International Advisory and Monitoring Board of the Development Fund for Iraq

Press Release
June 30, 2011

Statement by the International Advisory and Monitoring Board of the Development Fund for Iraq

The International Advisory and Monitoring Board (IAMB) of the Development Fund for Iraq (DFI) met in Amman, Jordan on June 30, 2011 and issued the following statement:

"Over the past eight years the International Advisory and Monitoring Board (IAMB) has overseen the operations of the Development Fund for Iraq (DFI), through which more than $250 billion of Iraq's oil export revenues have flowed. Today we conclude our work and are honored to issue a final report and to hand over our responsibilities to the Iraqi Committee of Financial Experts (COFE).

"The IAMB's role has been one of audit oversight, both over the control and reporting of oil export revenues, and the use of those revenues by the Iraqi spending ministries for the benefit of the Iraqi people. The IAMB was established under the direction of the United Nations Security Council and we welcome that body's repeated endorsement of the significant role played by the IAMB in helping to ensure that Iraq's oil export revenues were being used in a transparent and equitable way for the benefit of the people of Iraq.

"The IAMB has operated with full transparency: its meetings were open and the minutes published, it approved international reputable auditors based on competitive bidding, and all findings were published on its website (www.iamb.info), including 64 audit reports containing over 3,200 pages of findings.

"The IAMB has been a driving force in strengthening controls over Iraq's oil extraction and export. The IAMB welcomes reports by COFE that the implementation of a full oil metering system is under way and good progress has been made. The lack of an effective system of oil metering had been consistently highlighted by the IAMB as the main obstacle to the measurement and control over Iraq's oil revenues.

"The IAMB has also been instrumental in strengthening internal controls at the Iraqi spending ministries. Recent audits of the ministries by international accounting firms have seen a welcome sharp decrease in negative findings and other weaknesses in controls at the ministries. The IAMB has partnered in the follow up to these audits with the Iraqi Board of Supreme Audit (BSA) and COFE, and acknowledges their significant contribution to these efforts, which have laid a strong foundation for the continued rebuilding of capacity and control at the ministries.

"The IAMB also played a key oversight role during the time of the Coalition Provisional Authority (CPA). During this time, the IAMB launched investigations of sole-sourced contracts using DFI funds and ensured transparency in DFI reporting, which was subject to full independent audit by international accounting firms. The IAMB was the first independent agency to highlight the absence of a comprehensive oil metering system and encouraged the CPA to curtail smuggling activities while initiating an oil metering study.

Way forward

"Much has been achieved and many challenges remain. Looking ahead, further progress is needed to achieve sound financial governance to help minimize the risks of mismanagement and diversion of oil export revenues. COFE will need to remain vigilant and proactive to maintain the momentum of reforms going forward. We wish them every success in their vital responsibilities for continuing to safeguard Iraqi oil revenues for the benefit of the Iraqi people.

Background

"**IAMB Mandate**: The IAMB mandate expires on June 30, 2011 after eight years. The IAMB was created by the UN Security Council in 2003 as an independent and international audit committee to oversee independent audits of Iraq's oil export revenues and the Development Fund for Iraq (DFI). The DFI received over $250 billion in crude oil revenues, under US administration until June 2004, and thereafter under Iraqi administration. The DFI audits focused on Iraqi oil export revenues and the use of those resources, including at the spending ministries. The IAMB has been unique on the international stage—this was the first time international organizations had come together as an audit oversight body. The IAMB comprised members representing the executive heads of four international organizations—the Arab Fund, International Monetary Fund, World Bank and United Nations—together with the Government of Iraq. IAMB members worked together in a collaborative manner over this period of time.

"**Challenges:** The IAMB faced many challenges in carrying out its work.

- ❖ The *security situation* in Iraq hindered the IAMB's work, including not being able to set up a secretariat in Baghdad as originally envisaged, and our Iraqi colleagues and the auditors carried out their work in difficult circumstances.
- ❖ *Legacy issues*: The absence of a comprehensive oil metering system, due to the past underinvestment in Iraqi oil infrastructure, hindered the transparent accounting for oil revenues. Pre-existing barter contracts for oil resources, smuggling by the shipload in the early days of the CPA and cash transactions outside the DFI were also noted.

❖ *Accountability challenges*: The IAMB early on noted the widespread use of contracts without competitive bidding. Early record-keeping and internal controls by the CPA were inadequate. Outdated and ineffective procedures at Iraqi spending ministries impacted accounting and reporting, which were further exacerbated by the security situation. It is not possible to determine that all Iraqi oil resources during the period since IAMB inception had been used for the benefit of the Iraqi people. However, audits of the DFI concluded that known oil export proceeds were deposited in the DFI, with a few exceptions.

Recommendations

"At the conclusion of its work the IAMB presents its recommendations to continue the gains achieved by the IAMB and its Iraqi partners.

1. Ensure effective implementation of the metering installations, including through completion of the Ministry of Oil's plan through end-2011 and the further steps identified by PricewaterhouseCoopers (PwC).

2. Continue to take concrete steps to implement and follow up on the remaining audit findings and recommendations, including improving financial reporting and control systems over oil export sales and in key Iraqi ministries, and ensuring completeness of Iraq's oil export accounts.

3. Codify COFE's role and terms of reference in law.

4. Continue the independent oversight work of the IAMB by the Iraqi Committee of Financial Experts and allow it and the BSA to continue their work with full transparency and support of the government and parliament. In addition to the six monthly reporting to the Council of Ministers, at least quarterly reports should be made available to the public on COFEs work and on the operations of the successor account to the DFI.

5. Seek resolution with the US Government concerning the use of resources of the DFI which might be in contradiction with UNSCR 1483, particularly remaining issues raised in the July 2010 Special Inspector General for Iraq Reconstruction (SIGIR) audit report on accounting for DFI funds.

6. Achieve Extractive Industry Transparency Initiative (EITI) compliant status through the completion of the EITI validation quality assurance process."