



IAMB REPORT 2011

I. BACKGROUND

1. **The International Advisory and Monitoring Board (IAMB) was created under the mandate of United Nations Security Council Resolution (UNSCR) 1483 of May 2003.** The executive heads of the Arab Fund for Economic and Social Development, the International Monetary Fund (IMF), the United Nations and the World Bank established the IAMB in October 2003, with the finalization of the IAMB terms of reference.¹ A fifth full voting member was designated by the Government of Iraq in June 2004.

2. **The IAMB exercised oversight over Iraq's oil export revenues and the Development Fund for Iraq (DFI) until June 2011.** The Coalition Provisional Authority (CPA) administered the DFI until June 2004, when the Government of Iraq took over the administration of DFI resources (see Annex II).² This report covers the operations of the IAMB from its inception in October 2003 through the expiration of its mandate in June 2011, and supplements three earlier interim reports.³ The results of the IAMB's work are publicly available on the IAMB website: www.iamb.info.

II. IAMB MANDATE

3. **The IAMB functioned as an independent audit oversight committee over Iraqi oil export sales in accordance with international best practices.** The purpose of the IAMB was to promote UNSCR 1483 objectives: to help ensure that the DFI was used in a transparent and equitable manner for the benefit of the Iraqi people and that export sales of petroleum, petroleum products and natural gas were made consistent with prevailing international market best practices. To carry out its mandate, the IAMB met regularly, commissioned periodic audits by reputable auditors, systematically reviewed and published the results of those audits, and requested and approved special audits of sole-sourced contracts. The IAMB has worked alongside its Iraqi successor body—the Iraqi Committee of

¹ The terms of reference directed the work of the IAMB in accordance with UNSCR1483 (see Annex I).

² The IAMB continued to function and worked with the Interim Government of Iraq after the dissolution of the CPA, as set out in UNSCR 1546, and its mandate was scheduled to expire on December 31, 2005. The UN Security Council approved several annual extensions of the IAMB mandate under Resolutions 1637, 1723, 1790, 1859, 1905, and a final six month extension under resolution 1956 through end-June 2011. Annexes III through V provide background on the IAMB operations.

³ The period from January 1 through June 30, 2011 was transitional in nature. During that period, the IAMB focused on transitioning to the successor body, COFE, who will oversee the 2011 audit.

Financial Experts (COFE)—since 2006. COFE is chaired by the President of the Board of Supreme Audit (BSA), who attended IAMB meetings (see Box 1).

Box 1. Committee of Financial Experts (COFE)

In October 2006 the Iraqi Council of Ministers established the Committee of Financial Experts (COFE) to continue the work of the IAMB upon its dissolution. COFE's terms of reference provide for regular reporting to the Council of Ministers and publication of results on a timely basis, including audit reports and financial statements (see Annexes IX and X).

The IAMB has worked closely with COFE since 2006 to help ensure a smooth transition at the expiration of the IAMB mandate. COFE met at least monthly and reported to the IAMB every two months on progress on a range of matters. COFE worked alongside the IAMB to oversee the 2007-2010 audits.

COFE has performed an increasingly active oversight role, particularly in 2009-10 and in light of the IAMB not being able to set up a secretariat in Baghdad.

COFE actively participated in the IAMB's monitoring of controls over Iraqi oil export revenues, the use of those revenues in the spending ministries, and the installation of oil metering.

COFE, in conjunction with the BSA, performed the detailed follow-up and investigation of recommendations contained in the independent audit reports commissioned by the IAMB. As a result, several recommendations had been implemented and outstanding recommendations are being actively followed up.

During 2010, the chair of COFE reported quarterly to the UN Security Council on progress in achieving the action plan to implement successor arrangements.

III. KEY CHALLENGES IN FULFILLING THE IAMB MANDATE

4. **Iraq operated under grave circumstances and the IAMB faced restrictions in carrying out its mandate.** The DFI audits were undertaken on the ground in Iraq and often under adverse security conditions. During the early audits commissioned by the IAMB, the external auditors were denied access to some Iraqi ministries and US Government records and the security situation hampered the completion of the audit work. The IAMB acknowledges critical contributions, often under hazardous security conditions, by many individuals in conducting IAMB-related work, in particular the Iraqi representatives to the IAMB, members of COFE, the staff and leadership of the BSA, and the audit personnel from the international accounting firms. The IAMB also notes with regret the killing of the previous President of the BSA while in office.

Legacy Issues

5. **Past underinvestment in Iraqi oil infrastructure.** The dated development of Iraqi oil fields hindered the transparent accounting for Iraqi oil export sales. The IAMB early on highlighted the lack of oil metering as a key obstacle for effective measurement and control over oil revenues. Infrastructure constraints also hampered export operations at the shipping terminals.

6. **Pre-existing barter contracts for oil resources.** Barter transactions of oil for electricity with a neighboring country were being recorded by the State Oil Marketing

Organization (SOMO), but were not accounted for in the DFI. This practice undermined the intent of UNSCR 1483.

7. **Smuggling and cash transactions.** Smuggling of large quantities of oil by the shipload was reported in the early stages of the CPA administration. Cash receipts from export sales of petroleum products were being deposited in SOMO's bank accounts instead of the DFI accounts under pre-existing arrangements.

Accountability Challenges

8. **Prevalence of sole-sourced contracts.** The IAMB recognized early on that the CPA awarded sole-sourced contracts, including to a Halliburton subsidiary without competitive bidding. The CPA noted that special circumstances had warranted sole-sourced contracts.

9. **Lower priority given to internal controls and inadequate early record-keeping by the CPA.** The recordkeeping of the financial transactions undertaken by the CPA were incomplete and the DFI external auditors were unable to conclude positively on the use of Iraqi resources. Subsequently, other audit reports, including those produced by the US Government Accountability Office and the Special Inspector General for Iraq Reconstruction (SIGIR) (see Box 2) also pointed to similar weaknesses and confirmed the concerns expressed by the IAMB regarding use of DFI resources by the CPA. In addition, the CPA did not turn over all necessary contract documentation to the Government of Iraq, which made it difficult for the Government of Iraq to involve themselves in the contract activities that the US Government continued to manage on their behalf.

10. **The need to rebuild capacity in the Iraqi spending ministries.** The DFI audits noted that basic administrative procedures in ministries were outdated and ineffective and the system of overall financial governance needed to be strengthened before proper control and accountability could be established. Accounting and reporting of known oil export revenues was also affected by the difficult conditions on the ground, including the ongoing security situation.

11. **Unable to draw definitive conclusions.** 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.

- **Audits commissioned by the IAMB concluded that *known* oil export proceeds were deposited in the DFI, with a few exceptions.** However, the external auditors were unable to provide reasonable assurance that *all* oil export proceeds were properly accounted for due to insufficient controls, including in the field of oil extraction. By 2010 the external auditors noted that exported oil was invoiced based on loaded quantities and proceeds were fully deposited in accordance with the provisions of UNSCR resolutions. However, while loaded quantities could be verified, quantities extracted and pumped to export terminals and for internal use could not be verified due to the absence of an overall comprehensive system of

controls over petroleum in Iraq, including oil metering. While the Government of Iraq supports oil metering, progress in implementing a comprehensive system has been slow.

- **It was not possible to determine whether *all* DFI disbursements were made for the purposes intended.** Considerable internal control weaknesses were noted at the spending ministries. The Government of Iraq had made great efforts to address the weaknesses identified, but this was taking time. Nonetheless, the external auditors noted that disbursements from the DFI to the ministries were made based on the budget approved by the Iraqi parliament.

Early Implementation Challenges

12. **A “virtual” secretariat for the IAMB and the absence of Iraqi nationals.** The ongoing security situation prevented the establishment of the IAMB secretariat in Baghdad as provided in the terms of reference. As an alternative to setting up a secretariat in Baghdad as envisioned in the IAMB terms of reference, a virtual secretariat was established, with the operational work of the IAMB undertaken by staff of the IAMB members. At its inception, the IAMB represented the first time international organizations had come together as an audit oversight body, and for such a long time. In addition, UNSCR 1483 had not envisaged the direct involvement of Iraqi nationals in the work of the IAMB.

Box 2. SIGIR Work

The Special Inspector General for Iraq Reconstruction (SIGIR) succeeded the Coalition Provisional Authority Inspector General (CPA-IG) and was created by US Congress to provide oversight of funds intended for Iraq reconstruction programs. SIGIR provides oversight through independent audits, field inspections, and criminal investigations into potential fraud, waste, and abuse of funds.

In 2005, the US Government requested the assistance of SIGIR to perform the procedures of the special audit with respect to the sole source contract awarded to KBR (see Annex VIII).

The IAMB principals met with Mr. Stuart Bowen, the Special Inspector General for Iraq Reconstruction in Arlington, Virginia, on April 5, 2006 to discuss areas of mutual interest. SIGIR has attended many IAMB meetings as an observer since May 2006.

SIGIR has issued a number of reports relevant to the DFI. SIGIR's reported concerns echo concerns consistently raised by the IAMB and the DFI external auditors regarding the use of DFI resources. Further information is available on the SIGIR website (www.sigir.mil).

The July 2010 SIGIR audit report on the US Department of Defense's (DoD) accounting for DFI funds concluded that weaknesses in DoD financial and management controls left it unable to properly account for \$8.7 billion of the \$9.1 billion in DFI funds it received for reconstruction activities in Iraq. The DoD was uncertain about the amount of DFI funding made available to it or the amount of DFI funding its organizations may have been holding. SIGIR concluded that the breakdown in controls left the funds vulnerable to inappropriate uses and undetected loss. SIGIR also concluded that the DoD had not issued guidance on the use and disposition of remaining DFI funds, and until it did, these funds were at risk of being expended (see Box 3).

IV. IAMB ACHIEVEMENTS

13. **Notwithstanding the challenges, the IAMB believes that its work significantly enhanced the transparency, accountability and effectiveness of the oversight of sources and use of DFI resources.** The UN Security Council has specifically recognized and acknowledged the significant role of the DFI and the IAMB in helping the Government of Iraq to ensure that Iraq's oil export resources were being used transparently and equitably for the benefit of the people of Iraq.

Transparency

14. **The IAMB and COFE published all of their work.** Consistent with its terms of reference, the IAMB placed considerable emphasis on the transparent dissemination to the international community of information related to the financial operations of the DFI and Iraq's oil export sales. The IAMB established a publicly available website in February 2004 and COFE followed suit in early 2007 (www.cofe-iq.net). The IAMB website posted press statements, all minutes of the IAMB meetings, the results of the DFI and special audit reports and key documents related to the IAMB mandate and operations. The COFE website posted similar information and recently also commenced publication of monthly DFI statements of cash flows. The IAMB held three press briefings and reported regularly through the UN Secretary General to the UN Security Council.

15. **The IAMB ensured public procurement of international auditors for the DFI.** The nomination and appointment of the DFI external auditor by the CPA and later the Government of Iraq was subject to approval by the IAMB. The IAMB oversaw 15 audits of the DFI conducted by the international accounting firms through end-2010: KPMG, Ernst & Young, and PricewaterhouseCoopers. The DFI and Iraq's oil export sales were required to be audited by independent public accountants approved by the IAMB and in accordance with professional assurance standards. The IAMB determined the auditors' scope of work as envisaged in the IAMB's terms of reference, including audits of the completeness of deposits into the DFI, the management of the funds in the DFI and the use of DFI resources in the spending ministries, to promote the objective set forth in UNSCR 1483. The IAMB was briefed on the evaluation processes undertaken to select external audit firms for the DFI. The IAMB reviewed and approved the scopes of work and the requests for proposals and concurred with the recommendations to proceed with the audits, except on one occasion under the CPA when the IAMB concluded that a candidate nominee firm did not meet the requisite criteria (see Annex III).

Accountability

16. **The IAMB conducted follow-up investigations of sole-sourced contracts.** The IAMB early on objected to the CPA practice of single-sourcing contracts using DFI funds. A series of special audits, commissioned by the US Government at the request of the IAMB, ultimately revealed a number of exceptions (see Annex VIII). The IAMB questioned the reasonableness of the costs charged and urged the Government of Iraq to continue to pursue

resolution with the US Government concerning the use of resources of the DFI which might be in contradiction with UNSCR 1483. In particular, the IAMB noted the exceptionally high transportation costs for providing humanitarian fuel supplies in Iraq, in some cases resulting in a final cost of nearly \$7 per gallon, a very high price at the time.

17. **The IAMB welcomed a number of controls that were put in place by the CPA and the Government of Iraq to prevent smuggling.** The lack of a comprehensive oil metering system made it difficult to conclusively control smuggling and misappropriation of Iraqi oil resources. The CPA took steps to curtail smuggling and subsequently the Government of Iraq installed some meters at oil terminals, including the Basra oil export terminal, and as part of the project to establish a country-wide measuring system for the flow of oil, gas and fuel products. Some reduction in bartering occurred in 2004 following the allocation of Iraqi budget funds to import light petroleum products.

18. **The IAMB helped ensure the cessation of barter transactions.** The IAMB welcomed the cessation of the barter arrangements with a neighboring country as of December 31, 2007 and urged that any further barter or other in-kind transactions be properly reflected as sales and purchases, so that barter and other in-kind transactions become more transparent and less prone to misappropriations.

19. **The installation of a comprehensive and functioning oil metering system is underway.** After much earlier effort, the IAMB was presented in 2009 with a ministry of oil plan to install a comprehensive oil metering system by end-2011. At the request of the IAMB, the 2010 interim audit procedures were extended to assess achievement of the oil metering plan. PricewaterhouseCoopers (PwC) reported the installation of 75 percent of the total oil meters targeted to have been installed under the plan by end-June 2010.

20. **Ensuring the sustainability of the metering system will be a key challenge moving forward.** PwC has reported that installed meters were not all being utilized as intended and identified further steps required to fully implement the ministry of oil's schedule through the end of 2011. In particular, PwC recommended the appointment of a technically qualified independent party to verify the implementation plan as to its completeness, effectiveness, and efficiency when it is fully implemented based on the best practices of the petroleum industry. The IAMB noted with concern that the implementation of the plan was already behind schedule and encouraged the Government of Iraq to make every effort to implement the metering plan on schedule and address the further steps recommended by PwC.

21. **Controls in place over Iraq's oil export revenues and the spending ministries have been considerably strengthened.** The IAMB, at an early stage, publicly expressed concerns regarding the weak controls in place over Iraq's oil export revenues and the spending ministries. The IAMB promoted the strengthening of controls in Iraq over oil export resources and their use and complemented the work of others, including the BSA. DFI audit reports were critical of the financial and accounting controls put in place by the CPA

and by the spending ministries, US agencies using DFI funds, and the Iraqi administration of DFI resources (see Annexes VI and VII).

22. **COFE is holding ministries accountable.** There was slow progress in implementing IAMB recommendations and audit findings in the early years. The IAMB welcomed steps taken by the Government of Iraq and COFE worked diligently to accelerate the rate of implementation of IAMB and audit recommendations (see Annex X). COFE's work held ministries accountable for the follow-up and resolution of audit recommendations and strengthened the controls framework. COFE has helped accelerate implementation of audit recommendations, particularly during 2009 and 2010 and there has been a marked decrease in repeat recommendations.⁴

Transition to a Successor Body

23. **Representatives of the Government of Iraq have been integrally involved in the IAMB's work since May 2004.** The IAMB established ties between the international community and the oversight bodies in Iraq, including through its ongoing interaction with the President of the Iraqi Board of Supreme Audit (BSA) and more recently the successor body, COFE. The BSA role evolved during the IAMB mandate with increased stature and power to carry out independent oversight and investigation. As noted, the IAMB is cognizant of the personal risk undertaken by its Iraqi interlocutors, and appreciates their efforts in difficult circumstances.

24. **The IAMB believes that COFE can effectively assume the full oversight responsibilities for Iraq's oil export revenues (see Box 3).** Looking forward, the IAMB recommends that the Government of Iraq implement strong financial and budgetary controls over oil export sales in a transparent way. It is imperative that COFE continues the momentum toward sound financial governance to mitigate remaining vulnerabilities from mismanagement and diversion of funds.

25. **The IAMB members worked together effectively for nearly eight years.** The five members, including the representative of the Government of Iraq, carried out the IAMB mandate successfully thanks to the level of dedication and cooperation among the member organizations and the devotion of the virtual secretariat. The Board worked in a professional and independent way and reached consensus in a collaborative manner.

⁴ COFE informed the IAMB in April 2011 regarding progress in implementing 2007 and 2008 audit observations: 77 percent of observations had been cleared, 20 percent were in the process of being addressed, and 3 percent were still outstanding.

Box 3. Handover to COFE

Working alongside COFE has ensured a smooth transition. The IAMB strongly endorsed the early establishment of COFE and had worked closely with COFE to ensure a smooth transition. COFE performed its oversight role in exceptional circumstances and beyond its original mandate, while the IAMB was still in operation. COFE worked assiduously to ensure that Iraqi oil resources were protected by closely following-up on all recommendations in coordination with the BSA, monitoring their implementation, and reporting to the Council of Ministers on a six-monthly basis on progress. While the IAMB believes that COFE's independence is well guarded through its connection to the Board of Supreme Audit and its access to the Council of Ministers, it is for future consideration whether COFE itself could be codified in the legal framework.

The head of COFE briefed the UN Security Council several times in 2010 on successor arrangements. UNSCR 1905 had recognized the need during 2010 to transition to successor arrangements for the DFI. The action plan took into account external audit arrangements and Iraq's obligations under UNSCR 1483. The IAMB welcomed the implementation of the action plan to transition to successor arrangements.

COFE will consider if further action is warranted with respect to SIGIR's July 2010 Report on the DFI. The IAMB had noted that SIGIR's July 2010 findings on the DFI (see Box 1) echoed those of the IAMB in 2004-2006 and had agreed on the urgent need to expeditiously implement the recommendations of SIGIR, especially the return of unexpended DFI funds held by DoD agencies.

V. LOOKING AHEAD

26. **Much had been achieved, but many challenges remain and proactive involvement is needed by COFE, the IAMB's successor body, to maintain the momentum of reforms.** Looking ahead, it is imperative that further progress be made toward sound financial governance by building on the IAMB's work and mitigating the vulnerabilities to mismanagement and diversion of funds. The Government of Iraq should implement in a transparent way strong financial and budgetary controls over oil export sales, the principal source of Iraq's revenues. The expeditious implementation of the ministry of oil plan will ensure an effective oil metering system over oil extraction and throughout the oil production, distribution and export processes. Full implementation of the IAMB and external audit recommendations is a priority to ensure that Iraqi oil resources are better protected and results continue to be regularly reported to the Council of Ministers. The financial reporting and control systems need continued improvement in key Iraqi spending ministries, including SOMO, and the regional governments to overcome the identified control weaknesses. Rebuilding the financial infrastructure will take some time and COFE's continued involvement will be the cornerstone of ensuring sustainable reforms.

27. **At the conclusion of its work, the IAMB presents its recommendations to continue the gains achieved by the IAMB and its Iraqi partners** (see table below). The IAMB wishes COFE every success in its vital role for safeguarding Iraq's oil revenues.

	Key Recommendations at the Conclusion of the IAMB's Work
1.	Ensure <i>effective implementation</i> of the metering installations, including through completion of the Ministry of Oil's plan through end-2011 and the further steps identified by 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 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.

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ANNEX I: IAMB TERMS OF REFERENCE

(Last revised January 2011)

1. Purpose:

The purpose of the International Advisory and Monitoring Board (IAMB) shall be to promote the objectives set forth in United Nations Security Council resolution 1483 (2003) (resolution 1483), read with resolution 1546 (2004) (resolution 1546), resolution 1637 (2005) (resolution 1637), resolution 1723 (2006) (resolution 1723), resolution 1790 (2007) (resolution 1790), resolution 1859 (2008) (resolution 1859), resolution 1905 (2009) (resolution 1905), and resolution 1956 (2010) (resolution 1956) of helping the Government of Iraq to ensure that the Development Fund for Iraq (DFI) is used in a transparent and equitable manner and through the Iraqi budget including to satisfy outstanding obligations against the DFI and that all proceeds of export sales of petroleum, petroleum products and natural gas from Iraq are deposited into the DFI in accordance with the provisions of resolutions 1483, 1546, 1637, 1723, 1790, 1859, 1905 and 1956.

2. Members:

- A. The IAMB shall consist of duly qualified representatives of each of the Secretary-General of the United Nations, the Managing Director of the International Monetary Fund, the Director-General of the Arab Fund for Economic and Social Development and the President of the International Bank for Reconstruction and Development and a duly qualified individual designated by the Government of Iraq.
- B. The IAMB, after consulting with the Government of Iraq, may appoint up to 5 observers to the IAMB from a list of independent, qualified candidates, which should include Iraqi nationals nominated by the Government of Iraq.
- C. At any meeting of the IAMB, each member may be accompanied by an alternate, designated in a way identical to the designation of each member, and up to two advisors.

3. Powers and Responsibilities:

- A. *Selection of Independent Public Accountants (External Auditor(s))*: The independent public accountants referenced in paragraphs 12 and 20 of resolution 1483 (the “External Auditor(s)”) shall be nominated and appointed by the Government of Iraq, subject to approval by the IAMB. The selection process for the External Auditor(s) and the terms of reference for the objectives, scope and approach of the External Auditor(s) work shall be approved by the IAMB.

- B. *Scope of external audits.* The scope of the external audits shall be such as to enable the IAMB to achieve its purpose as set out in 1 above. The scope of the external audits shall encompass: (i) the export sales of oil, petroleum products and natural gas from Iraq (the “Export Sales”), supporting the objective of ensuring that the Export Sales are made consistent with prevailing international market best practices; (ii) the “Oil Proceeds Receipts Account” held by the Central Bank of Iraq at the Federal Reserve Bank of New York; (iii) the DFI (including, but not limited to, all inflows, investments and other assets, disbursements, liabilities and contingencies of the DFI), supporting the objective of ensuring that the DFI is used in a transparent manner in accordance with applicable control procedures; and (iv) disbursements of resources from the DFI, supporting the objective of ensuring that DFI funds are used for the purposes for which they were disbursed. For purposes of (iv), the External Auditor(s) will make (a) a determination as to whether the disbursements from the DFI are duly authorized and received by the designated recipient; and (b) an assessment as to whether the controls (including the requirement to ensure proper records) of the designated recipient are adequate to ensure that disbursements from the DFI are utilized as intended. This assessment shall be carried out as specified in the contract with the external auditor(s).
- C. *Audit Evaluation.* The IAMB shall review audit reports prepared by the External Auditor(s) and determine whether the audits were conducted in a satisfactory and comprehensive manner, and in accordance with appropriate standards.
- D. *Internal Controls/Financial Reporting:* The IAMB shall monitor the financial reporting and internal controls systems established by the Government of Iraq for the areas subject to external audit in 3.B above and advise, as appropriate, the Government of Iraq on the adequacy of such systems.
- E. *Special Audits:* The IAMB may decide, when warranted under international best auditing practices, that the External Auditor(s) or other independent public accountants (“special auditor(s)”) conduct special audits in all areas of the IAMB’s mandate and consistent with the objectives of resolution 1483, read with resolution 1546, resolution 1637, resolution 1723, resolution 1790, resolution 1859, resolution 1905 and resolution 1956. After consulting with the Government of Iraq, the IAMB shall establish the terms of reference for the objectives, scope and approach of any such audits, which shall be conducted in accordance with International Standards on Auditing.
- F. *Access to Information.* The IAMB shall have the right to review all financial and other records and access to all personnel relevant to its mandate, including those subject to external audits in 3.B above and including those of the External Auditor(s), any special auditors, and any internal auditors retained by the Government of Iraq, as necessary, to fulfill the purposes and functions set forth in these terms of reference.

- G. The IAMB, consistent with its terms of reference, shall perform functions similar to those of outside audit committees and may provide information and comments to the Government of Iraq as appropriate to serve the purpose of resolution 1483, read with resolution 1546, resolution 1637, resolution 1723, resolution 1790, resolution 1859, resolution 1905 and resolution 1956.

4. Public Disclosure

- A. The IAMB shall ensure that all audit reports envisaged in these terms of reference and the IAMB's comments on such reports are made public.
- B. All minutes of meetings and all reports of the IAMB shall be made publicly available within 30 days of being finalized by the IAMB. IAMB members may express dissenting views to be published in the minutes or reports.
- C. The IAMB shall take all reasonable steps to ensure the protection of sensitive and confidential materials.

5. IAMB Chair:

- A. The IAMB shall choose a Chair from among its members for a term not to exceed one year.
- B. The Chair shall serve as the principal representative of the IAMB in communications with the Government of Iraq, the Central Bank of Iraq and other third parties.
- C. The Chair shall guide the Secretariat in the preparation and maintenance of all official IAMB records and minutes of IAMB meetings.
- D. The IAMB will facilitate the reporting provided for in paragraph 24 of resolution 1483.

6. Meetings and Decisions

- A. The IAMB shall determine the frequency and location of its regular meetings.
- B. Extraordinary meetings shall be convened by the Chair or at the request of any two members of the IAMB.
- C. A quorum of any IAMB meeting shall be at least three of the five IAMB members.
- D. The intention is for the IAMB to act and make decisions on a consensus basis. To the extent not feasible and unless otherwise specified herein, the IAMB shall make decisions by majority vote of all IAMB members.

- E. The IAMB, in its discretion, may invite the External Auditor(s), observers, or other relevant parties to attend IAMB meetings.

7. Administrative Coordinator/Secretariat

- A. The Government of Iraq shall appoint an Administrative Coordinator to handle requests from the IAMB for logistical support to be provided, as appropriate, in connection with IAMB meetings and other general IAMB business.
- B. The costs incurred by IAMB members, their alternates and advisors shall, in the case of members representing the executive heads of the four institutions named in paragraph 2.A of these Terms of Reference, be paid by their respective institutions, and in the case of the member designated by the Government of Iraq, be paid by the Government of Iraq.
- C. Reasonable costs, as mutually agreed upon with the Government of Iraq, incurred by the External Auditor(s), any special auditor(s), and any technical experts and outside consultants engaged by the IAMB to carry out duties for or on behalf of the IAMB shall be reimbursed with DFI funds.
- D. IAMB members and their alternates and advisors shall not be compensated for their services with respect to the IAMB.
- E. The IAMB shall continue to cooperate through June 2011 with the Committee of Financial Experts, established by the Council of Ministers of the Government of Iraq on October 19, 2006, or such other body that might replace that committee or substitute it, and work towards a full transition of its mandate to this committee by the end of June 2011.

8. Amendments, Additional Procedures and Delegations

- A. Any amendments to these terms of reference shall require unanimous approval of all IAMB members, after consulting with the Government of Iraq, and shall be published by the Government of Iraq. The Government of Iraq's consent will be required for any amendment that may materially affect the rights or responsibilities of the Government of Iraq.
- B. The IAMB may adopt other procedures necessary to implement these terms of reference which procedures shall be consistent with these terms of reference. To the extent such procedures may materially affect the rights or responsibilities of the Government of Iraq, the IAMB shall consult with the Government of Iraq prior to the adoption of such procedures.

- C. The IAMB may appoint or call upon technical experts or outside consultants, as necessary, to fulfill the purposes and functions set forth in these terms of reference.
 - D. In the event of any inconsistency between these terms of reference and the provisions of any law, decree or regulation including, without limitation, the regulations establishing the DFI and the Program Review Board, the provisions of these terms of reference shall prevail.
9. Establishment and Dissolution
- A. These revised terms of reference shall become effective in accordance with the provisions of paragraph 8.A of the revised terms of reference adopted by the IAMB at its meeting on January 31, 2010. These revised terms of reference of the IAMB shall be duly published by the Government of Iraq thereafter.
 - B. Arrangements will be made for the prompt dissolution of the IAMB no later than June 30, 2011.
 - C. These revised terms of reference shall not apply to work already undertaken by the IAMB pursuant to resolution 1483, which work shall be governed by the terms of reference adopted on October 24, 2003; provided that relevant references to the Coalition Provisional Authority (CPA) in the terms of reference adopted on October 24, 2003 shall refer to and include such agencies as have been designated by the CPA in this regard.

ANNEX II: DFI—CUMULATIVE RECEIPTS AND PAYMENTS

Development Fund for Iraq—Cumulative Receipts and Payments From May 22, 2003 to December 31, 2010

	US\$ Million
Cash Receipts	
Crude Oil Exports	250,956
UN Oil for Food Program	11,073
Proceeds from Frozen Assets	1,601
Interest Received	2,058
Other Receipts	5,033
Total Cash Receipts	270,721
Cash Payments	
Transfers to the Ministry of Finance and Iraqi Ministries	183,936
Letters of Credit Issued for the Benefit of Iraqi Entities	66,581
Contracts Administered by US Agencies	7,858
Iraqi External Debt Repayments	1,615
Other Payments	3,179
Total Cash Payments	263,169
Excess of Receipts over Payments	7,553
Cash and cash equivalents at December 31, 2010	1,797
Treasury Bills holdings at December 31, 2010	5,756
Cash and Cash Equivalents and Treasury Bills at December 31, 2010	7,553

ANNEX III: IAMB ESTABLISHMENT, EXTENSIONS AND OPERATIONS

A. ESTABLISHMENT & EXTENSIONS OF THE IAMB

1. **The International Advisory and Monitoring Board (IAMB) was in operation with effect from May 2003 through June 2011 to oversee audits of the DFI.** The IAMB oversaw the audits of the DFI and Iraq's oil export sales, to promote the objective set forth in United Nations Security Council resolutions (UNSCRs) 1483, 1546, 1637, 1723, 1790, 1859, 1905 and 1956 of helping the authorities in Iraq to ensure that the DFI was used in a transparent and equitable manner for the benefit of the Iraqi people. The IAMB's terms of reference covered a review of the required audits of the DFI and Iraq's oil export sales by independent public accountants approved by the IAMB (see Annex II).
2. **The DFI was the principal repository for Iraq's oil export receipts.** The DFI was established on May 22, 2003, as noted in UNSCR 1483. UNSCR 1483 mandated that the DFI receive proceeds from all export sales of petroleum, petroleum products and natural gas (oil export sales) from Iraq, unencumbered surplus funds from the United Nations Oil-for-Food Program, and Iraqi funds and financial assets frozen abroad.⁵ Funds in the DFI were to be disbursed at the direction of the CPA, in consultation with the Iraqi interim administration, for the purposes set out in paragraph 14 of UNSCR 1483, namely: to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq. From May 2003 the DFI was held on the books of the Central Bank of Iraq, and the corpus of the DFI was held in an account with the Federal Reserve Bank of New York.
3. **In response to UNSCR 1483, the IAMB was established on October 21, 2003** when the Executive Heads of the four institutions—the Arab Fund for Economic and Social Development, the International Monetary Fund, the United Nations and the World Bank—approved the IAMB terms of reference. From May 2003, staff from the four institutions held extensive consultations with representatives of the CPA, including meeting in Baghdad in early August 2003, to develop and finalize the IAMB's terms of reference. These consultations were concluded in October 2003. The terms of reference reflected international best practices related to audit committees, incorporating principles generally required by global audit reforms. The individual IAMB members were named on December 3, 2003. The first meeting of the IAMB took place on December 5, 2003 in New York (see Annex III for a

⁵ UNSCR 1483 provided for the deposit of export sales of Iraqi petroleum and petroleum products into the Oil Proceeds Receipts Account at the FRBNY and immediately thereafter 95 percent was required to be deposited in the DFI account at the FRBNY. The remaining five percent was required to be deposited in the United Nations Compensation Fund established in accordance with UNSCR 687 (1991) as a result of the Iraqi invasion of Kuwait in 1990.

listing of the IAMB participants and Annex IV for a listing of the IAMB meetings held). The first meeting was opened by the then United Nations Secretary-General Mr. Kofi Annan.

4. **The IAMB initially comprised four members** representing the Director-General of the Arab Fund for Economic and Social Development, the Managing Director of the International Monetary Fund, the United Nations Secretary-General, and the President of the World Bank. Following the dissolution of the CPA, the UN Security Council adopted UNSCR 1546 on June 9, 2004 noting that the funds in the DFI were to be disbursed solely at the direction of the Government of Iraq and requiring the DFI to be used in a transparent and equitable manner through the Iraqi budget. The arrangements for depositing proceeds from Iraq's oil export sales continued to apply and the IAMB was to continue its oversight activities, with an expanded membership that included a duly qualified member designated by the Government of Iraq.

5. **From the outset, significant attention was devoted to ensuring the participation of duly qualified Iraqi individuals in the work of the IAMB.** Accordingly, the IAMB's terms of reference specifically contemplated the appointment, by the IAMB, after consulting the CPA Administrator, of up to five independent, duly qualified candidates as observers to the IAMB, including Iraqi nationals nominated by the Governing Council of Iraq.

6. **On March 5, 2004 the Board approved the appointment of three Observers:** a representative of the ministry of planning and development cooperation and the Iraqi Strategic Review Board for the Reconstruction of Iraq, another observer nominated by the Iraqi Governing Council, and an observer representing the US Government, who had been nominated by the CPA.

7. **The IAMB strongly encouraged the presence of Iraqi representatives at its meetings.** The IAMB sought to further enhance Iraqi participation in its work by inviting members of Iraq's Board of Supreme Audit to its meetings. Following the adoption of UNSCR 1546, the IAMB terms of reference were revised and the membership of the IAMB included a duly qualified individual designated by the Government of Iraq as a full-voting member.

8. **The security situation prevented the establishment of the IAMB secretariat in Baghdad** as provided in the original terms of reference. As an alternative, a virtual secretariat was established, with the operational work of the IAMB undertaken by staffs of the IAMB members.

9. **The mandate of the IAMB was extended six times, once through December 2006 under UNSCR 1637, again through December 2007 under UNSCR 1723, again through December 2008 under UNSCR 1790, again through December 2009 under UNSCR 1859, again through December 2010 under UNSCR 1905, and again through June 2011 under UNSCR 1956.** The extensions were requested by the Government of Iraq, and recognized the significant role of the IAMB in helping the Government of Iraq to ensure that

Iraq's resources were being used transparently and equitably for the benefit of the people of Iraq.

B. OPERATIONS OF THE IAMB

10. **The IAMB focused on four key areas to fulfill its mandate in an effective and transparent manner:** (i) the DFI audit process, (ii) Iraqi participation in IAMB meetings, (iii) prompt and transparent public dissemination of information to the international community, and (iv) a smooth handover to a credible Iraqi successor body.

The DFI audit process

11. **Under its mandate the IAMB has overseen 15 audits of the DFI conducted by the international accounting firms** KPMG, Ernst & Young, and PricewaterhouseCoopers and covering the period May 2003 through December 2010 (see Annex VI). The DFI and Iraq's oil export sales were required to be audited by independent public accountants approved by the IAMB. The IAMB's terms of reference gave the IAMB the mandate to oversee audits of the completeness of deposits into the DFI, the management of the funds in the DFI and the use of DFI resources in the spending ministries, to promote the objective set forth in UNSCR 1483 of ensuring that the DFI is used in a transparent manner for the purposes set out in paragraph 14 of that resolution and of ensuring that Iraq's oil export sales are made consistent with prevailing international best practices.

12. **These audits were undertaken on the ground in Iraq and under increasingly adverse security conditions.** The audits cover (i) oil export sales to ensure that such sales were consistent with prevailing international market best practices, (ii) accounting for the proceeds from oil export sales, (iii) the DFI financial statements, and (iv) disbursements procedures for DFI resources to ensure that funds were used for the purposes intended.

13. To facilitate audit oversight, the IAMB noted that it would need to (i) clearly identify the scope of work that the DFI external auditors would undertake, (ii) evaluate the CPA's and later the Government of Iraq's criteria to assess the audit proposals to ensure transparency in the selection of the auditors, and (iii) obtain a better understanding of the DFI's financial operations and controls and Iraq's oil export sales.

Scope of Work

14. **The IAMB determined the auditor's scope of work** and reflected the scope envisaged in the IAMB's terms of reference, i.e., encompassing (i) Iraq's oil export sales, supporting the objective of ensuring that the export sales were made consistent with prevailing international market best practices; (ii) the Oil Proceeds Receipts Account held by the Central Bank of Iraq at the Federal Reserve Bank of New York; (iii) the DFI (including, but not limited to, all inflows, investments and other assets, disbursements, liabilities and contingencies of the DFI), supporting the objective of ensuring that the DFI was used in a

transparent manner in accordance with applicable control procedures; and (iv) disbursements of resources from the DFI, supporting the objective of ensuring that DFI funds were used for the purposes for which they were disbursed.

Auditor Selection

15. The IAMB oversaw the auditor selection process. On one occasion, the IAMB concluded that a candidate nominee firm did not meet the requisite criteria.

16. From June 2004 onwards in accordance with the IAMB terms of reference, the nomination and appointment by the Government of Iraq of the DFI auditors was subject to approval by the IAMB. KPMG was approved to complete the audit for the period January 1, 2004 to June 30, 2005. Ernst & Young was approved to undertake the audits for the period from July 1, 2005 to December 31, 2007. KPMG was approved to undertake the audits for the period from January 1, 2008 to December 31, 2009. PricewaterhouseCoopers was approved to complete the 2010 audit. As part of the evaluation process for the 2011 audit, the IAMB requested additional analytical work on the proposals made by the external audit firms. Ultimately, the IAMB called for a re-tender to reflect the specific scope of the entities to be reviewed and enable comparison across bids.⁶ The auditors provided comprehensive briefings regarding the progress made in the audits during the IAMB meetings.

Briefings on DFI Operations and Oil Exports

17. The IAMB requested the CPA to provide it with briefings related to the DFI. The briefings covered a variety of subjects related to the DFI's financial operations and controls, including the link between the Program Review Board and disbursements to actual programs, CPA procurement processes, Iraq's oil export sales and processes, and the CPA's internal control framework. The IAMB sought clarifications on a number of issues raised during the CPA briefings. Based on these discussions and the information received, the IAMB highlighted its concerns with regard to three particular issues: (i) the absence of metering for oil production, (ii) the use of non-competitive bidding procedures for some contracts funded from the DFI, and (iii) the use of barter transactions. These concerns as well as the results of the audits are discussed later in this report. The IAMB also received briefings from IMF and World Bank staff on issues related to the state of Iraq's economy, public procurement practices, and Iraq's Financial Management Law.

18. The IAMB remained in constant communication with CPA staff. CPA staff, including the CPA Comptroller and staff from the CPA Inspector-General's office attended the IAMB's meetings or participated in these meetings by teleconference. CPA staff

⁶ Going forward, the 2011 auditor will be appointed by COFE, who will also oversee its completion.

cooperated fully in their dealings with the IAMB, despite high levels of staff rotation and turnover in the CPA. In March 2004, the IAMB emphasized the need to ensure that systems and controls were in place to manage the transition in the administration of the DFI following the dissolution of the CPA on June 28, 2004.

19. **The IAMB received briefings from the CPA on preparations for the handover of the DFI and its operations** and emphasized the need to ensure the preservation of all records in order to enable the auditors to successfully conclude their work. At its meeting in July 2004, the IAMB was informed that Iraq's ministry of finance had vested in the Program Contracting Officer (PCO) the authority to manage the disbursement process for the DFI funds in relation to ongoing projects whose completion dates fell after June 28, 2004. The IAMB was informed that about \$3 billion worth of contracts fell under this category and would be managed under this arrangement until December 31, 2004 or longer if the Iraqi government approved an extension. The IAMB was also assured that the PCO would continue to work with the Central Bank of Iraq to ensure that all CPA negotiated contracts were honored.⁷

20. **To ensure a smooth transition after the dissolution of the CPA, the IAMB continued to involve the US Government** in its meetings with the participation of the Department of Defense, the Department of State, and SIGIR as observers.

Transparency and dissemination of information

21. **The IAMB established a publicly available website in February 2004.** The website (www.iamb.info) posted press statements, all minutes of the IAMB meetings, the results of the DFI and special audit reports and key documents related to the IAMB mandate and operations. Consistent with its terms of reference, the IAMB placed a consistent emphasis on the transparent dissemination to the international community of information related to the financial operations of the DFI and Iraq's oil export sales.

22. **The IAMB provided three technical briefings to the press during its mandate.** A press briefing was held in July 2004 at the end of the IAMB meeting hosted by the IMF in Washington, D.C. The briefing covered the outcome of the first audit of the DFI. A second press briefing was held in December 2005 at the United Nations in New York and reviewed the work of the IAMB since it began operations in December 2003. A third and final briefing of the press is scheduled to take place during the final IAMB meeting in June 2011 to provide a summary of the work of the IAMB and to issue this report. Transcripts and webcasts of all press briefings are available on the IAMB website.

⁷ The IAMB also noted that the CPA did not turn over all necessary contract documentation, making it difficult for the Government of Iraq to involve themselves in the contract activities that the US Government continued to manage on their behalf.

Handover to a successor body

23. **The IAMB early on recognized the importance of having a credible Iraqi successor body in place to carry on the oversight role when the IAMB mandate expires** (see Section VI of the main report).

24. **The IAMB involved others in its work at an early stage to ensure transparency and continuity when its work was complete.** The BSA has attended IAMB meetings since 2004 and its role is evolving into an entity with increased stature and power within Iraq to independently carry out its important duties of independent oversight in Iraq. The successor body has created a publicly accessible web site (www.cofe-iq.net) on which it is posting reports pertinent to its scope of oversight.

ANNEX IV: IAMB PARTICIPANTS

A. CURRICULUM VITAE OF IAMB MEMBERS AND THEIR ALTERNATES

ARAB FUND

Khalifa Ali Dau, Representative from the Arab Fund for Economic and Social Development (2003 to 2011)

Dr. Khalifa Ali Dau, a Libyan national, is a Senior Financial Advisor in the Arab Fund. He first joined the Arab Fund in Kuwait, in 1985, as a Financial Expert. His duties include the supervision, appraisal and follow up of development projects in the Arab countries, including Iraq. Such duties encompass projects in both public and private sectors. The sphere of these projects covers all economic sectors, such as banking, power, industry, transportation, communication, agriculture, etc. He has represented the Arab Fund in various professional and development oriented meetings and workshops. Before joining the Arab Fund, he was a university professor in both the USA and Libya. He was the partner and managing director of an accounting firm, practicing external audit and business consultancy for more than 10 years. Dr. Dau holds a Ph. D. in accounting from Louisiana State University, and an MSA degree from the University of Illinois. He has also a CMA (Certified Management Accountant) certification from the Institute of Certified Management Accountants, in the USA. He is a member of the Libyan Certified Public Accountants Association. He has numerous publications in the fields of accounting, auditing and finance.

Shehab Bayoumi, Alternate Representative from the Arab Fund for Economic and Social Development (2004 to 2005)

Mr. Shehab Bayoumi, an Egyptian and Canadian national, joined the Arab Fund in 2003 as a Financial Advisor responsible for project appraisals, financial analysis and corporate finance. Before joining the Arab Fund, he had a long experience in public accountancy, auditing and business advisory and had held senior managerial positions with two of the major international professional firms in the region in the previous ten years. In this capacity, his efforts focused on managing external audit, risk management and business advisory assignments to major banks and financial institutions as well as governmental agencies in the Gulf States.

Mr. Bayoumi is a member of the American Institute of Certified Public Accountants and the American Institute of Internal Auditors and a fellow of the Egyptian Society of Accountants and Auditors.

INTERNATIONAL MONETARY FUND

Chris Hemus, Representative from the IMF (from September 2008 to June 2011) and Alternate Representative from the IMF (from 2003 to September 2008)

Mr. Chris Hemus, a South African national, is Senior Advisor of the IMF Finance Department, where he is the IMF's Chief Accountant. He is responsible for overseeing the IMF's financial operations and reporting and the IMF's safeguards assessments of central banks. Previously he was Chief of the Safeguards Assessment Division in the IMF Finance Department. The Safeguards Assessment Division conducts due diligence reviews of central banks of countries that borrow from the IMF. He has held several positions in the IMF Finance Department since 1995, including Advisor, and worked in 1997–1998 in the Corporate Portfolio Management group of the International Finance Corporation (IFC). Prior to joining the IMF, Mr. Hemus was an Audit Manager with PricewaterhouseCoopers in South Africa and was involved with technical and accounting policy issues for all major clients. Mr. Hemus has graduate degrees in Accounting and Finance, is a Chartered Accountant, and a Chartered Financial Analyst.

Bert E. Keuppens, Representative from the IMF (from 2003 to September 2008)

Mr. Bert E. Keuppens, a Belgian national, was Director of the IMF Office of Internal Audit and Inspection from 2006–2008. He had previously held several positions in the IMF Finance Department, including Senior Advisor. Prior to joining the IMF, Mr. Keuppens held senior management positions in a large international audit firm, and he was a professor of accounting and auditing in a business school in Brussels. Mr. Keuppens holds graduate degrees in economics and business administration and is a Certified Public Accountant (Washington, D.C.).

UNITED NATIONS

Jun Yamazaki, Representative from the United Nations (from September 2008 to June 2011)

In August 2008 Mr. Jun Yamazaki, a national of Japan, assumed his duties as the Assistant Secretary-General, Controller of the United Nations.

Mr. Yamazaki has gained extensive experience in the UN budget process as a member of the UN Advisory Committee on Administrative and Budgetary Questions (ACABQ) from 2003 to 2007, and in broad management-related issues as Director, International Peace Cooperation Division, and Deputy Director-General for Global Issues, International Cooperation Bureau in the Ministry of Foreign Affairs in Japan. He is expected to lead budget preparations in a comprehensive and cost-effective manner.

Until August 2008 Mr. Yamazaki served as Deputy Director-General for Global Issues, International Cooperation Bureau in the Ministry of Foreign Affairs in Japan. Before serving as Member of the ACABQ Mr. Yamazaki was Director, International Peace Cooperation Division, dealing with issues such as the dispatch of Japanese contingents to United Nations Peacekeeping Operations. Prior to that, he was Deputy Director, United Nations Administration Division, Multilateral Cooperation Department, in charge of administrative and budgetary affairs of the United Nations. His work in the Ministry of Foreign Affairs of Japan also brought him to serve as Counsellor in the Embassy of Japan in Indonesia.

Born in 1956 in London, Mr. Yamazaki holds a Bachelor of Arts, International Relations, from the University of Tokyo.

Warren Sach, Representative from the United Nations (from May 2007 to September 2008)

Mr. Warren Sach, a national of the United Kingdom, is currently the Assistant Secretary-General for Central Support Services in the Department of Management. In addition, since March 2007, Mr. Sach has served as the Secretary-General's Representative for Investment of the Assets of the United Nations Joint Staff Pension Fund.

Prior to his appointment as Assistant Secretary-General for Central Support Services, Mr. Sach served as Assistant Secretary-General, Office of Programme Planning, Budget and Accounts, Controller from 2005 to 2008. Prior to his appointment as Assistant Secretary-General, Controller, Mr. Sach served as Director, of Programme Planning and Budget since May 1997, and as Deputy Director, PPBD from January 1996.

Since joining the United Nations in 1968, Mr. Sach had served in various positions at the United Nations in the administrative and financial fields including at the International Civil Service Commission (ICSC) and the United Nations Environment Programme (UNEP).

Mr. Sach was educated at University College, London and Magdalene College, Cambridge, where he studied first Economics and then Development Economics respectively.

Jean-Pierre Halbwachs, Representative from the United Nations (from 2003 to May 2007)

Mr. Jean-Pierre Halbwachs, a national of Mauritius, assumed his position as Assistant Secretary-General, Controller of the United Nations in 1997. He was responsible for the budgetary, accounting and financial policies and procedures, and for the exercise of financial control over the resources of the United Nations. After Mr. Halbwachs retired from the

United Nations in 2005 he agreed to continue to be the UN Secretary-General's representative to the IAMB.

Mr. Halbwachs joined the United Nations in 1973. He served in various positions at the United Nations in the administrative and financial fields. He served as Chief of Administrative Services at the United Nations Environment Programme in Nairobi, Kenya and was Director of the Programme Planning and Budget Division prior to assuming the Assistant Secretary-General position. He holds a Bachelor of Arts degree from the University of Exeter.

Jayantilal M. Karia, Alternate Representative from the United Nations (2003 to 2011)

Mr. Jayantilal M. Karia, a Ugandan national, assumed his position as Deputy Controller in May 2009 and retired in April 2011. He provided strategic guidance on financial policies, interpretation of financial regulations and rules while improving and developing internal controls. He represented the Controller on various issues; maintained liaison with representatives of UN Member States on key strategic issues; and was also actively engaged with the UN Board of Auditors and Panel of External Auditors of the UN system. He represented the Organization in various management committees.

Prior to being appointed as Deputy Controller, he served in various managerial positions at the United Nations in financial, administrative and technological fields, since joining the United Nations in 1972, including as Director of the Accounts Division, Office of Programme Planning, Budget and Accounts (OPPBA), from May 1997 to May 2009.

Mr. Karia chaired a United Nations inter-agency Task Force on Accounting Standards and successfully played a key leadership role in steering the adoption of International Public Sector Accounting Standards (IPSAS) for the whole UN System. He was also United Nations Observer at the International Public Sector Accounting Standards Board of the International Federation of Accountants (IFAC); and the Interim Representative of the Secretary-General for the United Nations Interregional Crime and Justice Research Institute (UNICRI). Mr. Karia holds a Master of Business Administration Degree (MBA) from Long Island University, New York, U.S.A and a Bachelor of Commerce (Honors) in Accounting from M.S. University, Baroda, India.

WORLD BANK

Fayezul Choudhury, Representative from the World Bank (from 2003 to December 2010)

Mr. Fayezul Choudhury, a Bangladeshi national, retired from the World Bank in December 2010. During his 25 year career with the World Bank Group he held a variety of managerial

positions in the World Bank and its private sector lending arm, the International Finance Corporation. His most recent senior management position was as Vice President of Corporate Finance and Risk Management. In this role, he was responsible for setting risk management policy and oversight to ensure the Bank's continuing financial integrity in the light of the financial crisis; the ongoing development of financial policies for IBRD, including those related to allocation of lending limits to borrowing countries, loan pricing, management of capital and income; and the Bank's strategic planning and budget management function. In 2010, he led the finance team in negotiating a successful general capital increase with the 180 member countries of the World Bank. Prior to this he was Controller and Vice President Strategic Resource Management where he was responsible for the integrity of IBRD/IDA's financial reporting; adequacy of the internal control framework; strategic leadership on borrowing country financial management and accountability issues; representing the Bank's position on global accounting and auditing issues; and for strategic planning and budget management for the Bank. Prior to joining the World Bank, he was with Price Waterhouse in London, initially in public accounting and then in the management consulting practice.

Mr. Choudhury has served on a number of high level representative bodies. He chaired the Global Steering Committee of the International Forum for Accountancy Development and was a member of the Standards Advisory Council of the International Accounting Standards Board. He also served as a board member of the International Public Interest Oversight Board over auditing and related standard-setting.

Charles (Chuck) McDonough, Alternate Representative from the World Bank and Representative from the World Bank (from December 2010)

Chuck McDonough, a national of the United States, is Vice President and Controller of the International Bank for Reconstruction and Development (IBRD/"World Bank"). He is a Certified Public Accountant with over 25 years of experience in the financial services industry. Chuck is the architect of the Bank's financial management reporting framework which focuses on providing a coherent view of the Bank operations through statutory (GAAP) and voluntary disclosures. The Bank has assets under management of more than \$500 billion; conducts business in over 140 countries; offers products including loans, derivatives and other investment vehicles; and conducts funding operations utilizing conventional and structured debt instruments.

Chuck represents the Bank on global financial reporting, accounting, and external auditing matters. He is a current member of the IASB's Standards Advisory Council, and a former member of the financial instruments working group. He is also a key Bank representative in the consultative advisory groups of IFAC, and the Monitoring group of the Public Interest Oversight Board.

MEMBER DESIGNATED BY THE GOVERNMENT OF IRAQ

Adel Al-Hasson, Representative from the Government of Iraq (2004 to 2011)

Mr. Al-Hasson, a national of Iraq, earned a Bachelor of Arts in Economics and Commerce (1963) and a Higher Diploma in Accounting and Auditing (1973) from the Baghdad University. Mr. Al-Hasson was General Manager and then Deputy President of the Board of Supreme Audit (BSA) between 1973 and 1990, Head of the State Oil Marketing Organization (SOMO) in 1991, and Chief of the Committee of Experts for Free Zone Areas in Iraq between 1998 and 2003. Mr. Al-Hasson has participated in drafting a number of financial laws and preparing important accounting systems. Mr. Al-Hasson presently owns an auditing and accounting practice in Iraq, is Chairman of the Board of Trustees of the Arab Institute of Chartered Accountants and acts as a financial advisor to a number of economic organizations in Iraq.

Izziddin Al-Bahrani, Alternate Representative from the Government of Iraq (2004 to 2011)

Mr. Al-Bahrani, a national of Iraq, earned a Bachelor of Arts in Economics, Law and Accounting from the University of Wales in the UK in 1957. Mr. Al-Bahrani has been a member of the Institute of Chartered Accountants in England & Wales since 1962. He held senior financial posts in the oil sector in Iraq between 1963 and 1976, was Deputy Governor of the Central Bank of Iraq (CBI) between 1976 and 1982 and a Financial Advisor to the Minister of Finance between 1982 and 1984. Since 1984, Mr. Al-Bahrani has been a sole owner of an accounting and auditing practice in Iraq.

B. IAMB SECRETARIAT

INTERNATIONAL MONETARY FUND

Mary Hoare, Officer

UNITED NATIONS

Genc Osmani, Programme Management Officer

WORLD BANK

Caroline Harper, Lead Operations Officer

GOVERNMENT OF IRAQ

Ghaida'a Al- Qadi, Committee of Financial Experts

ANNEX V: IAMB MEETINGS HELD

	Venue	Host Organization	Date
1.	New York	United Nations	December 5, 2003
2.	Washington, D.C.	World Bank	December 22, 2003
3.	Washington, D.C.	IMF	February 12–13, 2004
4.	Kuwait	Arab Fund	March 17–18, 2004
5.	New York	United Nations	April 22–23, 2004
6.	Washington, D.C.	IMF	May 24–25, 2004
7.	Paris	World Bank	June 21–22, 2004
8.	Washington, D.C.	IMF	July 14–15, 2004
9.	Kuwait	Arab Fund	September 7–8, 2004
10.	New York	United Nations	October 11–12, 2004
11.	Washington, D.C.	IMF	December 6–7, 2004
12.	Paris	World Bank	April 17–18, 2005
13.	Amman	Government of Iraq	October 4–5, 2005
14.	New York	United Nations	December 28–29, 2005
15.	Paris	World Bank	January 23, 2006
16.	Washington, D.C.	IMF	May 30–31, 2006
17.	New York	United Nations	July 17–18, 2006
18.	Paris	World Bank	October 30–31, 2006
19.	New York	United Nations	December 11–12, 2006
20.	Amman	Government of Iraq	June 2–3, 2007
21.	Paris	World Bank	November 1–2, 2007
22.	Washington, D.C.	IMF	January 8, 2008
23.	Kuwait	Arab Fund	May 12–13, 2008
24.	Paris	World Bank	October 20–21, 2008
25.	Amman	Government of Iraq	April 2–3, 2009
26.	Vienna	United Nations	July 22–23, 2009

	Venue	Host Organization	Date
27.	Washington, D.C.	IMF	December 16, 2009
28.	Amman	Government of Iraq	January 31, 2010
29.	Paris	World Bank	April 28-29, 2010
30.	Amman	Government of Iraq	October 14-15, 2010
31.	Geneva	United Nations	January 6-7, 2011
32.	Paris	IMF	April 27-28, 2011
33.	Amman	Government of Iraq	June 30, 2011

ANNEX VI: DFI AUDITS APPROVED BY THE IAMB

	Auditor	Period Covered	Date Reports Published⁸
1.	KPMG	May 22 to December 31, 2003	July 14, 2004
2.	KPMG	January 1 to June 28, 2004	October 14, 2004
3.	KPMG	June 29 to December 31, 2004	May 23, 2005
4.	KPMG	January 1 to June 30, 2005	November 4, 2005
5.	Ernst & Young	July 1 to December 31, 2005	September 19, 2006
6.	Ernst & Young	Interim audit of the period January 1 to June 30, 2006	July 18, 2007
7.	Ernst & Young	January 1 to December 31, 2006	July 18, 2007
8.	Ernst & Young	Interim audit of the period January 1 to June 30, 2007	July 3, 2008
9.	Ernst & Young	January 1 to December 31, 2007	July 3, 2008
10.	KPMG	Interim audit of the period January 1 to June 30, 2008	October 27, 2008
11.	KPMG	January 1 to December 31, 2008	July 31, 2009
12.	KPMG	Interim audit of the period January 1 to June 30, 2009	November 18, 2010
13.	KPMG	January 1 to December 31, 2009	November 18, 2010
14.	PwC	Interim audit of the period January 1 to June 30, 2010	October 25, 2010
15.	PwC	January 1 to December 31, 2010	June 2011

⁸ DFI audit reports consist of (i) audited statement of cash receipts and payments, (ii) management letter on internal controls, and (iii) management letter on spending ministries.

ANNEX VII: SUMMARY OF DFI AUDIT RESULTS

There were a number of important weaknesses in the overall financial management system that were of concern. The priority findings of the audit reports included:

- Weaknesses in controls over oil extraction, including the absence of metering, resulted in the audit firms qualifying their audit opinions of the DFI statements of cash receipts and payments. The auditor reported unaccounted differences of 13.8 million barrels in their analysis of oil production and consumption in 2007.
- Control weaknesses in the administration of resources handled by the CPA and the Iraqi Government, including inadequate record keeping and accounting systems, incomplete DFI accounts, the execution of the accounting function was often inadequate and financial controls were often lacking in the administration and safeguarding of resources.
- The uneven application of agreed-upon contracting procedures. Proper contracting procedures were not always adhered to, in particular the use of single-source contracting.
- Inadequate controls identified at Iraqi spending ministries, including untimely recording, reporting, reconciliation and follow-up of spending by Iraqi ministries, the absence of reconciliation procedures, inadequate accounting records, insufficient payroll records, deviation from tendering procedures, documentation to support contracts was often incomplete or deficient.
- Non-deposit of proceeds of export sales of petroleum products into the appropriate accounts in contravention of UNSCR 1483.
- Inadequate contract monitoring by the CPA relating to payments on behalf of the Iraqi ministries and incomplete records maintained by US agencies, including disbursements that were not recorded in the Iraqi budget and uncertainties about remaining contractual commitments entered by the former CPA.
- The audit reports noted in particular that the DFI overall control systems were ineffective, inter alia, due to (i) the lack of written policies and procedures and adequate governance arrangements, (ii) the focus on basic daily transaction controls rather than the overall control environment, (iii) staff who were not properly trained to deal with the nature and complexity of DFI transactions, and (iv) an ineffective internal audit function for the DFI.

ANNEX VIII: SOLE-SOURCED CONTRACTS—SUMMARY OF DUE DILIGENCE UNDERTAKEN BY THE IAMB

1. **The IAMB, after repeated requests and delays, received redacted copies of six DCAA audit reports on sole sourced contracts in late 2004.** The IAMB was informed that portions of the reports had been redacted by the DCAA to safeguard proprietary information, making it difficult to review and analyze. The DCAA reports, covering six task orders totaling \$1.5 billion, highlight many shortcomings including: non-completion of the required technical evaluations, unsupported costs, and overstated costs. Subsequently, unredacted DCAA audit reports covering sole sourced contracts were made public. These reports refer to overcharges and questionable amounts billed under the sole sourced contracts of an amount in excess of \$200 million.

2. **At the request of the IAMB, the US Government commissioned, with long delays, special audits of sole sourced contracts funded from the DFI.** The IAMB decided that a special audit to determine the extent of sole sourced contracts be commissioned. The IAMB agreed to a US proposal that the US Government would commission a special audit of sole-sourced contracts as the special audit would cover the period when the CPA was in charge of the DFI. The special audit terms of reference agreed by the IAMB were to (i) determine the extent of sole-sourced contracts using DFI resources; (ii) summarize the findings of audits that had already been conducted by various U.S. Government audit agencies; and (iii) determine whether any such contracts had not been the subject of audits.

3. **The US Government selected KPMG LLP to undertake the special audit of sole sourced contracts that were funded from the DFI.** KPMG later determined that a potential conflict of interest had arisen in respect of auditing the sole source contract awarded to Kellogg, Brown and Root (KBR) due to KPMG's existing client relationship with Halliburton, the parent company of KBR and had recused itself from auditing the KBR contract. In light of this, the US Government requested the assistance of the US Special Inspector General for Iraq Reconstruction (SIGIR) to perform the procedures of the special audit with respect to the sole source contract awarded to KBR. The IAMB regretted that KPMG had recused itself from conducting the KBR part of the audit only after it had been awarded the audit contract. The IAMB also regretted the fact that it was informed very late by the US Government of the recusal of KPMG and the appointment of SIGIR to conduct the audit of the sole sourced contract relating to KBR, and that the IAMB had not been consulted in this matter.

4. Of the 24 contracts (value \$1.963 billion) identified as sole sourced, 23 (value: \$0.563 billion) were audited by KPMG and one (value: \$1.4 billion) was audited by SIGIR. The KPMG audit revealed exceptions in a number of cases including: (i) insufficient documentation to justify non-competitive contracting; (ii) lack of support for the provision of services or receipt of goods; and (iii) discrepancies in the amounts billed. Box 2 provides a summary of the sole-sourced contracts and the special audits undertaken.

5. **The SIGIR report revealed that: “the non-competitive award of contract...to Kellogg, Brown and Root, was properly justified” within existing US contracting procedures.** The contract was a cost-plus award-fee indefinite delivery, indefinite quantity contract. Determination of fair and reasonable costs for such contracts, according to SIGIR, is made upon “definitization” of each task order. Six task orders used DFI funds. One of the six task orders had been “definitized” and the costs were determined to be fair and reasonable. The remaining five task orders had not then been definitized and the process to substantiate expenditures, amounting to \$208 million, which had been questioned by the DCAA was then still ongoing.

6. **The IAMB also noted a key finding in the audit report** stating that: (i) the contractor’s proposals as submitted were not acceptable for negotiation of a fair and reasonable price; (ii) supporting data for subcontract costs were not always adequate; and (iii) proposals were not prepared in all respects in accordance with applicable Cost Accounting Standards and appropriate provisions of the US regulations.

7. **The IAMB was also informed that \$1.2 billion out of the \$1.4 billion earmarked for the Kellogg, Brown and Root (KBR) contract had already been disbursed from the DFI.** Given the amounts involved and the length of time that this process was taking, the IAMB recommended that the US Government seek resolution with the Government of Iraq concerning the use of resources of the DFI which might be in contradiction with UNSCR 1483 and that the amount disbursed to contractors that cannot be supported as fair be reimbursed expeditiously. All sole-sourced contracts in excess of \$5 million awarded by the CPA have been the subject of a special audit.

8. **The IAMB requested an independent verification of the global settlement of all six DFI funded task orders under the KBR contract reached between the US Government and KBR** on December 22, 2005 as well as a review of the remaining sole-sourced contracts to determine whether excess costs were incurred that would be the subject of renegotiation. However, progress was slow in executing these special audits.

9. **The IAMB received and discussed the follow-up special audit reports of the single sourced contracts using DFI resources at its October 2006 meeting.** Each of the external audit firms, Crowe Chizek and KPMG, reported on the findings of the follow-up special audits of sole sourced contracts. KPMG noted a total of \$22.4 million in unresolved amounts relating to (i) no evidence of goods received, (ii) unreconciled payments, and (iii) a lack of corrective action on some previously reported exceptions.

10. **Crowe Chizek reported that in their opinion the settlements between KBR and the US Army Corps of Engineers were reasonable.** Their audit reviewed the findings of earlier audit reports by the DCAA and found that the conclusions reached by DCAA were supported by the underlying accounting and auditing records. The findings also provide additional information about the transportation costs incurred by KBR in providing

humanitarian fuel supplies to Iraq in the period May 2003 to March 2004. These costs were very high, in some cases as much as 86 percent of the total contract costs.

11. The IAMB authorized the following special audits of sole-sourced contracts:

	Auditor	Coverage	Date of Reports
•	KPMG	Performing the agreed upon procedures approved by the IAMB on 23 non-competitively awarded contracting actions awarded by the Coalition Provisional Authority and funded from the DFI (i.e., the non Kellogg, Brown and Root contracts)	September 30, 2005
•	Special Inspector General for Iraq Reconstruction (SIGIR)	Performing the agreed upon procedures approved by the IAMB on the non-competitively awarded Kellogg, Brown and Root contract actions awarded by the Coalition Provisional Authority and funded from the DFI	September 30, 2005
•	KPMG	Follow up analysis on the 23 non-competitively awarded actions funded from the DFI	November 10, 2006
•	Crowe Chizek	Agreed upon procedures regarding the settlement between the US Army Corps of Engineers and Kellogg, Brown & Root related to the Task Force-Restore Iraqi Oil Project	November 16, 2006

12. Box 1 summarizes the agreed upon procedures, together with the results of the special audits undertaken under IAMB oversight.

Box 1—Special Audits of Sole-Sourced Contracts using DFI Funds	
KBR Restore Iraqi Oil Contract One contract consisting of 10 task orders, six of which were funded from the DFI resulting in total payments from the DFI of \$1.5 billion	23 Other Contracting Actions 15 contracts (totaling 23 contracting actions) with a total value of \$0.563 billion with various suppliers
2005 Special Audits	
<i>Audit Procedures:</i> Determine the extent of sole sourced contracts using DFI resources, summarize the findings of audits that had already been conducted by US Government audit agencies and determine whether any such contracts had not been the subject of audits.	
<i>SIGIR Results:</i> \$208 million in costs questioned by the DCAA were ongoing. KBR's proposals as submitted were not acceptable for negotiation of a fair and reasonable price and were not always in accordance with applicable standards, and supporting data for subcontract costs were not always adequate	<i>KPMG Results:</i> Exceptions in a number of cases including insufficient documentation to justify non-competitive contracting, lack of support for the provision of services or receipt of goods and discrepancies in the amounts billed
2006 Follow-up Special Audits	
<i>Audit Procedures:</i> Review the settlement with KBR, and the previous work conducted by the Defense Contract Audit Agency. Confirm physical existence of deliverables under task order no. 6	<i>Audit Procedures:</i> Assess the adequacy of the settlement process and compare the process for US and DFI funded non-competitively awarded contracts. Confirm physical existence of goods received, and identify corrective actions for previously reported exceptions
<i>Crowe Chizek Results:</i> The settlements between KBR and the US Army Corps of Engineers were reasonable and conclusions reached by the DCAA were supported by the underlying records. Additional information was provided on very high transportation costs in providing humanitarian fuel supplies to Iraq in 2003 and 2004	<i>KPMG Results:</i> \$22.4 million in unresolved amounts relating to no evidence of goods received, unreconciled payments, and a lack of corrective action for some earlier exceptions

ANNEX IX: COMMITTEE OF FINANCIAL EXPERTS TERMS OF REFERENCE

Terms of Reference of the Committee of Financial Experts (COFE) Formed by Iraqi Council of Ministries decision no. 2127 dated October 22, 2006

1. **Introduction**
 2. **Objectives of COFE**
 3. **Committee members**
 4. **Voting in COFE**
 5. **COFE' S Responsibilities**
 6. **COFE' S Authorities**
 7. **Administrative Matters**
-

1. Introduction:

The United Nation Security Council issued successive resolutions starting with resolution (1483)/2003 and ending with resolution (1723)/2006. These resolutions contained the establishment and continued functioning of the International Advisory and Monitoring Board (IAMB) to carry out oversight responsibilities on cash flows of Iraq's oil revenues and the Development Fund of Iraq (DFI). IAMB mandate will end on 31.12.2007, and on the basis of a recommendation from IAMB to H.E. the Prime Minister of Iraq, supported by the Minister of Finance and the president of Board of Supreme Audit (BSA), the Council of Ministers, agreed at its meeting held on 19.10.2006 to establish a committee named The Committee of Financial Experts (COFE), to undertake a similar role as the IAMB after its cessation.

2. Objectives of COFE

To ensure effective control over oil revenues, and their receipt and spending to be in an equitable and transparent manner through the state budget, and to ensure appropriate audit and internal control procedures in relation to oil revenues.

3. Committee members

3.1. The COFE is independent from administrative and supervisory bodies and is chaired by the President of BSA – in addition to his post – with two independent members. The members must be of high technical qualifications and capabilities in the field of accounting and auditing and they are appointed by the Council of Ministers on Joint nomination by the Minister of Finance and the president of BSA. The chair of COFE is authorized to name two

financial experts to participate in the work and deliberations of COFE and who must have the same qualifications and professional qualities as the members but do not have the right to vote.

3.2. The duration of membership in COFE is three years extendable for a further one mandate only.

4. Voting in COFE

4.1. COFE shall meet periodically as called for by its chair. The period between any two meetings should not exceed two months as maximum.

4.2. Quorum is achieved by the presence of two members. Voting is by consensus and in case of equal voting; the side of the chair prevails.

4.3. COFE may invite others to attend its meetings and who have relations with COFE and at the discretion of the chair.

4.4. The financial experts appointed as per para.(1) of (III) above shall attend COFE's meetings but with no right to vote.

5. COFE's responsibilities

COFE is directly responsible to the Council of Ministers and to whom it reports to carry out the following duties:

5.1. Approval of the appointment of the independent external auditors to audit cash flows of oil revenues.

5.2. Receipt and evaluation of the reports of the independent external auditor in relation to oil revenues received and the financing of the spending of the various ministries through the General Budget. In addition, receipt of Board of Supreme Audit reports on spending by the ministries of oil revenues allocated to them and submission of evaluation of audit results to the Council of Ministers and to other related parties as COFE deem appropriate.

5.3. Follow up implementation of information systems and internal control procedures relating to oil revenues.

5.4. Public exposure in a complete transparency of the statements related to cash flows of oil revenues, the reports of the external auditors and those of BSA as soon as received and at appropriate times.

5.5. COFE as it deems necessary may initiate special audit related to COFE's responsibilities and after consultation with the Minister of Finance.

5.6. COFE sets the aims and the scope of work of the auditors in accordance with international financial reporting standards.

5.7. Review of effectiveness of the internal controls to achieve compliance with laws. Resolutions and instructions related to oil proceeds account and follow up cases of non-compliance.

5.8. Take any other measures to achieve COFE goals.

6. COFE's authorities

6.1. COFE has the right to review the financial records covered by the audits, which it oversees within its responsibilities. COFE is also authorized to contact personnel connected with its responsibilities including the external auditors and BSA auditors and other personnel whose work is covered by audit in so far as related to COFE's responsibilities and COFE shall establish works procedures to this end and ensuring confidentiality by all involved.

6.2. The chair of COFE has the authority to spend within the special budget approved for COFE and financed from the State General Budget. This authority covers all COFE's activities including members salaries, financial experts, the secretariat and other administrative expenses, audit fees to the external auditors appointed by COFE and also professional fees for the special audits which COFE decides to carry out.

6.3. The chair of COFE may issue accounting instructions to regulate spending of the amounts allocated in COFE's budget.

6.4. The chair may delegate part of his financial authorities to other members of COFE or its staff.

7. Administrative Matters

7.1. A secretariat to COFE shall be established to tend logistical support including maintenance of minutes of meetings, archives and making contacts with members, experts and other parties related to COFE's work.

7.2. A suitable person shall be appointed the accountant of COFE and whose duties shall include monthly reporting to the chair about COFE's expenses.

7.3. All expenses must be properly documented and will be subject to audit by a special committee from BSA.

7.4. The chair will submit to the Council of Ministers and annual financial report detailing COFE's expenditure during the year for information and the Councils' approval to publish the financial report.

ANNEX X: SUMMARY OF THE IRAQI FOLLOW-UP OF IAMB AND AUDIT RECOMMENDATIONS THROUGH JUNE 2011⁹

1. **The Interim Government of Iraq briefed the IAMB early on progress in implementing a system of controls and the spending ministries:**

- A committee had been formed to follow-up on the recommendations and to formally report progress on implementation to the IAMB.
- A decree had been issued enabling the BSA and the external auditor access to all ministries and regional governments.
- The Ministry of Finance had set up a special unit to facilitate the transfer of archives from the CPA.
- The BSA had commenced coordination with the Inspector General in each ministry.
- A standards council, chaired by the BSA, had been established.

2. **The Government of Iraq and the BSA provided regular updates on progress in addressing the weaknesses in controls in the DFI and at spending ministries:**

- **Steps were taken to strengthen control at the Ministry of Oil and the spending ministries;** the adoption of rules and regulations regarding disbursements of allocated funds; and the training of finance personnel.
- **The Government of Iraq enacted a Financial Management Law** which has established a comprehensive framework for the conduct of fiscal and budgetary policy in line with international best practices by setting a structured process for the formulation of the federal budget and a number of reporting requirements aimed at increasing the accountability and transparency of the budgeting process.¹⁰
- **The Financial Management Law also contains provisions on accountability and audit oversight,** including publication of financial reports of oil revenues.

⁹ Iraqi follow-up was undertaken by the Committee of Financial Experts (COFE), the Government of Iraq, and the Board of Supreme Audit (BSA).

¹⁰ It should be noted, however, that the draft Revenue Sharing Law would effectively repeal some of the provisions of the Financial Management Law, complicating public financial management and potentially reducing transparency.

- **A department was set up within the BSA** to follow up on all audit and investigation reports including those commissioned by the IAMB.
 - **A specialized directorate was established within each ministry**, headed by an Inspector General, reporting directly to the Minister, to audit and oversee public funds administered by the ministry.
 - **The Constitution specified the organizations which will be responsible for the audit and oversight of public funds.** These organizations were the BSA and the Integrity Commission and both organizations reported directly to Iraq's Council of Representatives.
 - **The Ministry of Finance established a Cash Management Department**, to work alongside the Accounting Department to maintain the accounting records for the DFI, Finance to monitor funds movements and reconcile corresponding Accounts.
 - **Steps were being taken to strengthen controls in the Ministry of Oil**, including: (i) installation of an integrated computer system, (ii) inspection and certification of imported oil products, (iii) completion of feasibility studies on oil metering, and (iv) the issue of an invitation to tender for a comprehensive oil metering system.
 - **Steps were being taken to strengthen controls at spending ministries**, including: (i) scheduling the implementation of a comprehensive financial management information system by 2007; (ii) implementing procedures, in coordination with the BSA, over receipts, payments and procurement; (iii) scheduling an audit of all contracts concluded in 2003 and 2004; and (iv) establishing the Integrity Commission to look into financial irregularities and abuse.
3. **Measures have been taken to control the disbursements from the DFI**, including the closure of current accounts at various ministries, and the establishment of a procedure whereby allocated funds would not be transferred to the ministries but disbursements to the ministries would be based on estimated monthly needs. **In April 2005 the President of the BSA indicated that the creation of a contract management capacity in each ministry was being considered and the BSA planned to widen its audit coverage at SOMO to address limited audit scope.** The BSA also informed the IAMB that it intended to submit a report to the Council of Ministers on the control procedures that could help to address the issue of smuggling.
4. **The IAMB received a useful briefing in May 2006 from the President of the BSA on progress towards strengthening of the BSA capacity**, and a summary of the main findings of recent audits that have a bearing on the work of the IAMB and the financial position of the DFI, including relevant audits in regard of the oil extraction and sales. The Iraq representative and the President of the BSA gave an outline of the training and

development courses which had been held and planned to strengthen the BSA. These courses had been arranged through the assistance of international organizations, and national auditing bodies. The BSA had increased its strength (to about 2,000 personnel) and was organizing seminars on international accounting and auditing standards. The BSA had also expanded its audit coverage of contacts so that most contracts were audited either prior to commitment or as part of post audits. The BSA has also reactivated the auditing and accounting standards council. The IAMB supports the international BSA capacity building initiatives currently underway.

5. **The Iraqi Representative informed the IAMB in June 2007 that some further progress had been made regarding earlier recommendations**, with the establishment of a committee, consisting of representatives of the Central Bank of Iraq, the ministry of finance, the Ministry of Oil and SOMO, to address external audit management letters in cooperation with the BSA. The IAMB welcomed the initiative to follow-up on the many recommendations and the Council of Ministers commitment to hold ministers accountable to strengthen internal controls.

6. **The representatives of the Government of Iraq and the BSA reported in May and October 2008 on actions taken to follow up on outstanding audit recommendations.** The IAMB noted some progress but reiterated its concern at the continuing slow progress in implementing the earlier recommendations and in strengthening the system of internal controls. The IAMB was informed of the steps being taken to address oil metering and expressed concern that installed meters were not fully operational. Low rates of implementation of earlier recommendations were noted, especially at the spending ministries where less than 27 percent of recommendations had been implemented. The IAMB urged the BSA, in conjunction with the COFE, to coordinate and actively monitor and follow-up a concrete plan of the Government of Iraq to timely monitor and resolve the control weaknesses and build up the necessary capacity to carry out these responsibilities in the various government departments and ministries.

7. **COFE has performed an increasingly important oversight role, particularly in light of the IAMB not being able to set up a secretariat in Baghdad.** COFE actively participated in the IAMB's monitoring of controls over Iraqi oil export revenues, the use of those revenues in the spending ministries, and the installation of oil metering. COFE's work held ministries accountable for the follow-up and resolution of audit recommendations and strengthened the controls framework.

8. **COFE informed the IAMB in 2010 that it continued to follow up with the Ministry of oil and related companies on oil metering, including the oil metering plan.** As a result of its follow up, COFE noted in July 2010 that some meters were not working, some meters were on order, and some meters were being installed to measure tank volumes. However, COFE noted that some companies had no meters to monitor the receipt and use of oil. COFE continued the follow up of the metering system implementation on a quarterly

basis with the ministry of oil. The ministry provided COFE with quarterly updates on progress in implementing the oil metering plan. COFE obtained and posted on its website the monthly reports of crude oil production sent by the ministry of oil.

9. Since 2009 COFE helped accelerate implementation of IAMB and audit recommendations. The IAMB noted a marked decrease in repeat recommendations.

COFE, in conjunction with the BSA, performed the detailed follow-up and investigation of recommendations contained in the independent audit reports commissioned by the IAMB. As a result, several recommendations had been implemented and outstanding recommendations were being closely followed up. COFE informed the IAMB in April 2011 regarding progress in implementing 2007 and 2008 audit observations: 77 percent of observations had been cleared, 20 percent were in the process of being addressed, and 3 percent were still outstanding.

10. COFE continued to publish both in English and Arabic the results of its work on its website. COFE kept the IAMB apprised of the materials it was posting on its website, such as minutes of meetings, important correspondence, bi-monthly reports to the IAMB, quarterly briefing to the UN Security Council concerning the progress made on strengthening the financial and administrative control and the quarterly reports of the Government of Iraq to the UN Security Council during 2010. COFE continued to follow up the non-provision of DFI cash flow reports with the Ministry of Finance. COFE noted that the bombings of the ministry of finance in August and mid- December 2009 delayed the compilation and publication of monthly summaries of DFI inflows and outflows.

11. UNSCR 1905 recognized the need during 2010 to transition to successor arrangements for the DFI. As stipulated under UNSCR 1905, the Government of Iraq put in place an action plan and timeline to ensure the timely and effective transition to a post-DFI mechanism by end-2010. The action plan took into account external audit arrangements and Iraq's obligations under UNSCR 1483. During 2010, the UN Secretary General and the Government of Iraq, through the head of the Committee of Financial Experts, reported quarterly to the UN Security Council on progress in achieving the action plan to implement successor arrangements. The Iraqi Council of Ministers, on March 2, 2010, approved the recommendation of the committee established by the Council of Ministers to develop an instrument to ensure the protection of Iraqi funds. The Council of Ministers requested the committee continue to monitor the implementation of these recommendations, including the time-bound action plan to transition to a post-DFI mechanism. The Government of Iraq received confirmation from the Federal Reserve Bank of New York of the continuation of the existing mechanism in place for the DFI, to be effective after December 31, 2010, including a sub-account for compensations to allow the Government of Iraq continue to deposit five percent of the proceeds of all export sales of petroleum, petroleum products and natural gas. Progress was made in strengthening financial and administrative oversight of the DFI. A ministerial committee was established to review all outstanding letters of credit under the oil for food program. The Government of Iraq, in coordination with the recommendation of

COFE, will continue to select an independent international auditor that will be responsible for auditing the successor entity to the DFI. COFE briefed the UN Security Council for the third time on November 10, 2010 on the progress in achieving the action plan to implement successor arrangements.

12. **The UN Security Council under UNSCR 1956 continued to recognize the significant role of the IAMB in helping the Government of Iraq to ensure that Iraq's resources were being used transparently and accountably for the benefit of the people of Iraq.** The IAMB's mandate was due to expire on December 31, 2010, but UNSCR 1956 dated December 15, 2010 extended the IAMB mandate for a final time through June 2011. UNSCR 1956 requested the Government of Iraq to provide a written report to the UN Security Council on progress towards transition to a post-DFI mechanism by May 1, 2011.

13. **The IAMB was briefed by COFE in January and April 2011 on a range of issues:**

- **Further actions taken to enhance the transparency and accountability of the DFI and successor arrangements of the DFI,** taking into account the earlier external audit findings. COFE continued to meet monthly, and, in conjunction with the Board of Supreme Audit (including in the Kurdistan region), perform much of the detailed follow-up and investigation of recommendations contained in the IAMB commissioned independent audit reports. COFE continued to report to the IAMB every two months on progress on a range of matters. The COFE report on the status of the 2009 external audit recommendations was submitted to the Council of Ministers and, upon approval, would be published on the COFE website. The IAMB welcomed the provision of the 2010 monthly summaries of DFI inflows and outflows by the ministry of finance to COFE. Once reviewed, by COFE, these summaries will be posted on its website.
- **The status of the installation of oil metering.** Additional meters had been installed between June and December 2010, but at a slower rate than earlier and with delays from the original ministry of oil plan. COFE undertook to provide the IAMB with further information on the status of implementation, including more details on meters over oil exports that had been the main focus in recent months. The IAMB noted with concern that the implementation of the plan had been falling further behind schedule and had encouraged the Government of Iraq to make every effort to implement the metering plan on schedule and address the further steps recommended by PwC. At the request of the IAMB, PwC conducted a follow-up on the implementation of their earlier recommendations and provided a briefing at the April 2011 IAMB meeting, including an updated assessment of the installation of oil meters and whether meters were being utilized as intended. PwC reported that as of December 31, 2010, only 39 percent of the planned meters had been installed and calibrated in line with the original ministry of oil plan.

- **Follow up of recent SIGIR reports of relevance to the DFI.** The July 2010 SIGIR audit report on the US Department of Defense's (DoD) accounting for DFI funds concluded that weaknesses in DoD financial and management controls left it unable to properly account for \$8.7 billion of the \$9.1 billion in DFI funds it received for reconstruction activities in Iraq. COFE wrote to the DoD on several occasions seeking further clarification on the DoD review of spending associated with the DFI. Despite invitations for the DoD to send a representative in order to clarify the DoD's response to the SIGIR report, a DoD representative did not attend the January or April IAMB meetings. The DoD informed COFE in April that SIGIR had been invited to conduct an independent validation which had not been completed before the April IAMB meeting. The DoD had undertaken to meet with COFE to share the results of the review upon completion.
- **Successor arrangements for the DFI and the COFE work plan for 2011.** COFE continued to work with the IAMB to expedite the finalization of the 2010 audit before the expiration of the IAMB mandate. COFE oversaw the DFI successor arrangements to ensure all requirements were met by June 30, 2011. A major focus of the COFE work was the oversight of oil metering to ensure the timely installation in line with the ministry of oil plan. COFE also continued to follow up on the further development of administrative and financial systems. COFE commenced the process for the selection and appointment of a reputable and international external audit firm for the 2011 DFI audit. The IAMB reviewed and approved the scope of work and the request for proposal for the 2011 audit and called for a re-tender to reflect the specific scope of the entities to be reviewed and enable comparison across bids.