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## **USAID-Funded Economic Governance II Project**

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**Treasury Directions Number 001, for Introduction of the  
Iraqi Financial Information System (IFMIS)**

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## I. Introduction

The Financial Management Law (the Law) of 2004 provides the basis for the establishment of a comprehensive framework for conducting fiscal and monetary policy in accordance with international best practices. It establishes a structured process for the formulation and execution of the Government of Iraq's (GoI's) annual budget. Specifically the Law in Section 3 (1) authorizes the Minister of Finance (MOF) to issue additional *Directions* to the Ministries, as the MOF believes are necessary to aid in the execution of the budget, improve internal controls and provide for efficient accounting and financial operations.

Additionally, Section 11 (3) of the Law, states:

“The Minister of Finance **shall** prescribe internal control arrangements, accounting procedures and standards, submission of reports on the usage of budget funds, and the manner of recording receipts, payments and commitments.” (emphasis added)

This *Treasury Direction 2008-001*, is the initial Treasury Direction to meet these MoF responsibilities.

### **Purpose:**

The purpose of these and future *Treasury Directions* is to ensure that the highest achievable international accounting standards are developed in the MOF and all other Ministries. *Treasury Direction 001* covers the areas of 1) Budget Preparation, 2) Budget Execution, 3) Internal Controls, and 4) Final Accounts (the year end closing). Subsequent *Treasury Directions* will address such items as Revenues, fixed assets, banking and securities. Until new *Treasury Directions* are received on these other areas, existing rules and procedures will apply.

In conjunction with international agreements the GOI is in the process of restoring a sophisticated, electronic software based Financial Management Information System.

This system, “the Iraq Financial Management Information System” (IFMIS), will provide greater efficiencies and conformity for the accounting of the GOI. Additionally, its reporting capabilities will greatly improve both the timeliness and effectiveness of financial reports. This system will replace the Legacy manual system of accounting and allow our financial and accounting personnel to perform more meaningful analysis, provide better transparency and increase accountability at all levels of government.

These *Treasury Directions* will take place when the restoration and testing of the IFMIS is completed, but in no event will be longer than the start of fiscal year 2009. All affected Ministerial staff will be given the opportunity of training to reduce concerns and increase efficiency, accuracy and consistency between the Ministries. At the effective date, it is anticipated that both the Legacy System and the IFMIS will run parallel for a period time to insure that all data is properly recorded and that the IFMIS is functioning as designed.

Only the MOF may issue or amend *Treasury Directions*. Amendments will be forwarded to Spending Units by *Instruction*. The official accounting basis of the GOI, remains and continues as the International Cash Basis Standard. As we progress to the full implementation of the IFMIS system, several new policies and procedures will be issued by this office.

## II. Definitions for the Purposes of this Direction

- 1) "*Budget appropriation*" is the legal authorization given to the government to spend public money over the fiscal year for specified purposes.
- 2) "*Authorized person*" is a person delegated authority in writing by the Minister of Finance to manage public money.
- 3) "*Borrowings*" are funds received in return for a legally binding agreement to repay.
- 4) "*Budget*" is a financial program based on annual estimates of government cash receipts and payments, transfers, and transactions in kind.
- 5) "*Budget executor*" is an authorized person, or person delegated authority by the budget executor, responsible for the execution of the budget.
- 6) "*Capital expenditures*" are the use of funds to acquire or upgrade capital assets, such as buildings, structures, machinery, and equipment, and financial assets.
- 7) "*Cash payments*" are any monetary transactions resulting in a reduction in the balance of a bank account or cash balance.
- 8) "*Chart of accounts*" is a structured list of accounting codes used to classify and record budget revenue and expenditure transactions.
- 9) "*Commitment*" is an undertaking to make an expenditure following the conclusion of a binding agreement that will result in a payment.
- 10) "*Contingency reserves*" are funds allocated to the Ministry of Finance in the annual budget law or supplementary budget laws for the purpose of making expenditures that are urgent and unforeseen at the time of passage of the annual budget law.
- 11) "*Council of Ministers*" is the Council of Ministers (COM) described in the Constitution of Iraq.
- 12) "*Current expenditures*" are expenditures which are not capital expenditures, such as salaries, supplies, services, and fuel.
- 13) "*Economic classification*" is a systematic arrangement of budget revenue and expenditure items by type for the purposes of financial statistical reporting and analysis.
- 14) "*Financial assets*" include foreign or domestic cash, deposits, loans, bonds, financial derivatives, accounts receivable, other types of claims, monetary gold, special drawing rights (SDRs), treasury bills, and shares.
- 15) "*Fiscal year*" is the general government's accounting period, which begins on January 1<sup>st</sup> and ends on December 31<sup>st</sup>.
- 16) "*Federal annual budget*" is the estimate of the total annual receipts and payments as approved by the Federal Government.
- 17) "*Federal government*" is the Iraqi National Government.
- 18) "*Federal government bank account*" is a bank account for the receipt, payment, or transfer of public money belonging to the federal government.

- 19) *“Functional classification system”* means the array of budget authority, expenditures, and other budget data according to the major purpose served—for example, agriculture, national defense, and transportation.
- 20) *“General government”* comprises all government units primarily engaged in non-market operations, including the federal government, regional governments, governorates, municipal and local governments.
- 21) *“Government debt securities”* are debt securities issued by the Ministry of Finance, including debt securities lawfully issued prior to the effective date of the Public Debt Law promulgated in 2004.
- 22) *“Governorates’ budgets”* are the estimates of annual receipts and payments of the governorates.
- 23) *“Governorate Councils”* are the Governorate Councils described in Section 2 of CPA Order Number 71, Local Governmental Powers (the “Local Governmental Powers Law”).
- 24) *“Line items”* are the payments specifically itemized in the budget law.
- 25) *“In kind”* means a transfer or exchange in which payment takes the form of tangible property, intangible property, or services rather than cash.
- 26) *“Liability”* is a present obligation arising from past events, the settlement of which is expected to result in a future payment in cash or in kind.
- 27) *“Outlay”* means a payment to liquidate an obligation other than borrowing.
- 28) *“Payment arrears”* arise when a payment is not made by its due-for-payment date.
- 29) *“Petroleum”* means hydrocarbons, including, but not limited to, crude oil, natural gas, and natural gas liquids and refined petroleum products.
- 30) *“Petroleum revenue account”* means the Development Fund for Iraq (DFI) account as described in United Nations Security Council Resolution 1483 (2003) or any successor account to the DFI.
- 31) *“Public money”* means cash and bank deposits within the custody and control of the federal government.
- 32) *“Public corporations”* are - State companies, as defined in Law Number 22 of 1997 on State Companies; and any other juridical person or unit that is owned or controlled by the federal government, and produces goods or services for the market and, in the case of a unit which is not a juridical person, functions independently and is capable of maintaining separate accounting.
- 33) *“Special budgetary funds”* are special funds whose sources, uses, and purposes are established and restricted by law.
- 34) *“Spending units”* are the ministries of the federal government and the administrative bodies of the federal and regional governments, governorates, and municipal and local governments, to which funding is allocated in the annual budget law.
- 35) *“Reallocate,”* in relation to a budget appropriation, means to move budgetary resources from one budget account, unit, or line item to another.
- 36) *“Transfers”* are the provision of goods and services, assets (including financial assets), or labor that do not require the recipient to provide a good, service, payment, or payment-in kind in return.
- 37) *“Treasury Consolidated Account”* is a system managed by the Ministry of Finance for consolidating the balances of the cash accounts of the federal government for the purpose of efficient cash management.
- 38) *“Treasury general ledger”* is a system, based on double entry principles, of accounting for, executing, and reporting the budget.

- 39) “*Treasury Single Account*” is a bank account, or a set of linked bank accounts, of the government through which all government receipts and payments are channeled. It is controlled by the Ministry of Finance and is maintained at the Central Bank.
- 40) “*Government of Iraq*” (*Gol*) is the public authorities and agencies of Iraq, which are entities established through political processes, and that exercise legislative, judicial or executive authority within the territory of Iraq. Government does not include public corporations.
- 41) “*Government debt*” consists of all liabilities of the government that require payment or payments of interest and/or principal by the borrower to the lender at a date or dates in the future.
- 42) “*Petroleum revenue*” is petroleum export revenue, non-tax revenue earned from the sale of petroleum to domestic buyers (collectively, petroleum non-tax revenue), and tax revenue levied on petroleum (petroleum tax revenue).
- 43) “*Petroleum export revenue*” is non-tax revenue earned from the sale of petroleum to foreign buyers.
- 44) “*Publicly available*” means that information is available for ready access by any member of the public. This includes, but is not limited to, publication in the *Official Gazette*, on an unrestricted website, or in widely available public newspapers.

### III. MoF General Provisions

- 1) The MoF is responsible and has the authority to implement procedures for several critical areas of budgetary, financial and asset control. This includes the following:
- A. The development and presentation to the COM of the Draft Annual Federal Budget.
  - B. The presentation of the Draft Federal Annual Budget to the Council of Representatives.
  - C. The implementation and execution of the approved Federal Annual Budget.
  - D. To ensure that no public funds are expended, unless the expense is included in the Federal Annual Budget.
  - E. To establish a Treasury Consolidated Fund, General Ledger and all related accounting records and documents.
  - F. To review and establish monetary limits at the various Ministries and Spending Units.
  - G. To appoint Financial Officers at the individual Ministries and Spending Units to implement the Treasury Directions.

### IV. Development of the Federal Annual Budget

- 1) The preparation of the Federal Annual Budget shall be based on reasonable projections of economic activity, the goal of economic stability, desired economic policy, and applicable laws and regulations. It shall be prepared to ensure the sustainability of Iraq’s fiscal position, minimizing fluctuations in government spending, and achieving efficient revenue collection. The preparation of the federal budget will be based upon reasonable forecasts based upon historical data for petroleum prices, petroleum production, and tax and customs revenue. The projections shall be prepared by the Ministry of Finance in consultation with the Central Bank and other Ministries in their respective areas of expertise.

- 2) During the month of May of each year, the Minister of Finance, shall issue a report on the priorities for fiscal policy and related spending for the next fiscal year, including the proposed total limit on spending, and the limits for each individual spending unit. This report will be submitted to the Council of Ministers for approval. An update on progress in execution of the budget in the current fiscal year shall also be included.
- 3) The Minister of Finance shall consult with the Minister of Planning and Development Cooperation on capital spending priorities, estimates of total funding, and procedures for preparing the capital spending plan and current budgetary implications of capital expenditures, including those to be implemented or financed by external sources.
- 4) In the month of June of each year, the Minister of Finance, in consultation with the Minister of Planning and Development Cooperation, and based on the priorities for fiscal policy established by the Council of Ministers, shall issue a circular requesting the spending units to prepare their budgets. The circular shall include economic data, based upon inputs from various sources, the procedures and timetable for budget preparation, as well as total levels of expenditure for each spending unit. This will serve as the basis for the spending unit to prepare its individual budget request.
- 5) In the month of July of each year, spending units will submit requests, including the information shown below, to the Minister of Finance for the allocation of funds. Copies of requests for the capital portion of the budget will also be submitted to the Ministry of Planning and Development Cooperation. Each request shall include:
  - a) The current year expenditure including the value of outstanding commitment for the current;
  - b) Consistent with the guidelines issued by the Minister of Finance, the expenditure estimates for the “upcoming fiscal year” and to the extent permissible given conditions prevailing in Iraq, for the two fiscal years following the upcoming fiscal year as prescribed in the economic and functional classification system determined by the Minister of Finance;
  - b) Estimates of personnel requirements for the budgetary funds requested;
  - c) Estimates of other operating costs;
  - e) A listing of multi-year commitments or payments, along with separately prepared capital expenditures;
  - f) Estimates of receipts from the core activities of spending units. And
  - g) Estimates of the amount of expenditures that would require payment in foreign currency.
- 6) The Minister of Finance may determine more specific requirements for the content and format of the budget requests.

- 7) The Minister of Finance, in consultation with the Minister of Planning and Development Cooperation shall, on the basis of the estimates of revenue and submitted budget proposals for the allocation of budget funds, and in the light of discussions with proposing Ministers, determine estimated payments for spending units for the budget, as well as any amounts to be included in the contingency reserve.
- 8) In the event of an irreconcilable disagreement during discussions on the draft annual federal budget between the Minister of Finance and the Ministers responsible for spending units, the Minister of Finance will note the disagreement and explain his proposed solution in his submission of the draft annual federal budget. In determining the proposed solution, the Ministry of Finance may consult with the Ministry of Planning and Development Cooperation regarding the prioritization of capital expenditures. The Council of Ministers may, within the agreed aggregate limit, adjust appropriations in accordance with their collective priorities. Any increase in the aggregate spending limit must be based on a proposal submitted by the Minister of Finance and approved by the Council of Ministers.
- 9) In the month of September of each year, the Minister of Finance shall prepare the draft annual federal budget and submit it to the Council of Ministers for approval. The Minister of Finance shall submit the budget by October 10th to the Council of Representatives (CoR).

## **V. Budget Law**

- 1) The MoF in preparing the draft annual budget law the following shall be taken into account, and fully disclosed to the COM.
  - a) A statement of the objectives and operating rules for fiscal policy and an explanation of how these objectives relate to provisions in the annual budget law.
  - b) A detailed explanation of the main assumptions underlying the budget, including the assumptions for oil prices and oil production.
  - c) New fiscal policies being introduced in the annual budget and their quantified fiscal impact;
  - d) Major fiscal risks, documented where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments, including financial restructuring.
- 2) The draft annual budget law shall include:
  - a) The estimation of receipts in cash and in kind in accordance with economic classification;
  - b) The estimation of payments in cash and in kind in accordance with economic, organizational, and functional classifications;



- c) The use of any surplus, and the financing of any deficit;
  - d) The contingency reserve, which shall be no greater than 5% of the noninterest expenditures of the federal budget;
  - e) Clear documentation of the rules for authorizing expenditure and limits to expenditures and a summary of existing debt with details of proposed new issues, redemptions or refunds.
- 3) The COM has the right to reallocate proposed spending and to reduce the total amounts in the federal budget. It also has the right to propose an increase in the overall amount of expenditures to the Council of Ministers if necessary, and provide notice of this proposal to the Minister of Finance. The Minister of Finance will make a nonbinding recommendation to the Council of Ministers with respect to this proposal.
- 4) If the federal budget is not approved by the body vested with national legislative authority by December 31st, the Minister of Finance will, on a monthly basis, approve funds for spending units up to 1/12 (one twelfth) of appropriations of the previous fiscal year until a budget is approved. The funds so provided for can be used only for liquidation of existing commitments, salaries, pensions, social security payments, and debt service.
- 5) The annual federal budget may be amended through a supplementary budget only on the basis of a significant and unexpected change in economic circumstances or national priorities. The supplementary budget must be determined by the Council of Ministers on recommendation of the Minister of Finance and approved by the body vested with national legislative authority.
- 6) The revenues and expenditures of special budgetary funds are to be reflected in the annual budget law.
- 7) The approved federal annual and supplementary budgets shall be published in the *Official Gazette* and made publicly available in other media, as appropriate.

### **Funds Warrants to Spending Units**

- 1) No money shall be issued from the Treasury Consolidated Account except in the manner prescribed by the Minister for Finance. The Minister of Finance will issue warrants to spending units allocating funds up to the limit determined by the annual Government Budget Law. Allocated budget funds will be recorded in the General Ledger and spending units cannot exceed the recorded limits without the authorization of the Minister of Finance.
- 2) The Minister of Finance will request spending units to provide periodic expenditure plans, including intended and committed expenditure and any unexpended funds, or monthly Trial Balance reports in to support the release of allocated funds.
- 3) No money can be spent from the Budget that has not been appropriated for that purpose and covered by a warrant from the Minister.

## Funds Allocation to Spending Units

- 4) Upon receipt of a funds warrant from the Minister of Finance, a Chief Finance Officer of a spending unit may issue sub-allocation warrants to Finance Officers within his spending unit, including any spending units under his Financial and Accounting Management Directions jurisdiction not previously issued with a funds warrant directly from the Minister of Finance.
- 5) The sub-allocation warrant authorizes the Finance Officer to spend money covered by appropriation as approved in the annual Government Budget.

*(See Appendix A for Budget Preparation Process Flowchart.)*

## VI. Budget Execution - General (Government Payments)

- 1) The Minister of Finance is responsible for the execution of the federal budget and all expenditures of public monies. Accordingly,
- 2) No payments will be made from the Treasury Consolidated Account except under an appropriation made in the annual budget or supplementary budget law
- 3) Spending units will use the budgeted funds in accordance with a spending plan that has been approved by the Minister of Finance.
- 4) Spending units may not commit to making expenditures that exceed the amounts allocated to them.
- 5) Finance officers are responsible for ensuring that allocated funds within their spending units are used for lawful purposes.
- 6) Appropriations for contingency reserve funds may be used for payments that are urgent and that were unforeseen at the time the annual budget law was passed, if approved by the Council of Ministers and the Minister of Finance. All expenditures from the reserve will be reported to the COR.
- 7) The Ministry of Finance can authorize the responsible Minister or Ministers, subject to the provisions below, to reallocate the approved budget from one spending unit to another up to a limit of five per cent of the approved budget amount for the spending unit that is to have its appropriation reduced. The following restrictions apply:
  - a) No funds can be reallocated between a current expenditure of one spending unit and the capital expenditures of another or between transfer payments of one spending unit and other items, including salaries, goods, and services or capital expenditures, of another.
  - b) Spending units may, with the approval of the Minister of Finance, reallocate their approved funds between line items by up to 5% of the total amount of funds approved. However, no funds can be reallocated from capital to current expenditures or between transfer payments and other current expenditures, including salaries, goods and services. Funding reallocation from salaries or

current spending to capital spending of up to 5% may be permitted with the approval of the Minister of Finance.

c) A report of these transfers shall be prepared by Ministry of Finance and submitted on a quarterly basis to the COR. A copy of such report will be forwarded to the Minister of Planning and Development Cooperation.

8) Funds approved for spending units may be used only until the December 31st of the fiscal year, except to the extent that goods and services have been validly ordered and received. Payment Invoices received after the end of a fiscal year will be recorded as receipts of the next fiscal year budget.

## **VII. Appointment and Duties of Financial Officers**

### **Appointments of Finance Officers**

- 1) The Minister, Director or person in charge of a spending unit, is by these Directions, appointed *ex officio* the Chief Finance Officer (CFO) of that spending unit. The day-to-day duties of this office may be delegated by the CFO, however this is only allowable upon approval of the MOF and does not relieve the CFO of the ultimate responsibilities of the position.
- 2) The Minister of Finance has the right to appoint individual Government Officials within the Government Treasury and approve the appointments of Finance Officers to undertake financial tasks in Spending Units that result in:
  - a) the spending of money from the Treasury Consolidated Account and the withdrawal of Government money from a properly established Government bank account; or
  - b) the handling and deposit of Government money into a properly established Government bank account and the increase of funds in the Treasury Consolidated Account.
- 3) A Chief Finance Officer has the right to appoint one or more Government Officials to perform the duties and responsibilities of an Approving Officer for a spending unit. The appointment shall be advised in writing to the Minister of Finance.
- 4) On the written nomination of a Chief Finance Officer the MOF shall approve one or more Government Officials to perform the duties and responsibilities of Receiver or Collector of Government money.
- 5) On the written nomination of a Chief Finance Officer, the Minister of Finance shall approve one or more Government Officials of a spending unit to perform the duties and responsibilities of Certifying Officer for that Spending Unit.

- 6) The Minister of Finance will appoint, in consultation with the Chief Financial Officer one or more Government Officials as Payment Officers within Spending Units.
- 7) A Government Official appointed as an Approving Officer, Certifying Officer, Receiving Officer or a Payment Officer within a Spending Unit cannot also perform the duties of a another appointed Finance Officer.
- 8) Government Officers appointed as Finance Officers to undertake a financial task within the meaning of these Directions must be of sound moral character, trustworthy and reliable.
- 9) Specimen signatures of each Government Official proposed or appointed as a Finance Officer must be lodged with the Minister of Finance. The Director General (Government Treasury) shall be responsible for maintaining registers of authorized and appointed Finance Officers.

### **Responsibilities of Finance Officers**

- 10) All Finance Officers shall be aware of, and comply with, all orders, instructions, procedures, guidelines or circulars issued by the Minister of Finance, or given under powers delegated by him.
- 11) All Finance Officers shall be professionally liable for the due performance of their financial tasks and may be held financially responsible, at the discretion of the Minister of Finance, for any losses, inaccuracies or errors during the performance of those financial tasks. Where a Finance Officer shall have delegated any duty to any staff member under his control, he cannot be relieved of, nor may he delegate, that personal and financial responsibility.
- 12) All Finance Officers will be responsible for the enforcement and improvement of Internal Controls of the Spending Unit. Weaknesses that require correction or known violations of the Internal Control Policy should be reported to the Chief Financial Officer and the respective Inspector General's office of the Spending Unit.

## **VIII. Internal Controls**

- 1) Internal controls are the regulations, policies and procedures which protect government assets, provide consistent treatment of transactions and allow for accurate recording of financial activities. Examples of internal controls include: Approval processes, separation of duties & responsibilities, physical safety of government assets, and internal reports to determine accuracy. Internal controls are a critical element to insure that public funds ultimately are spent on those items authorized by the CoRs.
- 2) The Chief Finance Officers are responsible for the internal control of financial transactions within spending units under their jurisdictions. Chief Finance Officers shall ensure that a dedicated administrative unit responsible for ensuring the execution of the financial tasks described in these Directions is established within their organizations.

### **MoF Forms**

3) To execute the Federal Budget, provide adequate internal controls and provide for consistency between all the Spending Units several new MoF Forms are being prepared. These forms shall be used to effect the various transactions within the individual Spending Units in conjunction with the startup of IFMIS. The initial three forms will be as follows:

- (a) Form T1: This represents the purchase requisition and the expense commitment.
- (b) Form T3: This represents the Budget Expense Voucher and Payment Request.
- (c) Form T4: This represents a Journal Voucher.

### **Spending Government Money**

4) As determined by the Minister of Finance, no money shall be spent from the Treasury Consolidated Account unless:

- (a). an *Approving Officer* has approved a proposal to spend Government money or approved a expense voucher or expenditure of Government money from Budgeted & available funds,
- (b). a *Certifying Officer* has certified in writing that a proposal to spend Government money or a expense voucher is correct and valid, and
- (c). a *Payment Officer*, after verifying that a proposal to spend Government money or a expense voucher has been properly certified and approved, has authorized the payment of money from an official bank account or cash advance.

5) All actions referred to in the preceding paragraph will be carried out using Forms T1 Purchase Requisition and Expense commitment, and T3 Budget Expense Voucher and Payment Request. These forms will be the basis of all approval, recording of and reporting on expenditure, both for the current manual system and the automated Treasury Financial Management Information System.

### **Expense Vouchers**

6) Chief Finance Officers are responsible for the internal control and accounting of expenditure transactions within their jurisdiction. Each step of expenditure control is documented by the use of a properly completed *Expense Voucher and Payment Request* Form T3 (*Expense Voucher*) issued by the Minister of Finance. A Payment Request is completed for each payment in excess of ID 100,000 (one hundred thousand Dina) or paid by check. All payments less than ID 100,000, will be paid from the Spending Units Petty Cash Fund.

7) The *Expense Voucher* form must be completed in duplicate. The original shall be filed sequentially in the spending unit finance department. The copy is retained at the spending unit for reference and audit purposes, and must be attached to supporting documentation and filed by vendor.

8) The Minister of Finance shall issue Directions to take account of the use or adoption of future technologies or improved methodologies in relation to the form, process and manner of conducting financial tasks by spending units or the Government Treasury.

### **Receiving Report**

9) Following receipt of goods or services an appointed Finance Officer or Purchasing Committee must verify or obtain verification in writing in Part C of Form T3 that the service has been performed or goods delivered in accordance with an approved *Purchase Order*, signed Government Contract, binding agreement or administrative order.

10) Any deviation from the number of items or conditions of the items listed on the *Purchase Order*, or Government Contract, should be noted in writing. The information provided should contain enough data about the deviation to allow the vendor or supplier invoice to be adjusted for the value of the usable goods received or portion of service provided.

## **IX. Budget Execution**

### **Certifying Payments**

1) Before certifying that a *Expense Voucher* may properly be paid, a *Certifying Officer* must be satisfied that:

(a) the claimant has completed his part of the contract and an appointed Finance Officer or Purchasing Committee has certified that the goods have been received or services provided;

(b) an invoice or other supporting documentation has been lodged which provides sufficient detail to avoid the possibility of a double payment, or there is sufficient evidence to ensure that the Expense Voucher has not been previously paid, or evidence that a previously made payment has been returned and repaid and can be legally paid again;

(c) the supporting documentation clearly identifies the name of the claimant to be paid, to ensure that payment is only made to the person or organization supplying the goods or rendering the service;

(d) all amounts and numerical calculations are correct;

(e) the correct General Ledger code representing the intended budget classification item as advised by the Minister of Finance is nominated to record the payment as expenditure against the appropriate Budget item in the General Ledger;

(f) there is an approved *Purchase Order* or *Expense Commitment* covering the expenditure, either prior to or accompanying the Expense Voucher; and

(g) a unique registration number is issued and clearly written on the original and duplicate copy of the Expense Voucher and on original invoices and supporting documents.

### **Approval of Payments by Spending Units**

- 2) Before approving a Expense Voucher an *Approving Officer* must ensure that:
  - (a). the expenditure has been approved by the Chief Finance Officer or his delegate and the request for payment duly certified; and
  - (b). sufficient budget funds are available against the nominated budget classification item for the spending unit to cover the payment.
- 3) An *Approving Officer* must not approve payments:
  - a) in excess of the limit of Appropriation set in the annual budget for that spending unit or part of the spending unit; or
  - b) in excess of the Budget Funds Allocation provided by the Minister of Finance or Chief Finance Officer for the Spending unit; or
  - c) in excess of the spending limits set in the annual budget execution instructions.

### **Payment Authorization of Expense Vouchers**

- 4) Before authorizing a request for the payment of Government money from a Government bank account a Payment Officer must ensure that:
  - (a). the request for payment has been duly completed, certified and approved by the appointed Finance Officers from the requesting spending unit;
  - (b) the request for payment has been completely recorded and accepted in the General Ledger, or if payment is made from a Permanent Advance sufficient record has been made to ensure recording in the General Ledger;
  - (c). there are sufficient unspent and unreserved budget funds available for the spending unit under the nominated budget item to cover the payment; and
  - (d). there is sufficient cash in a Government bank account or Permanent Advance to make the payment.
- 5) A Payment Officer has the right to request that a spending unit provide supporting documentation for a request for payment where he considers that the control process has not been conducted according to these Directions.
- 6) A Payment Officer has the right to reject or return unprocessed to a responsibility center a request for payment that is factually or numerically incorrect. A Payment Officer will never alter an original document.

## **Making Payments**

7) A Payment Officer must be authorized as a signatory to a bank account for the purposes of making a payment. All checks drawn on a payment account must be signed by at least two authorized signatories to that account.

## **Invoice Control**

8) Each invoice must be examined and compared to prior payments to insure that no duplicate invoice is being paid.

## **Payments by Due Date**

9) It is desirable that the Government meets its obligations within a reasonable period of time in order to maintain its reputation as a reliable payer. Use of a due date payment system also assists the Government to manage and make better use of Government money. All invoices received by spending units for goods and services must be paid by the due date.

10) The standard due date is 30 calendar days from the receipt of an invoice. Due dates later than 30 days shall be permitted only where stipulated by the terms and conditions of a contract or by written approval by the responsible Chief Finance Officer or instruction of the Minister of Finance.

11) Spending units that consistently fail to meet the due date payment requirements without providing acceptable reasons shall be subject to scrutiny by the Internal Auditor or referred to the Supreme Board of Audit for further action.

## **Journal Vouchers**

12) A Journal Voucher is undertaken to change the balances on individual accounting records within the General Ledger. All Journal Adjustment Vouchers must be certified, approved and authorized by appointed Finance Officers.

13) Chief Finance Officers, using the *Journal Voucher Form T4* in accordance with instructions of the Minister of Finance, may request changes including adjustments correcting existing expenditure or revenue records. These changes must result in a zero affect on the overall balance of the Treasury Consolidated Account.

14) The Director-General (Government Treasury) may, in addition, make other changes including recording transactions that have occurred within the Treasury Consolidated Account external to the General Ledger.

## **Approval of Spending Proposals**

16) A Finance Officer must not undertake a proposal to spend Government money unless the action is permitted by a Chief Finance Officer.

17) A Chief Finance Officer must not permit a proposal to spend Government money



unless he is satisfied, after making such inquiries as appropriate, that the proposed expenditure:

- (a) is it lawful and in accordance with the objectives of the Government;
- (b) will it make efficient and effective use of Government money; Financial and Accounting Management Directions
- (c) have funds been appropriated in the Budget of the Government for the purpose; and
- (d) if the proposal is one to spend Special Government Money, is it consistent with the terms under which the money is held by the Government

18) A Finance Officer performing duties in relation to the procurement of material goods or services must have regard to provisions of regulations, directions and procedures issued related to public procurement.

### **Entering into Contracts**

19) A person must not enter into a contract, agreement or arrangement under which Government money is, or may become, payable unless a proposal to spend Government money for the proposed contract, agreement or arrangement has been approved under these Directions.

### **Issuing Purchase Requisitions (Form T1)**

20) A Purchase Requisition is a request from an area within spending unit for the acquisition of goods or services that are either not currently available in the spending unit's inventory or within its capacity to provide. An approved Purchase Requisition forms the basis for the issue of a Purchase Order by an appointed Purchasing Finance Officer or Committee to a selected supplier or vendor.

21) A *Purchase Requisition and Expense Commitment* (Form T1) must be completed for each purchase or procurement with a value of greater than ID 100,000 (one hundred thousand Dina) made by a Spending unit.

22) Before issuing a Purchase Requisition a Finance Officer must ensure that:

- (a). there is written approval of the Chief Finance Officer or his delegate; and
- (b). there is sufficient documentation supporting the spending proposal; and
- (c). sufficient budget allocation is available to make the proposed expense by completing Part B Expense Commitment of the Form T1; and
- (d). the details of the Purchase Requisition are recorded in a register and the Purchase Requisition issued with a unique identification number.

23) When completing Part A *Purchase Requisition* of the Form T1 a Finance Officer should clearly list the goods or services required, including prices, preferably supported by a written quote or invoice from the supplier.

24) The Form T1 is distributed as follows:

- (a) the original containing a completed Part A is delivered to the Purchasing Finance Officer or Committee once Part B Expense Commitment has been certified;
- (b) the second copy containing a completed Part B is retained by the Financial Department;
- (c) the third copy is retained by the Finance Office requesting the purchase.

### **Commitment of Government money**

25) Any spending proposal that will lead directly to the expenditure of Government moneys must first be recorded as a commitment of available budget funds.

26) Commitment is conducted by an *Expense Commitment* in the form of a documented action that specifically reserves a portion of a spending unit's available funds within a specific budget allocation to meet obligations for the payment of Government moneys. Part B of Form T1 must be certified and approved by the spending unit's appointed Finance Officers.

27) Before recording an Expense Commitment a *Certifying Officer* must be satisfied that:

- (a). there is written approval of the Chief Finance Officer or his delegate;
- (b). an appointed Finance Officer has signed Part A - Purchase Requisition of the Form T1
- (c). the correct General Ledger code representing the intended budget classification item as advised by the Minister of Finance is properly recorded on Part B Expense Commitment; and
- (d). the Expense Commitment is recorded in the Budget Commitment Register and there are sufficient funds remaining in the allocation against the nominated Budget item, after taking into consideration previous commitment and payments, to make the proposed payment.

28) A Certifying Officer is responsible for maintaining a register of all Expense Commitments raised by his Spending unit. The Expense Commitment Register must include the following information for each payment proposal:

- (a). a sequential and unique registration number;
- (b). date of registration;
- (c). total amount of the commitment;
- (d). name of the intended payee or recipient;
- (e). Purchase Requisition, Purchase Order or other reference number;
- (f). the budget classification code against which the commitment of available allocation will be made;
- (g). the balance of remaining funds to indicate there is sufficient Budget Allocation to cover the commitment (if commitment is not recorded in Ministry of Finance FMIS General Ledger);
- (h). date and registration numbers of Expense vouchers paid from the commitment.

### **Approval of Expense Commitment by Spending Units**

29) Before approving a Expense commitment an *Approving Officer* must ensure that:

- the expenditure proposal has been approved by the Chief Finance Officer or his delegate and the expense commitment has been duly certified; and
- sufficient budget funds are available against the nominated budget classification item for the Spending unit to cover the payment.

30) An *Approving Officer* must not approve expense commitment in excess of the limit of Appropriation set in the annual budget for that Spending unit or part of the Spending unit, or in excess of the Budget Funds Allocation provided by the Minister of Finance, unless authorized by the Minister of Finance.  
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### **Issuing Purchase Orders**

31) The issuing of a purchase order is a function of the IFMIS system, which generates it from the data gathered on Form T1. Future Procedures on this process will be issued by the MoF.

## **X. Advances of Government Money**

1) Advances of Government monies can severely weaken internal controls and requires additional accounting effort. Advances with the exception of Permanent Advances, as discussed below, should be avoided whenever possible.

### **Types of Advances**

2) An Advance is a sum of money given in advance to a Finance Officer or officers in special circumstances in order to conduct financial tasks connected with the government service.

3) Advances are of three types:

**1). Permanent Advance**, which is an imprest advance used for change floats, petty cash floats, money stock at remote locations, or to meet on-going financial requirements that cannot be effectively conducted through the normal Treasury payments system. A Permanent Advance is replenished from time to time, as needed and should be repaid at the fiscal year end or when its purposes ceases or when otherwise directed in writing by the Minister of Finance.

**2). Temporary Advance**, which is an advance issued for a particular purpose, or for a set period of time, including advances to contractors and advances to facilitate letters of credit. This type of advance is not replenished and must be repaid or acquitted at the end of the set period or when the particular purpose is fulfilled. A Temporary Advance shall not be issued for a period longer than twelve months or extend beyond the fiscal year end.

**3). Special Advance**, which is an advance for a specific purpose issued to an employee, such as travel outside a post or abroad, and which must be

accounted for in full within the period allowed or when the purpose has been fulfilled, whichever is the sooner.

### **Application for Advance**

4) An application for a Permanent Advance or a Temporary Advance of a value of ID5.5 million (five million five hundred thousand Iraqi Dina) or less will be made in writing by the Chief Finance Officer to the Director-General (Government Treasury) as a delegate of the Minister of Finance. The application must clearly state the purpose and manner of operation of the proposed Permanent Advance. When approving advances the Director-General (Government Treasury) will stipulate in writing the purpose, conditions and period of use for the advance. Any Advance greater than this amount must be approved by the MOF. The application shall be made on a form prescribed by the Minister of Finance and shall be signed by the officer or officers to whom the advance will be issued, counter-signed by the Chief Finance Officer or his delegate.

5) Advances must only be used for the official purpose for which they are issued.

6) Where an advance is later cancelled, or the original purpose is no longer valid, the advance shall be repaid immediately by the advance holder. In all cases the advance shall be fully acquitted, either by repayment of the total advance or any unspent portion of the advance together with supporting expense vouchers, invoices or receipts showing proof of payment.

7) If it is not possible to recover or acquit the outstanding advance amount within the period of time set for this purpose,

(a).in the case of a Permanent Advance the Director General (Government Treasury) will report to the Minister of Finance who has the right to commence legal action as he sees fit; or

(b).in the case of a Temporary or Special Advance the Chief Finance Officer will take steps to commence legal or other action, including recovery of the outstanding amount from the salary of the advance holder, as he see fit.

8) Unless determined in writing by the Chief Finance Officer or Director-General (Government Treasury) an advance will not be approved where the officer or other person concerned has a previous outstanding advance that is not acquitted or repaid.

9) An application for a Special Advance to be used by the Chief Finance Officer himself must be counter-signed by the Minister of Finance. A Special Advance for the Minister of Finance must be approved by the *Cabinet*.

10) Wherever possible, all applications for Advances should be submitted at least one week before needed.

### **Expenditure receipts, invoices and vouchers supporting advances**

11) An officer issued with an advance shall obtain receipts, invoices or similar

vouchers to support all expenditure from the advance, wherever possible. In exceptional circumstances where it is not possible to obtain a receipt, invoice or voucher for payments over a value set by Instruction by the Minister of Finance, the officer shall personally certify the purpose for which the money was expended and the reason why he could not obtain supporting documentation. The Minister of Finance shall issue Instructions regarding the acceptance of payments made without supporting documents.

12) All supporting documentation will be presented to the responsible Chief Finance Officer when an Advance is replenished or retired.

### **Annual Retirement of Permanent Advances**

13) Unless stipulated in writing by the Minister of Finance, all Permanent and Temporary Advances will be repaid on or just before the 31st December each year or immediately after the purpose for which it was issued ceases to exist. Unexpended cash and vouchers to the full amount shall be returned to the responsible Chief Finance Officer.

14) It is the responsibility of the officer holding the Permanent Advance to apply for any new Permanent Advance he requires for the new fiscal year. Any such request must be made one month prior to the start of the new fiscal year.

### **Advance holder as a Finance Officer**

15) An Advance holder shall be considered to be a Finance Officer and, accordingly, shall observe all Treasury Directions and any other instructions or Directions issued with regard to the control of expenditure and the disbursement of Government moneys.

16) An Advance holder must ensure that the Advance is used only for the purpose for which it was issued. The use of an Advance for any other purpose whatsoever will be considered as a disciplinary offence.

17) Advance holders will take all due precaution against the loss or theft of cash held on Advance. The Minister of Finance will issue an Instruction setting a limit on the amount of cash that can be kept by an advance holder. Moneys over this value must be kept in a special bank account opened to maintain the advance.

### **Issuing Special Advances from Permanent Advances**

18) Where the Minister of Finance has approved the issuing of a Special Advance from a Permanent Advance, the Chief Finance Officers must strictly follow the same Directions instructing the Director-General (Government Treasury) in regard to the issuing, registration and maintenance of Advances within their spending units.

## **XI. Final Accounts (Year-end Closing)**

1) To have an efficient closing of the Government's accounting records and aid the development of the Final Accounts the MoF has implement the following procedures effective for fiscal year 2008.

No new purchase request will be inputted into the system after December 10<sup>th</sup>.

All validated purchase requisitions inputted into the IFMIS system will be processed and paid prior to the end of the year.

All permanent advances shall be reconciled and if possible reimbursed, prior to December 31<sup>st</sup>.

All Temporary and Special Advances will be listed, investigated, reconciled and if possible acquitted prior to December 31<sup>st</sup>.

All purchase requisition received, but not yet entered into the IFMIS system, prior to December 10<sup>th</sup>, will be processed prior to December 31<sup>st</sup>.