

## ROUTING SLIP

## FICHE DE TRANSMISSION

TO: Mr. Nambiar

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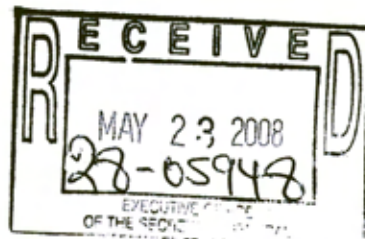
FROM: Warren Sach

DE:

Room No. / No. de Bureau S 2627A	Extension - Poste 3.5569	Date 22 May 2008
FOR ACTION pls.		POUR SUITE A DONNER
FOR APPROVAL pls.		POUR APPROBATION
FOR SIGNATURE pls.		POUR SIGNATURE
FOR COMMENTS		POUR OBSERVATIONS
MAY WE DISCUSS?		POURRIONS-NOUS EN PARLER?
YOUR ATTENTION		VOTRE ATTENTION
AS DISCUSSED		COMME CONVENU
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VN(FI)



Iraq  
DPPRA

# United Nations Nations Unies

HEADQUARTERS • SIEGE NEW YORK, NY 10017

TEL.: 1 (212) 963.5569 • FAX: 1 (212) 963.8061

REFERENCE:

21 May 2008

Dear Mr. Ambassador,

I refer to your letter dated 22 April 2008 transmitting comments from the Government of Iraq with respect to the Secretary-General's letter of 1 October 2007 to the Chair of the UN Board of Auditors. The above referenced letter raised several issues which I have the honour to address accordingly.

**1. Outstanding Letters of Credit and the continuation of the Oil for Food Programme (the Programme) after its termination**

At the outset I should like to point out that through the life of the Programme, the UN processed over 20,000 letters of credit for a value of about \$44 billion. Following the termination of the Programme on 21 November 2003, about 3,000 LCs were prioritized at the request of the Security Council as essential for reconstruction and/or humanitarian needs of the Iraqi People. The responsibility of confirming the arrival of goods was transferred by the Security Council from an independent Agency to the CPA and eventually to the Government of Iraq. This arrangement has not worked as expeditiously as the UN and the vendors would have liked. Authentication documents have not been submitted to the UN fast enough to facilitate a timely liquidation of the Programme. Until the second half of last year, your Government was still requesting extension of the life of several letters of credit which were considered crucial for the reconstruction process.

The above notwithstanding, the outstanding LCs have been reduced from the 3,000 (worth \$8 billion) in 2003 to about 151 (\$0.522 billion) to date. In spite of the small number of LCs, these are the most difficult as they involve claims of delivery from suppliers and the non-issuance of authentication documents by the Government of Iraq that would enable the UN to make the necessary payments to vendors who delivered goods and services as per the terms and conditions of the LCs.

In his letters dated 8 August 2005, 17 October 2005, 19 December 2005, 10 July 2006, 8 December 2006, 27 March 2007, 9 April 2007, 25 July 2007, 7 December 2007, 29 January 2008, 11 March 2008, and the most recent one of 9 May 2008, the Secretary-General has kept the Security Council informed of the situation facing the liquidation of the Programme. All this correspondence was submitted to your Government, and at the same time the President of the Security Council has written separately to your Government urging acceleration of the processing of the LCs and the authentication documents.

Against this background, a Working Group between Iraq and the UN has been set up to find a solution to this situation. The Security Council has, urged the UN Secretariat to

His Excellency  
Mr. Hamid Al Bayati  
Permanent Representative of Iraq

28-05948





propose mechanisms to address this situation. Early this month, the Working Group met again, and the Secretariat reiterated to the responsible officials, in the various ministries, the need to address the slow progress with respect to providing the confirmation documents.

It should be noted that while there are cases where suppliers allege to have delivered goods to Iraq, the responsible officials in the concerned ministries are reluctant to issue confirmation documents, and thus it would not be feasible to transfer funds associated with those LCs to the Development Fund for Iraq (DFI).

## **2. Cost of Administering the Programme**

With respect to the cost of administering the Programme, it should be noted that of the \$19.7 million quoted in paragraph 3 of the letter, \$16 million related to the operations of UNMOVIC, whose mandate did not end until June last year. The costs associated with administering the humanitarian Programme was about \$3.7 during the 18 months period under review—this is about 0.34% of the value of the Programme.

## **3. Independent Inquiry Committee**

As indicated in the financial statements of the Escrow Account, please note that the IIC completed its work as of 31 December 2006. The current expenses incurred amounting to \$499,000 in 2007 out of \$2,656,300 shown in the 2006-2007 financial statements represent the costs associated with providing support to the investigative bodies of various member states by the representative designated by the former members of the IIC.

## **4. Transfers of Funds to Other UN entities**

With respect to transfers to other UN entities, please note that these transfers represent payments made on behalf of the Government of Iraq, in relation to its arrears pertaining to its membership to the various intergovernmental bodies. Each one of these transfers were specifically requested by the Government of Iraq and approved by the Security Council. It should be noted that all these transfers are disclosed on the face of the financial statements, and have been duly audited.

## **5. Ending the Programme on 31 December 2007**

As of 31 December 2007 the Secretary-General proposed, and the Security Council approved, that there should not be any acceptance of requests from Iraq with respect to the extension of any outstanding letters of credit—except where such an extension was required to facilitate a payment of goods and services delivered on or before 31 December 2007.

For now, the concerned ministries in Iraq had committed to providing confirmation documents for about 101 LCs by 15 May 2008. Of the remainder, about 45 (value \$61 million) may have to be referred to a resolution mechanism, as the Vendors claim to have delivered good and services per the terms and conditions of the LC, but the concerned ministries have not been able to provide confirmation of the same, but rather have requested the cancellation of the related LCs .

**6. Financial Presentation**

In your letter, you indicated some difficulty reviewing the financial statements of the Escrow Account as at 30 June 2007.

Please note that the financial statements and the notes thereof have been prepared in accordance with the United Nations System Accounting Standards (UNSAS) from the inception of Iraq Escrow Account, and have routinely been transmitted to the Government of Iraq. The presentation of financial statements and the formats have been consistent throughout and an unqualified opinion has been received from the Board of Auditors each biennium. All line items in the financial statements with material significance were appropriately footnoted or further information was disclosed in the notes to the financial statements. Please refer to the annexes for detailed explanation of the technical issues raised by your government.

Please note that since the preparation of the 30 June 2007 statement, we have an updated statement through 31 December 2007 which is attached for ease of reference.

I hope this addresses to your full satisfaction the matters raised by your Excellency.

I remain,  
Dear Mr. Ambassador,

Yours sincerely,



Warren Sach  
Assistant Secretary-General,  
Controller





THE SECRETARY-GENERAL

31 March 2008

Dear Mr. Chairman,

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations Escrow Accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the 2006-2007 biennium ending 31 December 2007, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

Yours sincerely,

A handwritten signature in black ink that reads "Ki Moon Ban".

Ban Ki-moon

Mr. Philippe Seguin  
Chairman  
United Nations Board of Auditors  
New York

## CERTIFICATION OF THE FINANCIAL STATEMENTS

1. The financial statements pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium 2006-2007 ending 31 December 2007 have been prepared in accordance with financial rule 106.10.
2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarifications for the financial activities related to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) undertaken by the Organization during the period covered by these statements for which the Secretary-General has administrative responsibility.
3. I certify that the appended financial statements of the United Nations Escrow Accounts, numbered I to III, are correct.



Warren Sach  
Assistant Secretary-General, Controller  
28 March 2008

UNITED NATIONS ESCROW ACCOUNTS ESTABLISHED  
UNDER THE PROVISIONS OF SECURITY COUNCIL  
RESOLUTIONS RELATING TO IRAQ

Financial statements for  
the biennium 2006-2007 ending 31 December 2007



UNITED NATIONS ESCROW ACCOUNTS ESTABLISHED  
UNDER THE PROVISIONS OF SECURITY COUNCIL  
RESOLUTIONS RELATING TO IRAQ

Financial statements for  
the biennium 2006-2007 ending 31 December 2007

CONTENTS

LETTER OF TRANSMITTAL .....

CERTIFICATION OF THE FINANCIAL STATEMENTS .....

SECTION A – FINANCIAL STATEMENTS

**Statement I.** Statement of income and expenditure and changes in reserves and fund balances for  
the biennium 2006-2007 ending 31 December 2007

**Statement II.** Statement of assets, liabilities and reserves and fund balances as at 31 December 2007

**Statement III.** Statement of cash flows for the biennium 2006-2007 ending 31 December 2007

SECTION B – NOTES

Notes to the financial statements .....

United Nations Escrow Accounts established under the provisions  
of Security Council Resolutions relating to Iraq <sup>a/</sup>  
Statement of income and expenditures and changes in reserves and fund balances  
for the biennium 2006-2007 ending 31 December 2007  
(Thousands of United States dollars)

	SC Resolutions 986 and 1483		SC Resolutions 687, 706, 1284, 1762 <sup>b/</sup>	SC Resolutions 687, 706 <sup>c/</sup>		
	Humanitarian activities in Iraq	Administrative and operational costs	Monitoring, verification & inspection	Other activities	Total 2007	Total 2005
<b>Income</b>						
Funding from operating reserves <sup>d/</sup>	-	6,368	6,619	-	12,987	37,242
Interest income	90,431	2,710	7,471	-	100,612	166,805
Miscellaneous income	6	1,500	34	1	1,541	51,705
Currency exchange adjustments <sup>e/</sup>	47,444	8	-	-	47,452	7
<b>Total income</b>	<b>137,881</b>	<b>10,586</b>	<b>14,124</b>	<b>1</b>	<b>162,592</b>	<b>255,759</b>
<b>Expenditure</b>						
Purchase of humanitarian supplies <sup>f/</sup>	86,554	-	-	-	86,554	200,358
Purchase of spare parts <sup>g/</sup>	1,701	-	-	-	1,701	79,387
Operational expenses by Inter-Agencies	-	-	-	-	-	2,496
Administrative expenses	-	4,262	22,626	246	27,134	59,919
Independent Inquiry Committee expenses <sup>h/</sup>	-	2,565	-	-	2,565	35,854
Currency exchange adjustments <sup>e/</sup>	-	-	-	-	-	43,478
<b>Total expenditure</b>	<b>88,255</b>	<b>6,827</b>	<b>22,626</b>	<b>246</b>	<b>117,954</b>	<b>421,492</b>
<b>Excess (shortfall) of income over expenditure</b>	<b>49,626</b>	<b>3,759</b>	<b>(8,502)</b>	<b>(245)</b>	<b>44,638</b>	<b>(165,733)</b>
Prior period adjustments	(2,443) <sup>i/</sup>	-	(23,888) <sup>j/</sup>	-	(26,331)	(5)
<b>Net excess (shortfall) of income over expenditure</b>	<b>47,183</b>	<b>3,759</b>	<b>(32,390)</b>	<b>(245)</b>	<b>18,307</b>	<b>(165,738)</b>
Savings on/or cancellation of prior period obligations	479,999	69	270	1	480,339	1,677,903
Transfers to Development Fund for Iraq <sup>k/</sup>	(306,000)	-	(65,105)	-	(371,105)	(4,440,322)
Transfers to the United Nations and other Agencies <sup>l/</sup>	-	-	(3,749)	-	(3,749)	(22,712)
Transfer from operating reserves <sup>d/</sup>	-	(6,368)	(6,619)	-	(12,987)	(37,242)
Reserves and fund balances, beginning of period	135,781	27,173	113,928	383	277,265	3,265,376
<b>Reserves and fund balances, end of period</b>	<b>356,963</b>	<b>24,633</b>	<b>6,335</b>	<b>139</b>	<b>388,070</b>	<b>277,265</b>

<sup>a/</sup> There were no activities relating to Pipelines tariff charges and Assets transfers and contributions during this period. Also see notes 1 and 3.

<sup>b/</sup> Refers to the United Nations Monitoring Verification and Inspection Commission, see note 3.

<sup>c/</sup> Refers to activities undertaken further to Security Council Resolutions 687 and 706, see note 3.

<sup>d/</sup> See note 5.

<sup>e/</sup> Represents currency exchange fluctuations between the Euro and the United States dollar and other currencies.

<sup>f/</sup> Expenditure incurred during the 2006-2007 biennium for humanitarian supplies relates to adjustments and reinstatements of contracts entered into in previous years. The figure includes unliquidated obligations of \$83,389,319.

<sup>g/</sup> Expenditure incurred during the 2006-2007 biennium for spare parts relates to adjustments and reinstatements of contracts entered into in previous years.

<sup>h/</sup> See note 4.

<sup>i/</sup> Represents reimbursement to UN-Habitat for its prior period expenditures.

<sup>j/</sup> Represents reimbursement effected pursuant to Security Council Resolution 1762 Para. 6 to the Government of Germany for services provided to UNSCOM of 24,467,670 less \$579,267 that had been previously provided for.

<sup>k/</sup> Represents transfers to "Development Fund for Iraq" held by the Central Bank of Iraq pursuant to Security Council Resolution 1483 (2003). See notes 7(e) and 7(f).

<sup>l/</sup> Represents transfers of \$416,871 and \$772,234 to the United Nations and \$2,560,238 (€1,874,094) to the United Nations Development Organization (UNIDO) for payment of outstanding assessed contributions of the Government of Iraq.

The accompanying notes are an integral part of the financial statements.

United Nations Escrow Accounts established under the provisions  
of Security Council Resolutions relating to Iraq <sup>a/</sup>  
Statement of assets, liabilities and reserves and fund balances  
as at 31 December 2007  
(Thousands of United States dollars)

	SC Resolutions 986 and 1483		SC Resolutions 687, 706, 1284, 1762 Monitoring, verification & inspection	SC Resolutions 687, 706 Other activities	Total 2007	Total 2005
	Humanitarian activities in Iraq	Administrative and operational costs				
<b>Assets</b>						
Cash and term deposits	1,009,089	13	9	-	1,009,111	1,389,722
Cash pool	-	25,517 <sup>b/</sup>	10,134 <sup>d/</sup>	-	35,651	171,529
Accounts receivable						
Inter-fund balances receivable <sup>d/</sup>	-	-	-	139	139	367
Accounts receivable from Inter-Agencies <sup>e/</sup>	4,624	-	-	-	4,624	5,312
Other accounts receivable	105	44	30	2	181	2,716
Deferred charges	-	7	11	-	18	40
<b>Total assets</b>	<b>1,013,818</b>	<b>25,581</b>	<b>10,184</b>	<b>141</b>	<b>1,049,724</b>	<b>1,569,686</b>
<b>Liabilities</b>						
Unliquidated obligations - current year	83,389 <sup>f/</sup>	459	214	1	84,063	105,750
Unliquidated obligations - prior years	573,449 <sup>g/</sup>	-	-	-	573,449	1,173,979
Accounts payable						
Inter-fund balances payable <sup>d/</sup>	17	315	3,520	-	3,852	11,528
Accounts payable to Inter-Agencies	-	-	-	-	-	90
Other accounts payable	-	174	115	1	290	1,073
Inter-office transactions pending processing	-	-	-	-	-	1
<b>Total liabilities</b>	<b>656,855</b>	<b>948</b>	<b>3,849</b>	<b>2</b>	<b>661,654</b>	<b>1,292,421</b>
<b>Reserves and fund balances</b>						
Operating reserves <sup>h/</sup>	187,000	24,434	2,989	-	214,423	147,792
Cumulative surplus	169,963	199	3,346	139	173,647	129,473
<b>Total reserves and fund balances</b>	<b>356,963</b>	<b>24,633</b>	<b>6,335</b>	<b>139</b>	<b>388,070</b>	<b>277,265</b>
<b>Total liabilities and reserves and fund balances</b>	<b>1,013,818</b>	<b>25,581</b>	<b>10,184</b>	<b>141</b>	<b>1,049,724</b>	<b>1,569,686</b>

<sup>a/</sup> There were no activities relating to Pipelines tariff charges and Assets transfers and contributions during this period. Also see notes 1 and 3.

<sup>b/</sup> Represents share of the United Nations Headquarters Cash Pool for "Administrative and operational costs", comprising cash and term deposits \$9,049,983, short-term investments \$5,080,314 (market value \$5,082,941), long-term investments \$11,235,523 (market value \$11,269,877), accrued interest receivable \$151,023;

<sup>c/</sup> Represents share of the United Nations Headquarters Cash Pool for "Monitoring, Verification and Inspection" comprising cash and term deposits \$3,594,175, short-term investments \$2,017,632 (market value \$2,018,675) long-term investments \$4,462,156 (market value \$4,475,799) and accrued interest receivable \$39,979.

<sup>d/</sup> See note 2 k (iv).

<sup>e/</sup> Represents the funds advanced to the UN Inter-Agencies for the implementation of humanitarian activities.

<sup>f/</sup> Unliquidated obligation incurred during the 2006-2007 biennium for humanitarian supplies and spare parts relates to adjustments and reinstatements of contracts entered into in previous years.

<sup>g/</sup> See note 7 (d).

<sup>h/</sup> See note 5.

The accompanying notes are an integral part of the financial statements.



United Nations Escrow Accounts established under the provisions  
of Security Council Resolutions relating to Iraq <sup>a/</sup>  
Statement of cash flows  
for the biennium 2006-2007 ending 31 December 2007  
(Thousands of United States dollars)

	SC Resolutions 986 and 1483		SC Resolutions 687, 706, 1284, 1762	SC Resolutions 687, 706		
	Humanitarian activities in Iraq	Administrative and operational costs	Monitoring, verification & inspection	Other activities	Total 2007	Total 2005
<b>Cash flows from operating activities</b>						
Net excess (shortfall) of income over expenditure (Statement I)	47,183	3,759	(32,390)	(245)	18,307	(165,738)
(Increase) decrease in inter-fund balances receivable	-	-	-	228	228	2,310
(Increase) decrease in accounts receivable from Inter-Agencies	212	121	355	-	688	65,268
(Increase) decrease in other accounts receivable	1,969	159	381	26	2,535	8,657
(Increase) decrease in other assets	-	-	-	-	-	264
(Increase) decrease in deferred charges	-	8	14	-	22	3,209
Increase (decrease) in unliquidated obligations	(620,880)	(1,199)	(136)	(2)	(622,217)	(6,492,342)
Increase (decrease) in inter-fund accounts payable	(197)	(10,532)	3,053	-	(7,676)	5,777
Increase (decrease) in accounts payable to Inter-Agencies	-	-	(90)	-	(90)	(52,797)
Increase (decrease) in other accounts payable	-	(139)	(636)	(8)	(783)	(3,519)
Increase (decrease) in Inter-office transactions pending process	-	(1)	-	-	(1)	(84)
Less: Interest income	(90,431)	(2,710)	(7,471)	-	(100,612)	(166,805)
<b>Net cash from operating activities</b>	<b>(662,144)</b>	<b>(10,534)</b>	<b>(36,920)</b>	<b>(1)</b>	<b>(709,599)</b>	<b>(6,795,800)</b>
<b>Cash flows from investing activities</b>						
(Increase) decrease in cash pool	17,154	14,093	104,631	-	135,878	1,269,442
Plus: Interest income	90,431	2,710	7,471	-	100,612	166,805
<b>Net cash from investing activities</b>	<b>107,585</b>	<b>16,803</b>	<b>112,102</b>	<b>-</b>	<b>236,490</b>	<b>1,436,247</b>
<b>Cash flows from financing activities</b>						
Savings on, or cancellation of prior period obligations	479,999	69	270	1	480,339	1,677,903
Transfers to the Development Fund for Iraq	(306,000)	-	(65,105)	-	(371,105)	(4,440,322)
Transfers to the United Nations and other Agencies	-	-	(3,749)	-	(3,749)	(22,712)
Transfer from operating reserves	-	(6,368)	(6,619)	-	(12,987)	(37,242)
<b>Net cash from financing activities</b>	<b>173,999</b>	<b>(6,299)</b>	<b>(75,203)</b>	<b>1</b>	<b>92,498</b>	<b>(2,822,373)</b>
<b>Net increase (decrease) in cash and term deposits</b>	<b>(380,560)</b>	<b>(30)</b>	<b>(21)</b>	<b>-</b>	<b>(380,611)</b>	<b>(8,181,926)</b>
<b>Cash and term deposits, beginning of period</b>	<b>1,389,649</b>	<b>43</b>	<b>30</b>	<b>-</b>	<b>1,389,722</b>	<b>9,571,648</b>
<b>Cash and term deposits, end of period</b>	<b>1,009,089</b>	<b>13</b>	<b>9</b>	<b>-</b>	<b>1,009,111</b>	<b>1,389,722</b>

<sup>a/</sup> There were no activities relating to Pipelines tariff charges and Assets transfers and contributions during this period. Also see notes 1 and 3.

The accompanying notes are an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

**Note 1. United Nations Escrow account established under the provisions of Security Council Resolution 986 (1995) (Statements I, II and III)**

- (a) An escrow account to be administered by the Secretary-General was established in 1996 in order to receive the proceeds from sale of Iraqi oil as approved by Security Council resolution 986 (1995). The Security Council, in paragraph 1 of resolution 986 (1995), authorized States to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of \$1 billion every 90 days. In paragraph 3 the Security Council stated that the resolution shall remain in force for 180 days.
- (b) The authorization given by paragraph 2 of resolution 986 (1995) permitted Turkey to import petroleum and petroleum products originating in Iraq, sufficient to meet the pipeline tariff charges for the transport of these products through the Kirkuk-Yumurtalik pipeline in Turkey, after deduction of 30% to the Compensation Fund. Resolution 1330 (2000) revised this deduction to 25%. Due to the cessation of the "Oil for Food Programme" (the Programme), pipeline tariff charges are no longer incurred.
- (c) The provisions of resolution 986 (1995), which authorized sales of Iraqi oil not exceeding a total of \$1 billion every 90 days, remained in force by resolution 1111 (1997), resolution 1129 (1997), resolution 1143 (1997) and resolution 1158 (1998) until 30 May 1998.
- (d) The Security Council, in paragraphs 1 and 2 of resolution 1153 (1998), which took effect on 1 June 1998, decided that the authorization given to States by paragraph 1 of resolution 986 (1995) shall permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of \$5.256 billion, in the 180-day mandate period referred to in paragraph 1 of resolution 1153 (1998). This provision of resolution 1153 (1998), remained in force by resolution 1210 (1998), resolution 1242 (1999), and resolution 1281 (1999).
- (e) Resolution 1284 of 17 December 1999 lifted the dollar cap and authorized sales of Iraqi oil of any volume during the 180-day mandate period. This resolution remained in force by resolution 1302 (2000), resolution 1330 (2000), resolution 1352 (2001) which extended resolution 1330 (2000) for 30 days, resolution 1360 (2001), resolution 1382 (2001), resolution 1409 (2002), resolution 1443 (2002) which extended 1409 (2002) until 4 December 2002, and resolution 1447 (2002) which extended the mandate to 3 June 2003. The final sale of oil under the Programme was for shipment made on 20 March 2003.



(f) The Security Council, in paragraphs 1 and 3 of resolution 1175 (1998), authorized States to permit the export to Iraq of the necessary parts and equipment ("spare parts") to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum established in paragraph 2 of resolution 1153 (1998). The resolution stated that the funds in the Escrow account pursuant to resolution 1153 (1998) up to \$300 million may be used to meet any reasonable expenses, other than expenses payable in Iraq, which follow directly from contracts approved by the Committee established by resolution 661 (1990). Resolutions 1293 (2000) and 1302 (2000) established that up to \$600 million may be authorized to permit States to export to Iraq the necessary parts and equipment to enable Iraq to increase the export of petroleum and petroleum products. Resolutions 1330 (2000), 1352 (2001), 1360 (2001), 1382 (2001), 1409 (2002) and 1447 (2002) retain the \$600 million limit.

(g) Resolution 1330 (2000) allowed for funds up to 600 million Euros from the Escrow account to be used for the installation, maintenance, and training services of spare parts and equipment relating to the oil industry.

(h) Security Council resolution 1472 (2003) adopted on 28 March 2003, recognized that in view of the exceptional circumstances prevailing in Iraq, on an interim and exceptional basis, technical and temporary adjustments should be made to the Programme, and authorized the Secretary General to make such changes for a period of 45 days.

(g) Security Council resolution 1476 (2003) adopted on 24 April 2003, decided that the provisions contained in paragraph 4 of resolution 1472 (2003) remain in force until 3 June 2003 and might be subject to further renewal by the Council.

(h) Security Council resolution 1483 (2003) adopted on 22 May 2003, requested the Secretary-General to terminate the Programme within six months, and to transfer responsibility for the administration of any remaining activity to the Coalition Provisional Authority (the Authority). The resolution also requested the consolidation of the accounts established pursuant to paragraphs 8 (a) "15 Governorates of Central and Southern Iraq" and 8 (b) "3 Governorates of Northern Iraq" of resolution 986 (1995).

(k) Sale of Iraqi oil is recognized as revenue in the fund for humanitarian activities in Iraq based on the bill of lading date and the total value of oil loaded as stipulated in the commercial invoice issued by the State Oil Marketing Organization. The proceeds from sale of Iraqi oil are allocated, upon receipt of deposits, to other accounts established pursuant to paragraph 8 of resolution 986 (1995). No oil sales have been recorded after 20 March 2003.

(l) The funds from the sale of Iraqi oil pursuant to the authorization given by paragraph 1 of resolution 986 (1995) are to be used to meet the humanitarian needs of the Iraqi people and for the other purposes in paragraph 8 of resolution 986 (1995). Resolution 1409 (2002) permits the sale or supply of any commodities or products other than those referred to in paragraph 24 of Resolution 698 (1991) as it relates to military commodities and products, or military-related commodities or products covered by the Good Review List (S/2002/515) and its amendments in resolution 1454 (2002). The percentages used in allocating the oil sale proceeds were determined as follows:



- (i) 53.034% to finance the export to Iraq of medicine, health supplies, food, and materials and supplies for essential civilian needs. Following resolution 1302 (2000) this was increased to 54.034% and by resolution 1330 (2000) further increased to 59.034%, less the payment referred to in (vi) below,
  - (ii) 13.0 % to complement the distribution by the Government of Iraq of goods imported by providing funds to the United Nations Inter-Agency Humanitarian Programme operating in the three northern governorates of Iraq, Arbil, Dihouk and Suleimaniyeh,
  - (iii) 2.215% to meet the operational and administrative costs to the United Nations,
  - (iv) 30.0% allocated to the Compensation Fund established by Security Council resolution 705 (1991). Following resolution 1330 (2000) this was decreased to 25.0%,
  - (v) 0.751% allocated to the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) established by Security Council resolution 1284 (1999) which replaced the Special Commissions established by Security Council resolution 687 (1991) to meet operating costs,
  - (vi) A maximum of 10 million United States dollars every 90 day period to be allocated to the Escrow account established by Security Council resolution 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992). Resolution 1284 (1999) suspended payments to this Escrow account for an initial period of 6 months from 17 December 1999. Resolution 1302 (2000) extended this suspension for a further 180-day period and transferred the allocation to (i) above. Resolution 1330 (2000) reinstated the allocation of a maximum of 10 million United States dollars every 90 days from 6 December 2000.
- (m) Notwithstanding the periods for the sale of Iraqi oil as authorized by Security Council resolutions, the financial statements I, II and III (United Nations Escrow account) are prepared every six months.
- (n) Included in the financial statements I, II and III (United Nations Escrow Accounts) are details relating to the humanitarian activities, related operational and administrative costs, that are undertaken under the provisions of Security Council Resolution 986. From the beginning of the Programme in December 1996 to mid 2000, implementation costs on actual expenditures incurred by Agencies for activities associated with the purchase of humanitarian goods for Northern Iraq were charged to the "Humanitarian activities in Iraq" account, and programme support costs on actual expenditures for the administrative and operational costs were charged to the "Administrative and operational costs" account. In mid 2000, following recommendations of the Board of Auditors, and taking into account the increased level of funds available in the "Administrative and operational costs" account, the Secretariat decided to prospectively charge all implementation and programme support costs to the "Administrative and operational costs" account. In mid 2002, the Secretariat reverted to the earlier treatment, whereby direct costs of

implementing the programme in Northern Iraq were charged to "Humanitarian activities in Iraq" account. This decision reflected the need to harmonise treatment whether the work was done by the Agency itself or contracted out. In 2003 when Agencies began implementing various aspects of the Programme in Southern/Central Iraq, those implementation costs were also charged to the "Humanitarian Activities in Iraq" account, in line with the 2002 decision.

(o) The financial statements of the Compensation Fund as referenced in paragraph (l) item (iv) are reported on in a separate volume of the United Nations financial statements.

(p) Expenditure incurred during the 2006-2007 biennium for humanitarian supplies and spare parts relate to adjustments and reinstatements of contracts entered into in previous years.

**Note 2. Summary of significant accounting and financial reporting policies of the United Nations**

(a) The accounts of the United Nations are maintained in accordance with the Financial Regulations and Rules of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations, and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations System Accounting Standards, as adopted by the United Nations System Chief Executives Board for Coordination. The Organization follows International Accounting Standard 1 – presentation of financial statements, on the disclosure of accounting policies, as modified and adopted by the United Nations System Chief Executives Board for Coordination, as shown below:

- (i) Going concern, consistency, and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons. See Note 3(a);
- (ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;
- (iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;
- (iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;
- (v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;



- (vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.
- (b) The Organization's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly, the Security Council, or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.
- (c) The financial period of the Organization is a biennium and consists of two consecutive calendar years for all funds other than peacekeeping accounts, which are reported on a fiscal year basis covering the period from 1 July - 30 June.
- (d) Generally, income, expenditure, assets, and liabilities are recognized on the accrual basis of accounting.
- (e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges, and current accounts receivable and payable in currencies other than the United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the Organization's rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.
- (f) The Organization's financial statements are prepared on the historical cost basis of accounting, and are not adjusted to reflect the effects of changing prices for goods and services.
- (i) The cash flow summary statement is based on the indirect method of cash flows as referred to in the United Nations System Accounting Standards.
- (j) The Organization's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High Level Committee on Management (HLCM).
- (i) Income:
  - (i) Voluntary contributions from Member States or other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions made in the form of services and supplies that are acceptable to the Secretary-General are credited to income or noted in the financial statements;



- (ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;
- (iii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;
- (iv) Income for services rendered include amounts charged for salaries of staff members and other costs which are attributable to providing technical and administrative support to other organizations;
- (v) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments, and investment income earned in the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with operation of investments in the cash pool are allocated to participating funds. Interest income is available for allotment purposes on a six-monthly basis;
- (vi) Net gains or losses on currency fluctuations other than for current year's obligations are accumulated on a six-monthly basis. Effective 1 January 2002, the net amount is recognized as income or expenditure every six months in the financial statements;
- (vii) Miscellaneous income includes income from rental of premises, sale of used or surplus property, refunds of expenditures charged to prior periods, settlements of insurance claims, monies accepted for which no purpose was specified, and other sundry income;
- (viii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in item l (iii).

(j) Expenditure:

- (i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements. Expenditures also include currency exchange adjustments arising from evaluation of current-period obligations;
- (ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;
- (iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as referred to in item k (vi) below.

(k) Assets:

- (i) Cash and term deposits represent funds in demand deposit accounts and interest bearing bank deposits;
- (ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at lower of cost or market; long-term investments are stated at cost. Cost is defined as the nominal value plus/minus any unamortized premium/discount. The market value of investments is disclosed in the footnotes to the financial statements;
- (iii) Cash pools comprise participating funds' share of the cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the cash pools. The investments in the cash pools are similar in nature. Short-term investments are stated at lower of cost or market; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The share in cash pools is reported separately in each of the participating fund's statement and its composition and the market value of its investments are disclosed in footnotes in the individual statements;
- (iv) Interfund balances reflect transactions between funds, and are included in the amounts due to and from the United Nations General Fund. Interfund balances also reflect transactions directly with other Escrow Accounts and with the United Nations General Fund. Interfund balances are settled periodically, dependent upon availability of cash resources;
- (v) Provision for delays in collection of receivable balances is not made;
- (vi) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead-times are required for delivery;
- (vii) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged, and the advances settled;



- (viii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property, and leasehold improvements are not included in the assets of the Organisation. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in notes to the financial statements

(l) Liabilities and reserves and fund balances:

- (i) Operating reserves are included in the totals for reserves and fund balances shown in the financial statements;
- (ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;
- (iii) Deferred income includes income received but not yet earned;
- (iv) Commitments of the Organization relating to prior, current, and future financial periods are shown as unliquidated obligations. Effective 1 January 2000, unliquidated obligations for the Escrow account for humanitarian activities in Iraq, remain valid until completion of the project. All other obligations continue to remain valid for 12 months following the end of the biennium to which they relate;
- (v) Contingent liabilities, if any, are disclosed in the notes to the financial statements;
- (vi) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF) which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The UNJSPF is a funded defined benefit plan. The financial obligation of the Organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with its share of any actuarial deficiency payments under Article 26 of the Regulations of the UNJSPF. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the UNJSPF as of the valuation date. As at the date of the current financial statement, the United Nations General Assembly has not invoked this provision.



**Note 3. United Nations Escrow accounts established under the provisions of Security Council Resolutions 687 (1991), 706 (1991), 778 (1992) and 1284 (1999) (Statements I, II and III)**

- (a) As the United Nations Escrow account is in the liquidation process (see Note 7), going concern assumption is not followed and the financial statements are presented on the liquidation basis of accounting which may require realization of assets and extinguishment of liabilities outside the normal course of business. As of 31 December 2007, the Escrow account has no assets or liabilities that require adjustments in their measurement or classification under the liquidation basis of accounting;
- (b) Included in the financial statements I, II and III are the Escrow accounts established by Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992), and the Special Account established by Security Council resolutions 687 (1991), 706 (1991) and 1284 (1999). The Escrow Account established under Security Council Resolutions 706 (1991) 712 (1991) and 778 (1992) returned all funds in 2003. As a result there are no further transactions to report relating to this Escrow Account.
- (c) The Escrow Account administered by the Secretary-General under Security Council resolutions 706 (1991) and 712 (1991) provided for Iraqi funds from the sale of oil to be used for payment by the United Nations Compensation Commission, the full costs of carrying out the tasks authorized by section C of resolution 687 (1991), the full costs incurred by the United Nations in facilitating the return of all Kuwait property seized by Iraq, half the costs of the Boundary Commission, and the cost to the United Nations of implementing resolution 706 (1991), and of other necessary humanitarian activities in Iraq.
- (i) With the refusal of Iraq to sell oil under the provisions of Security Council resolutions 706 (1991) and 712 (1991), the Security Council on 2 October 1992 adopted resolution 778 (1992) as an alternate means of providing funds for the purposes specified. Member States in which there were petroleum products owned by Iraq or Member States with funds of the Government of Iraq representing the proceeds of petroleum sales, paid for by the purchaser after 6 August 1990, were required to transfer some or all of these funds to the escrow account. Additionally, in resolution 778 (1992) the Council urged Member States to contribute funds from other sources to the escrow account. All such funds transferred or contributed to the escrow account under the provisions of resolution 778 (1992) were to be transferred back to the accounts of States from which funds were provided, together with applicable interest, at such time when oil exports have taken place pursuant to the system provided in resolutions 706 (1991) and 712 (1991) and the escrow account has received funds from the proceeds of sale. Iraqi oil exports began in December 1996 and in January 1997 the escrow account started receiving funds from the proceeds of sale that were transferred back to the accounts of States that provided the original funds to the escrow account.

- (ii) In December 1999, following Security Council resolution 1284 (1999), payment to the escrow account from the proceeds of sale was suspended. The suspension, which was extended an additional 180 days by Security Council resolution 1302 (2000), was lifted by Security Council resolution 1330 (2000) in December 2000.
  - (iii) In May 2003 Security Council resolution 1483 (2003) requested that the Secretary General restore funds that were provided by Member States pursuant to resolution 778 (1992). All such funds were returned in June 2003.
- (d) The Security Council, in resolution 687 (1991) requested the Secretary-General to undertake certain tasks in connection with the situation between Iraq and Kuwait. The costs of those activities were to be considered as an advance pending the receipt of payments to the Organization by Iraq in respect of certain activities, and by Iraq and Kuwait jointly in respect of the costs of the Boundary Commission.
- (i) With the adoption by the Security Council of resolution 778 (1992), the above-mentioned costs have been covered by transfers from the Escrow account. Furthermore, the costs of the Special Commission are met by transfer from the Escrow account pursuant to Security Council resolution 986 (1995).
  - (ii) The Security Council decided by resolution 1284 (1999), to establish the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC). The responsibilities mandated to the Special Commission are undertaken by UNMOVIC.
  - (iii) Security Council Resolutions 1483 (2003) and 1546 (2004) reaffirmed the Council's intention to revisit the mandate of UNMOVIC.
  - (iv) Security Council Resolution 1762 (2007) terminated the mandate of UNMOVIC and requested the Secretary-General to transfer all remaining unencumbered funds to the Government of Iraq within three months, after returning to Member States at their request contributions made by them pursuant to paragraph 4 of resolution 699 (1991).

**Note 4. Independent Inquiry Committee (IIC) into the United Nations Oil for Food Programme expenditure**

In April 2004, the United Nations Secretary-General appointed a high level, Independent Inquiry Committee to investigate the administration and management of the Oil-for-Food Programme from its inception to its transfer to the Coalition Provincial Authority, including allegations of fraud and corruption on the part of United Nations officials, personnel and agents as well as contractors, including entities that have entered into contracts with the United Nations or with Iraq under this Programme. Following this, the Security Council adopted Resolution 1538 (2004) which welcomed the inquiry. IIC has completed its investigation and issued its final report on 27 October 2005.



Effective 1 January 2007 IIC was wound up, and the Office of the Independent Inquiry Committee was established for an interim period of two years as part of the Secretariat. During this period, the work of the latter is being performed by the representative designated by the former members of the IIC and his or her designees.

Costs of IIC were met from funds for Administrative and Operational costs of the Programme. Expenditures during the biennium 2006-2007 ending 31 December 2007 were:

*(Thousands of United States dollars)*

Salaries	1,088.1
Consulting fees	758.1
Travel	107.3
Audit fees	75.0
Communication	64.6
Premises	442.9
Equipment	21.6
Miscellaneous supplies and services	7.4
Local transportation	0.3
Total	<u>2,565.3</u>

#### Note 5. Operating reserves

##### "Humanitarian activities in Iraq" account

An operating reserve of \$126,660,000 was established as of 31 December 2005 under the "Humanitarian activities in Iraq" account, to assure that sufficient funds are available for the satisfactory resolution of all remaining issues relating to outstanding letters of credit. In his letter dated 10 July 2006 (S/2006/510), the Secretary General informed the Security Council that until the issues of claims from suppliers are resolved, also recalling that the United Nations has no indemnification from the Government of Iraq on the funds that have been transferred to date to the Development Fund of Iraq and if there is no objection from the Security Council, that an amount of \$187,000,000 would be held on a reserve for any unanticipated claims from suppliers. The Security Council took note of the proposed arrangements in its letter dated 14 August 2006 (S/2006/646), and an operating reserve of \$187,000,000 has been established.

##### "Administrative and operational costs" account

An operating reserve of \$21,132,192 was established as of 31 December 2005 under the "Administrative and operational costs" account to meet the expected costs of the IIC and the administrative costs of the Escrow Accounts until all aspects of the Programme are completed. Disbursements amounting to \$6,367,856 were recorded during the 1 January 2006 to 31 December 2007 period, which decreased reserves. In addition an increase in reserve amounting to \$9,669,664 in respect of requirements for 2008 was recorded, leaving the reserve at a level of \$24,434,000 as of 31 December 2007.



**“Monitoring, verification and inspection” account**

An operating reserve of \$35,958,863 was established as of 30 June 2007 under the “Monitoring, verification and inspection” account to meet the estimated liquidation costs pertaining to UNMOVIC, including the settlement of debts owed to the Government of Germany and archiving and staff related costs. Staff related costs include accrued liabilities for end-of-service and after service benefits. During the period from 1 July to 31 December 2007, the reserve was used to settle the debts owed to the Government of Germany of \$23,888,403, for staff related disbursements of \$6,618,333, and \$2,462,927 was returned to Cumulative Surplus, leaving the reserve at a level of \$2,989,200 as of 31 December 2007.

Contingent liabilities described in Note 8 shall be met to the extent necessary from operating reserves of the Programme.

**Note 6. Non-expendable property**

In accordance with United Nations accounting policies, non-expendable property is charged against the current allotment in the year of purchase. The non-expendable property valued at historical cost, according to the cumulative inventory records is:

	2007	2005
	<i>(Thousands of United States dollars)</i>	
UNMOVIC	1,262	11,242
Agencies <sup>a/</sup>	1,093	4,570
IIC	315	1,022

<sup>a/</sup> Due to current situation in Iraq, it is not possible to fully ascertain the value of non-expendable property in Iraq as at 31 December 2007.

**Note 7. Future modus operandi of United Nations Escrow Accounts established under Security Council Resolutions 986 (1995) and 1284 (1999)**

(a) Security Council resolution 1483 (2003) adopted on 22 May 2003, extended the Secretary-General’s responsibilities under Security Council resolutions 1472 (2003) and 1476 (2003) for a period of six months. The resolution requested the Secretary-General to terminate, in the most cost effective manner, the ongoing operations of the Programme, both at Headquarters and in the field, by 21 November 2003, and to transfer responsibility for the administration of any remaining activity under the Programme to the Authority.

(b) Accordingly in the three Governorates of Northern Iraq where the United Nations Agencies were implementing the Programme, contracts entered into by the Agencies were transferred to the Authority. Similarly, in the 15 Governorates of Central and Southern Iraq, where, after the outbreak of hostilities Agencies had been assigned responsibility for procurement activities previously undertaken by the Government of Iraq, uncompleted contracts were handed over to the Authority.

(c) Security Council Resolution 1546 (2004) decided that in connection with the dissolution of the Authority, the Interim Government of Iraq and its successors shall assume the rights, responsibilities and obligations relating to the Programme that were transferred to the Authority, including all operational responsibility for the Programme and any obligations undertaken by the Authority in connection with such responsibility, and responsibility for ensuring independently authenticated confirmation that goods have been delivered, and further decided that following a 120-day transition period from the date of adoption of this resolution, the Interim Government of Iraq and its successors shall assume all responsibility for certifying delivery of goods under previously prioritised contracts, and that such certification shall be deemed to constitute the independent authentication required for the release of funds associated with such contracts, consulting as appropriate to ensure the smooth implementation of these arrangements.

(d) As of 31 March 2008, the liquidation of the Programme continued. All obligations relating to contracts that had not been prioritised in accordance with Security Council Resolution 1483 (2003) had been closed, except for those where letters of credit had not lapsed. Obligations relating to contracts that had been prioritised remain as liabilities of the Programme, and the related letters of credit have not been closed. The expiry dates for the letters of credit extend until 2007. In his letters dated 8 August 2005, 17 October 2005, 19 December 2005, 10 July 2006, 8 December 2006, 27 March 2007, 9 April 2007, 25 July 2007 and 7 December 2007 the Secretary-General has kept the Security Council informed of the arrangements for the liquidation of the outstanding letters of credit, and of the slow progress being made. Through his letter dated 7 December 2007, the Secretary-General, inter-alia, updated the Security Council on the extension and/or reinstatement of specific letters of credit; the submission to BNP Paribas (the Bank) of all the necessary documents related to the 17 letters of credit included in Annex VI to the letter dated 25 July 2007; and the proposals to address unresolved issues including the establishment of mechanisms to deal with outstanding issues.

The representatives of the Secretary General and the Government of Iraq met on 7 – 17 January 2008 to discuss arrangements for the cancellation or retention of letters of credit. It was agreed that 57 letters of credit with an approximate value of \$183 million could, subject to no objection by the Security Council, be cancelled. The Secretary-General, in his letter of 11 March 2008 informed the Security Council that 17 letters of credit (with an approximate value of about \$140 million) out of the 57 targeted for cancellation had not been cancelled as the Bank was still performing its due diligence. The Secretariat has since been informed by the Bank that 14 of them with an approximate value of \$137 million have claims of delivery and could therefore not be cancelled.



(e) Security Council resolution 1762 (2007) terminated the mandate of UNMOVIC, pursuant to which an operating reserve to meet liquidation costs was established, (see note 5), and unencumbered funds in the amount of \$25,104,523 were transferred to the Development Fund for Iraq (DFI) on 28 September 2007, and \$875,285 transferred on 28 February 2008.

(f) Since Security Council resolution 1483 (2003), a total amount of \$10.41 billion has been transferred to the Development Fund for Iraq up to 31 December 2007, which includes \$371,104,523 transferred to the Development Fund for Iraq during the biennium 2006-2007. The remaining surplus funds will be transferred to the Development Fund for Iraq in accordance with the provisions of Security Council Resolutions 1483 (2003) and 1546 (2004) and such guidance as the Security Council may provide.

#### **Note 8. Contingent liabilities**

In accordance with Security Council Resolution 1483 (2003), as part of the liquidation process, all claims and disputes involving the United Nations or its Agencies with third parties, in carrying out the activities of the Programme are to be transferred to, and become the responsibility of, the Authority, which has since been succeeded by the Government of Iraq. There may be some circumstances where such a transfer is not possible and any liability and related fees will need to be met from operating reserves of the Programme, see note 5.



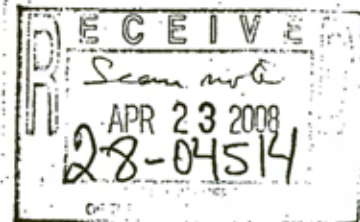
**Permanent Mission of the Republic  
of Iraq to the United Nations**

14 East 79<sup>th</sup> Street, New York, N.Y. 10075  
Tel: 212-737-4433 - Fax: 212-772-1794



ممثلية جمهورية العراق الدائمة  
لدى الأمم المتحدة  
نيويورك

*Ms. Barana*



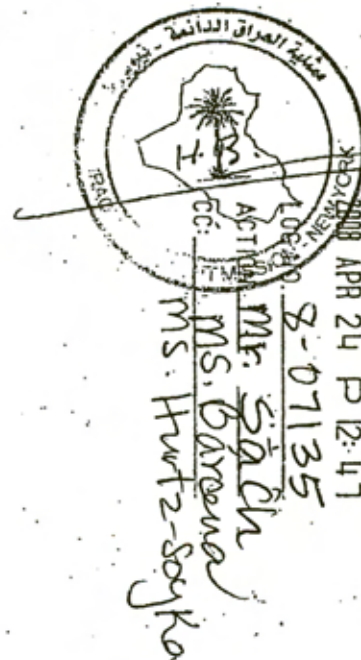
PRCL/2008/123

The Permanent Mission of the Republic of Iraq to the United Nations presents its compliments to the Office of the Secretary General of the United Nations and, with reference to the Secretary General's letter of 1 October 2007 addressed to Mr. Philippe Séguin, Chairman of the United Nations Board of Editors, has the honor to attach herewith the comments of the Government of Iraq on the report attached to the above-mentioned letter and it is looking forward to receiving its kind response regarding these comments.

The Permanent Mission of the Republic of Iraq to the United Nations avails itself of this opportunity to renew the assurances of its highest consideration.

New York, 22 April 2008

Office of the Secretary General  
United Nations  
New York



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## ملاحظات حكومة جمهورية العراق على تقرير البيانات المالية غير المدققة الخاص بالحساب

### المقيد العائد للامم المتحدة

١. ان الحساب المقدم للامم المتحدة انشئ في عام ١٩٩٦ بموجب قرار مجلس الامن المرقم (٩٨٦ في ١٩٩٥) من اجل استلام العائدات من مبيعات النفط ولغاية ٢٠/اذار/٢٠٠٣ واستمر العراق يتحمل نفقات هذا الحساب الذي كان يجب ان ينتهي تصفيته في ٢٠٠٧/١٢/٣١.

٢. هناك مجموعة من المصاريف اشارت تقارير الى انها منكبة عن شراء تجهيزات انسانية ومواد احتياطية ولغاية تاريخ التقرير عن عقود سابقة الامر الذي يدل على عدم اكتمال اجراءات التسوية والتصفية لاعمال الحساب المقيد كما يشير التقرير الى تقدير حجم المتعلقات للعقود المثبتة والموقوفة في ظل ذلك الحساب.

٣. تحمل الحساب مصاريف ادارية بلغت (١٩٧٨٨) الف دولار وهي باهضة قياسا بحجم العمل خلال فترة التقرير وبشكل غير موضوعي.

٤. اشار التقرير الى تمديد عمل لجنة التحقيق المستقلة خلال فترة اعداده وقد تحمل الحساب المقيد نفقاتها البالغة (٢٢٦٢) الف دولار والتي من المفروض انتهاء اعمالها بتاريخ ٢٠٠٧/٦/٣٠. ولم يفصح التقرير الى اجراءات تصفية حسابات اللجنة والاجراءات المتخذة بصدها كنوع من الافصاح عن الاحداث اللاحقة (ان اعتبر ذلك) لتاريخ الميزانية.

٥. وجود مبالغ محولة من الصندوق الى منظمات مختلفة تابعة للامم المتحدة لم يوضح التقرير صلاحية تحويلها وفيما اذا كانت تلك المنظمات تدخل ضمن نطاق تحقيق اهداف انشاء ذلك الحساب.

٦. ان التقرير والبيانات المالية المعروضة غير واضحة ولم يقدم الافصاح الكافي لكثير من الفقرات بالاضافة الى النواقص لبعض صفحاته التي ورد وفيما يلي بعض الامثلة على ذلك:

أ - ان مصدر فوائد الدخل البالغة (٧٤٠٤٨) الف دولار خلال فترة التدقيق (٢٠٠٧) في حين اشارت سنة المقارنة (١٤٤٤١٤) الف دولار خلال ٢٠٠٥ دون تحديد اي اسباب لذلك الفارق. كذلك بالنسبة للدخل المتنوع البالغ (١٢٧٢) الف دولار مقارنة بالفترة السابقة البالغة (٤٧٧٥٨) الف دولار.

ب - لم تحقق نفقات تشغيلية من قبل الوكالات الداخلية خلال فترة المراجعة مقارنة باجمالي (٢٠٠٥) التي كان مبلغها (٢٤٩٨) الف دولار، في حين اظهرت قائمة (بيان) الموجودات

والمطلوبات كما في ٢٠٠٧/٦/٣٠ رصيد مستحق الدفع لتلك الوكالات بمبلغ (٢٨١٠) ألف دولار الذي يزيد عن الرصيد للسنة المقارنة/٢٠٠٥ الذي بلغ (٣٨٤) ألف دولار.

ج - ظهر مبلغ (٢٤٤٣) ألف دولار ضمن النشاطات الانسانية يمثل حساب تنظيم الفترة السابقة دون اية اشارة الى اسبابه وقد ساهم ذلك في تخفيض العجز المتحقق عن تلك الفقرة.

د- هناك نقص في صفحات التقرير المرسل والمذكور فيه تنمة الملاحظة (٥) وكذلك الملاحظات ٦ و٧.

هـ- لم يشر بيان الدخل الى اية موارد من الوكالات الداخلية في حين اظهرت قائمة الموجودات والمطلوبات حسابات مستحقة القبض من تلك الوكالات خلال فترة المراجعة كما لم يتم الاشارة فيما اذا كانت جميعها مدورة من سنة سابقة.

و- اشار التقرير الى حسابات الارصدة مابين الصناديق مستحق الدفع ومستحق القبض دون الاشارة الى اسماء تلك الصناديق وفيما اذا كانت هناك مطابقات بين تلك الصناديق والحساب المقيد قيد المراجعة.

ز- لم تتضمن البيانات المالية المقدمة كشف التدفق النقدي للتحقق من السيولة النقدية لتسوية الالتزامات.

٧- هنالك فرق بمبلغ (٩٦٤٩٧) ألف دولار بين رصيد الاحتياطي وميزانية الاموال لسنة ٢٠٠٥ عن ما تم تسجيله كرصيد في بداية المدة للفترة موضوع التدقيق لم يتم الاشارة الى اسبابه.

٨- تشير الارصدة الداخلية للاموال والحسابات مستحقة الدفع ما بين الصناديق الى عدم وجود مطابقة دورية للحسابات المتبادلة في حين اشارت الملاحظة الواردة في التقرير ان التسوية لتلك الارصدة تتم بالاعتماد على توفر مصادر النقد.

٩- هنالك قوائض متراكمة بعد احتجاز الاحتياطيات التشغيلية وفقاً لقرار مجلس الامن بلغت (٢٨٣٦٠٩ + ٩٠٠٧) ألف دولار كان يجب تحويلها للحكومة العراقية لم تتخذ الاجراءات لتحويلها ولم يعط التقرير المبررات الكافية لذلك.

١٠- لم يحدد التقرير فترة المقارنة (٢٠٠٥) فيما اذا كانت مرحلية او سنة مالية لتسهيل اجراء المقارنة والربط للمعلومات بشكل موضوعي بين الفقرات اذ لوحظ عدم تناسب المدخولات والمصروفات في ما بين الفترتين .



- ولكي يبدي ديوان الرقابة المالية رايه المهني بالبيانات المقدمة فان الامر يتطلب:
- ١- تقديم البيانات المالية والتقارير المرفق بها بشكل متكامل مع نسخة منها مصادق عليها من قبل المدققين.
  - ٢- تقديم الاجابات والافصاحات الكافية للملاحظات المؤشرة اعلاه.
  - ٣- اعلامنا بالموقف النهائي من استمرار عمل صندوق الحساب المقيّد فقد اشار التقرير بانه ينتهي ويصفى بحسب طلب الحكومة العراقية بتاريخ ٢٠٠٧/١٢/١٣ مع ضرورة توضيح للعقود المستمرة على برنامج النفط مقابل الغذاء وما هي الاليات التي اتبعت لاغراض التصفية وانهاء المتعلقات .
  - ٤- اعلام ديوان الرقابة المالية باجراءات انقضاء اعمال لجنة التحقيق المستقلة وما الت اليه اعمالها واوراق عملها.

*Translated from Arabic*

**Comments of the Government of the Republic of Iraq  
concerning the report on non-audited financial statements  
pertaining to the United Nations Escrow Account**

1. The United Nations Escrow Account was established in 1996 pursuant to Security Council resolution 986 (1995) to receive the revenues from petroleum sales, a situation that continued until 20 March 2003. Iraq has continued to bear the expenses of the account, which should have been liquidated on 31 December 2007.
2. There is a set of charges which, according to reports, have been incurred for the purchase of humanitarian supplies and spare parts up to the date of the report for previous contracts, indicating that the process of settling and liquidating the Escrow Account has not yet been completed. The report similarly refers to the assessed volume of obligations relating to outstanding or closed contracts pertaining to that account.
3. The account is subject to administrative expenses totalling \$19,788,000, a huge sum in comparison to the volume of operations over the period in question, and one that is not objective.
4. The report states that the work of the Independent Inquiry Committee, which was to come to an end by 30 June 2007, was extended during the period, and the Escrow Account was consequently charged \$2,262,000. The report made no reference to measures to liquidate the Committee's accounts or to such measures being taken by way of reference to events taking place (if any) from the date of the budget.
5. Sums of money have been transferred from the fund to various United Nations bodies. The report does not indicate the authority for the transfers, or state whether those bodies have a part to play in the realization of the goals for which the account was established.
6. The report and the financial statements submitted are unclear, and the content of many of the paragraphs has not been adequately explained. Moreover, there are some missing pages. Some examples are given below:
  - (a) Interest income for the accounting period 2007 was \$74,048,000, as opposed to \$144,414,000 for the comparison year of 2005, without any reasons being specified for the difference. The same is true of miscellaneous income, which came to \$1,272,000, as compared to the previous period, in which the figure was \$47,758,000;
  - (b) The Inter-Agencies did not incur operational expenses during the period under review, whereas the total for 2005 came to \$2,498,000. However, the table of the statement, showing the assets and liabilities as at 30 June 2007, indicates a total of \$2,810,000 to be paid to those agencies, which is more than the corresponding sum for the comparison year 2005, which was \$384,000;
  - (c) The sum of \$2,443,000 appears in the report in respect of humanitarian activities, matching the account for the previous period, without there being any



indication as to the reasons; this has contributed to reducing the deficit indicated for that section;

(d) There is an omission in the report that was sent, at the end of note 5 and in notes 6 and 7;

(e) The statement of income does not show any resources from the Inter-Agencies, whereas the table of assets and liabilities shows balances payable by them for the period under review. Nor is there any indication as to whether those balances are entirely recycled from a previous year;

(f) The report refers to accounts earmarked among the funds that are payable and can be taken in payment, without indicating which of the funds are involved, or whether there is any connection between those funds and the Escrow Account under review;

(g) The financial statements presented do not set out cash flows in order to ascertain cash liquidity to clear the obligations.

7. There is a difference of \$96,497,000 between on the one hand the total reserves and the fund balances for 2005, and on the other hand what was recorded as the balance at the beginning of the period under review, without any indication of the reasons.

8. Internal balances of sums and accounts payable across the funds show that there is no periodic identification of the various accounts, whereas the note in the report states that those balances will be cleared subject to the availability of cash resources.

9. After the withholding of operational reserves in accordance with the Security Council resolution, there are cumulative surpluses of \$283,609,000 and \$9,007,000 which should have been transferred to the Iraqi Government. Arrangements have not been made for the transfer, and the report does not provide an adequate explanation for this.

10. The report does not determine whether the comparison year 2005 is a calendar year or a financial year, something that would facilitate comparison and the objective correlation of information between paragraphs. It has been noticed that revenues and expenditures do not correspond between the two periods.

In order for the Office of Financial Supervision to give its professional opinion on the statements presented, the following will be needed:

1. Comprehensive presentation of the financial statements and attached report with a copy certified by the accountants.

2. Presentation of replies and adequate explanations for above comments.

3. We should like to be informed of the final position regarding the continuation of the Escrow Account fund. The report stated that it would be closed and liquidated in accordance with the Iraqi Government's request by 13 December 2007. Clarifications are needed with regard to continuing contracts under the oil-for-food programme, and to the mechanisms adopted to liquidate the account and clear the obligations.

4. The Office of Financial Supervision should be informed of measures taken to bring to a close the work of the Independent Inquiry Committee, and what were its findings and its working papers.
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