

# International Advisory and Monitoring Board

## Minutes of the meeting held at the Offices of the World Bank in Paris on 20-21 October 2008.

The following members of the IAMB were present:

Arab Fund for Economic and Social Development: Dr. Khalifa Ali Dau, Senior Financial Advisor

International Monetary Fund: Mr. Chris Hemus, Acting Representative and Chief, Safeguards Assessment Division

Government of Iraq: Mr. Adel Al Hasson, Representative to IAMB and expert in COFE,

United Nations: Mr. Jun Yamazaki, Assistant Secretary-General and Controller

Also in attendance were the following:

International Monetary Fund:

Ms. Mary Hoare, Officer, IMF Finance Department

United Nations:

Mr. Jayantilal M. Karia, Alternate Member

Mr. Moses Bamuwanye, Financial Management Officer

World Bank:

Ms. Caroline Harper, Lead Operations Officer

Government of Iraq:

Mr. Ezzuldin Mohammed Al Bahrani Alternate Member

Committee of Financial Experts (COFE)

Dr. Abdul Basit, President, the Board of Supreme Audit (BSA) and head of COFE

Mr. Aras Mohammed,

Mr. Naem Tuama,

Ms. Ghaidaa Al- Qadi,

Invitee from the United States Department of State

Mr. Joshua Volz

1. The meeting was to be chaired by the host, Mr. Fayezul Choudhury, World Bank, who unfortunately could not attend the meeting. Consistent with the Rules of Procedure of the IAMB, the members that were present appointed Dr. Dau as the interim Chairman.
2. The agenda for the meeting was unanimously adopted in the executive session.
3. The IAMB welcomed Mr. Yamazaki, the new Representative of the Secretary-General of the United Nations. At the same time, the IAMB expressed its appreciation for the substantial contribution that Mr. Warren Sach, the outgoing Representative of the Secretary-General, had made to the IAMB. The IAMB also welcomed Mr. Chris Hemus as the Acting Representative of the Managing Director of the International Monetary Fund. Mr. Hemus had served as the Alternate Representative from the IMF since 2003.

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## 2008 External Audit of the DFI

4. In accordance with the IAMB Terms of Reference, the nomination and appointment by the Government of Iraq of the DFI external auditor is subject to approval by the IAMB. Representatives of the Government of Iraq and the successor body—the Committee of Financial Experts (COFE)—had earlier briefed the IAMB on the evaluation process, including a new tendering process, to select an external audit firm to conduct an audit of the resources and disbursements of the DFI. Following the receipt of clarifications from the Government of Iraq and COFE regarding safeguards on audit quality, the IAMB approved the process and concurred with the recommendation of the Government of Iraq to appoint KPMG and to proceed with the audits in August 2008.
5. The IAMB was further briefed on the procurement process that led to the appointment of KPMG as the DFI auditors. The Representative of the Government of Iraq reiterated the fact that the significantly higher price quoted by the previous auditor, Ernst & Young, led to a new tendering process from which KPMG emerged as the lowest bidder. Nevertheless, members noted that the selection of an auditor can not be based solely on price, but also factors such as capacity and competency need to be taken into consideration. The members also noted that there was a direct invitation to the ‘big four’ in addition to the bidding process, KPMG had previously audited the DFI, and that the former audit engagement partner from KPMG would be involved in the DFI audit on an advisory basis.
6. The IAMB met with the new auditors, KPMG, and received a briefing on the draft interim report on the Statement of Cash Receipts and Payments of the Development Fund for Iraq (DFI) by KPMG. This presentation, which covered the audit period 1 January – 30 June 2008, is posted on the IAMB website ([www.iamb.info](http://www.iamb.info)). It was noted that KPMG had yet to commence the audits of the spending ministries, but that these would be completed for the year-end audit report. The IAMB asked that KPMG follow-up and report on the status of prior audit findings, especially in the spending ministries, by the previous auditor, Ernst & Young.
7. The Interim review reiterates earlier findings regarding the completeness of revenues in the DFI Statement of Cash Receipts and Payments. Specifically, the briefing again raised issues that could likely be the basis of a qualified opinion namely: completeness of export sales of petroleum products, completeness of proceeds from frozen assets, completeness and accuracy of outstanding contractual commitments entered into by the US Agencies, unrecorded barter transactions, and absence of comprehensive metering systems.

## Status of Implementation of Previous Audit Observations – Briefing by COFE

8. The IAMB was informed of the effort made to group the audit observation into three major categories: internal controls weakness, contracting processes, and others.
9. With respect to internal control weaknesses, oil metering was considered one of those issues with the highest priority. The IAMB was informed that comprehensive metering system had progressed further with the extension of the metering to oil products at refineries, distribution centres and fuel stations. The IAMB continues to view this matter as urgent especially in light of the previous auditor’s report that showed unreconciled

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differences related to production, export sales and internal consumption of oil and petroleum products.

10. The IAMB was also briefed on the status of implementation of the previously identified recommendations (27 percent implementation rate). The IAMB was concerned at the slow rate of implementation of the earlier recommendation and urged the BSA—with the help of COFE—to continue the strong focus on strengthening the system of internal controls and coordinate and actively monitor and follow-up progress by the Government of Iraq to timely monitor and resolve the control weaknesses and build up the necessary capacity. The detailed report has been posted on the IAMB website ([www.iamb.info](http://www.iamb.info)).

## **The IAMB Mandate**

11. Cognisant of the expected expiration of its mandate by December 31, 2008, the IAMB continued to discuss transition issues. While acknowledging that the immunity of the DFI and the continued payment of 5 percent of the Oil Proceeds to the United Nations Compensation Fund were outside the scope of the IAMB, it was noted that neither of these issues should form the basis for a decision to further extend the mandate of the IAMB.
12. The IAMB believes that COFE is ready to assume the oversight responsibilities for the DFI. It was agreed that the interim Chair will write to the Government of Iraq proposing that COFE assume the IAMB's oversight role should an extension of UNSCR 1790 be sought.

## **Other Matters**

13. The next and final meeting of the IAMB has been scheduled for 18-19 December 2008 in New York. A press briefing by the five members of the IAMB together with a final report on the IAMB's work are expected at that time.

## **Press Release**

14. The members agreed to issue a press release highlighting the results of this meeting and to post the press release on the IAMB website.

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