

Development Fund for Iraq

**Report of Factual Findings
in connection with the
Oil Proceeds Receipts Account**

For the period from 1 January 2004 to 28 June 2004

KPMG Bahrain

September 2004

This report contains 7 pages



KPMG Fakhro
Audit
5th Floor
Chamber of Commerce Building
PO Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Telephone +973 17 224807
Fax +973 17 227443
Internet www.kpmg.com.bh

Report of Factual Findings
in connection with the Oil Proceeds Receipts Account

To the International Advisory and Monitoring Board of the
Development Fund for Iraq
To the Project and Contracting Office
(successor to the Coalition Provisional Authority)

We have performed the procedures enumerated in the attached Appendix, which were agreed with the International Advisory and Monitoring Board of the Development Fund for Iraq and the Coalition Provisional Authority, solely to assist you in evaluating the Development Fund for Iraq's compliance with United Nations Security Council Resolution (UNSCR) 1483 paragraphs 20 and 21, for the period from 1 January 2004 to 28 June 2004. The Coalition Provisional Authority was responsible for the Development Fund for Iraq's compliance with UNSCR 1483.

This Agreed-Upon Procedures engagement was conducted in accordance with the International Standard on Related Services 4400: Engagements to Perform Agreed-upon Procedures Regarding Financial Information and with the International Organization of Supreme Audit Institutions (INTOSAI) Standards on Government Auditing.

The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the Appendix, either for the purpose for which this report has been requested or for any other purpose.

Development Fund for Iraq
Report of Factual Findings
in connection with the Oil Proceeds Receipts Account
For the period from 1 January 2004 to 28 June 2004
(all amounts are in US dollars)

1 Reconciliation of Export Sales to Oil Proceeds Receipts Account

1.1 Procedure

We obtained statements of transactions from the Federal Reserve Bank of New York (FRBNY) for the period from 1 January 2004 to 28 June 2004. We compared the amounts of export sales of petroleum and petroleum products, as recorded by the Iraqi State Oil Marketing Organization (SOMO), to the amounts deposited into the Oil Proceeds Receipts Account (OPRA).

Findings

Export sales of petroleum and petroleum products are required to be arranged and invoiced exclusively by SOMO, the sales arm of the Iraqi Ministry of Oil.

As there is no Iraqi infrastructure for the export of natural gas, there were no export sales of natural gas from Iraq.

We found that, for the period from 1 January 2004 to 28 June 2004, export sales of petroleum and petroleum products were undertaken through cash and barter transactions.

- 1.2.4** Export sales of petroleum (crude oil) made through cash transactions, as recorded by SOMO in its accounting records for the period from 1 January 2004 to 28 June 2004, amounted to \$8,085,192,743. See section 1.2.8 for barter transactions.

Export sales of petroleum products (mainly residual fuel oil) made through cash transactions, as recorded by SOMO in its accounting records for the period from 1 January 2004 to 28 June 2004, amounted to \$686,549. See section 1.2.8 for barter transactions.

- .2.6** Proceeds from export sales of petroleum and petroleum products are required to be paid directly into the OPRA account, through irrevocable documentary letters of credit, with proceeds received approximately 30 days after the petroleum or the petroleum products have been lifted.

Development Fund for Iraq
Report of Factual Findings
in connection with the Oil Proceeds Receipts Account, continued
For the period from 1 January 2004 to 28 June 2004
(all amounts are in US dollars)

We found that proceeds from export sales of petroleum and petroleum products for the period from 1 January 2004 to 28 June 2004 were deposited in the OPRA account as follows:

Period deposited in OPRA

1 January 2004 to 28 June 2004	\$ 6,884,062,972
Post-28 June 2004	<u>1,201,816,320</u>
	<u>\$ 8,085,879,292</u>

- 1.2.7 Cash advances received for and proceeds of export sales of petroleum and petroleum products during the period from 1 January 2004 to 28 June 2004 amounting to \$20,038,000 were deposited in an Iraqi bank account controlled by the State Oil Marketing Organization, the sales arm of the Iraqi Ministry of Oil. This amount was not deposited in the OPRA account, or the Development Fund for Iraq (DFI) and the Compensation Fund in accordance with United Nations Security Council Resolution 1483.

SOMO also engages in barter transactions for exports of petroleum and petroleum products. Barter transactions consist mainly of exports of residual fuel oil for light fuel products and the export of crude oil for electricity from Syria. The exports of residual fuel oil and crude oil, and the imports of light fuel products are recorded in the accounting records at SOMO.

We found that the value of these barter transactions, as recorded by SOMO, for the period from 1 January 2004 to 28 June 2004 was \$209,881,292. As these were non-cash transactions, no proceeds were deposited in the OPRA account, or the DFI and the Compensation Fund.

The CPA believed that an unknown quantity of petroleum and petroleum products was illegally exported from Iraq (smuggling), by-passing the authorized processes of marketing, sales and cash collection. Despite the key internal controls put in place by the CPA and SOMO, the CPA also believed that internal control systems over the Iraqi oil industry were insufficient to ensure that all petroleum and petroleum products were accounted for in the absence of a metering system. The CPA was unable to reliably estimate the amounts of petroleum and petroleum products that were illegally exported for the period from 1 January 2004 to 28 June 2004.

It was not practicable to extend our procedures sufficiently to quantify such amounts.

Development Fund for Iraq
Report of Factual Findings
in connection with the Oil Proceeds Receipts Account, continued
For the period from 1 January 2004 to 28 June 2004
(all amounts are in US dollars)

2 Oil Proceeds Receipts Account

2.1 Procedure

We recalculated the amounts to be transferred from the OPRA account during the period from 1 January 2004 to 28 June 2004, pursuant to the allocation requirements of UNSCR 1483 paragraphs 20 and 21, and agreed these payments to the cash deposited in the DFI and to the cash transferred to the Compensation Fund.

2.2 Findings

The proceeds of export sales of petroleum and petroleum products were deposited in the OPRA account and immediately thereafter, 95% was deposited in the DFI and the remaining 5% was deposited in the Compensation Fund. The Compensation Fund was established in accordance with UNSCR 687 and subsequent relevant resolutions, as a result of the Iraqi invasion of Kuwait during 1990.

The resulting proceeds from export sales of petroleum and petroleum products during the period from inception (22 May 2003) to 28 June 2004, which were deposited in the OPRA account and immediately transferred to the DFI and the Compensation Fund during the period from 1 January 2004 to 28 June 2004, were as follows:

Year of export	OPRA	DFI	Compensation Fund
2004	\$ 6,884,062,972	\$ 6,539,859,823	\$ 344,203,149
2003	<u>1,154,242,501</u>	<u>1,096,530,376</u>	<u>57,712,125</u>
	<u>\$ 8,038,305,473</u>	<u>\$ 7,636,390,199</u>	<u>\$ 401,915,274</u>

\$1,154,242,501 represents the proceeds of certain exports sales of petroleum during the period from inception to 31 December 2003, which were deposited in the OPRA account in early 2004.

We found that the allocation was pursuant to UNSCR 1483 paragraphs 20 and 21

Development Fund for Iraq
Report of Factual Findings
in connection with the Oil Proceeds Receipts Account, continued
For the period from 1 January 2004 to 28 June 2004
(all amounts are in US dollars)

3 Compensation Fund

3.1 Procedure

We obtained a letter from the United Nations confirming the amount transferred from the OPRA account to the Compensation Fund during the period from 1 January 2004 to 28 June 2004.

3.2 Findings

We found no difference between the total amount transferred from the OPRA account to the Compensation Fund and the amount confirmed by the United Nations.

Development Fund for Iraq
Report of Factual Findings
in connection with the Oil Proceeds Receipts Account, continued
For the period from 1 January 2004 to 28 June 2004
(all amounts are in US dollars)

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Oil Proceeds Receipts Account for the period from 1 January 2004 to 28 June 2004. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We have performed an examination of the statement of cash receipts and payments of the Development Fund for Iraq for the period from 1 January 2004 to 28 June 2004, with our audit report issued thereon on 30 September 2004. We expressed a qualified audit opinion on the completeness of cash receipts, as also noted in our findings in section 1.2.7 above. We further expressed a qualified audit opinion on the completeness of export sales of petroleum and petroleum products, as also noted in our findings in section 1.2.9 above.

This report is intended solely for the information and use of the International Advisory and Monitoring Board of the Development Fund for Iraq and the Project and Contracting Office, and is not intended to be, and should not be, used by, or relied upon by, anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. We do not accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our consent in writing.

Manama, Kingdom of Bahrain
30 September 2004

KPMG

**Development Fund for Iraq
Agreed-Upon Procedures
in connection with the Oil Proceeds Receipts Account
For the period from 1 January 2004 to 28 June 2004**

Appendix

In accordance with the engagement letter issued on 27 April 2004, the procedures to be applied to the OPRA account held on behalf of the Central Bank of Iraq at the FRBNY are as follows:

1. Obtain from the FRBNY statements of transactions for the period from 1 January 2004 to 28 June 2004; agree the amounts of export sales of petroleum, petroleum products and natural gas, as recorded by the Iraqi State Oil Marketing Organization, to the amounts deposited in the OPRA account.
2. Recalculate the amounts to be transferred from the OPRA account, pursuant to the allocation requirements of UNSCR 1483 paragraphs 20 and 21, and agree these payments to the cash deposited in the DFI and to the cash transferred to the Compensation Fund.
3. Obtain a confirmation from the United Nations regarding the amounts transferred from the OPRA account to the Compensation Fund during the period from 1 January 2004 to 28 June 2004.