



Security Council

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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the 12-month period ended 31 December 2010 of the biennium 2010-2011.



Letters of transmittal

31 March 2011

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 12-month period ended 31 December 2010 of the biennium 2010-2011, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

(Signed) **BAN** Ki-moon

Mr. Liu Jiayi
Chair of the Board of Auditors
United Nations
New York

12 July 2011

I have the honour to transmit to you the report of the United Nations Board of Auditors on the audit of the financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) for the 12-month period ended 31 December 2010 of the biennium 2010-2011.

(Signed) **Liu Jiayi**
Auditor-General of the People's Republic of China
Chair, United Nations Board of Auditors

The President of the Security Council
of the United Nations
New York

**Report of the Board of Auditors on the audit of the
United Nations escrow (Iraq) accounts established pursuant
to Security Council resolutions 687 (1991), 706 (1991), 778
(1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007)
for the 12-month period ended 31 December 2010 of the
biennium 2010-2011**

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I. Report of the Board of Auditors (audit opinion)

Report on the financial statements

The United Nations Board of Auditors has audited the financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I), the statement of assets, liabilities and reserves and fund balances as at 31 December 2010 (statement II) and the cash flow statement for the 12-month period ended 31 December 2010 of the biennium 2010-2011 (statement III), as well as the notes to the financial statements.

Management's responsibility for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards and for such internal control as he deems is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained provides a sufficient and appropriate basis for the audit opinion.

Opinion

In our opinion, the financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) present fairly, in all material respects, the financial position of the United Nations escrow (Iraq) accounts as at 31 December 2010 and their financial

performance and cash flows for the 12-month period then ended of the biennium 2010-2011 in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations escrow (Iraq) accounts that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the United Nations escrow (Iraq) accounts.

(Signed) **Liu Jiayi**
Auditor-General of the People's Republic of China
Chair of the United Nations Board of Auditors
(Lead Auditor)

(Signed) **Terence Nombembe**
Auditor-General of the Republic of South Africa

(Signed) **Amyas Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

12 July 2011

II. Report of the Board of Auditors (long-form report)

Summary

The Board of Auditors has audited the financial statements of the United Nations escrow (Iraq) accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) for the 12-month period ended 31 December 2010 of the biennium 2010-2011. The audit was carried out through a review of the financial transactions covering the seventh year of the phase-down operations.

Audit opinion

The Board issued an unmodified audit opinion on the financial statements for the period under review, as reflected in section I.

Follow-up of previous recommendations

Of the three recommendations made for the biennium 2008-2009, two were under implementation and one was overtaken by events, as indicated in the annex to the Board's report. The Board encourages the Administration to implement the recommendations as early as possible.

Financial overview

Total income for the period under review amounted to \$3.68 million, while total expenditure amounted to \$46.86 million, resulting in a shortfall of income over expenditure of \$43.18 million. As at 31 December 2010, total assets amounted to \$5.04 million, while liabilities amounted to \$0.32 million, and reserves and fund balances were reduced to \$4.72 million.

Liquidation activities

In 2010, the liquidation of the oil-for-food programme was in its seventh year, following the adoption by the Security Council of resolution 1483 (2003). The Board recognizes the progress of the Secretary-General in the reduction of the balances relating to residual activities under the programme.

The Security Council, in its resolution 1958 (2010) dated 15 December 2010, requested the Secretary-General to take all actions necessary to terminate all residual activities under the programme.

As at 31 December 2010, the United Nations escrow (Iraq) accounts were, however, still under liquidation. The major factors affecting the full closure of the accounts were a delay in the disposal of non-expendable property and the non-settlement of small accounts receivable and payable balances.

Recommendations

The Board recommended that the Administration take appropriate measures:

- (a) **To dispose of the remaining non-expendable property;**

(b) **To settle the outstanding accounts payable and receivable;**

(c) **To transfer all remaining unencumbered funds in the United Nations escrow (Iraq) accounts to the Development Fund for Iraq in accordance with the relevant Security Council resolutions.**

Subsequently, the Board was informed that the Administration had cleared up the remaining receivable and payable balances and transferred the remaining balances to the Development Fund for Iraq on 6 June 2011. The disposal of the non-expendable property had also been completed, except for those held by one agency.

A. Background

1. The United Nations escrow (Iraq) accounts were established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007). In 2010, the liquidation of the oil-for-food programme was in its seventh year, following the adoption by the Security Council of resolution 1483 (2003).

2. The Security Council, in its resolution 1958 (2010), requested the Secretary-General to terminate all residual activities of the oil-for-food programme and authorized the Secretary-General to establish a new escrow account. The Board also performed an audit on the financial statements of the newly established account and issued a separate audit report (see S/2011/480).

3. The Development Fund for Iraq was established pursuant to Security Council resolution 1483 (2003), to which, *inter alia*, all unencumbered funds from the oil-for-food programme must be transferred. The mandate of the Board does not include auditing the activities or financial records of the Fund. That audit is undertaken by independent auditors nominated and appointed by the Government of Iraq, subject to approval by the International Advisory and Monitoring Board, which is the oversight body for the Fund.

B. Mandate, scope and methodology

4. The Board of Auditors has audited the financial statements of the United Nations escrow (Iraq) accounts and has reviewed their liquidation activities for the 12-month period ended 31 December 2010. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements to plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

5. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the United Nations escrow (Iraq) accounts as at 31 December 2010 and the results of operations and cash flows for the period then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules. The audit included a general review of financial systems and internal controls and an examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

6. According to note 3 (a), since the United Nations escrow (Iraq) accounts are under liquidation, the financial statements were presented on the liquidation basis of accounting. This may require the reclassification of assets and liabilities, as well as the recognition of new liabilities. The Administration, however, indicated that, after a careful review, there was no need to make any adjustments to the assets or liabilities of the United Nations escrow (Iraq) accounts as at 31 December 2010 as a

result of their being in a liquidation stage. The Board concurs with the Administration in this regard.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Security Council. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

C. Findings and recommendations

1. Follow-up of previous recommendations

8. Of the three recommendations made for the previous biennium ended 31 December 2009 (see S/2010/627), two were under implementation and one was overtaken by events, as indicated in the annex to the present section.

9. While the Board noted the efforts given by the Administration to implement the recommendations, it urges the Administration to expedite the full implementation of the two remaining recommendations as early as possible.

2. Financial overview

10. Total income for the period under review amounted to \$3.68 million, mainly earned from interest on cash and term deposits and the cash pool. Total expenditure amounted to \$46.86 million, mainly due to a currency exchange loss of \$44.84 million. This gives a shortfall of income over expenditure of \$43.18 million.

11. As at 31 December 2010, total assets amounted to \$5.04 million, \$4.90 million of which were cash resources (cash and term deposits and cash pool), while liabilities amounted to \$0.32 million. Total reserves and fund balances decreased to \$4.72 million as at 31 December 2010.

3. Liquidation activities

Liquidation activities of the United Nations escrow (Iraq) accounts according to Security Council resolutions 1483 (2003) and 1958 (2010)

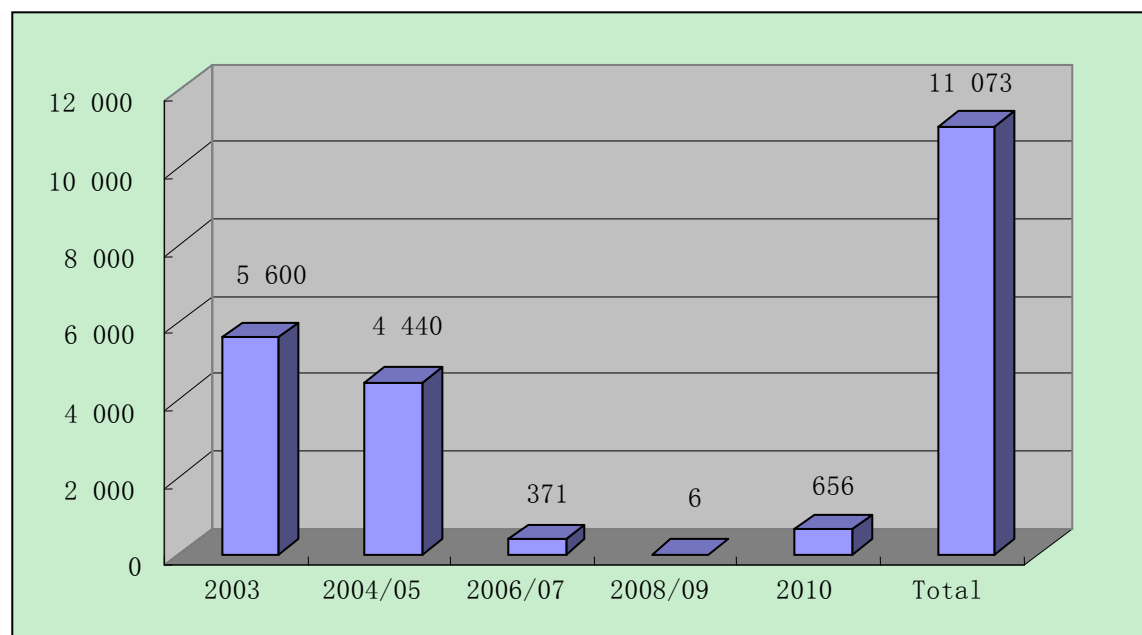
12. After two extensions by the Security Council, the liquidation of the oil-for-food programme was in its seventh year in 2010, following the adoption by the Security Council of resolution 1483 (2003). The Board noted that the Secretariat had made continuous efforts to determine the status of outstanding letters of credit and to facilitate the resolution of any outstanding payments. As a result, as at the end of 2010, the number of letters of credit had been reduced from 69 in the previous year to 43 with an aggregate value of \$101 million.

13. Given that no additional confirmation of arrival for goods and services under the oil-for-food programme would be provided by the Government of Iraq, on 15 December 2010, the Security Council adopted resolution 1958 (2010), in which the Secretary-General was requested to take all necessary actions to terminate all residual activities under the programme and to establish a new escrow account containing a \$20 million fund for administration and up to \$131 million as an indemnification reserve fund. In the same resolution, the Council requested the Secretary-General to transfer all the remaining funds to the Government of Iraq by 31 December 2016, unless it authorized otherwise.

14. After the adoption of Security Council resolution 1958 (2010), all the remaining 43 outstanding letters of credit were closed; the related unliquidated obligations were also closed; the funds associated with such letters were released; and a new escrow account with an amount of \$151 million was established. At the same time, an amount of \$656 million was transferred from the United Nations escrow (Iraq) accounts to the Development Fund for Iraq in 2010. The statistics indicated that from the adoption of Security Council resolution 1483 (2003) until the end of 2010, transferred funds from the United Nations escrow (Iraq) accounts to the Fund totalled \$11.07 billion, as shown in the figure below.

Funds transferred to the Development Fund for Iraq from 2003 to 2010

(Millions of United States dollars)



Note: Based on data provided by the Administration.

Liquidation activities of the United Nations Monitoring, Verification and Inspection Commission according to Security Council resolution 1762 (2007)

15. By its resolution 1762 (2007), the Security Council terminated the mandate of the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) (one of the escrow accounts) and requested the Secretary-General to transfer all remaining unencumbered funds in the account established pursuant to resolution 986 (1995) to the Government of Iraq through the Development Fund for Iraq. The Council required that this should be done no later than three months from the adoption of that resolution.

16. However, in 2010, the liquidation of UNMOVIC continued. As at 31 December 2010, the major outstanding issue regarding the disposal of the chemical laboratory in Kuwait had been settled, while the remaining small balance of accounts payable and receivable had not been settled. In addition, no transfer had

been made from the account of UNMOVIC to the Development Fund for Iraq during the period under review.

Status of the United Nations escrow (Iraq) accounts as at 31 December 2010

17. As at 31 December 2010, the United Nations escrow (Iraq) accounts were still under liquidation. The major factors affecting the full closure of the accounts were a delay in the disposal of non-expendable property and the non-settlement of small accounts receivable and payable balances. As at 31 December 2010, the accounts receivable and payable balances amounted to \$133,000 and \$141,000 respectively, while non-expendable property on hand amounted to \$718,000.

18. The Administration agreed with the Board's recommendations to dispose of the remaining non-expendable property.

19. The Administration also agreed with the Board's reiterated recommendations: (a) to settle the outstanding accounts payable and receivable; and (b) to transfer all remaining unencumbered funds in the United Nations escrow (Iraq) accounts to the Development Fund for Iraq in accordance with the relevant Security Council resolutions.

20. At the time of reporting, the Administration has informed the Board that all the remaining receivable and payable balances had been cleared, and the remaining balances were transferred to the Development Fund for Iraq on 6 June 2011. The disposal of the non-expendable property had also been completed, except for those held by one agency.

D. Disclosures by management

1. Write-off of losses of cash, receivables and properties

21. As required by rules 106.8 and 106.9 of the Financial Regulations and Rules, the Administration informed the Board that there had been no write-off of cash, receivables or properties during the 12-month period ended 31 December 2010.

2. Ex gratia payments

22. As required by financial rule 105.12, the Administration reported that there had been no ex gratia payments during the period.

3. Cases of fraud and presumptive fraud

23. The Administration informed the Board that there were no cases of fraud or presumptive fraud relating to the United Nations escrow (Iraq) accounts for the period under review.

E. Acknowledgement

24. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Secretary-General, the Under-Secretary-General for Management, the Assistant Secretary-General and Controller, and their staff members.

(Signed) **Liu Jiayi**
Auditor-General of the People's Republic of China
Chair of the United Nations Board of Auditors
(Lead Auditor)

(Signed) **Terence Nombembe**
Auditor-General of the Republic of South Africa

(Signed) **Amyas Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

12 July 2011

Annex

**Status of implementation of the Board's recommendations
for the 12-month period ended 31 December 2010 of the
biennium 2010-2011**

<i>Summary of recommendations</i>	<i>Paragraph reference</i>	<i>Financial period first made</i>	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Overtaken by events</i>
Disclose as a separate note to the financial statements the reasons for reclassification and restatement of any comparative	16 ^a	2008-2009	—	—	—	X
(a) Settle the outstanding accounts payable and receivable of UNMOVIC						
(b) Transfer all remaining unencumbered funds of UNMOVIC to the Development Fund for Iraq in accordance with Security Council resolution 1762 (2007)	22 ^b	2008	—	X	—	—
Keep under review the matter of transferring the unencumbered funds to the Development Fund for Iraq	33 ^b	2008	—	X	—	—
Total number of recommendations			—	2	—	1
Percentage of total number of recommendations			—	67	—	33

^a S/2010/627.^b S/2009/314.

III. Certification of the financial statements

1. The financial statements for the United Nations escrow (Iraq) accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) for the 12-month period ended 31 December 2010 of the biennium 2010-2011 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. The 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 (Iraq) accounts, numbered I to III, are correct.

(Signed) Jun **Yamazaki**
Assistant Secretary-General, Controller

29 March 2011

IV. Financial statements for the 12-month period ended 31 December 2010 of the biennium 2010-2011

Statement I

United Nations escrow accounts established under the provisions of all Security Council resolutions relating to Iraq (excluding resolution 1958 (2010))^a

Statement of income and expenditure and changes in reserves and fund balances for the 12-month period ended 31 December 2010 of the biennium 2010-2011

(Thousands of United States dollars)

	<i>Resolutions 986 (1995) and 1483 (2003)</i>		<i>Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)^b</i>	<i>Resolutions 687 (1991), 706 (1991), 1284 (1999)^c</i>		
	<i>Humanitarian activities in Iraq</i>	<i>Administrative and operational costs</i>	<i>Monitoring, verification and inspection</i>	<i>Other activities</i>	<i>Total 2010</i>	<i>Total 2008</i>
Income						
Interest income	2 634	443	23	—	3 100	34 783
Miscellaneous income	464	117	—	—	581	2 915
Total income	3 098	560	23	—	3 681	37 698
Expenditure						
Purchase of humanitarian supplies	—	—	—	—	—	684
Purchase of spare parts ^d	326	—	—	—	326	722
Administrative expenses	—	1 086	20	272	1 378	5 444
Independent Inquiry Committee expenses ^e	—	309	—	—	309	364
Currency exchange adjustments ^f	44 843	—	—	—	44 843	17 091
Total expenditure	45 169	1 395^g	20^g	272	46 856	24 305
Excess (shortfall) of income over expenditure	(42 071)	(835)	3	(272)	(43 175)	13 393
Prior-period adjustments ^h	545	(545)	—	—	—	(2)
Net excess (shortfall) of income over expenditure	(41 526)	(1 380)	3	(272)	(43 175)	13 391

	<i>Resolutions 986 (1995) and 1483 (2003)</i>		<i>Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)^b</i>	<i>Resolutions 687 (1991), 706 (1991), 1284 (1999)^c</i>		
	<i>Humanitarian activities in Iraq</i>	<i>Administrative and operational costs</i>	<i>Monitoring, verification and inspection</i>	<i>Other activities</i>	<i>Total 2010</i>	<i>Total 2008</i>
Cancellation of prior-period obligations	164 862	593	—	5	165 460	215 288
Transfers to the Development Fund for Iraq ⁱ	(656 000)	—	—	—	(656 000)	(5 859)
Transfers (to)/from other funds	(131 000) ^j	(17 578) ^k	—	362	(148 216)	—
Reserves and fund balances, beginning of period	663 836	21 729	1 067	20	686 652	388 070
Reserves and fund balances, end of period	172	3 364	1 070	115	4 721	610 890

^a There were no activities relating to pipeline tariff charges or assets transfers and contributions during this period. See also notes 1 and 3.

^b Refers to the United Nations Monitoring, Verification and Inspection Commission. See note 3.

^c Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991). See note 3.

^d Expenditure incurred relating to adjustments and reinstatements of contracts entered into in previous years.

^e See note 4.

^f Represents currency exchange fluctuations between the euro and the United States dollar and other currencies.

^g The portion of expenditures that relates to disbursements is met from operating reserves. See note 5.

^h Represents refund of a letter of credit fee related to “Humanitarian activities in Iraq” that was recorded under “Administrative and operational costs” in 2009.

ⁱ Represents transfers to the Development Fund for Iraq held by the Central Bank of Iraq pursuant to Security Council resolution 1483 (2003). See note 7 (f).

^j Represents the transfer of \$131,000,000 to the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010).

^k Represents the transfer of \$20,000,000 to the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) and \$362,000 to the High-level Coordinator for the repatriation or return of all Kuwaiti and third-country nationals on their remains and the return of all Kuwaiti property, including archives, seized by Iraq, partly offset by the transfer of \$2,784,413 from the closed United Nations trust funds (comprising \$2,298,095 from the Trust Fund for Humanitarian Relief in Iraq and \$486,318 from the Emergency Trust Fund for Humanitarian Assistance for Iraq, Kuwait and the Iraq-Turkey and Iraq-Iran Border Areas).

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

United Nations escrow accounts established under the provisions of all Security Council resolutions relating to Iraq (excluding resolution 1958 (2010))^a

Statement of assets, liabilities and reserves and fund balances as at 31 December 2010

(Thousands of United States dollars)

	<i>Resolutions 986 (1995) and 1483 (2003)</i>		<i>Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)^b</i>	<i>Resolutions 687 (1991), 706 (1991), 1284 (1999)^c</i>		
	<i>Humanitarian activities in Iraq</i>	<i>Administrative and operational costs</i>	<i>Monitoring, verification and inspection</i>	<i>Other activities</i>	<i>Total 2010</i>	<i>Total 2008</i>
Assets						
Cash and term deposits	172	12	7	—	191	928 671
Cash pool	—	3 599 ^d	1 114 ^e	—	4 713	25 469
Accounts receivable						
Inter-fund balances receivable ^f	—	—	9	119	128	804
Inter-agency accounts receivable	—	—	—	—	—	4 624
Other accounts receivable	—	—	—	5	5	92
Deferred charges	—	—	—	—	—	8
Total assets	172	3 611	1 130	124	5 037	959 668
Liabilities						
Unliquidated obligations — current year	—	170	—	5	175	2 401
Unliquidated obligations — prior years	—	—	—	—	—	345 631
Accounts payable						
Inter-fund balances payable ^f	—	60	—	—	60	627
Other accounts payable	—	17	60	4	81	119
Total liabilities	—	247	60	9	316	348 778
Reserves and fund balances						
Operating reserves ^g						
Reserves for end-of-service and post-retirement benefits	—	—	—	—	—	2 546

	<i>Resolutions 986 (1995) and 1483 (2003)</i>		<i>Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)^b</i>	<i>Resolutions 687 (1991), 706 (1991), 1284 (1999)^c</i>	<i>Total 2010</i>	<i>Total 2008</i>
	<i>Humanitarian activities in Iraq</i>	<i>Administrative and operational costs</i>	<i>Monitoring, verification and inspection</i>	<i>Other activities</i>		
Other reserves	—	170 ^h	—	—	170	207 543
Cumulative surplus	172	3 194	1 070	115	4 551	400 801
Total reserves and fund balances	172	3 364	1 070	115	4 721	610 890
Total liabilities and reserves and fund balances	172	3 611	1 130	124	5 037	959 668

^a There were no activities relating to pipeline tariff charges or assets transfers and contributions during this period. See also notes 1 and 3.

^b Refers to the United Nations Monitoring, Verification and Inspection Commission. See note 3.

^c Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991). See note 3.

^d Represents share of the United Nations Headquarters cash pool for “Administrative and operational costs”, comprising cash and term deposits of \$519,379, short-term investments of \$845,988 (market value \$854,141), long-term investments of \$2,217,312 (market value \$2,221,670) and accrued interest receivable of \$16,636.

^e Represents the share of the United Nations Headquarters cash pool for “Monitoring, Verification and Inspection” comprising cash and term deposits of \$160,776, short-term investments of \$261,879 (market value \$264,403), long-term investments of \$686,378 (market value \$687,727) and accrued interest receivable of \$5,150.

^f See note 2 (k) (iv).

^g See note 5.

^h Operating reserves retained as of 31 December 2010 are to be utilized to discharge unliquidated obligations of \$169,908 related to “Administrative and operational costs”.

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

Statement III

United Nations escrow accounts established under the provisions of all Security Council resolutions relating to Iraq (excluding resolution 1958 (2010))^a

Statement of cash flows for the 12-month period ended 31 December 2010 of the biennium 2010-2011

(Thousands of United States dollars)

	<i>Resolutions 986 (1995) and 1483 (2003)</i>	<i>Administrative and operational costs</i>	<i>Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)^b</i>	<i>Resolutions 687 (1991), 706 (1991), 1284 (1999)^c</i>		
	<i>Humanitarian activities in Iraq</i>		<i>Monitoring, verification and inspection</i>	<i>Other activities</i>	<i>Total 2010</i>	<i>Total 2008</i>
Cash flows from operating activities						
Net excess (shortfall) of income over expenditure (statement I)	(41 526)	(1 380)	3	(272)	(43 175)	13 391
(Increase) decrease in inter-fund balances receivable	—	334	(9)	(84)	241	(665)
(Increase) decrease in other accounts receivable	8	10	16	2	36	89
(Increase) decrease in deferred charges	—	—	—	—	—	10
Increase (decrease) in unliquidated obligations	(268 017)	(592)	(171)	—	(268 780)	(309 480)
Increase (decrease) in inter-fund accounts payable	(545)	60	(32)	—	(517)	(3 225)
Increase (decrease) in other accounts payable	—	(47)	11	(13)	(49)	(171)
Less: Interest income	(2 634)	(443)	(23)	—	(3 100)	(34 783)
Net cash from operating activities	(312 714)	(2 058)	(205)	(367)	(315 344)	(334 834)
Cash flows from investing activities						
Interest income	2 634	443	23	—	3 100	34 783
Net cash from investing activities	2 634	443	23	—	3 100	34 783
Cash flows from financing activities						
Cancellation of prior-period obligations	164 862	593	—	5	165 460	215 288
Transfers to the Development Fund for Iraq	(656 000)	—	—	—	(656 000)	(5 859)
Transfers (to)/from other funds	(131 000)	(17 578)	—	362	(148 216)	—
Net cash from financing activities	(622 138)	(16 985)	—	367	(638 756)	209 429

	<i>Resolutions 986 (1995) and 1483 (2003)</i>	<i>Administrative and operational costs</i>	<i>Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)^b</i>	<i>Resolutions 687 (1991), 706 (1991), 1284 (1999)^c</i>		
	<i>Humanitarian activities in Iraq</i>		<i>Monitoring, verification and inspection</i>	<i>Other activities</i>	<i>Total 2010</i>	<i>Total 2008</i>
Net increase (decrease) in cash and term deposits and cash pool	(932 218)	(18 600)	(182)	—	(951 000)	(90 622)
Cash and term deposits and cash pool, beginning of period	932 390	22 211	1 303	—	955 904	1 044 762
Cash and term deposits and cash pool, end of period	172	3 611	1 121	—	4 904	954 140

^a There were no activities relating to pipeline tariff charges or assets transfers and contributions during this period. See also notes 1 and 3.

^b Refers to the United Nations Monitoring, Verification and Inspection Commission. See note 3.

^c Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991). See note 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 the sale of Iraqi oil approved by the Security Council in its resolution 986 (1995). In paragraph 1 of that resolution, the Council 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 of that resolution, the Council decided that the provision should remain in force for 180 days.

(b) The authorization given in 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 those products through the Kirkuk-Yumurtalik pipeline in Turkey, after the deduction of 30 per cent for the Compensation Fund. In resolution 1330 (2000), the Security Council revised the deduction to 25 per cent. Owing to the cessation of the oil-for-food programme, pipeline tariff charges are no longer incurred.

(c) The provision of resolution 986 (1995) authorizing sales of Iraqi oil not exceeding a total of \$1 billion every 90 days remained in force until 30 May 1998 in accordance with Security Council resolutions 1111 (1997), 1129 (1997), 1143 (1997) and 1158 (1998).

(d) The Security Council, in paragraph 2 of resolution 1153 (1998), which took effect on 1 June 1998, decided that the authorization given to States in paragraph 1 of resolution 986 (1995) should 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 period referred to in paragraph 1 of resolution 1153 (1998). This provision remained in force in accordance with resolutions 1210 (1998), 1242 (1999) and 1281 (1999).

(e) In its resolution 1284 (1999) of 17 December 1999, the Security Council lifted the dollar cap and authorized sales of Iraqi oil of any volume during the 180-day mandate period. This provision remained in force in accordance with resolutions 1302 (2000), 1330 (2000) and 1352 (2001), which extended the provisions of resolution 1330 (2000) for 30 days; 1360 (2001), which extended the mandate period for 150 days; 1382 (2001), 1409 (2002) and 1443 (2002), which extended the provisions of resolution 1409 (2002) until 4 December 2002; and 1447 (2002), which extended the mandate period to 3 June 2003. The final sale of oil for shipment under the programme was 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), and decided that the funds in the escrow account produced pursuant to resolution 1153 (1998) up to a total of \$300 million might be used to

meet any reasonable expenses, other than expenses payable in Iraq, which followed directly from contracts approved by the Committee established pursuant to resolution 661 (1990). Resolutions 1293 (2000) and 1302 (2000) established that up to \$600 million might be used 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) retained the \$600 million limit.

(g) Security Council resolution 1330 (2000) allowed for funds up to €600 million from the escrow account to be used for the cost of installation and maintenance, including training services, of spare parts and equipment relating to the oil industry.

(h) In its resolution 1472 (2003) of 28 March 2003, the Security Council 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 oil-for-food programme, and authorized the Secretary-General to make such changes for a period of 45 days.

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

(j) In its resolution 1483 (2003) of 22 May 2003, the Security Council 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 Council also requested the consolidation of the accounts established pursuant to paragraphs 8 (a) (relating to 15 governorates of central and southern Iraq) and 8 (b) (relating to 3 governorates of northern Iraq) of resolution 986 (1995).

(k) Sale of Iraqi oil was 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 the sale of Iraqi oil were allocated, upon receipt of deposits, to other accounts established pursuant to paragraph 8 of resolution 986 (1995). No oil sales have been recorded since 20 March 2003.

(l) The funds from the sale of Iraqi oil pursuant to the authorization given in paragraph 1 of resolution 986 (1995) were to be used to meet the humanitarian needs of the Iraqi people and for the other purposes set out in paragraph 8 of resolution 986 (1995). Resolution 1409 (2002) permitted the sale or supply of any commodities or products other than those referred to in paragraph 24 of resolution 687 (1991) as it related to military commodities and products, or military-related commodities or products covered by the Goods Review List (see S/2002/515) and the amendments thereto contained in annex A to resolution 1454 (2002). The percentages used in allocating the oil sale proceeds were determined as follows:

(i) 53.034 per cent to finance the export to Iraq of medicine, health supplies, food, and materials and supplies for essential civilian needs. In follow-up to resolution 1302 (2000), this was increased to 54.034 per cent, and resolution 1330 (2000) authorized a further increase to 59.034 per cent less the payment referred to in (vi) below;

- (ii) 13.0 per cent to complement the distribution by the Government of Iraq of imported goods by providing funds to the United Nations Inter-Agency Humanitarian Programme operating in the three northern Governorates of Arbil, Dihouk and Suleimaniyeh;
- (iii) 2.215 per cent to meet the operational and administrative costs to the United Nations;
- (iv) 30.0 per cent allocated to the Compensation Fund established pursuant to Security Council resolution 705 (1991). Pursuant to resolution 1330 (2000), this percentage was decreased to 25.0 per cent, and further decreased to 5.0 per cent pursuant to resolution 1483 (2003);
- (v) 0.751 per cent allocated to the United Nations Monitoring, Verification and Inspection Commission established pursuant to Security Council resolution 1284 (1999), which replaced the special commissions established pursuant to resolution 687 (1991), to meet operating costs;
- (vi) A maximum of \$10 million every 90 days to be allocated to the escrow account established pursuant to Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992). In resolution 1284 (1999), the Council decided to suspend payments to this escrow account for an initial period of six months from 17 December 1999. In resolution 1302 (2000), this suspension was extended for a further 180-day period and the allocation transferred to (i) above. In resolution 1330 (2000), the allocation of a maximum of \$10 million every 90 days was reinstated from 6 December 2000.
- (m) Notwithstanding the periods for the sale of Iraqi oil as authorized by the Security Council, financial statements I, II and III of the United Nations escrow (Iraq) accounts are prepared every six months.
- (n) Included in financial statements I, II and III are details relating to the humanitarian activities and related operational and administrative costs that are undertaken under the provisions of Security Council resolution 986 (1995). From the beginning of the oil-for-food 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 the "Humanitarian activities in Iraq" account. This decision reflected the need to harmonize treatment, whether the work was done by an agency itself or contracted out. In 2003, when agencies began implementing various aspects of the programme in southern and central Iraq, those implementation costs were also charged to the "Humanitarian activities in Iraq" account, in line with the decision taken in 2002.

(o) The financial statements of the Compensation Fund (see para. (l) (iv) above) are reported on in a separate volume of the United Nations financial statements.

(p) Expenditures incurred during the 2010-2011 biennium for humanitarian supplies and spare parts relate to adjustments and reinstatements of contracts entered into in previous years.

(q) The Security Council, in its resolution 1958 (2010) of 15 December 2010, requested the Secretary-General to take all actions necessary to terminate all residual activities under the oil-for-food programme. The resolution authorized the Secretary-General to establish an escrow account for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors for a period of six years with regard to all activities in connection with the programme since its inception, for the expenses of the United Nations related to the orderly termination of the residual activities of the programme, including the Organization's support to Member State investigations and Member State proceedings related to the programme, and for the expenses of the Office of the High-level Coordinator created pursuant to resolution 1284 (1999). Furthermore, the Secretary-General was authorized to transfer a total of \$151 million to the United Nations escrow account established pursuant to Security Council resolution 1958 (2010), comprising \$131 million for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors and \$20 million exclusively for the expenses of the United Nations related to the orderly termination of the residual activities of the programme, including the Organization's support to Member State investigations and Member State proceedings related to the programme and the expenses of the Office of the High-level Coordinator created pursuant to resolution 1284 (1999) and to transfer all remaining funds in the United Nations escrow (Iraq) accounts to the Development Fund for Iraq as soon as possible.

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, 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 (CEB). The Organization follows International Accounting Standard 1, "presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by CEB, 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 to 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 dollar, translated at the applicable United Nations rates of exchange in effect 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.

(g) The cash flow summary statement is based on the indirect method of cash flows as referred to in the United Nations system accounting standards.

(h) 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 of CEB.

(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 includes 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 the operation of investments in the cash pool are allocated to participating funds. Interest income is available for allotment purposes on a semi-annual basis;

(vi) Net gains or losses on currency fluctuations other than for current year's obligations are accumulated on a semi-annual 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 the rental of premises, the 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 paragraph (l) (iii) below.

(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 the 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 paragraph (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 the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The market value of investments is disclosed in the footnotes in 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 the lower of cost or market value; 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 participating fund's statement and its composition and the market value of its investments are disclosed in footnotes in the individual statements;

(iv) Inter-fund balances reflect transactions between funds and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with other escrow accounts and with the United Nations General Fund. Inter-fund balances are settled periodically, depending on the 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 repair 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 Organization. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

(l) Liabilities and reserves and fund balances:

(i) Operating reserves include reserves for end-of-service and post-retirement benefits, which are shown in a separate line on the financial statements. 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 the 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, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Fund is a funded, multi-employer defined benefit plan. An actuarial valuation of the Fund's assets and pension benefits is prepared every two years. As there is no consistent and reliable basis for allocating the related liabilities or assets and costs to individual organizations participating in the plan, the United Nations is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated this plan as if it were a defined contribution plan; thus, the United Nations share of the related net liability/asset position of the Fund is not reflected in the financial statements. The Organization's contribution to the Fund consists of its mandated contribution at the rate established by the Assembly, currently 7.9 per cent for the participant and 15.8 per cent for the Organization, respectively, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the 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 Fund as of the valuation date. As at the reporting date of the current financial statements, the Assembly had not invoked this provision.

Note 3

United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) (statements I, II and III)

(a) As the United Nations escrow (Iraq) accounts are in a liquidation process (see note 7 below), the going concern assumption is not followed and the financial statements are presented according to the liquidation basis of accounting, which may require realization of assets and extinguishment of liabilities outside the normal

course of business. As at 31 December 2010, the United Nations escrow (Iraq) accounts have no assets or liabilities requiring adjustments in their measurement or classification under the liquidation basis of accounting.

(b) Included in financial statements I, II and III are the escrow accounts established pursuant to Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992) and the special account established pursuant to resolutions 687 (1991), 706 (1991) and 1284 (1999). The escrow account established under 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 of 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 Kuwaiti 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.

(d) With the refusal of Iraq to sell oil under the provisions of Security Council resolutions 706 (1991) and 712 (1991), the Security Council adopted resolution 778 (1992) on 2 October 1992 as an alternate means of providing funds for the purposes specified. States in which there were petroleum products owned by Iraq or States in which there were 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 those funds to the escrow account. In addition, in resolution 778 (1992), the Council urged 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 had taken place pursuant to the system provided in resolutions 706 (1991) and 712 (1991) and the escrow account had 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.

(e) In December 1999, pursuant to Security Council resolution 1284 (1999), payment to the escrow account from the proceeds of sale was suspended. The suspension, which was extended for an additional 180 days by resolution 1302 (2000), was lifted by resolution 1330 (2000) in December 2000.

(f) In May 2003, the Security Council, in its resolution 1483 (2003), requested that the Secretary-General restore funds that had been provided by Member States pursuant to resolution 778 (1992). All such funds were returned in June 2003.

(g) The Security Council, in its 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.

(h) Since 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 resolution 986 (1995).

(i) 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.

(j) In its resolutions 1483 (2003) and 1546 (2004), the Security Council reaffirmed its intention to revisit the mandate of UNMOVIC.

(k) By its resolution 1762 (2007), the Security Council 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).

(l) The United Nations escrow account established pursuant to Security Council resolution 1958 (2010) is reported on in a separate set of financial statements (see S/2011/480).

Note 4

Independent Inquiry Committee into the United Nations oil-for-food programme expenditure

(a) In April 2004, the 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 Provisional 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 the programme. By its resolution 1538 (2004), the Security Council welcomed the inquiry. The Independent Inquiry Committee completed its investigation on 27 October 2005 and issued its final report.

(b) Effective 1 January 2007, the Independent Inquiry Committee wound up its operation, and the Office of the Independent Inquiry Committee was established for an interim period of two years as part of the Secretariat. The work of the Office is being performed by the representative designated by the former members of the Committee and his or her designees. In November 2010, the Secretary-General extended the mandate of the Independent Inquiry Committee until 31 December 2011.

(c) The costs of the Independent Inquiry Committee were met from funds allocated for the administrative and operational costs of the programme. Expenditures during the biennium 2010-2011 are set out in the table below.

(Thousands of United States dollars)

Salaries	160
Contractual services	134
Premises	15
Total	309

Note 5**Operating reserves***“Humanitarian activities in Iraq” account*

(a) An operating reserve of \$126,660,000 was established as of 31 December 2005 under the “Humanitarian activities in Iraq” account, to ensure that sufficient funds are available for the satisfactory resolution of all remaining issues relating to outstanding letters of credit. In a letter dated 10 July 2006 (S/2006/510), the Secretary-General, recalling that the United Nations had no indemnification from the Government of Iraq on the funds that had been transferred to date to the Development Fund for Iraq, informed the Security Council that until the issues of claims from suppliers were resolved, and if there was no objection from the Council, an amount of \$187 million would be held as a reserve for any unanticipated claims from suppliers. In a letter dated 11 August 2006 (S/2006/646), the President of the Security Council took note of the proposed arrangements, and an operating reserve of \$187 million was established and maintained.

(b) Under the terms of Security Council resolution 1958 (2010) of 15 December 2010, all expired letters of credit were closed and a new escrow account was established, which, inter alia, would provide indemnification to the United Nations, its representatives, agents and independent contractors for a period of six years with regard to all activities in connection with the programme since its inception. Hence operating reserves under “Humanitarian activities in Iraq” account were no longer required and the balance was closed to “Cumulative surplus” as of 31 December 2010.

“Administrative and operational costs” account

(c) 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 Independent Inquiry Committee and the administrative costs of the escrow accounts until all aspects of the oil-for-food programme are completed. Changes in the reserve since its establishment are summarized in the table below.

(Thousands of United States dollars)

Operating reserve as at 31 December 2005		21 132
Utilization from 1 January 2006 to 31 December 2009	(10 877)	
Transfer from cumulative surplus	9 670	(1 207)
Operating reserve as at 31 December 2009		19 925
Utilization from 1 January to 31 December 2010		(1 225)
Reduction in the reserve ^a		(18 530)
Operating reserve as at 31 December 2010^b		170

^a Under the terms of Security Council resolution 1958 (2010) of 15 December 2010, a new escrow account was established, which, inter alia, would provide for expenses for the orderly termination of the residual activities of the oil-for-food programme. Hence, the operating reserve under the “Administrative and operational costs” account was no longer required (except for \$169,908, see footnote b) and the remaining balance was closed to “Cumulative surplus” as of 31 December 2010.

^b An amount of \$169,908 has been retained to discharge unliquidated obligations relating to “Administrative and operational costs”.

“Monitoring, verification and inspection” account

(d) 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, for archiving of documentation and archiving and staff-related costs. Staff-related costs include accrued liabilities for end-of-service and post-retirement benefits. Changes in the reserve since its establishment are summarized in the table below.

(Thousands of United States dollars)

Operating reserve as at 30 June 2007		35 959
Utilization from 1 July 2007 to 31 December 2009	(32 671)	
Transfer to cumulative surplus	(2 463)	(35 134)
Operating reserve as at 31 December 2009		825
Utilization from 1 January to 31 December 2010		(20)
Reduction in the reserve ^a		(805)
Operating reserve as at 31 December 2010		—

^a Under the terms of Security Council resolution 1958 (2010) of 15 December 2010, a new escrow account was established, which, inter alia, would provide for expenses for the orderly termination of the residual activities of the oil-for-food programme. Hence, the operating reserve under the “Monitoring, verification and inspection” account was no longer required and the remaining balance was closed to “Cumulative surplus” as of 31 December 2010.

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 shown in the table below.

(Thousands of United States dollars)

	2010	2008
UNMOVIC	—	1 194
Agencies	670	959
Independent Inquiry Committee	48	290

Note 7

Future modus operandi of United Nations escrow (Iraq) accounts established under Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007)

(a) In its resolution 1483 (2003) of 22 May 2003, the Security Council extended the Secretary-General's responsibilities under Security Council resolutions 1472 (2003) and 1476 (2003) for a period of six months. The Council requested the Secretary-General to terminate, in the most cost-effective manner, the ongoing operations of the oil-for-food 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 Coalition Provisional 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) By its resolution 1546 (2004), the Security Council decided that in connection with the dissolution of the Coalition Provisional Authority, the Interim Government of Iraq and its successors should assume the rights, responsibilities and obligations relating to the programme that had been transferred to the Coalition Provisional Authority, including all operational responsibility for the programme and any obligations undertaken by the Coalition Provisional Authority in connection with such responsibility, and responsibility for ensuring independently authenticated confirmation that goods had been delivered and further decided that following a 120-day transition period from the date of adoption of the resolution, the Interim Government of Iraq and its successors should assume all responsibility for certifying the delivery of goods under previously prioritized contracts, and that such certification should 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 those arrangements.

(d) In accordance with Security Council resolution 1483 (2003), all obligations relating to contracts that had not been prioritized were closed, except for those where letters of credit had been retained. As at 7 December 2010, 43 letters of credit had been retained for contracts prioritized pursuant to resolution 1483 (2003).

(e) Furthermore, by letters dated 8 August 2005 (S/2005/535), 17 October 2005 (S/2005/656), 19 December 2005 (S/2005/807), 10 July 2006 (S/2006/570), 8 December 2006 (S/2007/46), 27 March 2007 (S/2007/241), 19 April 2007 (S/2007/218), 25 July 2007 (S/2007/476), 7 December 2007 (S/2007/725), 11 March 2008 (S/2008/175), 9 May 2008 (S/2008/318), 25 July 2008 (S/2008/492), 1 May 2009 (S/2009/230) and 8 December 2010 (S/2010/619), reports dated 27 July 2009 (S/2009/385) and 1 November 2010 (S/2010/563) and the note verbale dated 2 November 2010 (S/2010/567), the Security Council has been informed of the arrangements for the liquidation of the outstanding letters of credit and of the slow progress being made.

(f) In his letter dated 8 December 2010 to the President of the Security Council (S/2010/619), the Secretary-General provided a comprehensive update on the status of residual activities of the oil-for-food programme, and made recommendations for their definitive conclusion. Acting thereon, the Security Council, by its resolution 1958 (2010) of 15 December 2010, requested the Secretary-General to take all actions necessary to terminate all residual activities under the programme, noting that the remaining 43 letters of credit with outstanding claims of delivery were closed for all purposes under the programme without prejudice to any rights or claims that the suppliers may have against the Government of Iraq. Following the closure of the letters of credits, the related obligations were also closed, and pursuant to the Council authorization to transfer all remaining funds in the United Nations escrow (Iraq) accounts to the Development Fund for Iraq as soon as possible, an amount of \$656 million was transferred to the Fund on 29 December 2010.

(g) Furthermore, the Security Council, by its resolution 1958 (2010) of 15 December, authorized the Secretary-General to establish an escrow account for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors for a period of six years with regard to all activities in connection with the oil-for-food programme since its inception and for the expenses of the United Nations related to the orderly termination of the residual activities of the programme, including the Organization's support to Member State investigations and Member State proceedings related to the programme, and the expenses of the Office of the High-level Coordinator created pursuant to resolution 1284 (1999). The Secretary-General was authorized to transfer a total of \$151 million to the United Nations escrow account, comprising \$131 million for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors, and \$20 million exclusively for the expenses of the United Nations related to the orderly termination of the residual activities of the programme, including the Organization's support to Member State investigations and Member State proceedings related to the programme, and the expenses of the Office of the High-level Coordinator created pursuant to resolution 1284 (1999). The transfers were effected on 30 December 2010.

(h) By its resolution 1762 (2007), the Security Council terminated the mandate of UNMOVIC, pursuant to which an operating reserve to meet liquidation

costs was established (see note 5). Unencumbered funds in the amount of \$25,104,523 were transferred to the Development Fund for Iraq on 28 September 2007 and further sums of \$875,285 and \$2,548,000 were transferred on 28 February 2008 and 9 December 2008, respectively.

(i) From the adoption of Security Council resolution 1483 (2003) up to 31 December 2010, a total amount of \$11.07 billion has been transferred to the Development Fund for Iraq. The remaining surplus funds will be transferred to the Fund in accordance with the provisions of resolutions 1483 (2003), 1546 (2004) and 1958 (2010).

Note 8

Contingent liabilities

Under the terms of 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 oil-for-food 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 transfer is not possible and any liability and related fees will need to be met from the new escrow account established by resolution 1958 (2010) (see note 7 (g)).
