

Scope of work
External Audits Relating to All Export Sales of Iraqi Oil, Petroleum Products and Natural Gas and Operations of the Development Fund for Iraq (DFI) and the successor account

I. Audit of the DFI's and the successor account's statement of cash Receipts and Payments

The auditor will perform an audit of the DFI and successor account in accordance with the International Standards on Auditing (ISA). The audit scope of work will cover the following:

1. Audit of the DFI and successor account statement of cash receipts and payments prepared by the Iraqi Government under the cash basis of accounting in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting", for (i) the six months ending June 30, 2011 for the DFI, and (ii) the successor account for the six months ending December 31, 2011, and determination as to whether the disbursements from the DFI and the successor account are duly authorized and received by the designated recipients.
2. The DFI and successor account audits will be conducted in accordance with International Standards on Auditing (ISA 800 related to the cash basis financial statements). The DFI audit for the six months ending June 30, 2011 and successor account audit for the six months ending December 31, 2011 will include, but not be limited to, review of inflows, investments and other assets, disbursements, liabilities, contingencies of the DFI and the successor account, supporting the objective that the DFI and the successor account are used in a transparent manner in accordance with applicable control procedures.
3. The audit of the DFI and the successor account will also cover the disbursements made by the U.S. Agencies from the DFI's and the successor account's funds on behalf of the Ministry of Finance for the year ending December 31, 2011. As part of this audit, the auditor will report on the internal controls over the disbursements made by the U.S. Agencies from the DFI's and the successor account's funds for the year ending December 31, 2011 in both English and Arabic.
4. The Iraqi Government had earlier decided that the role of U.S. Agencies should end by 31.12.2007. The auditor must provide a complete report on this decision's implementation.

5. The audit of the DFI and successor account will cover the funds that have been disbursed to **all spending ministries and all governorates** (as reflected in Annex 1 to the SOW) from the DFI and successor account funds during the year ending December 31, 2011. This audit will cover the major expenditures financed from the DFI's and the successor account's main account; **the extent of the audit of each ministry and governorate will be based on the auditor's professional judgment of the materiality** of the individual ministry or governorate relative to the overall DFI and successor account's statement of cash receipts and payments.
6. Any weaknesses that come to the auditor's attention during the above audits and review will be reported in the management letter to Iraqi Government and IAMB at the same time.

DFI and successor account Audit Deliverables

- Audit reports and management letters for all areas (I-5) should be provided simultaneously to COFE and Government of Iraq on the DFI and successor account statement of cash receipts and payments for the year ending December 31, 2011 in both English and Arabic.
- Management letter on DFI and successor account internal controls for year ending December 31, 2011 should be provided in both English and Arabic.
- The DFI and successor account management letter should include a section about the internal controls over the disbursements made by the U.S. Agencies from DFI and successor account funds for the year ending December 31, 2011 in both English and Arabic and with due regard to point 4 above.
- Management letter on internal controls over the disbursements made by the spending ministries from the DFI and successor account's funds for the year ending December 31, 2011 should be provided in both English and Arabic. The management letter should include a separate section relating to **each** of the spending ministries and governorates.

The audited financial statements of the DFI will be issued for the first six months of 2011 by September 30, 2011, and for the successor account for the period July 1 to December 31, 2011 by April 30, 2012

II. Audit the DFI Financial Statement(six months ended June 30, 2011)

The auditor will audit the DFI's statement of cash receipts and payments for the period from January 1, 2011 to June 30, 2011 in accordance with

International Standards on Auditing (ISA 800 related to the cash basis financial statements).

In addition, the auditor will commence the interim audit at the Ministry of Finance, Central Bank of Iraq and selected higher risk ministries for the purpose of presenting the results at the same time to COFE at its meeting after September 30, 2011.

Deliverables – Final Report

- Audit report on DFI statement of cash receipts and payments for the period from January 1, 2011 to June 30, 2011, including final statement on OPRA.
- Assessment report on progress in addressing earlier audit qualifications.
- Assessment report on progress in implementing the Ministry of Oil's comprehensive oil metering plan as at June 30, 2011. The auditor should also provide observations on (i) the implementation and calibration of oil meters to date, and (ii) the progress on implementing the further steps identified earlier and required to fully implement the plan on schedule through end 2011.
- Presentation to the COFE, which will include the results of the June 30 audit. And assessment of progress in addressing earlier audit qualifications and implementing the oil metering plan.

III. Audit of Oil Export Sales

Audit of the statement of export sales of petroleum and petroleum products from Iraq made by the Oil Marketing Company (SOMO) in accordance with the International Standard on Auditing ISA 800 "The auditor's report on Special purpose audit engagements".

Deliverables:

- Audit report on the statement of Oil Export Sales for the year ending December 31, 2011 in both English and Arabic.
- Management letter in both English and Arabic on SOMO's internal control over export sales of petroleum and petroleum products and subsequent cash deposited in the DFI and successor account.
- The SOMO management letter will include a section about the key internal controls over the bidding on, and awarding of, export sales

contracts in both English and Arabic. In particular, the management letter will include:

- Material weakness related to the key internal controls that were designed by the Iraqi Government (IG) and Oil Marketing Company (SOMO), over the capture of oil revenue from the ground through to the subsequent export and deposit of cash in the DFI.
- Material weakness related to the key internal controls, designed by the IG and SOMO, over the bidding on, and awarding of, export sales contracts.
- Material weakness related to any difference between the SOMO list of export sales and SOMO's sales ledger and the amount deposited in the FRBNY.
- Material weakness that may be noted during the testing of the internal control procedures for the bidding on and awarding of contracts.
- Material weakness related to the auditor's review of the contracts and sales invoices to ensure that they were signed and approved by authorized person in accordance with SOMO's policies and procedures, and approved by the IG.
- Material weakness related to the matching of the quantities and prices as per invoice to the Sales Contracts, Bills of Lading, Certificates of Quantity and Quality, Ullage reports, Export Cargo Manifests and Master Receipts.
- Material weakness related to the recalculation of the Oil Sales Price (OSP), by reference to PLATTS publication and comparison with the price per the invoice.
- Reconciliation of quantities of oil and oil products produced/purchased with the quantities utilized through export sales, internal consumption, re-injection or any other usages.

IV. Audit of the Oil Proceeds Receipts Account (OPRA)

Audit of the cash receipts from export sales of petroleum made by the Oil Marketing Company (SOMO) and deposited in the Oil Proceeds Receipt Account or successor account in accordance with the International Standards on Auditing ISA 800 "The auditor's report on special purpose audit engagement".

Deliverables:

- Audit report on the statement of proceeds of oil export sales for the year ending December 31, 2011 in both English and Arabic.

- Management letter in both English and Arabic on SOMO's internal control over the proceeds from export sales of petroleum, petroleum products and natural gas and the transfers to the OPRA account pursuant to the allocation requirements of UNSCR 1483 paragraphs 20 and 21.

In particular, the management letter will include:

- Any material differences related to matching the FRBNY statements of transactions for the period from January 1, 2011 to December 31, 2011 of export sales of petroleum, petroleum products and natural gas, as recorded by the Iraqi State Oil Marketing Organization, to the amount deposited in the OPRA account.
- Any material difference that may be noted based on the auditor's recalculation of the amounts to be transferred from the OPRA account, pursuant to the allocation requirements of UNSCR 1483 paragraphs 20 and 21, and based on matching these payments to the cash deposited in the DFI and successor account and the cash transferred to the UN Compensation Fund.
- Any material differences in the United Nations confirmation regarding the amounts transferred from the OPRA account to the UN Compensation Fund during the year ending December 31, 2011.

7. Follow up on Matters Arising from Previous Year's Audit Reports

The auditor will deliver a separate report on actions or otherwise on matters which arose in the earlier audit reports with emphasis on the more important issues raised, such as oil metering, internal control assessment and contracting procedures.

