

**The Independent Inquiry Committee into
the United Nations Oil-For-Food Programme**

Report on Financial Statements

**Year Ended December 31, 2005 and the Period
from November 1, 2004 to December 31, 2004 and
the Periods from April 21, 2004 to October
31, 2004 and from April 21,
2004 to December 31, 2005**

**THE INDEPENDENT INQUIRY COMMITTEE INTO
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME**

Index

	<u>Page</u>
Report of Independent Public Accountants	2
Statements of Income and Expenditures Year Ended December 31, 2005 and the Period from November 1, 2004 to December 31, 2004 and the Periods from April 21, 2004 to October 31, 2004 and from April 21, 2004 to December 31, 2005	3
Statements of Assets, Liabilities and Reserves and Fund Balances December 31, 2005 and 2004	4
Statements of Cash Flows Year Ended December 31, 2005 and the Period from November 1, 2004 to December 31, 2004	5
Notes to Financial Statements	6-9

Report of Independent Public Accountants

To the Independent Inquiry Committee into
the United Nations Oil-for-Food Programme

We have audited the accompanying statements of assets, liabilities and reserves and fund balances of The Independent Inquiry Committee into the United Nations Oil-for-Food Programme (the "IIC") as of December 31, 2005 and 2004, and the related statements of income and expenditures and cash flows for the year ended December 31, 2005 and the period from November 1, 2004 to December 31, 2004. These financial statements are the responsibility of the IIC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the United Nations, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and reserves and fund balances of The Independent Inquiry Committee into the United Nations Oil-for-Food Programme as of December 31, 2005 and 2004, and the income and expenditures and cash flows for the year ended December 31, 2005 and for the period from November 1, 2004 to December 31, 2004, on the basis of accounting described in Note 2.

The unaudited statements of income and expenditures for the periods from April 21, 2004 to October 31, 2004 and from April 21, 2004 to December 31, 2005 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members and management of The Independent Inquiry Committee into the United Nations Oil-for-Food Programme, the Secretary-General and Controller of the United Nations, and the United Nations Board of Auditors and is not intended to be and should not be used by anyone other than these specified parties.



New York, New York
January 18, 2006

**THE INDEPENDENT INQUIRY COMMITTEE INTO
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME**

**STATEMENTS OF INCOME AND EXPENDITURES
YEAR ENDED DECEMBER 31, 2005 AND THE PERIOD
FROM NOVEMBER 1, 2004 TO DECEMBER 31, 2004 AND THE
PERIODS FROM APRIL 21, 2004 TO OCTOBER 31, 2004
AND FROM APRIL 21, 2004 TO DECEMBER 31, 2005**

	Year Ended December 31, 2005	Period from November 1, 2004 to December 31, 2004	Period from April 21, 2004 to October 31, 2004 (See Note 4) (Unaudited)	Period from April 21, 2004 to December 31, 2005 (See Note 4) *
Income under interorganization arrangement	<u>\$23,468,864</u>	<u>\$8,881,195</u>	<u>\$3,482,042</u>	<u>\$35,832,101</u>
Expenditures:				
Staffing costs:				
Committee members' salaries	147,577	67,305	39,526	254,408
Staff salaries	7,997,457	1,922,396	1,316,176	11,236,029
Lodging subsistence allowance	1,807,327	346,007	399,070	2,552,404
Other staffing costs	<u>340,368</u>	<u>65,310</u>	<u> </u>	<u>405,678</u>
Totals	<u>10,292,729</u>	<u>2,401,018</u>	<u>1,754,772</u>	<u>14,448,519</u>
Professional services:				
Forensic Accounting and Technology	6,957,716	4,442,952	275,744	11,676,412
ASP Hosting and Document Scanning	574,710	605,780		1,180,490
Other professional services	<u>2,189,912</u>	<u>230,697</u>	<u> </u>	<u>2,420,609</u>
Totals	<u>9,722,338</u>	<u>5,279,429</u>	<u>275,744</u>	<u>15,277,511</u>
Travel	1,945,142	607,229	662,684	3,215,055
Communications	219,388	7,412	53,183	279,983
Rental and maintenance of premises	1,007,637	88,227	86,199	1,182,063
Furniture and equipment	69,380	458,844	615,328	1,143,552
Miscellaneous supplies	103,947	38,700	33,872	176,519
Audit fees	98,380			98,380
Local transportation	<u>9,923</u>	<u>336</u>	<u>260</u>	<u>10,519</u>
Totals	<u>23,468,864</u>	<u>8,881,195</u>	<u>3,482,042</u>	<u>35,832,101</u>
Excess of income over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

* The information for the period from April 21, 2004 to October 31, 2004, which is included in the totals reported for the period from April 21, 2004 to December 31, 2005, was not audited by J.H. Cohn LLP.

See Notes to Financial Statements.

THE INDEPENDENT INQUIRY COMMITTEE INTO
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

STATEMENTS OF ASSETS, LIABILITIES AND RESERVES AND FUND BALANCES
DECEMBER 31, 2005 AND 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Cash and term deposits	\$142,861	\$ 896,157
Inter-fund balances receivable		508,698
Other receivables	31,389	2,662
Prepaid expenses	<u>15,000</u>	<u>137,214</u>
Totals	<u>\$189,250</u>	<u>\$1,544,731</u>
<u>LIABILITIES AND RESERVES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$178,838	\$1,544,731
Interfund balances payable	<u>10,412</u>	<u> </u>
Total liabilities	189,250	1,544,731
Commitments		
Reserves and fund balances	<u>-</u>	<u>-</u>
Totals	<u>\$189,250</u>	<u>\$1,544,731</u>

See Notes to Financial Statements

THE INDEPENDENT INQUIRY COMMITTEE INTO
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005 AND THE
PERIOD FROM NOVEMBER 1, 2004 TO DECEMBER 31, 2004

	<u>Year Ended December 31, 2005</u>	<u>Period from November 1, 2004 to December 31, 2004</u>
Cash flows from operating activities:		
Excess of income over expenditures	\$ -	\$ -
Change in inter-fund balances receivable	508,698	(508,698)
Change in other receivables	(28,727)	(2,662)
Change in prepaid expenses	122,214	(137,214)
Change in accounts payable	(1,365,893)	1,544,731
Change in inter-fund balances payable	<u>10,412</u>	<u> </u>
Net increase (decrease) in cash and term deposits	(753,296)	896,157
Cash and term deposits, beginning of period	<u>896,157</u>	<u> </u>
Cash and term deposits, end of period	<u>\$ 142,861</u>	<u>\$ 896,157</u>

See Notes to Financial Statements.

**THE INDEPENDENT INQUIRY COMMITTEE INTO
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME**

NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of activities:

On April 21, 2004, United Nations Secretary-General Kofi Annan appointed an independent panel to investigate the administration and management of the Oil-for-Food Programme (the "Programme") in Iraq. Following this, the United Nations Security Council adopted Resolution 1538, which endorses the inquiry and calls for full cooperation in the investigation by all United Nations officials and personnel, the Coalition Provisional Authority, Iraq, and all other Member States, including their national regulatory authorities.

The appointed Independent Inquiry Committee into the United Nations Oil-for-Food Programme (the "IIC") is charged with collecting and examining information relating to the administration and management of the Programme, 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 the Programme. The IIC's mandate is as follows:

- (a) to determine whether the procedures established by the United Nations including the Security Council and the Security Council Committee established by Resolution 661 concerning the situation between Iraq and Kuwait for the processing and approval of contracts under the Programme, and the monitoring of the sale and delivery of petroleum and petroleum products and the purchase and delivery of humanitarian goods, were violated, bearing in mind the respective roles of United Nations officials, personnel and agents, as well as entities that have entered into contracts with the United Nations or with Iraq under the Programme;
- (b) to determine whether any United Nations officials, personnel, agents or contractors engaged in any illicit or corrupt activities in the carrying out of their respective roles in relation to the Programme, including, for example, bribery in relation to oil sales, abuses in regard to surcharges on oil sales and illicit payments in regard to purchases of humanitarian goods; and
- (c) to determine whether the accounts of the Programme were in order and were maintained in accordance with the relevant Financial Regulations and Rules of the United Nations.

**THE INDEPENDENT INQUIRY COMMITTEE INTO
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME**

NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of activities (concluded):

The IIC conducted its inquiry from three office locations - a central office in New York City and regional locations in Paris and Baghdad.

The work of the IIC was substantially completed during the year ended December 31, 2005, upon the issuance of its fifth and final substantive report on its investigation of the Programme. The Committee (governing body of the IIC) was officially disbanded in December 2005; however, the IIC's term was extended through March 2006 to assist duly authorized law enforcement and regulatory agencies in cases that they may be pursuing against companies, individuals and other entities resulting from the IIC's work.

The United Nations has designated and will fund a follow-up entity "the Office of the IIC" to support the activities described above and defray final costs associated with formally closing the IIC, which is anticipated to occur in April 2006. The Executive Director of the IIC will be the Executive Director of the Office of the IIC. The Committee members (see Note 5) have agreed to continue as an "Advisory Panel" on policy and operational issues that may arise.

Note 2 - Summary of significant accounting policies:

Basis of presentation:

The accounts of the IIC are maintained in accordance with the Financial Regulations 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 into account the United Nations System Accounting Standards, as adopted by the former Administrative Committee on Coordination (the "AAC"). The AAC has since been replaced by the Chief Executives Board for Coordination (the "CEB"). The AAC follows International Accounting Standard 1 - Presentation of Financial Statements, on the disclosure of accounting policies, as modified and adopted by the CEB as shown below:

- (a) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, the disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;
- (b) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

**THE INDEPENDENT INQUIRY COMMITTEE INTO
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME**

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of significant accounting policies (continued):

Basis of presentation (concluded):

- (c) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;
- (d) 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;
- (e) Financial statements should show comparative figures for the corresponding period of the preceding financial period (November 1, 2004 through December 31, 2004 is the initial financial period); and
- (f) A change in an accounting policy that has a material effect in the current period or that 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.

The IIC's accounts are maintained on a fund accounting basis.

Generally, income, expenditures, assets and liabilities are recognized on the accrual basis of accounting.

The financial statements are expressed in US dollars. Income and expenditures in currencies other than US dollars are translated into US dollars at the United Nations operational rates of exchange which approximate the market rate in effect at the date of the underlying transactions.

The 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.

The statements of cash flows are based on the "Indirect Method" as referred to in the United Nations System Accounting Standards.

Revenue recognition:

Income is recognized when the IIC becomes entitled to it with the exception of funds received under inter-organizational arrangements. Income from such arrangements is recognized proportionately with the degree of program activities completed as measured in terms of expenditure.

**THE INDEPENDENT INQUIRY COMMITTEE INTO
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME**

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of significant accounting policies (concluded):

Expenditures:

Expenditures incurred for nonexpendable property are charged to expenditure when incurred and are not capitalized as required by accounting principles generally accepted in the United States of America.

Expenditures for future financial periods are not charged to the current financial period but are recorded as prepaid expenses.

Cash and term deposits:

Cash and term deposits comprise funds held in demand-deposit accounts and noninterest-bearing bank deposits.

Property and leasehold improvements:

Furniture, equipment, other nonexpendable property and leasehold improvements are not included in the assets of the IIC. Acquisitions are charged to expenditures in the year of purchase. Maintenance and repairs of capital assets are charged to expenditures when incurred.

Note 3 - Inter-fund balances receivable/payable:

Inter-fund balances receivable/payable represent the amounts due from/to the United Nations pursuant to Resolution 1538.

Funds appropriated by the United Nations to fund the activities of the IIC totaled \$23,157,110 and \$8,881,195 during year ended December 31, 2005 and period from November 1, 2004 to December 31, 2004, respectively.

The IIC leases office space from the United Nations on a month-to-month basis. Rent expense amounted to \$929,520 and \$68,586 during the year ended December 31, 2005 and the period from November 1, 2004 to December 31, 2004, respectively.

Note 4 - Expenditures incurred and paid directly by the United Nations (unaudited):

While the IIC was appointed on April 21, 2004, the United Nations provided certain administrative support services, including the payment of expenditures, in 2004. Expenditures incurred and paid directly by the United Nations on behalf of the IIC during the period from April 21, 2004 to October 31, 2004 totaled \$3,482,042.

Note 5 - Committee members' salaries:

The following is a listing of Committee members' salaries for the period from April 21, 2004 to December 31, 2005:

Mr. Paul A. Volcker	\$ 2
Justice Richard Goldstone	115,275
Professor Mark Pieth	<u>139,131</u>
Total	<u>\$254,408</u>