



AUDIT

# Development Fund for Iraq

Review results for the six months ended 30 June 2009  
IAMB Meeting 16 December 2009

Washington DC, USA

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## Notice to the reader

**DRAFT FOR DISCUSSION PURPOSES ONLY**

This Presentation summarizes our findings as a result of our review of the interim financial statements for the six months ended 30 June 2009 of the Development Fund for Iraq (“DFI”).

This Presentation includes financial information extracted from the interim financial statements for the six months ended 30 June 2009 of the “DFI”. The interim financial statements are the responsibility of the Government of Iraq. The Draft Interim Financial Statements have not yet been approved by the Minister of Finance.

We have been engaged to perform a review of the interim financial information in accordance International Standard on Review Engagements 2410, “Review of Interim Financial Information performed by the Independent Auditor of the Entity”. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

This Presentation includes certain issues relating to our review. These relate to completeness of petroleum and petroleum products produced, completeness of proceeds from frozen assets, unrecorded barter transactions and understatement of cash receipts and cash balances for petroleum products sales proceeds deposited in SOMO. We have not yet finalized our review of the Interim Financial Statements. Our review report is likely to include qualifications relating to these issues.

## Notice to the reader (cont'd)

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The financial information contained in this presentation is qualified in its entirety by reference to the interim financial statements from which they are extracted and the notes thereto.

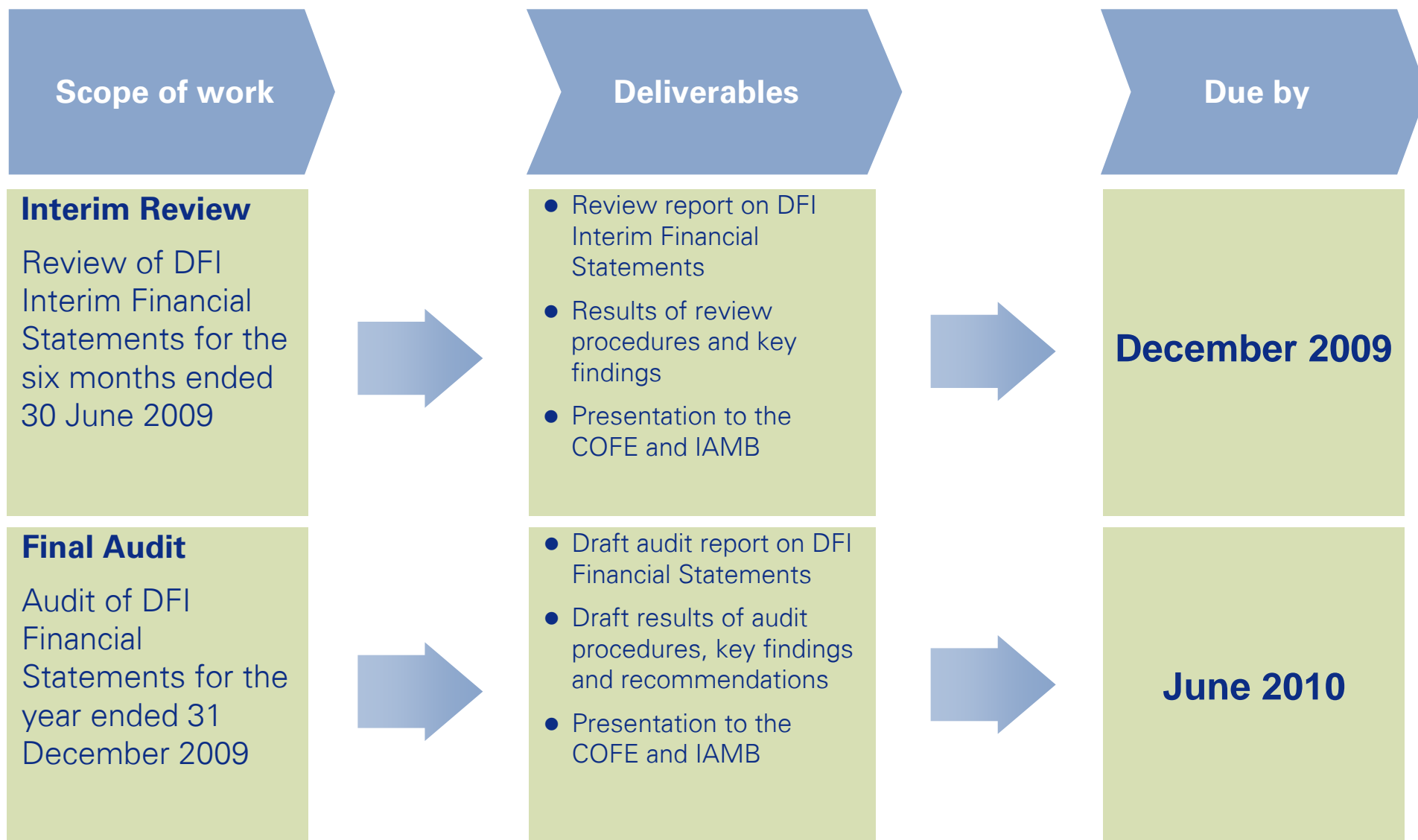
The interim financial statements have been prepared in accordance with the International Public sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting". The interim financial statements and the financial information contained in this presentation may not be suitable for another purpose.

The interim financial statements and this presentation are intended solely for the information and use of the Government of Iraq, the International Advisory and Monitoring Board of the Development Fund for Iraq and the Committee of Financial Experts and should not be used for any other purpose. We do not accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come.

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# Scope of work and deliverables

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# Government bodies in progress and not visited yet

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Visits to Government bodies					
Government bodies	In progress	Not visited	Government bodies	In progress	Not visited
Ministry of Oil	✓		Ministry of Education		✓
SOMO	✓		Ministry of Planning	✓	
Ministry of Finance	✓		Ministry of Human Rights	✓	
Central Bank of Iraq	✓		Ministry of Housing and Construction		✓
Ministry of Higher Education and Scientific Research		✓	Ministry of Communication	✓	
Ministry of Trade	✓		Ministry of Transportation		✓
Ministry of Water Resources	✓		Ministry of Technology	✓	
Ministry of Sports and Youth		✓	Ministry of Municipalities and Public Work		✓
Ministry of Labor and Social Affairs		✓	Ministry of Industry and Minerals		✓
Ministry of Agriculture		✓	Ministry of Defense		✓
Ministry of Migration and Displaced		✓	Ministry of Foreign Affairs		✓
Ministry of Environment	✓		Ministries in Sulaimaniyah		✓
Ministry of Culture		✓	Ministries in Erbil		✓
Ministry of Electricity	✓		Governorate of Babil	✓	
Ministry of Health	✓		Governorate of Salah Ad Din	✓	
Ministry of Justice		✓	Governorate of Al-Basrah		✓
Ministry of Interior		✓	Governorate of Wasit		✓
			Governorate of Al-Qadisiyyah		✓

We are facing some delays at the Ministry of Finance due to the bombings of 19 August 2009.

We anticipate delays at the Ministry of Justice and Foreign Affairs due to the damage these ministries have faced due to bombings.



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# Draft Interim Financial Statements

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Draft Interim Statement of Cash Receipts and Disbursements			
For the six months ended in USD '000	2009	2008	Variance
<b>Cash receipts</b>			
Export sales of petroleum and petroleum products	13,567,081	31,236,926	(17,669,845)
Proceeds from frozen assets in foreign countries	-	833	(833)
United Nation Oil for Food Program	121	-	121
Interest received	103,659	347,329	(243,670)
Other receipts	325,142	1,728,091	(1,402,949)
<b>Total cash receipts</b>	<b>13,996,003</b>	<b>33,313,179</b>	(19,317,176)
<b>Cash disbursements</b>			
Transfers to the Ministry of Finance	8,500,000	21,500,000	(13,000,000)
Letters of Credit to the benefit of Iraqi Ministries	6,396,927	6,366,403	30,524
Contracts administered by U.S. Agencies	-	281,225	(281,225)
Iraqi external debt repayments	100,000	80,918	19,082
Other disbursements	85,307	22,927	62,380
<b>Total cash disbursements</b>	<b>15,082,234</b>	<b>28,251,473</b>	(13,169,239)
<b>Excess of receipts over disbursements</b>	<b>(1,086,231)</b>	<b>5,061,706</b>	(6,147,937)
Cash and cash equivalents as at 1 January	130,286	2,547,331	(2,417,045)
Proceeds from treasury bills on maturity	10,172,948	7,904,659	2,268,289
<b>Total cash and cash equivalents</b>	<b>9,217,003</b>	<b>15,513,696</b>	(6,296,693)
Treasury bills purchased	(8,184,488)	(15,219,879)	7,035,391
<b>Cash and cash equivalents as at 30 June</b>	<b>1,032,515</b>	<b>293,817</b>	738,698
<b>Treasury Bills at 30 June</b>	<b>8,184,488</b>	<b>14,673,959</b>	(6,489,471)
<b>Cash and cash equivalents and treasury bills at 30 June</b>	<b>9,217,003</b>	<b>14,967,776</b>	(5,750,773)

# Draft Interim Financial Statements (cont'd)

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## Draft Interim Statement of Proceeds of Oil Export Sales

For the six months ended in USD '000	2009	2008	Variance
Total export sales of petroleum	16,256,468	35,732,106	(19,475,638)
Less:			
Demurrage claims deducted from export sales invoices	(2,783)	(13,758)	10,975
Proceeds deposited in OPRA after end of period	(3,766,340)	(6,960,833)	3,194,493
Add;			
Proceeds deposited related to prior period export sales invoices	1,780,392	4,123,319	(2,342,927)
Price differential	13,396	-	13,396
Interest on delayed bank transfers	5	140	(135)
<b>Proceeds deposited in OPRA</b>	<b>14,281,138</b>	<b>32,880,974</b>	<b>(18,599,836)</b>
Amounts transferred to the Compensation Fund (5%)	(714,057)	(1,644,048)	929,991
<b>Net proceeds deposited in the DFI (95%)</b>	<b>13,567,081</b>	<b>31,236,926</b>	<b>(17,669,845)</b>

# Draft Interim Financial Statements (cont'd)

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- For a detailed analysis on the decrease in proceeds from export sales of petroleum see slides 14 through 24.

## Transfers to Ministry of Finance

- The decrease in transfers to the ministry of finance is mainly due to the funds (see below) held at the Ministry of Finance's accounts at the Central Bank of Iraq as at 31 December 2008 which were high as compared to 1 January 2008.
- In 2009 the government passed a budget of U.S. Dollars 58.6 billion based on an oil price of U.S. Dollar 50/barrel and exports of 2 million barrels/day.

### 2008 Iraq federal budget vs. expenditures in USD million

	Budget		Expenditures		Budget execution
Operating budget	51,124	71%	40,857	83%	80%
Investment budget	21,112	29%	8,646	17%	41%
<b>Total budget</b>	<b>72,236</b>	<b>100%</b>	<b>49,503</b>	<b>100%</b>	<b>69%</b>

Source: Ministry of Finance

### Ministry of Finance accounts in USD million

	DFI	70009	300349	Total
<b>1 January 2008</b>	9,906	852	526	<b>11,284</b>
<b>31 December 2008</b>	10,303	6,838	4,191	<b>21,332</b>
<b>30 June 2009</b>	9,217	1	789	<b>10,007</b>

Source: Ministry of Finance

### 2009 Iraq federal budget in USD million

Operating budget	45,888	78%
Investment budget	12,727	22%
<b>Total budget</b>	<b>58,615</b>	<b>100%</b>

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# Production quantities

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## Crude oil produced in 2009

### Barrels

Month	North	South	Total
January	19,766,762	47,858,538	67,625,300
February	18,185,087	43,046,182	61,231,269
March	20,665,656	51,510,139	72,175,795
April	19,736,696	49,048,544	68,785,240
May	21,332,067	50,316,864	71,648,931
June	20,685,019	51,534,424	72,219,443
<b>Total</b>	<b>120,371,287</b>	<b>293,314,691</b>	<b>413,685,978</b>

Source: State Oil Marketing Organization (SOMO)

## Crude oil produced in 2008

### Barrels

Month	North	South	Total
January	9,828,468	54,579,960	64,408,428
February	17,069,735	50,813,765	67,883,500
March	18,791,650	53,722,318	72,513,968
April	19,005,776	51,706,974	70,712,750
May	19,226,707	54,083,273	73,309,980
June	18,309,474	49,515,695	67,825,169
<b>Total</b>	<b>102,231,810</b>	<b>314,421,985</b>	<b>416,653,795</b>

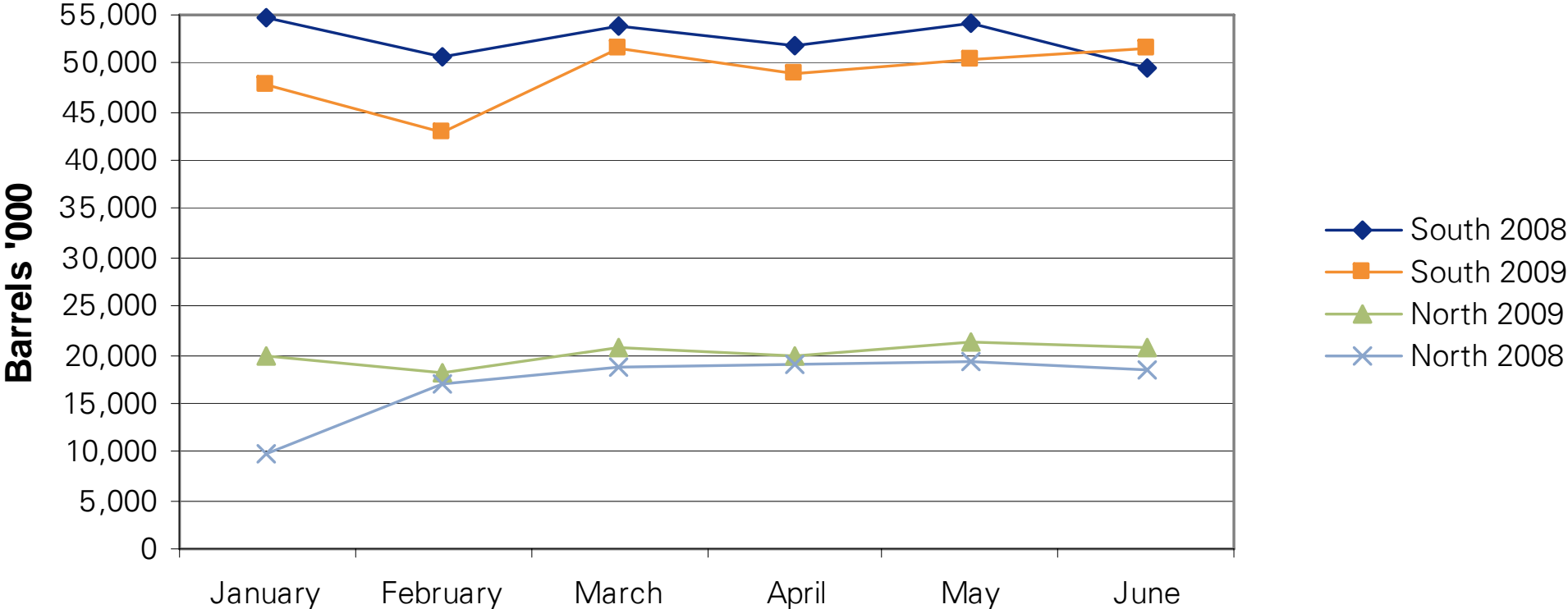
Source: State Oil Marketing Organization (SOMO)

- The overall production has decreased by 3 million barrels. This decrease is mainly due to the decrease in oil produced from Basra (south) by 21.1 million barrels but was offset by the increase in oil produced from Kirkuk (north) by 18.1 million barrels.
- Production in Basra has declined due to problems in the oil extraction process.
- Production in Kirkuk has increased due to the improved security conditions.

# Production quantities (cont'd)

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## Crude Oil Produced in 2009 vs. 2008



Source: State Oil Marketing Organization (SOMO)



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# Export quantities

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## Export quantities in 2009

### Barrels

Month	North	South	Total
January	15,811,194	42,809,981	58,621,175
February	12,604,112	35,901,114	48,505,226
March	13,082,988	43,171,541	56,254,529
April	12,251,378	42,374,190	54,625,568
May	16,158,812	42,925,962	59,084,774
June	15,833,631	41,914,698	57,748,329
<b>Total</b>	<b>85,742,115</b>	<b>249,097,486</b>	<b>334,839,601</b>

Source: State Oil Marketing Organization (SOMO)

## Export quantities in 2008

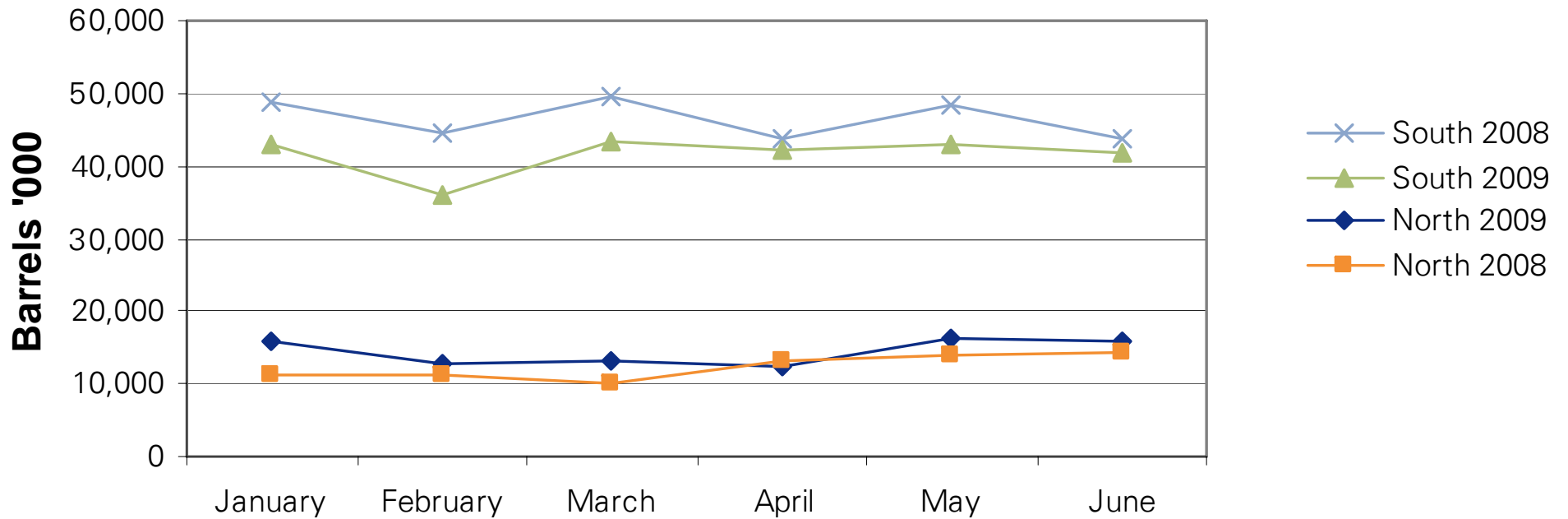
### Barrels

Month	North	South	Total
January	11,046,364	48,632,859	59,679,223
February	11,413,845	44,682,059	56,095,904
March	9,926,439	49,538,919	59,465,358
April	13,253,537	43,789,948	57,043,485
May	13,757,284	48,563,129	62,320,413
June	14,469,035	43,614,178	58,083,213
<b>Total</b>	<b>73,866,504</b>	<b>278,821,092</b>	<b>352,687,596</b>

Source: State Oil Marketing Organization (SOMO)

- The overall export quantities of crude oil have decreased by 17.9 million barrels. This decrease is mainly due to the decrease in oil exported from Basra (south) by 29.7 million barrels while the oil exported from Kirkuk (north) has increased by 11.8 million barrels.
- The increase in oil exported from Kirkuk is due to an increase in production (see slide 14) as security conditions have improved in the Kirkuk region.
- The decrease in oil exported from Basra is due a decrease in production (see slide 14) caused by congestion in oil wells.
- In addition, the global decrease in oil demand has had its adverse effect on the demand of Iraqi oil.

## Trend for export quantities



Source: State Oil Marketing Organization (SOMO)

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# Average price per barrel

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Prices / barrel in USD		
Month	2009	2008
January	36.68	80.63
February	37.77	89.79
March	44.25	94.90
April	49.29	103.82
May	57.17	115.15
June	64.32	122.94
<b>Weighted average</b>	<b>48.55</b>	<b>101.31</b>

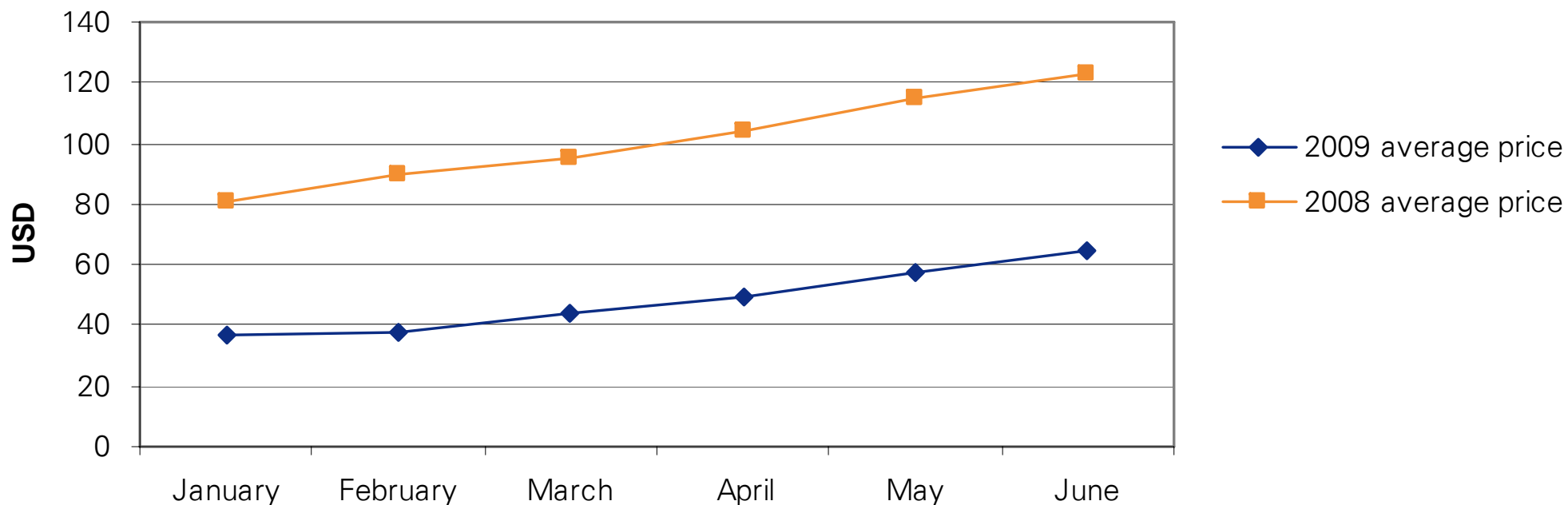
Source: State Oil Marketing Organization (SOMO)

- Iraqi oil prices have decreased substantially in 2009 vs. 2008 this is due to the decrease in global oil prices after prices peaked in July 2008.
- Iraqi oil prices in 2009 have increased this is in line with the increase in global oil prices.
- The prices were calculated using the monthly weighted average of oil prices as per SOMO's records.

# Average price per barrel (cont'd)

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### Average price trend



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# Export sales

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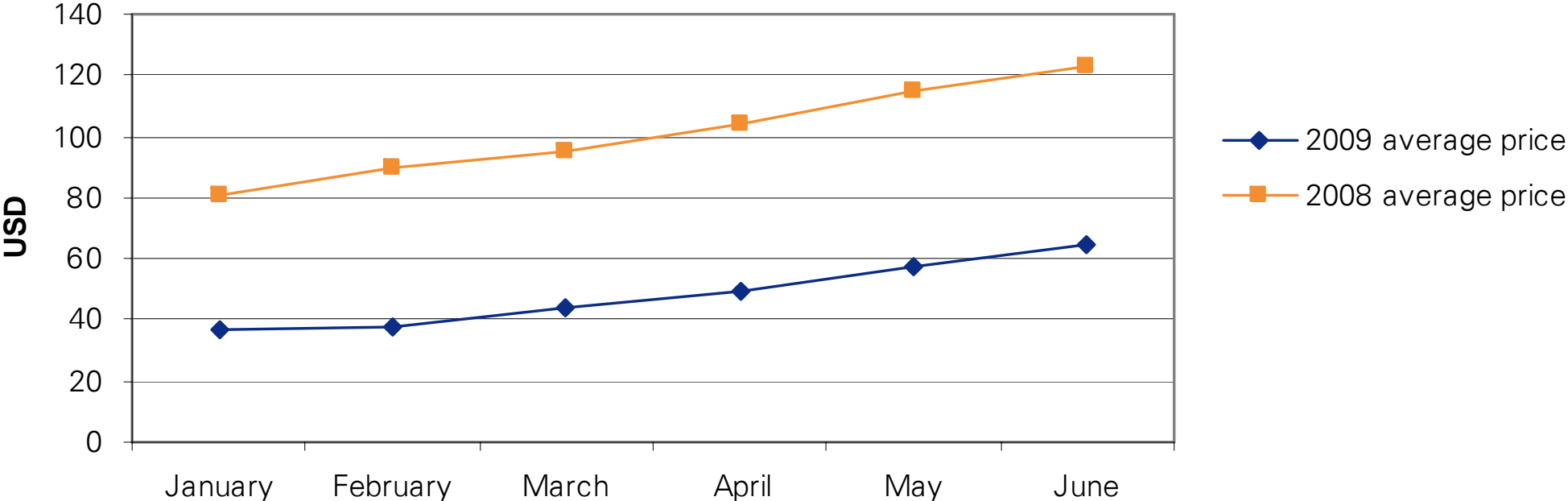
Export sales in USD '000			
Month	2009	2008	Variance
January	2,150,101	4,812,112	(2,662,011)
February	1,832,147	5,036,777	(3,204,630)
March	2,489,471	5,643,522	(3,154,051)
April	2,692,437	5,922,286	(3,229,849)
May	3,377,890	7,176,471	(3,798,581)
June	3,714,424	7,140,939	(3,426,515)
<b>Total</b>	<b>16,256,470</b>	<b>35,732,107</b>	<b>(19,475,637)</b>

Source: State Oil Marketing Organization (SOMO)

Variance analysis in USD '000	
Price variance	(17,666,347)
Volume variance	(1,809,290)
<b>Total Variance</b>	<b>(19,475,637)</b>

- Export sales have dropped by U.S. Dollars 19.5 billion. This decrease is mainly due to the decrease in oil prices but is also related to a decrease in export quantities.
- The decrease in export sales as a result of oil prices is U.S. Dollars 17.7 billion.
- The decrease in export sales as a result of export quantities is U.S. Dollars 1.8 billion.

### Average price trend



Source: State Oil Marketing Organization (SOMO)



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# Key Issues

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Issue	Consequence
<p>DFI receipts are predominantly from the export sales of petroleum. The IAMB recommended the installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices, While the Iraqi Government supports oil metering, progress has been slow. In the absence of an overall comprehensive system of controls over petroleum extraction, we were not able to reconcile extracted petroleum to SOMO's records of quantities received and quantities consumed internally, however we have reconciled the petroleum quantities received by SOMO to petroleum export sales.</p>	<p>In the absence of a comprehensive metering system, completeness of petroleum extracted can not be assured.</p>
<p>In accordance with the provisions of UNSCR 1483, all frozen assets in foreign countries and their economic resources shall be transferred to the DFI. Our inquiries revealed that the DFI does not maintain complete records of all frozen assets which it is entitled to receive.</p>	<p>Completeness of proceeds from frozen assets in foreign countries in the financial statement cannot be assured.</p>
<p>Letters of credit cash payments during the six months ended 30 June 2009 include payments related to certain self-financing governmental entities that are not covered by the DFI. Conversely, the Ministry of Finance (MoF) –received advance payments from these entities to fund their letters of credit payments which have been deposited in the MoF accounts at the CBI and have not been transferred to the DFI account at the FRBNY. Management could not assess the amounts that were received by the MoF from these self financing entities nor could assess the amounts paid by the DFI to finance the letters of credits issued for the benefit of these self financing entities.</p>	<p>We could not assure completeness and accuracy of amounts received by the Ministry of Finance from these self-financing entities and the amounts paid by the DFI to finance the letters of credits issued for the benefit of these self-financing entities.</p>

# Key Issues

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Issue	Consequence
<p>Cash receipts amounting to U.S. Dollars 1,312,005 thousands relating to License fee of mobile telecommunication were incorrectly recorded in the DFI.</p>	<p>Cash and cash equivalents as at 30 June 2009, 31 December 2008, 30 June 2008 and cash receipts for the six months ended 30 June 2008 are overstated by the same amount.</p>
<p>Cash received from export sales of petroleum products during the six months ended 30 June 2009 amounting to U.S. Dollars 1,335,237 thousand has been deposited in bank accounts controlled by the State Oil Marketing Company (SOMO). According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI account.</p> <p>Based on COFE's recommendation the Minister of Oil issued memo # 1691 dated 26 March 2009 which states that all export of fuel oil be stopped effective 1 April 2009 except for exports related to the joint agreement between the Iraqi Ministry of Electricity, SOMO and the Turkish Company KARTET and exports related to the Iraqi Oil Tanker Company.</p>	<p>Cash receipts for the six months ended 30 June 2009 are understated by U.S. Dollars 161,697 thousand and the cash balance as at 30 June 2009 are understated by U.S. Dollars 3,137,568 thousand.</p>

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# Outstanding data

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- Confirmations from the Federal Reserve Bank of New York were received on 8 December 2009.
- Confirmations of the Ministry of Finance's accounts held at the Central Bank of Iraq.

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## Next steps

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- Continue visits to the government bodies
- Obtain the approval of Minister of Finance on the Interim Financial Statements, and issue our review report
- Obtain responses on draft Management Letter (M/L) points
- Discuss these responses and issue the final M/L for MoF, CBI, MoO, SOMO and remaining spending government bodies

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