

Development Fund for Iraq

Agreed-Upon Procedures Report

For the period from 22 May 2003 to 31 December 2003

(Oil Proceeds Receipts Account)

KPMG Bahrain

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This report contains 7 pages



Audit & Risk Advisory Services

PO Box 710
Manama
Kingdom of Bahrain

Chamber of Commerce Building
King Faisal Highway
Manama, Kingdom of Bahrain

Telephone +973 (-) 17224807
Fax +973 (-) 17227443
e-Mail: kpmgbh@kpmg.com.bh
CR No 6220

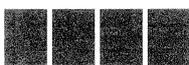
Independent Accountants' Report on Applying Agreed-Upon Procedures

To the International Advisory and Monitoring Board of the
Development Fund for Iraq
To the Coalition Provisional Authority

We have performed the procedures enumerated in the attached Appendix, which were agreed to by 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 inception (22 May 2003) to 31 December 2003. The Coalition Provisional Authority is 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 Auditing 920: Agreed-Upon Procedures Regarding Financial Information and with the International Organization of Supreme Audit Institutions (INTOSAI) Standards in 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.



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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 to 31 December 2003. We compared the amounts of export sales of petroleum, as recorded by the Iraqi State Oil Marketing Organization (SOMO), to the amounts deposited into the Oil Proceeds Receipts Account (OPRA).

1.2 Findings

1.2.1 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.

1.2.2 We found that, for the period to 31 December 2003, all export sales of petroleum products (residual fuel oil) were undertaken through barter transactions. Additionally, as there is no Iraqi infrastructure for exports of natural gas, there were no export sales of natural gas from Iraq.

1.2.3 Export sales of petroleum (crude oil) recorded by SOMO in its accounting records for the period to 31 December 2003 amounted to \$5,076,633,501.

1.2.4 Proceeds from export sales of petroleum are paid directly into the OPRA account, through irrevocable documentary letters of credit, with proceeds received approximately 30 days after the petroleum has been lifted.

We found that proceeds from export sales of petroleum for the period to 31 December 2003 were deposited in the OPRA account as follows:

Year	OPRA
2003	\$ 3,922,391,000
2004	<u>1,154,242,501</u>
	<u>\$ 5,076,633,501</u>

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- 1.2.5 SOMO also engages in barter transactions for exports of petroleum and petroleum products. Barter transactions consist 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 to 31 December 2003 was \$120,906,678. As these were non-cash transactions, no proceeds were deposited in the OPRA or in the Compensation Fund, established in accordance with the UNSCR 687 and subsequent relevant resolutions.

- 1.2.6 The CPA believes that an unknown quantity of petroleum and petroleum products was illegally exported from Iraq (smuggling), especially in the early months post-hostilities, bypassing the authorized processes of marketing, sales and cash collection. Despite the internal controls put in place by the CPA and SOMO, the CPA also believes that internal control systems over the Iraqi oil industry were insufficient to ensure that all petroleum and petroleum products were accounted for. The CPA is unable to reliably estimate the amounts of petroleum and petroleum products that were illegally exported for the period to 31 December 2003.

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

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2 Oil Proceeds Receipts Account

2.1 Procedure

We recalculated the amounts transferred from the OPRA account during the period to 31 December 2003, pursuant to the allocation requirements laid down by 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

2.2.1 The resulting proceeds from export sales of petroleum and petroleum products for the period to 31 December 2003 were deposited in 2003 and early 2004, as follows:

Year	OPRA	DFI	Compensation Fund
2003	\$ 3,922,391,000	\$ 3,726,271,450	\$ 196,119,550
2004	<u>1,154,242,501</u>	<u>1,096,530,376</u>	<u>57,712,125</u>
	<u>\$ 5,076,633,501</u>	<u>\$ 4,822,801,826</u>	<u>\$ 253,831,675</u>

2.2.2 We found that the allocation was pursuant to the requirements laid down by the UNSCR 1483 paragraphs 20 and 21.

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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 to 31 December 2003.

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.

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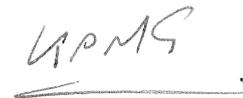
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We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the Development Fund for Iraq's compliance with the UNSCR 1483. Accordingly, we do not express such an opinion. Had we performed 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 inception (22 May 2003) to 31 December 2003, with our audit report issued thereon on 29 June 2004. We expressed a qualified audit opinion on the completeness of export sales of petroleum and petroleum products, as also noted in our findings in section 1.2.6 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 Coalition Provisional Authority, 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
29 June 2004



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Appendix

In accordance with the engagement letter issued on 27 April 2004, the procedures to be applied to the Development Fund for Iraq's Oil Proceeds Receipts Account (OPRA) held on behalf of the Central Bank of Iraq at the Federal Reserve Bank of New York (FRBNY) are as follows:

1. Obtain from the FRBNY statements of transactions for the period from inception (22 May 2003) to 31 December 2003; 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 into the Oil Proceeds Receipts Account (OPRA).
2. Recalculate the amounts to be transferred from the OPRA account, pursuant to the allocation requirements laid down by UNSCR 1483 paragraphs 20 and 21, and agree these payments to the cash deposited into 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 to the Compensation Fund during the period to 31 December 2003.