

The Ministry of Finance, Baghdad, Iraq announced on October 25, 2004 an invitation to tender for the audit of oil export sales and Development Fund for Iraq operations for the period from June 29, 2004 to December 31, 2004. The Statement of Work is attached.

A response to the invitation must be received by the Ministry of Finance, Baghdad, Iraq by 12.00 noon on November 11, 2004.

STATEMENT OF WORK

EXTERNAL AUDITS RELATING TO ALL EXPORT SALES OF IRAQI OIL, PETROLEUM PRODUCTS AND NATURAL GAS AND THE OPERATIONS OF THE DEVELOPMENT FUND FOR IRAQ

1. BACKGROUND

United Nations Security Council Resolution (“UNSCR”) 1483, dated 22 May 2003, noted the establishment of the Development Fund for Iraq (“the DFI”) and underlined that the DFI shall be used in a transparent manner 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. UNSCR 1546, dated 8 June 2004, noted the continuation of the DFI, provided that the funds in the DFI shall be disbursed solely at the discretion of the Government of Iraq and underlined, in paragraph 24, that the DFI shall be used in a transparent and equitable manner and through the Iraqi budget including to satisfy outstanding obligations against the DFI. This Statement of Work addresses the requirements contained within UNSCR 1546 and the Terms of Reference (“the TOR”) of the International Advisory and Monitoring Board (“the IAMB”), (attached) for the external audits of all export sales relating to Iraqi oil, petroleum products and natural gas and the operations of the DFI. In accordance with UNSCR 1546 and the agreed upon TOR of the IAMB, the independent public accountants (External Auditor(s)) referenced in paragraphs 12 and 20 of UNSCR 1546 to execute these audits shall be nominated and appointed by the Interim 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.

The DFI. The Central Bank of Iraq holds the DFI on its books. The U.S. Federal Reserve Bank of New York (“FRBNY”) (and/or the Bank of International Settlements (Switzerland)), and /or other financial institutions opened the “Central Bank of Iraq/Development Fund for Iraq” account and maintain(s) it at the direction of the Interim Government of Iraq.

One billion United States dollars from unencumbered funds in accounts established pursuant to paragraphs 8(a) and 8(b) of UNSCR 986 (1995) were transferred by the United Nations into the DFI shortly following its establishment. Since then an additional \$7.6 billion United States dollars have been transferred by the United Nations. Also, certain restored funds and surplus funds, pursuant to paragraph 17 and 23 of Resolution 1483 continue to be transferred to the DFI. In addition, ninety five percent of the proceeds from all export sales of petroleum, petroleum products, and natural gas from Iraq are being deposited into the DFI, pursuant to paragraph 20 of Resolution 1483, and five percent of such proceeds are being deposited in the Compensation Fund established pursuant to UNSCR 687 (1991) and pursuant to paragraph 21 of UNSCR 1483. As appropriate, gifts, contributions, donations or other funds, revenues or proceeds have been and will be deposited into the DFI. Proceeds from the investment of Fund assets, have been and will also be deposited into the DFI.

The Central Bank of Iraq and the FRBNY (and/or other financial institutions(s), if the Interim Government of Iraq so directs), accept instructions, as agreed, concerning the DFI, including instructions to pay sums out of the DFI, only from the Interim Government of Iraq or his authorized designates.

DFI Locations. The DFI is held on the books of the Central Bank of Iraq, and the corpus of the DFI is held in an account entitled “Central Bank of Iraq/Development Fund for Iraq” in the FRBNY (and/or other financial institutions if the Interim Government of Iraq so directs), for the Central Bank. In addition, pursuant to UNSCR 1483, the FRBNY is maintaining on its books an Oil Proceeds Receipts Account (the “Receipts Account”) for the initial receipt of proceeds of all export sales of petroleum, petroleum products, and natural gas from Iraq and for the immediate transfer of ninety-five percent of such proceeds to the “Central Bank of Iraq/Development Fund for Iraq” account and five percent of such proceeds to the appropriate United Nations Compensation Fund account.

Oil export Sales. Oil export sales are arranged for and conducted by the State Oil Marketing Organization (SOMO), which is the Iraqi Ministry of Oil’s marketing and supply organization. Pursuant to paragraph 20 of UNSCR 1483, the Interim Government of Iraq oversees these transactions to ensure they are consistent with prevailing international best practices.

SOMO contracts for oil export sales via tenders, spot contracts, and term contracts. For each oil export sale, the buyer first files a letter of credit with the FRBNY, the lift of the contracted quantity occurs, final pricing occurs, and payment to FRBNY is made within 30 days of the lift.

The DFI and related operations have been audited through end-December 2003 and the audit reports are available on the IAMB website (www.iamb.info).

2. PROJECT OBJECTIVE

The objective is to conduct external audits relating to Iraqi oil, petroleum products and natural gas and the operations of the Development Fund for Iraq.

3. PROJECT SCOPE

The contractor will perform a special purpose audit engagement of the DFI in accordance with the Terms of Reference. The specified component is the DFI and its related accounts established at the FRBNY. The engagement must be performed and the report written in accordance with International Standards on Auditing (ISA), January 1, 2004 and applicable INTOSAI Standards in Government Auditing (“Audit Standards”). The scope must cover:

- (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 to ensure that they are in accordance with the provision of paragraph 14 of UNSCR 1483 and that DFI funds are used in a transparent manner and for the purposes for which they were disbursed.

For purposes of (i) and (ii) above, the contractor must ensure that all sales and related receipts are accurately accounted for and the distribution of receipts between the DFI and the Compensation Fund account are accurately reflected.

For purposes of (iii), the contractor must audit the DFI financial statements prepared by the Interim Government of Iraq in accordance with IFAC Public Sector Committee Standards (“IPSAS”). A pro-forma engagement letter is included at Attachment I.

For purposes of subparagraph (iv) above, the contractor will make (1) a determination as to whether the disbursements from the DFI are duly authorized and received by the designated recipient; and (2) 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. The “designated recipient” is the Iraqi Ministry or other government organization responsible for implementing the program for which the disbursement from the DFI is made.

4. TASK MONITOR – Contracting Officer’s Representative (COR)

A designate appointed by the Interim Government of Iraq will serve as the COR for this contract. The COR, in coordination with the IAMB, will issue tasks to the contractor and will monitor the contractor’s work to ensure compliance with the terms of the contract prior to approving compensation.

5. DELIVERABLES

5.1. Audit Documentation

The contractor must provide engagement documentation that complies with the Audit Standards. The documentation must be written in the English language. If the documentation is provided in electronic format, the COR must have access to the software package used by the contractor to oversee and review the documentation, as needed. The contractor must provide copies of the documentation requested by the designated COR, as necessary. The contractor will provide a copy of the documentation 15 days after contract award and every 15 days thereafter until the contract is complete. Through the specified engagement phases listed in the Audit Standards, the contractor must make the documentation available to the COR for review to ensure compliance with applicable standards. Documentation must provide the support for the contractor’s report. Included in the documentation must be documents that support the efforts performed in planning and conducting the engagement. The contractor must also comply with the request set out in paragraph 10 of this document.

5.2. Status Meetings

The contractor must schedule a briefing in Baghdad, Iraq with the COR and the Interim Government of Iraq representatives to discuss the status of the Contract Order not later than 21 days after the award of the Contract Order. Subsequent briefings and meetings will take place as required. The purpose of the briefings and meetings must be to discuss the provision of services described herein, and any potential delays or problems. A representative of the IAMB may attend status meetings.

5.3. Auditor’s Report

The contractor must prepare separate audit reports for each of the areas covered under 3, Project Scope, in accordance with Audit Standards. The reports will be provided simultaneously to the Interim Government of Iraq and to the IAMB. The initial contract order will cover the period from 1 July 2004 to 31 December 2004, and may be extended to cover the period from 1 January 2005 to 30 June 2005. In accordance with the terms

of engagement described in paragraph 6, reports will be provided every six months. At a minimum, the Auditor's Report should include (1) the title, addressees, and an opening or introductory paragraph containing (a) identification of the financial information audited and (b) statement of the responsibility of the entity's management and the responsibility of the contractor; (2) a scope and methodology paragraph describing the nature of the audit (a) referencing the Standards applicable to the engagements or other relevant international standards or practices and (b) the work the contractor performed; and, (3) an opinion paragraph where relevant. The contractor may expand the report to include other information and explanations not intended as a reservation. Audit reports will be provided in both Arabic and English.

6. Terms of the Engagement.

Work under this Contract Order must commence upon award. The contractor must complete this Contract Order in respect of the period from 1 July 2004 to 31 December 2004 not later than 90 days after the end of the period/contract award. Additional work without specified completion dates must be coordinated with the designated COR. The cost of this Contract Order is not-to-exceed the total compensation proposed in Section 8. The resulting award will cover the period 1 July 2004 to 31 December 2004. The Interim Government of Iraq will provide the contractor with access to the DFI's financial records, documents, personnel and the designated recipients, with any confidential or proprietary materials protected in a manner agreed between the parties.

7. KEY PERSONNEL

Prime Contractor. The proposed names of the contractor's key personnel must be identified before executing this Contract Order. After contract award, the names may not be substituted under this Contract Order without the COR approval. The contractor will not be paid for individuals billed to the Contract Order unless previous written authority by the COR is in the possession of the contractor.

Subcontractors. The prime contractor must provide the names, addresses, and qualifications of all anticipated subcontractors that will perform work on this Contract Order, prior to contract award. Any changes to the subcontractors are subject to prior written approval from the COR.

8. COMPENSATION

Cost. The contractor's cost proposal must include the labor category, the estimated hours for each category, and the labor rates. The contractor must provide total amounts for each labor category and the not-to-exceed amount for the entire proposal on the pricing sheet. The contractor should also propose rates to be used to price tasks for additional work that may be requested by the IAMB.

Alternative Costing. The Interim Government of Iraq encourages potential contractors to offer alternative costing arrangements and scope changes that would be more cost effective and efficient than what the Interim Government of Iraq has proposed in its statement of work. The Interim Government of Iraq will consider any innovative cost and techniques proposed in a submitted proposal.

9. LOGISTICAL SUPPORT

Transportation. The contractor, or its designated subcontractor, will be reimbursed for approved economy class transportation charges for transportation related to the conduct of the audit. Transportation to and from Baghdad, Iraq must be arranged through the Interim Government of Iraq. Contractor or designated subcontractor will use government transportation to the fullest extent possible. The Interim Government of Iraq controls entrance to Iraq, thus contractors will be required to obtain country clearance approval from the Interim Government of Iraq.

10. RELATIONSHIP BETWEEN THE CONTRACTOR AND THE IAMB

The IAMB, consistent with its terms of reference, shall perform functions similar to those of outside audit committees, functioning according to international best practices and the contractor shall interact with the IAMB accordingly.

The IAMB, in coordination with the Interim Government of Iraq COR, shall review all audit reports prepared by the contractor and determine whether the audits were conducted in a satisfactory and comprehensive manner, and in accordance with appropriate standards.

The IAMB will periodically have executive sessions with the contractor and may, at its discretion include the Interim Government of Iraq COR or other relevant persons in such sessions. The contractor shall respond to all requests and queries from the IAMB and shall otherwise disclose fully the material facts that have given rise to audit observations.

The IAMB shall, pursuant to its terms of reference, ensure that all audit reports under this statement of work are made public.

The IAMB shall have access to financial and other records and access to all personnel relevant to its mandate, including those of the contractor and any subcontractors.

The contractor must also make its personnel available to meet with the IAMB as necessary. A representative of the IAMB has the right to attend the status meetings with the contractor.

11. EVALUATION OF PROPOSAL

Designated government personnel will evaluate submitted proposals and auditors shall be nominated and appointed by the Interim Government of Iraq subject to approval by the IAMB. Each bidder must submit a Statement of Independence and a list of prior clients that can be contacted to discuss their opinion on the quality of the bidder's prior engagement work.

Minister of Finance
Interim Government of Iraq
Baghdad
Iraq

[date]

Dear Sir,

Re: Audits relating to Development Fund for Iraq

This letter will confirm [external audit firm name] understanding of our engagement to report upon our audit of the financial statements of the Development Fund for Iraq (hereinafter referred to as the “DFI”) as of and for the period from 28 June 2004 to 31 December 2004.

Objectives and limitations of services

We will conduct our audit in accordance with the International Standards on Auditing (ISAs) and with the International Organization of Supreme Audit Institutions (hereinafter referred to as “INTOSAI”) Standards in Government Auditing, and we will indicate so in our reports. Those ISAs and INTOSAI Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements prepared in accordance with Financial Reporting Under the Cash Basis of Accounting as issued by IFAC Public Sector Committee Standards (hereinafter referred to as the “IPSAS”) are free of material misstatements. These financial statements will be prepared on a cash basis, and footnotes and supporting schedules will include reconciliations to the accrual basis, wherever possible. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our reports will be addressed to the International Advisory and Monitoring Board (hereinafter referred to as “IAMB”) and the Interim Government of Iraq (hereinafter referred to as the “IGI”).

Our audit is planned and performed to obtain reasonable, but not absolute assurance, about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act) and other illegal acts may exist and not be detected by an audit performed in accordance with International Standards on Auditing and the INTOSAI Standards on Government Auditing. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

In planning and performing our audit, we will consider the DFI’s internal control in order to determine the nature, timing and extent of our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However the Contractor will be expected to identify weaknesses in the internal control procedures, and include appropriate comments there on in his audit reports. The limited purpose of this consideration may not meet the needs of some users who require additional information about internal control.

Our responsibility to communicate with the IAMB and the IGI

As requested, we will prepare a written management report on our consideration of internal control and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the DFI's internal control and we are not obligated to search for reportable conditions as part of our audit, this report will include any reportable conditions to the extent they come to our attention. Reportable conditions are significant deficiencies in the design or operation of internal control, which could adversely affect the DFI's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements under audit. It will indicate that it is intended solely for the information and use of the IAMB and the IGI, and while we appreciate that our reports will be published on the IAMB website, we note that the reports are not intended to be, and should not be, used by, or relied upon by, anyone other than these specified parties. This note will be mentioned in our reports as submitted to yourselves.

We will also communicate to the IAMB verbally disagreements with the IGI or other serious difficulties encountered in performance of our audit or review services. We believe verbal communication of matters such as those noted above is the appropriate forum to provide open and frank dialogue.

We will report to the IAMB, in writing, on the following matters:

- Audit adjustments arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the DFI's financial reporting process. In this context, audit adjustments, whether or not recorded by the entity, are proposed corrections of the financial statements that, in our judgment, may not have been detected except through the auditing procedures performed;
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate;
- Other matters required to be communicated by International Standards on Auditing: Communication of Audit Matters with those Charged with Governance.

We will also read the minutes of IAMB meetings for consistency with our understanding of the communications made to the IGI and the IAMB and to determine that the IAMB has received copies of all material written communications between the IGI and ourselves. We will also determine that the IAMB has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to IAMB in writing our reasons for withdrawal.

Management responsibilities

The IGI is responsible for the fair presentation, in accordance with International Financial Reporting Standards, of the financial statements and all representations contained therein. The IGI is also responsible for preventing and detecting fraud, for adopting sound accounting policies and establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. The IGI is also responsible for informing us of all reportable conditions, of which it has knowledge, in the design or operation of such controls. The IGI is also responsible for identifying and ensuring that the DFI complies with laws, regulations, contracts and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations.

The IGI agrees that all records, documentation and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us and that we will have the full cooperation of IGI personnel. As required by International Standards on Auditing, we will make specific inquiries of the IGI about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from the IGI about these matters. The responses to our inquiries, the written representations and the results of audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

The IGI is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any unrecorded misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Because of the importance of the IGI's representations to the effective performance of our services, the IGI agrees to release [external audit firm name] and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above and to indemnify [external audit firm name] and its personnel against any claims or legal actions resulting.

Other matters

This letter shall serve as the IGI's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between [external audit firm name] and the IGI, between [external audit firm name] and the IAMB and between [external audit firm name] and outside specialists or other entities engaged by either [external audit firm name], the IAMB or the IGI. It is acknowledged that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of [external audit firm name].

Further, for purposes of the services described in this letter only, the IGI hereby grants, and shall request the IAMB to grant, to [external audit firm name] a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the IGI and the IAMB solely for presentations or reports to the

IGI, the DFI and the IAMB or for internal [external audit firm name] presentations and intranet sites.

We understand that the IAMB wishes to publish a copy of the DFI's audited financial statements and our audit report on the IAMB website. When information is presented on a website, the security and controls over information on the website to maintain its integrity are the responsibility of management. We would be pleased to review the suitability of these arrangements with the IAMB before any decision is taken to publish our report on the website. In the event that we believe that use of our audit report on the website is misleading, we reserve the right to require the report to be presented in a manner that is not misleading.

The IGI agrees that [external audit firm name], its partners, principals, and employees shall not be liable to the IGI for any actions, damages, claims, liabilities, costs expenses, or losses in any way arising out of or relating to the audit services performed hereunder for an aggregate amount in excess of the fees paid by the IGI to [external audit firm name] under this engagement. In furtherance and not in limitation of the foregoing, [external audit firm name] will not be liable in respect of any decisions made by the IGI, IAMB or any other parties as a result of the performance by [external audit firm name] of its services hereunder. The provisions of this Paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise.

By approving this engagement, you agree to release [external audit firm name] and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter, except to the extent determined to have resulted from the intentional, gross negligent or deliberate misconduct of [external audit firm name] personnel. In the event [external audit firm name] is required pursuant to subpoena or other legal process to produce its documents relating to engagements for the DFI in judicial or administrative proceedings to which [external audit firm name] is not a party, DFI shall reimburse [external audit firm name] for its professional time and expense, including reasonable legal fees, incurred in responding to such requests.

Work paper access by the IAMB and others

Other than the documentation requirements of paragraph [5.1] of the Statement of Work, the work papers for this engagement are the property of [external audit firm name]. Pursuant to the IGI or IAMB's request, we may be required to make certain work papers available to the IGI or IAMB. Access to the requested work papers will be provided under supervision of [external audit firm name] personnel.

In the event [external audit firm name] is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement in judicial or administrative proceedings to which [external audit firm name] is not a party, the IGI shall reimburse [external audit firm name] at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such request.

We may be requested to assist the IGI in drafting the financial statements and notes. In that respect, you confirm that the IGI will:

- Designate a qualified management-level individual to be responsible and accountable for overseeing the drafting of the financial statements;
- Establish and monitor the performance of the engagement to ensure that it meets management's objectives;
- Make any decisions that involve management functions related to the engagement and accept full responsibility for such decisions; and
- Evaluate the adequacy of the financial statements and notes.

Other

We expect to be able to perform our audits over the timescale agreed upon with you, and provided no major unforeseen problems are encountered we expect to be able to deliver our draft reports within the following agreed timescales:

- [date] - Audit Report for the period from 28 June 2004 to 31 December 2004.

[external audit firm name] is conscious of the current security situation in Baghdad, however, if the security situation does not allow our team to perform our work in accordance with the plan and timetable, then we reserve the right to reschedule or cancel any of the visits after consulting with the contracting parties without penalties to [external audit firm name]. The fees due to [external audit firm name] would then be limited to the work performed until [external audit firm name] would have to withdraw the team.

Responsibility for this engagement has been assigned to [names of partners], Partners, assisted by [] and other suitably qualified staff. The Iraqi Board of Supreme Audit and an international [external audit firm name] Advisory Team will assist the partners, as and when required, to expedite the engagement and provide specialized technical expertise.

This engagement letter is a supplement to the Terms and Conditions of the contract reference [number] signed between [external audit firm name] and the IGI. Any modification or variation to the engagement letter must be in writing and signed by an authorized representative of each of us.

In accordance with your instructions, we have forwarded copies of this letter to all members of the IAMB.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Yours sincerely,

[external audit firm name]

[partner name]

Partner

This letter correctly sets forth the understanding of the [Interim Government of Iraq]

[Interim Government of Iraq]

By

Date

INTERNATIONAL ADVISORY AND MONITORING BOARD
Revised 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 1546 (2004) (resolution 1546), read with resolution 1483 (2003) (resolution 1483), of ensuring 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 resolution 1546.

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. 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 1546.

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, 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 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 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 international institutions referenced in 2.A. above. The decision to establish the Secretariat, and any other decision affecting the costs associated with the Secretariat shall require the approval of all members representing the Executive Heads of the institutions bearing the costs of the Secretariat.

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 terms of reference adopted on October 24, 2003, provided that the prior consultation contemplated in that provision shall be with the Government of Iraq. 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 upon the conditions stipulated in paragraph 25 of resolution 1546 being met.
- 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.