

**REPORT OF THE INTERNATIONAL ADVISORY AND MONITORING BOARD
OF THE DEVELOPMENT FUND FOR IRAQ**

**COVERING THE PERIOD FROM THE ESTABLISHMENT OF THE DFI ON MAY 22, 2003
UNTIL THE DISSOLUTION OF THE CPA ON JUNE 28, 2004**

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EXECUTIVE SUMMARY

This report summarizes the actions taken by the International Advisory and Monitoring Board for Iraq (IAMB) to fulfill its mandate under United Nations Security Council resolution 1483 (UNSCR 1483) as an independent oversight body for the Development Fund for Iraq (DFI) and to ensure that Iraq's oil export sales are made consistent with prevailing international best practices. The IAMB was established in October 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. The IAMB was structured along the lines of international best practice models for audit oversight committees. The DFI, which was initially administered by the Coalition Provisional Authority (CPA) in consultation with the interim Iraqi administration, holds the proceeds of oil export sales from Iraq, surplus funds from the Oil-for-Food Program, and Iraqi assets frozen abroad. Since June 28, 2004 the Interim government of Iraq has administered the DFI, subject to the IAMB's oversight, pursuant to UNSCR 1546. This report covers the period from the establishment of the DFI on May 22, 2003 until the dissolution of the CPA on June 28, 2004.

Periodic IAMB meetings were held with the CPA and Iraqi observers to discuss controls over DFI operations, oil sales and use of resources. Early on, the IAMB pointed to key concerns about weaknesses in controls over the financial operations of the DFI and Iraq's oil export sales, including the absence of metering for oil production, the use of non-competitive bidding procedures for some contracts funded from the DFI, and the use of barter transactions. The IAMB reported on these concerns to the CPA and the public. All IAMB statements and DFI audit reports are publicly available on the IAMB website (www.iamb.info). In March 2004, the IAMB recommended that these concerns be addressed by:

- The installation of metering equipment in line with standard oil industry practice.
- A special audit of sole-sourced contracts funded from the DFI to ensure no contravention of UNSCR 1483. In this regard, the IAMB sought access to U.S. government audits and recommended that any future sole-sourced contracts funded from the DFI be limited to exceptional circumstances.
- The discontinuance of barter transactions.

The IAMB approved the appointment of independent public accountants to audit the DFI and Iraq's oil export sales. The scope of work to be covered by the audits, agreed by the IAMB with the CPA, was in agreement with the scope envisaged in the IAMB's terms of reference, including ensuring that oil export sales are made consistent with prevailing international market best practices, the DFI is used in a transparent manner in accordance with applicable control procedures, and DFI funds are used for the purposes for which they were disbursed and control mechanisms are in place to ensure that the beneficiary of disbursements was reached. On March 24, 2004, the IAMB approved the appointment of

KPMG as the external auditor, after determining that the initial nominee proposed by the CPA did not meet the evaluation criteria.

The IAMB ensured that the external auditor conducted their work in accordance with international auditing standards. The external auditor provided regular briefings on the progress of the audits to the IAMB. The external auditor presented their first reports in July 2004 covering the period to December 31, 2003 and their second reports in October 2004 covering the period to June 28, 2004. The IAMB concluded that the audits were conducted in accordance with agreed terms of reference and in accordance with appropriate standards. These reports are available on the IAMB website.

The audit firm has concluded that all known oil proceeds, reported frozen assets, and transfers from the Oil-for-Food Program have been properly and transparently accounted for in the DFI. At the same time, based on a review of the audit reports, the IAMB believes that controls were insufficient to provide reasonable assurance (i) for the completeness of export sales of petroleum and petroleum products, and (ii) whether all DFI disbursements were made for the purposes intended. The priority findings of the audit reports include:

- Weaknesses in controls over oil extraction, including the absence of metering, resulted in the audit firm qualifying its audit opinions of the DFI statements of cash receipts and payments.
- Control weaknesses in the administration of resources handled by the CPA, including inadequate record keeping and accounting systems, and the uneven application of agreed-upon contracting procedures.
- Inadequate controls identified at Iraqi spending ministries, including the absence of reconciliation procedures, insufficient payroll records, deviation from tendering procedures, and inadequate contract monitoring by the CPA relating to payments on behalf of the Iraqi ministries.

The audit reports have been submitted to the Iraqi Council of Ministers and the CPA. The control weaknesses identified in the audit reports all require attention and follow-up. As a matter of priority, the financial reporting and control systems need to be improved in key Iraqi disbursing ministries, including the State Oil Marketing Organization (SOMO), and the regional governments to overcome the identified control weaknesses and controls need to be strengthened over the oil extraction, as the principal source of income of Iraq.

The IAMB was requested to continue its oversight role in UNSCR 1546. Since July 2004, a fifth member, appointed by the Interim government of Iraq, has served on the IAMB. This role will continue until reviewed at the request of the Transitional government of Iraq and is intended to expire no later than December 31, 2005.

I. IAMB OPERATIONS

1. **The IAMB oversees the audits of the DFI and Iraq's oil export sales.** The DFI was established on May 22, 2003, as noted in United Nations Security Council resolution 1483 (UNSCR 1483). The IAMB paid close attention to three key areas that would help it fulfill its mandate in an effective and transparent manner: (i) the DFI audit process, (ii) Iraqi participation in IAMB meetings, and (iii) prompt and transparent dissemination of information to the international community. Attachment I to this report provides a comprehensive background on the IAMB's operations, including its establishment. The IAMB's Terms of Reference, approved by the executive heads of the Arab Fund for Economic and Social Development, the International Monetary Fund, the United Nations, and the World Bank, on October 21, 2003, are included at Attachment II. On June 9, 2004, the United Nations Security Council adopted resolution 1546 (UNSCR 1546) which stated that upon the dissolution of the CPA, funds in the DFI would be disbursed solely at the direction of the government of Iraq, subject to continued IAMB oversight. In addition, the IAMB now includes, as an additional full voting member, a duly qualified individual designated by the government of Iraq.

II. IAMB CONCERNS ABOUT DFI OPERATIONS

2. **The IAMB expressed concern at an early stage about inadequate controls over Iraq's oil resources and other aspects of DFI operations.** The IAMB informed the CPA and the Iraqi observers and invitees present at its meetings about these concerns, and highlighted these concerns in publicly issued press releases and minutes of its meetings. Key areas of concern related to the absence of metering for crude oil extraction and sales, the use of barter transactions for certain oil sales, and the use of non-competitive bidding procedures for some contracts funded from the DFI.

Metering

3. **The IAMB noted that the absence of metering for crude oil production precluded a reconciliation of all crude oil extracted with its eventual utilization,** following briefings by the CPA in February 2004. This represented an internal control weakness that could lead to the diversion of oil resources. The IAMB recommended the expeditious installation of metering equipment in accordance with standard oil industry practices. The IAMB was advised at its meeting in June 2004 by the CPA that the oil metering contract had not been concluded due to security and technical issues; however funds had been set aside for the metering project. The IAMB understands that the CPA approved a budget to replace, repair and calibrate the metering system on Iraq's oil pipeline network, and to contract the metering of Iraq's oil resources. The IAMB believes that the installation of metering equipment in accordance with standard oil industry practices is an important measure to preserve Iraq's oil resources.

4. **The IAMB was also informed by the CPA that some of Iraq's oil resources were not accounted for and had been smuggled.** The IAMB welcomed the key controls put in

place by the CPA and SOMO and calls upon the government of Iraq to enhance these measures so as to curtail smuggling.

Barter transactions

5. **The IAMB was informed of the bartering of residual fuel and crude oil for electricity and other products with neighboring countries.** In March 2004, the IAMB raised concerns that such barter transactions are not reflected in the DFI as required by UNSCR 1483. The use of barter transactions makes it difficult to determine whether fair value has been received for Iraq's oil revenues. These barter transactions are not recorded in the DFI statement of cash receipts and payments, and the commodities bartered are not considered assets or liabilities, as these transactions will not materialize into cash at any time. However, based on the value of these barter transactions, as recorded by SOMO, payments to the UN Compensation Fund, pursuant to paragraph 21 of UNSCR 1483, would amount to \$16.539 million (i.e., \$6.045 million for the period from May 22, 2003 to December 31, 2003 and \$10.494 million for the period from January 1, 2004 to June 28, 2004). Given the difficulty in determining whether fair value has been received in barter transactions involving Iraq's oil resources and the concerns set out above related to the recognition of barter transaction values in the DFI financial statements, the IAMB urges the government of Iraq to discontinue the use of barter transactions.

Non-competitive contracting

6. **The IAMB noted, at its meeting in March 2004, that some contracts using DFI funds had been awarded to a Halliburton subsidiary without competitive bidding.** The CPA indicated that as a general rule, effective January 2004 contracts were no longer awarded without competitive bidding. The IAMB acknowledged that special circumstances may have warranted sole-sourced contracts and welcomed steps taken by the CPA to limit future such contracts to exceptional circumstances. At the same time the IAMB decided to consider further steps, such as the conduct of a special audit of the sole-sourced contracts. In April 2004, the IAMB requested the CPA for additional information on sole-sourced contracts paid for using DFI funds, including access to audits of sole-sourced contracts that had been conducted by the U.S. Defense Contract Audit Agency (DCAA). A response from the CPA administrator, dated April 22, 2004, reported that the CPA was liaising with U.S. government agencies to obtain copies of the audit reports.

7. **The IAMB repeatedly followed up on its request for the DCAA audit reports.** At its June 2004 meeting, the IAMB, regretting the delay in obtaining these reports, which might have lessened the need for further audits, decided that a special audit to determine the extent of sole sourced contracts be commissioned. In this respect, the IAMB requested the CPA representative to take urgent action on issuing the request for proposal based on the scope of work already provided by the IAMB to the CPA.

8. **The IAMB received redacted copies of the DCAA audit reports on sole sourced contracts, at its meeting in October 2004.** The U.S. observer informed the IAMB that

portions of the reports had been redacted by the DCAA to safeguard proprietary information of the concerned parties. The DCAA reports, covering five task orders totaling \$812 million, highlight many shortcomings including: non-completion of the required technical evaluations, unsupported costs, and overstated costs.

9. **The IAMB was briefed by the CPA on the tendering of the special audit for the sole-sourced contract**, at its meeting in July 2004. It understood that the statement of work had been shared with Iraq's Board of Supreme Audit, but no time frame was provided for completion of the contracting process. At its meeting in September 2004, the IAMB was informed that the process for the tendering of the special audit had been restarted and that the audit would probably be tendered by the government of Iraq in October 2004.

10. **The IAMB agreed, in principle, in October 2004 to a proposal conveyed by the U.S. observer that the U.S. government would commission a special audit of sole-sourced contracts in accordance with terms of reference agreed with the IAMB.** The U.S. observer informed the IAMB that since the special audit sought by the IAMB would cover the period when the CPA was in charge of the DFI, it would be logistically difficult for the Iraqi government to handle the audit and obtain access to all necessary documents, either because the documents were located outside of Iraq or because the documents were proprietary. This special audit will (i) determine the extent of sole-sourced contracts using DFI resources; (ii) summarize the findings of audits that have already been conducted by various U.S. government audit agencies; and (iii) determine whether any such contracts have not been the subject of audits. The results of the audit will also be made public. It was also agreed that the U.S. government would provide the IAMB with written confirmation of this understanding. The IAMB agreed the terms of reference for the special audit proposed by the U.S. government in December 2004 and the audit is expected to be conducted in early 2005.

SOMO audit

11. **At its meeting in May 2004, the CPA had indicated that it had commissioned a review of controls in SOMO.** The review had been commissioned in February 2004 and was substantially complete in May 2004. The IAMB requested a copy of the report. At its meeting in October 2004, the IAMB reiterated its request to receive access to the audit report on the review of controls in SOMO. The U.S. observer promised to revert to the IAMB on this matter, while noting that the SOMO report would also need to be redacted to remove proprietary information. The IAMB received the SOMO audit report in December 2004 and the IAMB will take the findings of this report into account to determine the scope of future audits.

III. THE DFI EXTERNAL AUDIT RESULTS

12. **The IAMB approved the appointment of KPMG as the DFI external auditor on March 24, 2004.**

13. **The DFI external auditor, KPMG, provided comprehensive briefings** regarding the progress made in the audits during the April, May, June, July, and September 2004 IAMB meetings.

14. **The external auditor presented their first reports covering the period from May 22, 2003 to December 31, 2003 on July 14, 2004 and the second audit reports were presented to the IAMB on October 12, 2004, covering the period from January 1, 2004 to June 28, 2004.** The audit reports have also been submitted to the ministry of finance and to the Iraqi Council of Ministers. These reports are available to the public on the IAMB's website (www.iamb.info) and stand independently. Based on the information received, and its review of these reports, the IAMB has concluded that the external audits were responsive to the requirements of the terms of reference, and were conducted in accordance with appropriate standards.

15. **Based on the results of the external audit reports, the IAMB concluded that proceeds of *known* oil sales were deposited in the DFI and that disbursements from the account were properly authorized and recorded. However, there were a number of important weaknesses** in the overall financial management system that are of concern: (i) there was an absence of control over oil extraction because of a lack of oil metering; (ii) the execution of the accounting function was often inadequate; (iii) financial controls were often lacking in the administration and safeguarding of resources; (iv) proper contracting procedures were not always adhered to, in particular the use of single-source contracting; (v) several control weaknesses were revealed also at the Iraqi spending ministries or the beneficiaries of resources; and (vi) documentation to support contracts was often incomplete or deficient. Also, the external auditor was denied access to certain ministries.

16. **The external auditor concluded that proceeds from *known* oil export sales—with the exception of barter transactions—were deposited into the DFI.** The external auditor also concluded that all reported frozen assets, and transfers from the Oil-for-Food Program were properly and transparently accounted for in the DFI.

17. **The external auditor's report notes that the CPA believes that an unknown quantity of petroleum and petroleum products was smuggled out of Iraq,** especially in the early months of post-hostilities, by-passing the authorized processes of marketing, sales, and cash collection. In the absence of a metering system, the CPA was unable to estimate the amount of petroleum and petroleum products that was smuggled. Also, cash advances received for and proceeds of oil export sales, between January 1, 2004 and June 28, 2004, amounting to approximately \$20 million, were deposited in an Iraqi bank account controlled by SOMO and not accounted for in the DFI.

18. **Other main findings** of the KPMG reports include:

- a. **There were weaknesses in controls over oil extraction**, including the absence of metering, which resulted in the external auditor qualifying its audit opinion of the DFI's statement of cash receipts and payments;
- b. **There were control weaknesses in the administration of resources handled by the CPA** including lack of access to personnel, inadequate accounting systems, the uneven application of agreed-upon contracting procedures, and inadequate record keeping. KPMG also noted ongoing audits and investigations of the U.S. Army Corps of Engineers projects in Iraq, including DFI funded programs, by U.S. Justice, Inspector General and other agencies;
- c. **There were inadequate controls identified at Iraqi spending ministries** including the absence of reconciliation procedures, inadequate accounting records, deviations from the tendering procedures designed to ensure competitive bidding, insufficient payroll records, and inadequate contract monitoring by the CPA relating to payments on behalf of the Iraqi ministries. KPMG noted that the scope of their procedures had been limited: KPMG only obtained approval from the Iraqi government to access the Iraqi ministries on August 16, 2004, the Kurdish Regional government denied KPMG access to their accounting records, and security issues precluded KPMG performing any procedures at two ministries and limited the procedures at a third ministry; and
- d. **While reported frozen funds have been deposited into the DFI, other Iraqi funds and financial assets are still believed to be held by various UN member States.** While the U.S. government and regulatory agencies in UN member States are actively pursuing these funds, it is not possible to reliably estimate the amount of such funds that may eventually be transferred to the DFI as some of these assets are subject to a prior judicial, administrative, or arbitral lien or judgment.

19. **The control weaknesses identified in the KPMG reports all require follow-up and attention, and the external auditor should have access to all ministries.** As a matter of priority and looking forward the financial reporting and control systems need to be improved in key Iraqi agencies, including SOMO, and in the various Iraqi ministries and regional governments. This has been brought to the attention of the Iraqi government and the IAMB understands that measures are being taken to remedy these shortcomings. The Interim Government of Iraq has formed a committee to follow-up on the recommendations and to formally report progress on implementation to the IAMB. The Interim Government of Iraq has issued a decree enabling the Board of Supreme Audit (BSA) and the external auditor access to all ministries and regional governments. The ministry of finance has set up a special unit to facilitate the transfer of archives from the CPA. The BSA has commenced coordination with the Inspector General in each ministry, and a standards council, chaired by the BSA, has been established.

BACKGROUND ON THE ESTABLISHMENT AND OPERATIONS OF THE INTERNATIONAL ADVISORY AND MONITORING BOARD

INTRODUCTION

1. **The Development Fund for Iraq (DFI) was established on May 22, 2003, as noted in United Nations Security Council resolution 1483 (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. Funds in the DFI were to be disbursed at the direction of the Coalition Provisional Authority (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. Since its establishment, the DFI has been held on the books of the Central Bank of Iraq, and the corpus of the DFI has been held in an account with the Federal Reserve Bank of New York.
2. **The International Advisory and Monitoring Board for Iraq (IAMB) oversees the audits of the DFI and Iraq's oil export sales,** 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. The IAMB comprises 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. The DFI and Iraq's oil export sales were required to be audited by independent public accountants approved by the IAMB.
3. **On June 9, 2004, the United Nations Security Council adopted resolution 1546 (UNSCR 1546).** This resolution noted that upon the dissolution of the CPA, funds in the DFI would be disbursed solely at the direction of the government of Iraq. The resolution required the IAMB to continue its activities in monitoring the DFI. Furthermore, consistent with UNSCR 1546, the IAMB now includes, as an additional full voting member, a duly qualified individual designated by the government of Iraq.

ESTABLISHMENT AND OPERATIONS OF THE IAMB

4. **The executive heads of the Arab Fund for Economic and Social Development, the International Monetary Fund, the United Nations, and the World Bank, approved the IAMB's terms of reference on October 21, 2003 (attached).** 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. The terms of reference reflect international best practices related to external 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. The first meeting was opened by the United Nations Secretary-General and the UN representative was chosen by the members as the IAMB Chair.

5. **The IAMB paid close attention to three key areas that would help it fulfill its mandate in an effective and transparent manner:** (i) the DFI audit process, (ii) Iraqi participation in IAMB meetings, and (iii) prompt and transparent dissemination of information to the international community.

The DFI audit process

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

Scope of Work

7. **The IAMB initiated and continued its expeditious review of the auditor's scope of work** during its first two organizational meetings in December 2003. The IAMB provided the CPA with comments on the scope of work in December. By February 6, 2004, the IAMB had agreed with the CPA on the scope of work that would be covered by the audits. The IAMB was informed that the CPA would issue the invitations to tender for the agreed scope of work and invite proposals by February 18, 2004. The agreed scope of work 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 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.

Auditor Selection

8. **At the IAMB's request the CPA provided the IAMB with the external auditor selection procedures, including the evaluation criteria** on February 16, 2004, and a week later, the IAMB received a draft evaluation form. The IAMB provided the CPA with its comments on February 25, 2004, suggesting that the CPA use a weighting system so as to make the assessment of criteria more objective. During the first weeks of March 2004, the CPA provided the IAMB with information on a possible nominee firm for the audit. At its meeting on March 17 and 18, 2004, the CPA provided the IAMB with a more complete

briefing of the evaluation process. Based on the information obtained by the IAMB, which was not available to the CPA's selection committee at the time the evaluations were made, the IAMB concluded that one candidate nominee firm did not meet the requisite criteria. The IAMB sought supplemental information from the CPA regarding the other nominee firm. Following receipt of such information, the IAMB, on March 24, 2004, approved the CPA's nomination of KPMG to be the external auditor.

9. **The CPA announced on April 5, 2004 that the audit contract had been signed by KPMG.** The IAMB noted the international composition of the audit team including KPMG's commitment to include internationally experienced and specialized audit partners and Iraqi nationals, use International Standards on Auditing, and use an international advisory team. As part of the IAMB's oversight of the DFI audits, KPMG provided comprehensive briefings regarding the progress made in the audits during the April, May, June, July, and September 2004 IAMB meetings. KPMG presented their first reports covering the period from May 22, 2003 to December 31, 2003 on July 14, 2004 and the second KPMG reports were presented to the IAMB on October 12, 2004, covering the period from January 1, 2004 to June 28, 2004. The audit reports were published promptly on the IAMB website. Arabic versions of the audit reports were also later published on the IAMB website.

Briefings on DFI Operations and Oil Exports

10. **The IAMB requested the CPA to provide it with briefings related to the DFI.** The briefings sought 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 CPA briefed the IAMB on the financial function and operations of the DFI during the IAMB's meeting on February 12 and 13, 2004. The IAMB sought clarifications on a number of issues raised during the CPA briefings and these issues were further discussed during the IAMB's meeting on March 17 and 18, 2004. 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 earlier 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.

Iraqi participation

11. **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 contemplate 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. The IAMB requested the CPA on December 8, 2003 to submit a list by the Governing Council of Iraq and by the

CPA of duly qualified candidates from which the IAMB could appoint observers. Following its meeting on February 13, 2004, the IAMB emphasized that it remained anxious to involve Iraqi nationals in its oversight work and resolved to continue to pursue the nomination of suitably qualified Iraqi nationals as observers. The CPA, by its letter of February 25, 2004, communicated the list of candidates suggested as observers by the Governing Council, as well as one individual that the CPA sought to nominate as an observer.

12. **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 U.S. government, who had been nominated by the CPA.

13. **The IAMB strongly encouraged the presence of Iraqi nationals at its meetings, and such participation would allow them to communicate their views to the IAMB** and that the IAMB, for its part, would give the fullest consideration to these views. 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 have been revised and the membership of the IAMB currently includes an Iraqi national as a full-voting member.

14. **The IAMB had hoped to supplement Iraqi involvement in its work by establishing its secretariat in Baghdad,** as provided in the IAMB's terms of reference. However, in light of the security situation in Iraq, this could not be done and arrangements had to be made by the IAMB members to share the secretariat functions amongst themselves and their affiliated alternates and advisors.

Transparency and dissemination of information

15. **The IAMB established a publicly available website in February 2004.** The website (www.iamb.info) has regularly posted press statements as well as the minutes of all of the IAMB meetings, the results of the audit reports and key documents related to the IAMB mandate and operations, including UNSCR 1483 and 1546, the terms of reference and the rules of procedure. Consistent with its terms of reference, the IAMB has 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. The IAMB has also sought to make key documents available in Arabic on its web-site, i.e., the audit reports, its terms of reference and UNSCR 1483 and 1546.

Other matters

16. **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 all of the IAMB's meetings or participated in these meetings by teleconference. CPA staff 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. In this regard, the IAMB received briefings from the CPA on preparations for the handover of the DFI and its operations. The IAMB requested the CPA to designate an official to act as counterpart to the IAMB in connection with the finalization of the DFI and oil export sales audits for the period up to June 28, 2004 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 on-going projects whose completion dates fall after June 28, 2004. The IAMB was informed that about \$3 billion dollars worth of contracts fall under this category and will be managed under this arrangement until December 31, 2004 or longer if the Iraqi government approves 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.

INTERNATIONAL ADVISORY AND MONITORING BOARD TERMS OF REFERENCE

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) of ensuring that the Development Fund for Iraq (DFI) is used in a transparent manner for the purposes set out in operative paragraph 14 of that resolution and that export sales of petroleum, petroleum products and natural gas from Iraq are made consistent with prevailing international market best practices.

2. Members:

- A. The IAMB shall include, as referred to in operative paragraph 12 of resolution 1483, 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. Each of these institutions shall have one member on the IAMB.
- B. The IAMB, after consulting with the CPA Administrator, may appoint up to 5 observers to the IAMB from a list of independent, qualified candidates, which should include Iraqi nationals nominated by the Governing Council of Iraq. Any such appointment shall require unanimous approval of all members of the IAMB.
- C. At any meeting of the IAMB, each member may be accompanied by an alternate designated by the executive head of the institution concerned 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 Administrator of the CPA, 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)’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 CPA for the areas subject to external audit in 3.B above and advise, as appropriate, the CPA 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 United Nations Security Council Resolution 1483 (2003). After consulting with the CPA, 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 (ISA).
- 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 audit in 3.B above and including those of the External Auditor(s), any special auditors, and any internal auditors retained by the CPA, 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 Coalition Provisional Authority (CPA) as appropriate to serve the purposes of Security Council resolution 1483.

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, by unanimity of 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 CPA, 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, which shall occur, at least, quarterly.
- B. Extraordinary meetings shall be convened by the Chair or at the request of any two members of the IAMB.
- C. A quorum for any IAMB meeting shall be at least three of the four 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 CPA 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 be paid by their respective institutions.
- C. Reasonable costs as mutually agreed upon with the CPA 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 entitled to receive any salary or other compensation from the CPA or DFI for their services.
- E. The IAMB shall establish a Secretariat which will be located in Baghdad. The Secretariat shall provide administrative support to the IAMB, including the safeguarding of IAMB minutes and records and internal deliberations and communications of IAMB members. The costs associated with the Secretariat, IAMB meetings and other general IAMB business shall be borne by the four institutions referenced in 2.A above.

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 CPA, and shall be published by the CPA. The CPA's consent will be required for any amendment that may materially affect the rights or responsibilities of the CPA.
- 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 CPA, the IAMB shall consult with the CPA 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 CPA decree or regulation including, without limitation, the CPA regulations establishing the DFI and the Program Review Board, the provisions of these terms of reference shall prevail.

9. Establishment and Dissolution:

- A. Upon unanimous approval of these terms of reference by the executive heads of the four institutions referenced in 2.A above, after consulting with the CPA, the IAMB shall be established. The terms of reference of the IAMB shall be published by the CPA.
- B. Once an internationally recognized, representative government of Iraq is properly constituted, as specified in resolution 1483, arrangements will be made for the prompt dissolution of the IAMB.