



AUDIT

# Development Fund for Iraq

DRAFT year end results as of 31 December 2008  
IAMB Meeting 2-3 April 2009

Amman

- Notice to the reader
- Scope of work and Deliverables
- Ministries and locations visited, in progress and not visited yet
- Draft Financial Statement
- Quantities of crude oil produced
- Export Quantities
- Export Sales
- Average Price per Barrel
- Key Issues
- Outstanding data
- Next Steps
- Q & A

## Notice to the reader

**DRAFT FOR DISCUSSION PURPOSES ONLY**

This Presentation summarizes our findings as a result of our audit of the Statement of Cash Receipts and Payments for the period from 1 January 2008 to 31 December 2008 ("the Financial Statement") of the Development Fund for Iraq ("DFI"). Our audit has not been finalized to date, and our findings may change as a result of further work. Only our final audit report is binding.

This Presentation includes financial information extracted from the Draft Financial Statement from 1 January 2008 to 31 December 2008 of the Development Fund for Iraq ("DFI"). The Financial Statement is the responsibility of the Government of Iraq. The Draft Financial Statement has not yet been approved by the Minister of Finance.

We have been engaged to perform an audit of the Financial Statement in accordance with International Standard on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statement is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statement. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Government of Iraq's preparation and fair presentation of the Financial Statement 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 DFI's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Government of Iraq, as well as evaluating the overall presentation of the Financial Statement.

## Notice to the reader (cont'd)

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This Presentation includes certain issues relating to our audit. These relate to completeness of petroleum and petroleum products produced, completeness of proceeds from frozen assets, completeness and accuracy of outstanding contractual commitments entered into by US Agencies, unrecorded barter transactions and understatement of cash receipts and cash balances for petroleum products sales proceeds deposited with the State Oil Marketing Organization ("SOMO") and overstatement of cash receipts and cash balances for License fee of mobile telecommunication deposited in DFI. We have not yet finalized our audit on the Financial Statement. Our audit report is likely to include qualifications relating to these issues.

The financial information contained in this Presentation is qualified in its entirety by reference to the Financial Statement from which they are extracted and the notes thereto.

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

The Financial Statement 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.

- Notice to the reader
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- Ministries and locations visited, in progress and not visited yet
- Draft Financial Statements
- Quantities of crude oil produced
- Export Quantities
- Export Sales
- Average Price per Barrel
- Key Issues
- Outstanding data
- Next Steps
- Q & A

# Scope of work and deliverables

DRAFT FOR DISCUSSION PURPOSES ONLY



- Notice to the reader
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- Ministries and locations visited, in progress and not visited yet
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- Quantities of crude oil produced
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- Export Sales
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- Outstanding data
- Next Steps
- Q & A

# Ministries and locations visited, in progress and not visited yet

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Visits to Ministries							
Ministries	Visited	In progress	Not visited	Ministries	Visited	In progress	Not visited
Oil	✓			Interior	✓		
SOMO	✓			Education	✓		
Finance	✓			Planning	✓		
Central Bank of Iraq	✓			Human Right	✓		
Higher Education and Scientific Research	✓			Housing and Construction	✓		
Trade	✓			Communication	✓		
Water Resources	✓			Transportation	✓		
Sports and Youth	✓			Technology	✓		
Labor and Social affairs	✓			Ministry of Public Work		✓	
Agriculture	✓			Industry and Minerals		✓	
Migration and Displaced	✓			Defense			✓
Environement	✓			Foreign Affairs			✓
Culture	✓			Ministries in Sulaimanyah			✓
Electricity	✓			Ministries in Erbil			✓
Health	✓			U.S. Agencies International Zone			✓
Justice	✓						

We could not obtain access to the Ministries and locations not visited, accordingly we were unable to perform any procedures on these Ministries and locations.



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- Quantities of crude oil produced
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- Average Price per Barrel
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- Outstanding data
- Next Steps
- Q & A

# Draft Financial Statements

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## Draft Statement of Cash Receipts and Payments

in USD '000	2008	2007	Variance
<b>Cash receipts</b>			
Export sales of petroleum and petroleum products	58,789,576	35,882,755	22,906,821
Proceeds from frozen assets in foreign countries	833	5,150	(4,317)
United Nation Oil for Food Program	-	186,105	(186,105)
Interest received	577,007	560,756	16,251
Other receipts	1,971,886	883,543	1,088,343
Total cash receipts	61,339,302	37,518,309	23,820,993
<b>cash payments</b>			
Transfers to the Ministry of Finance	45,524,455	26,700,000	18,824,455
Letters of Credit to the benefit of Iraqi Ministries	14,846,387	7,559,070	7,287,317
Contracts administered by U.S. Agencies	314,750	115,522	199,228
Iraqi external debt repayments	229,216	142,301	86,915
Other disbursements	27,330	151,004	(123,674)
Total cash payments	60,942,138	34,667,897	26,274,241
<b>Excess of cash receipts over cash payments</b>	<b>397,164</b>	<b>2,850,412</b>	<b>(2,453,248)</b>
Cash and cash equivalents at 1 January	2,547,331	1,466,651	1,080,680
Proceeds from Treasury Bills on maturity during the year	27,622,431	12,746,116	14,876,315
<b>Total cash and cash equivalents</b>	<b>30,566,926</b>	<b>17,063,179</b>	<b>13,503,747</b>
Treasury bills purchased during the year	(30,436,640)	(14,515,848)	(15,920,792)
<b>Cash and cash equivalents as at 31 December</b>	<b>130,286</b>	<b>2,547,331</b>	<b>(2,417,045)</b>
Treasury Bills at 31 December	10,172,948	7,358,739	2,814,209
<b>Cash and cash equivalents and Treasury Bills at 31 December</b>	<b>10,303,234</b>	<b>9,906,070</b>	<b>397,164</b>

- Notice to the reader
- Scope of work and Deliverables
- Ministries and locations visited, in progress and not visited yet
- Draft Financial Statement
- Quantities of crude oil produced
- Export Quantities
- Export Sales
- Average Price per Barrel
- Key Issues
- Outstanding data
- Next Steps
- Q & A

# Quantities of crude oil produced

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## Crude Oil Produced in 2008

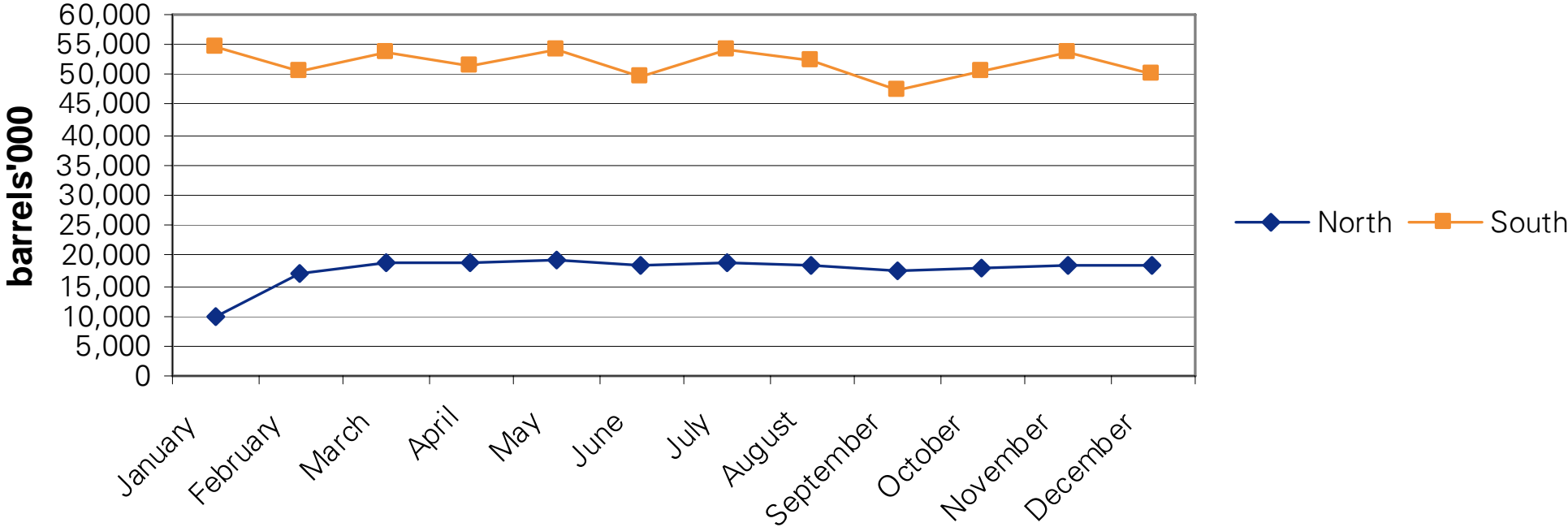
<b>barrel</b>	<b>North</b>	<b>South</b>
Jan	9,828,468	54,579,960
Feb	17,069,735	50,813,765
Mar	18,791,650	53,722,318
Apr	19,005,776	51,706,974
May	19,226,707	54,083,273
Jun	18,309,474	49,515,695
Jul	18,636,599	54,396,987
Aug	18,156,242	52,398,297
Sep	17,585,489	47,512,451
Oct	18,000,564	50,455,484
Nov	18,192,220	53,842,996
Dec	18,532,643	50,313,060
<b>Total</b>	<b>211,335,567</b>	<b>623,341,260</b>

Source: Ministry of Oil

# Quantities of crude oil produced (cont'd)

DRAFT FOR DISCUSSION PURPOSES ONLY

### Crude Oil Produced in 2008



Source: Ministry of Oil

- Notice to the reader
- Scope of work and Deliverables
- Ministries and locations visited, in progress and not visited yet
- Draft Financial StatementQuantities of crude oil produced
- Quantities of crude oil produced
- Export Quantities
- Export Sales
- Average Price per Barrel
- Key Issues
- Outstanding data
- Next Steps
- Q & A

# Export Quantities

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## Export Quantities from 1/1/2007 till 31/12/2007

in barrels

Month	Basra	Kirkuk	Total
January	36,793,559	3,027,587	39,821,146
February	43,886,714	-	43,886,714
March	48,022,037	-	48,022,037
April	47,824,583	-	47,824,583
May	48,533,656	-	48,533,656
June	45,134,446	-	45,134,446
July	49,844,096	2,989,825	52,833,921
August	49,363,061	-	49,363,061
September	45,188,766	4,765,478	49,954,244
October	47,387,407	8,430,953	55,818,360
November	44,038,053	14,878,571	58,916,624
December	50,589,277	5,757,377	56,346,654
<b>Total</b>	<b>556,605,655</b>	<b>39,849,791</b>	<b>596,455,446</b>

Source: State Oil Marketing Organization (SOMO)

## Export Quantities from 1/1/2008 till 31/12/2008

in barrels

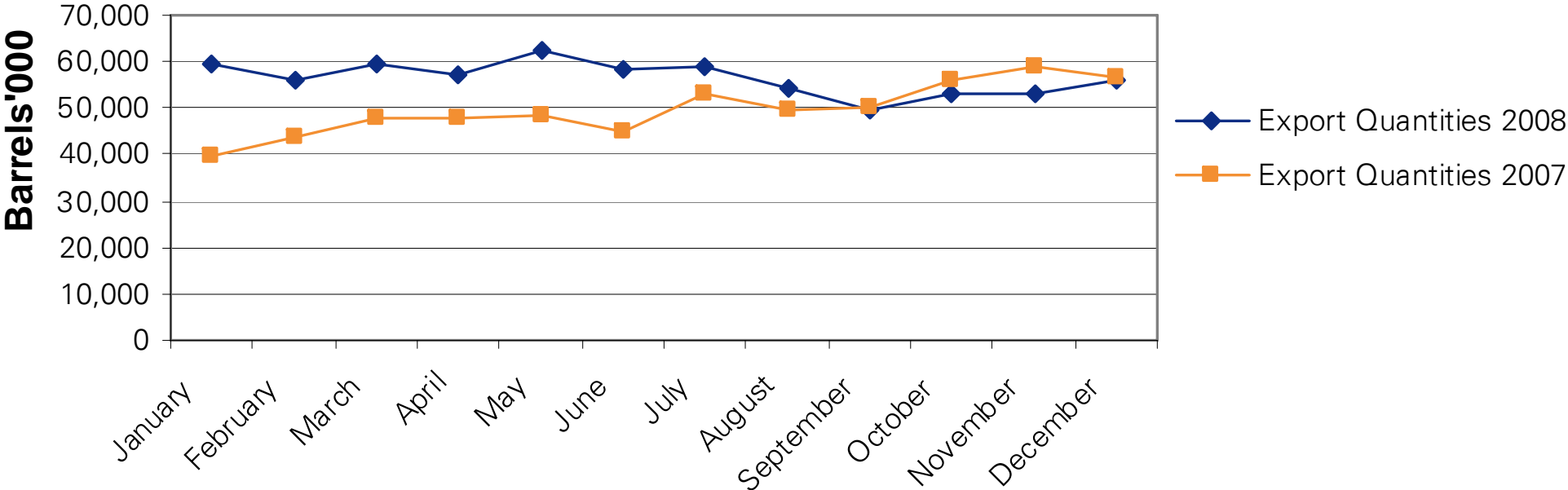
Month	Basra	Kirkuk	Total
January	48,632,859	11,046,364	59,679,223
February	44,682,059	11,413,845	56,095,904
March	49,538,919	9,926,439	59,465,358
April	43,789,948	13,253,537	57,043,485
May	48,563,129	13,757,284	62,320,413
June	43,614,178	14,469,035	58,083,213
July	46,851,252	11,903,794	58,755,046
August	44,916,218	9,515,114	54,431,332
September	39,677,211	9,666,594	49,343,805
October	42,941,293	9,853,356	52,794,649
November	43,544,301	9,311,653	52,855,954
December	43,429,857	12,834,623	56,264,480
<b>Total</b>	<b>540,181,224</b>	<b>136,951,638</b>	<b>677,132,862</b>

Source: State Oil Marketing Organization (SOMO)

# Export Quantities (cont'd)

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### Trend for export quantities



Source: State Oil Marketing Organization (SOMO)



- Notice to the reader
- Scope of work and Deliverables
- Ministries and locations visited, in progress and not visited yet
- Draft Financial Statement
- Quantities of crude oil produced
- Export Quantities
- Export Sales
- Average Price per Barrel
- Key Issues
- Outstanding data
- Next Steps
- Q & A

# Export Sales

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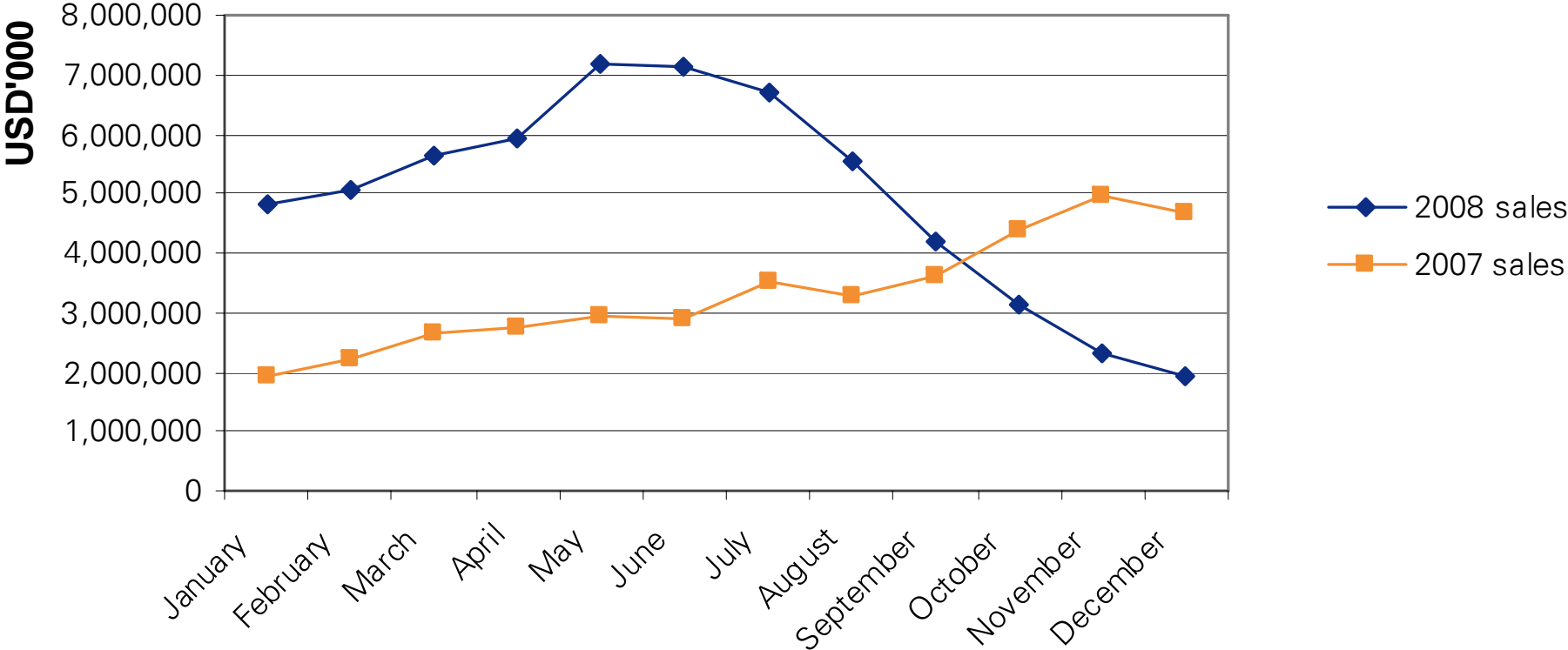
Export sales in USD		
Month	2008	2007
January	4,812,112,143	1,939,029,251
February	5,036,777,041	2,214,128,922
March	5,643,521,691	2,644,448,626
April	5,922,285,685	2,724,263,421
May	7,176,470,820	2,955,884,031
June	7,140,939,129	2,914,558,444
July	6,692,288,337	3,540,593,536
August	5,548,772,605	3,265,781,088
September	4,213,922,965	3,596,132,923
October	3,109,814,385	4,407,759,961
November	2,298,652,770	4,940,183,763
December	1,943,255,815	4,691,174,205
<b>Total</b>	<b>59,538,813,386</b>	<b>39,833,938,171</b>

Source: State Oil Marketing Organization (SOMO)

# Export Sales (cont'd)

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### Sales trend



Source: State Oil Marketing Organization (SOMO)

## Export Sales (cont'd)

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### Reconciliation between the export sales of petroleum and petroleum products and the cash received from the sale of petroleum and petroleum products deposited in the DFI

	2008	2007
Total export sales of petroleum during the period	59,538,813	39,833,938
Less: Demurrage claims deducted from export sales invoices	(24,470)	(8,332)
Proceeds deposited in OPRA after end of period	(1,780,392)	(4,123,319)
Add: Proceeds deposited during the current year related to prior period export sales invoices	4,123,319	2,068,606
Price differential	26,287	-
Interest on delayed bank transfers	207	428
Proceeds deposited in OPRA during the period	61,883,764	37,771,321
Less: Amounts transferred to the Compensation Fund (5%)	(3,094,188)	(1,888,566)
<b>Net proceeds deposited in the DFI during the period (95%)</b>	<b>58,789,576</b>	<b>35,882,755</b>

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- Draft Financial Statement
- Quantities of crude oil produced
- Export Quantities
- Export Sales
- Average Price per Barrel
- Key Issues
- Outstanding data
- Next Steps
- Q & A

# Average Price per Barrel

DRAFT FOR DISCUSSION PURPOSES ONLY

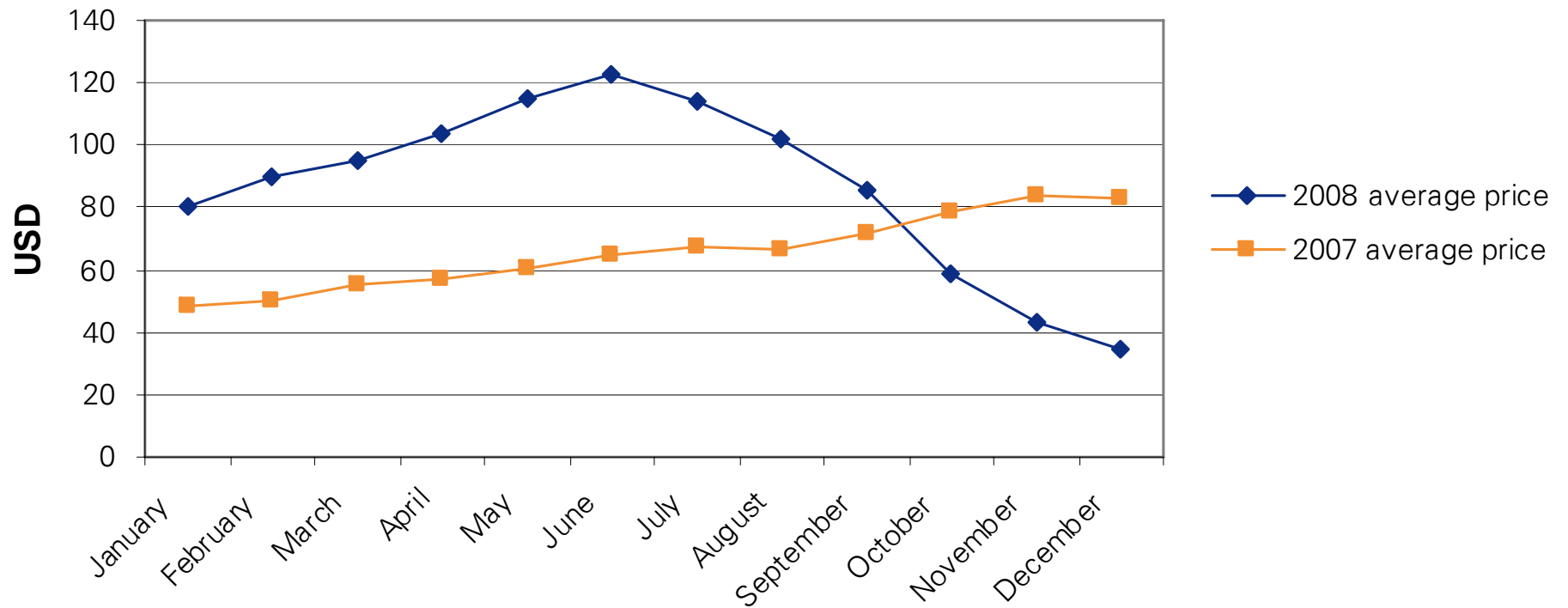
Prices / barrel in USD		
Month	2008	2007
January	80.63	48.69
February	89.79	50.45
March	94.90	55.07
April	103.82	56.96
May	115.15	60.90
June	122.94	64.58
July	113.90	67.01
August	101.94	66.16
September	85.40	71.99
October	58.90	78.97
November	43.49	83.85
December	34.54	83.26
<b>Average price</b>	<b>81.71</b>	<b>64.65</b>

Source: *State Oil Marketing Organization (SOMO)*

# Average Price per Barrel (cont'd)

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### Average price trend



- Notice to the reader
- Scope of work and Deliverables
- Ministries and locations visited, in progress and not visited yet
- Draft Financial Statement
- Quantities of crude oil produced
- Export Quantities
- Export Sales
- Average Price per Barrel
- Key Issues
- Outstanding data
- Next Steps
- Q & A



# 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 in accordance with standard oil industry practices, While the Iraqi Government supports oil metering, progress has been slow. Our inquiries revealed that the overall metering system installation percentage achieved was 33% as at 31 December 2008. Expected time to finalize installation is by end of 2011.</p>	<p>In the absence of a comprehensive metering system, completeness of petroleum produced 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>The former Coalition Provisional Authority did not maintain complete accounting records for contractual commitments entered into by the U.S. Agencies for the period from inception to 28 June 2004.</p>	<p>Completeness and accuracy of the outstanding contractual commitments balance as of 31 December 2008 cannot be assured.</p>
<p>Barter sales of petroleum and petroleum products were not recorded in the financial statement.</p>	<p>Receipts and payments are understated for an amount of U.S. Dollars 426,050 thousand from inception till 31 December 2008.</p> <p>The U.S. Dollars 426,050 thousand were not confirmed by the other party of the barter deals.</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 balances as at 31 December 2008 and cash receipts for the period from 1 January 2008 till 31 December 2008 are overstated by U.S. Dollars 1,312,005 thousands .</p>
<p>Cash received from export sales of petroleum products during the year ended 31 December 2008 amounting to U.S. Dollars 1,335,237 thousand has been deposited in bank accounts controlled by 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>Cash receipts for the year ended 31 December 2008 and the cash balance as of 31 December 2008 are understated by U.S. Dollars 1,268,475 thousand.</p>
<p>Letters of credit cash payments during the year ended 31 December 2008 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>

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- Q & A

# Outstanding data

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- Detailed schedule of contracts administered by U.S. Agencies during 2008
- Bank confirmations
- UN confirmation regarding the Oil for Food program
- Reconciliation between the Ministry of Oil and the Ministry of Oil Companies in regard of quantities of crude oil produced

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- Outstanding data
- Next Steps
- Q & A

# Next Steps

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- Visit the Ministries and locations not visited yet after obtaining necessary access badges
- Obtain the approval of Minister of Finance on the statement of Cash Receipts and Payments submitted to the MoF on 23 March 2009, and issue our audit opinion
- Obtain Ministries responses on draft Management Letter (M/L) points
- Discuss these responses with management and issue the final M/L points for MoF, CBI, MoO, SOMO and spending Ministries

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- Key Issues
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- Next Steps
- Q & A

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**Mustapha Dana, Manager**

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