board to be necessary.

26.5.2 Funds from ITF are public funds, and the law applies to all ITF projects. Article 9 of the Law is amended to read as follows: “The Board shall have authority to perform financial evaluations of public contracts and to ensure that government grants, loans, facilities and privileges are employed for the purposes for which they were offered or loaned”.

26.5.3 Towards greater transparency, all audit reports should be made widely available. “At least quarterly, the Board shall publish a list of its recent audit reports and distribute the list as widely as possible, using the internet if available. All reports shall be made available to the press and any interested

person upon written request”, except information classified for national security purposes.

26.6 FOLLOW UP OF REPORT FINDINGS

- 26.6.1 If the implementing agency fails to appoint acceptable auditors on suitable terms of reference, *or* their report is delayed more than four months after the due date (i.e. it is not received by October 31), *or* the quality of audit is considered unacceptable, *or* the report indicates deficiencies in the accounting and internal controls (including ineligible expenditures) or in the reliability of the financial statements, the Bank normally withholds further replenishment of any special account, and may suspend disbursements entirely until the implementing agency takes adequate remedial action (Operational Manual OP 10.02, *Financial Management*).
- 26.6.2 The management of the project remains a GOI responsibility. The GOI is responsible for ensuring that deficiencies are made good.