

Scope of work
External Audits Relating to All Export Sales of Iraqi Oil, Petroleum Products and Natural Gas and Operations of CBI 2 (previous DFI) for the year ended on Dec.31, 2018

I. Audit of the DFI's statement of cash Receipts and Payments

The auditor will perform an audit of the CBI 2 accounts in accordance with the International Standards on Auditing (ISA). The audit scope of work will cover the following:

1. Audit of the CBI 2 statement of cash receipts and payments prepared by the Iraqi Government under the cash basis of accounting in accordance with International Public-Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting", for the year ending December 31, 2018 and determination as to whether the disbursements from CBI 2 are duly authorized and received by the designated recipients.
2. The CBI 2 audit will be conducted in accordance with International Standards on Auditing (ISA 800 related to the cash basis financial statements). The CBI 2 audit for the year ending December 31, 2018 will include, but not be limited, review of inflows, investments and other assets, disbursements, liabilities, contingencies of the CBI 2, supporting the objective that CBI 2 is used in a transparent manner in accordance with applicable control procedures.
3. The audit of the CBI 2 will cover the funds that have been disbursed to the following spending ministries, some of the independent Commissions.
 - Ministry of Oil
 - Ministry of Finance
 - Ministry of Electricity
 - Ministry of Immigration and displaced
 - Ministry of Planning
 - Ministry of Trade
 - Ministry of Transport
 - Ministry of Communication
 - Ministry of Health
 - Central Bank of Iraq
 - Baghdad Mayoralty
 - The independent High commission for election

This audit will cover the major expenditures financed from the CBI 2's main account; the extent of the audit of each ministry will be based on the auditor's professional judgment based on the overall materiality of the audit of the CBI2's statement of cash receipts and payments, when submitting any audit report on any ministry or independent commission including all contracts that exceed ID 10 billion or at least 5 contracts in any case for the Ministries or independent Commission that its contracts do not exceed ID 10 billion, a list of staff name conducted the audit and hours spent should be submitted.

4. Any weaknesses that come to the auditor's attention during the above audits and review will be reported in the management letter to Iraqi Government represented by COFE.
5. The audit will cover the following items:
 - Outstanding advances, deposits, debtor and creditor accounts from previous years.
 - Follow up on the outstanding remarks of the previous auditors for the ministries that not included in point (3) from above.
6. Examine the biggest 5 projects in relation with (the need, work proposal, announcement, awarding, execution and receiving) for each ministry not stated in point 3(except the ministries of defense and interior).

CBI 2 Audit Deliverables

- Audit reports and management letters for cash revenues and payments provided to COFE on the CBI 2 for the year ending December 31, 2017 in both English and Arabic.
- Management letter on CBI 2 internal controls for year ending December 31, 2018 in both English and Arabic. Management letter on internal controls over the disbursements made by the spending ministries and the independent Commissions mentioned above, for the year ending December 31, 2018 in both English and Arabic.

The CBI 2's audited financial statements will be issued by Oct.30, 2019.

II. Review the CBI 2 Interim Financial Statement

The auditor will review the CBI 2's interim Statement of cash receipts and payments for the period from January 1, 2018 to June 30, 2018 in accordance with International Standard on Review Engagements 4210, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

In addition, to the interim review, the auditor will commence the CBI 2 interim audit at the Ministry of Finance, Central Bank of Iraq and SOMO for the purpose of presenting the results to COFE by Sep.30, 2019.

Deliverables – Interim Report

- Review report on CBI 2 interim statement of cash receipts and payments for the period from January 1, 2018 to June 30, 2018, including an interim statement on OPRA.
- Assessment report on progress in addressing earlier audit qualifications.
- Presentation to COFE, which will include the results of the 30.06.2018 interim review. And assessment of progress in addressing earlier audits qualifications.

The interim review and assessment report will be issued by Oct 30, 2019.

III. Audit of Oil Export Sales

Audit of the statement of export sales of petroleum and petroleum products from Iraq made by the Oil Marketing Company (SOMO) in accordance with the International Standard on Auditing ISA 800 "The auditor's report on Special purpose audit engagements".

Deliverables:

- Audit report on the statement of Oil Export Sales for the year ending December 31, 2017 in both English and Arabic.
- Management letter in both English and Arabic on SOMO's internal control over export sales of petroleum and petroleum products and subsequent cash deposited in the CBI 2 account.
- The SOMO management letter will include a section about the key internal controls over the bidding on, and awarding of, export sales contracts in both English and Arabic. In particular, the management letter will include:
 - Material weakness related to the key internal controls that were designed by the Iraqi Government (IG) and Oil Marketing Company (SOMO), over the capture of oil revenue from the ground through to the subsequent export and deposit of cash in the CBI 2.
 - Material weakness related to the key internal controls, designed by the IG and SOMO, over the bidding on, and awarding of, export sales contracts.

- Material weakness related to any difference between the SOMO list of export sales and SOMO's sales ledger and the amount deposited in the FRBNY.
- Material weakness that may be noted during the testing of the internal control procedures for the bidding on and awarding of contracts.
- Material weakness related to the auditor's review of the contracts and sales invoices to ensure that they were signed and approved by authorized person in accordance with SOMO's policies and procedures and approved by the IG.
- Material weakness related to the matching of the quantities and prices as per invoice to the Sales Contracts, Bills of Lading, Certificates of Quantity and Quality, Ullage reports, Export Cargo Manifests and Master Receipts.
- Material weakness related to the recalculation of the Oil Sales Price (OSP), by reference to PLATTS publication and comparison with the price per the invoice.
- Reconciliation of quantities of oil and oil products produced/purchased with the quantities utilized through export sales, internal consumption, re-injection or any other usages.

IV. Audit of the Oil Proceeds Receipts Account (OPRA)

Audit of the cash receipts from export sales of petroleum made by the Oil Marketing Company (SOMO) and deposited in the Oil Proceeds Receipt Account in accordance with the International Standards on Auditing ISA 800 "The auditor's report on special purpose audit engagement".

Deliverables:

- Audit report on the statement of proceeds of oil export sales for the year ending December 31, 2018 in both English and Arabic.
- Management letter in both English and Arabic on SOMO's internal control over the proceeds from export sales of petroleum, petroleum products and natural gas and the transfers to the OPRA account pursuant to the allocation requirements of UNSCR 1483 paragraphs 20 and 21.

In particular, the management letter will include:

- Any material differences related to matching the FRBNY statements of transactions for the period from January 1, 2018 to December 31, 2018 of export sales of petroleum, petroleum products and natural gas, as

recorded by the Iraqi State Oil Marketing Organization, to the amount deposited in the OPRA account.

- Any material difference that may be noted based on the auditor's recalculation of the amounts to be transferred from the OPRA account, pursuant to the allocation requirements of UNSCR 1483 paragraphs 20 and 21 and based on matching these payments to the cash deposited in the CBI 2 and the cash transferred to the UN Compensation Fund.
- Any material differences in the United Nations confirmation regarding the amounts transferred from the OPRA account to the UN Compensation Fund during the year ending December 31, 2018.

7. Follow up on Matters Arising from Previous Year's Audit Reports

The auditor will deliver a separate report on actions or otherwise on matters which arose in the earlier audit reports with emphasis on the more important issues raised, such as internal control assessment and contracting procedures.

Dear Sirs:

Re: Engagement letter 2018 - Audit for the CBI 2 (previous DFI)

This letter confirms (The auditor) understanding of our engagement to report upon our audit of the Statements of Cash Receipts and Payments and the Oil Proceeds Receipt Account (hereinafter referred to as the “financial statements”) of the CBI 2 (hereinafter referred to as the CBI 2”) for the year ending on Dec. 31, 2018 which is prepared in accordance with International Public Sector Accounting Standards “Financial Reporting Under the Cash Basis of Accounting” as issued by IFAC Public Sector Committee Standards (hereinafter referred to as “IPSAS”).

Objectives and limitations of services

We will conduct our audit in accordance with the International Standards on Auditing (hereinafter referred to as “ISAs”) and we will indicate so in our report. Those ISAs 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 “IPSAS”) are free of material misstatements. The financial statements will be prepared on a cash basis. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Margins and support tables will be included containing the reconciliation on an accrual basis, where possible. Our audit includes, on a sample basis, evidence of support for amounts and disclosures in the financial statement

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation .

Our audit is planned and performed to obtain reasonable assurance, about whether the financial statements are free of material misstatements, whether caused by error or fraud .

Our reports will be addressed to the Government of Iraq represented by Ministry of Finance and Committee of Financial Experts (hereinafter referred to as the “COFE”).

In planning and performing our audit, we will consider the CBI 2’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 however we expect to identify the weakness in internal control and include proper comments in our audit reports. Our audit is not designed to discover the less significant issues within the financial statements, the effect of the important policies in the areas of misunderstanding or disclosure that lack of guidance of reliable unanimity.

If, during our audit performance appear circumstances that make our report's amendment or to withdraw from engagement necessary, we will inform COFE in writing the reasons of our withdraw.

Management responsibilities

The GoI is responsible for the fair presentation of the financial statements and all representations contained therein, in accordance with Financial Reporting under the Cash Basis of Accounting as issued by IFAC Public Sector Committee Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The GoI is also responsible for preventing and detecting fraud, for adopting sound accounting policies and for 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 GoI is also responsible for informing us of all reportable conditions, of which it has knowledge, in the design or operation of such controls. The GoI is also responsible for identifying and ensuring that the CBI 2 complies with the laws, regulations, contracts and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations.

The GoI 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 GoI personnel. As required by ISAs, we will make specific inquiries of the GoI about the representations embodied in the financial statements and the effectiveness of internal control and obtain a representation letter from the GoI about these matters. Responses to our inquiries, 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 GoI 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 period under audit 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 GoI's representations to the effective performance of our services, the GoI agrees to release (The auditor) 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 (The auditor) and its personnel against any claims or legal actions resulting.

Other matters

This letter shall serve as the GoI's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between (The auditor) and the GoI, between (The auditor) and COFE, and between (The auditor) and outside specialists or other entities engaged by either (The auditor) and COFE or the GoI. The GoI and COFE acknowledge 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 (The auditor).

Further, the GoI hereby grants, and shall request COFE and to grant, to (The auditor) 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 GoI and COFE for presentations or reports to the GoI, the DFI & CBI 2 and COFE, and for marketing our services.

We understand that COFE wishes to publish a copy of the CBI 2's audited financial statements, with our audit reports thereon, on COFE website. While our reports are published on COFE and the website, the security and controls over the website, to maintain the integrity of our reports, are the responsibility of COFE. In the event that we believe that use of our audit reports on COFE website is misleading, we reserve the right to require the report to be presented in a manner that is not misleading or withdraw permission for the report to be used electronically.

By approving this engagement, you agree to release (The auditor) 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 (The auditor) personnel .

Work paper access by the GoI and COFE

The work papers for this engagement are the property of (The auditor). Pursuant to the GoI and COFE's request, we may be required to make certain work papers available to the GoI and COFE. Access to the requested work papers will be provided under supervision of (The auditor) personnel.

In the event that (The auditor) 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 (The auditor) is not a party, the GoI or the CBI 2 shall reimburse (The auditor) at standard billing rates for its professional time and expenses, including reasonable legal fees, incurred in responding to such requests.

Others

We anticipate that we will be able to perform our audits in accordance with the agreed schedule. If we do not encounter major unanticipated problems, we expect to be able to submit our initial audit report for the year ended 31 December 2017 on 30 September 2018, according to the assumption that we receive all the information from the Government of Iraq, including the full statement of revenues and cash payments in a timely manner.

The auditor is aware of the current security situation in Baghdad. However, if the security situation does not allow our team to perform the work according to the plan and schedule, we reserve the right to redefine or cancel any visits after consulting the parties without penalties against the auditor. The auditor's fees will be limited according to the work done and the auditor will withdraw the team.

The attached general conditions form part of this letter

Special condition to the engagement letter

1. Responsibility of the GoI for the financial statements

The GoI represented by the Ministry of Finance is responsible for the fair presentation of the financial statements and all representations contained therein, in accordance with Financial Reporting under the Cash Basis of Accounting as issued by IFAC Public Sector Committee Standards.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable under the current circumstances.

2. The auditors' responsibility

The auditor's responsibility is to express an opinion on the CBI 2 financial statements based on their audit. The auditors shall perform their audit according to the international standards for audit. Those standards request compliance with ethical requirements, planning and performing the audit to obtain reasonable assurance that the financial statements are misstatement free.

The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The selected procedures are based on the auditors' judgment, including the assessment of the misstatement risks, whether due to fraud or mistake. Making those risk assessment, the auditor considers the internal control is related to proper preparing and presenting of the financial statement of the entity to design and put in place the adequate audit procedures. The audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statements presentation .

It should not rely on audit to detect all misappropriations or other irregularities that may have occurred, but its discovery, if any, may result from the audit test it has performed and will report such cases. According to professional standards, in an extraordinary event where the auditor cannot complete the audit or cannot form or have no opinion, he may refuse to express an opinion or refuse to issue a report.

In addition to the auditor's report on the financial statements, we expect the auditor to provide a separate letter regarding any material weaknesses noted in the accounting and internal control systems. However, it is not required to design audit procedures for the specific purpose of determining such matters

The auditor will review the CBI 2's interim Statement of cash receipts and payments for the period from January 1, 2018 to June 30, 2018 in accordance with International Standard on Review Engagements 4210, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". In addition, the auditor will audit of the statement of export sales of petroleum and petroleum products from Iraq made by the Oil Marketing Company (SOMO) in accordance with the International Standard on Auditing ISA 800 "The auditor's report on Special purpose audit engagements."

The paper work prepared in relation with the auditor's work is the property of the auditor.

3. Professional fees for services

The audit proposal should include the staff classification, estimated working hours for each and the percentage of fees per day/per hour, and should not exceed the amount of the fees and expenses.

4. Key staff

(The auditor) should provide the names of key staff that will be performing the engagement. COFE should be informed of any subsequent changes.

5. Force Majeure

Neither we nor you should be liable in any way for failure, or delay in performing our respective obligations under this engagement if the failure or delay is due to causes outside the reasonable control of the party which has failed to perform .

6. Termination

Our engagement may be terminated with immediate effect by either party by notice in writing to regular correspondence address of the other party marked for the appropriate partner or contact. In the event of termination, fees and expenses incurred to the date of termination are payable to (The auditor).

7. Dispute resolution

Any dispute or claim arising out of or relating to the engagement letter between the parties shall be regulated exclusively by the provision of the valid legislation of the Iraqi Law .