

Development Fund for Iraq

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

For the period from 1 January 2005 to 30 June 2005

KPMG Iraq
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This report contains 9 pages



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To the Government of Iraq
To the International Advisory and Monitoring Board of
the Development Fund for Iraq

We have performed the procedures enumerated in the attached Appendix A, which were agreed with the Government of Iraq and the International Advisory and Monitoring Board of the Development Fund for Iraq, 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 2005 to 30 June 2005. The Government of Iraq 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*.

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 Appendix A, 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 SOMO sales ledger and to FRBNY

1.1 Procedure

We obtained from the State Oil Marketing Organization (SOMO) a list of export sales of petroleum (crude oil), petroleum products (mainly fuel oil) and natural gas for the period from 1 January 2005 to 30 June 2005, and compared this total to the SOMO sales ledger.

Findings

- 1.1.1 As there is no infrastructure in Iraq for the export of natural gas, there were no export sales of natural gas from Iraq.
- 1.1.2 We found that SOMO's sales ledger reconciled to SOMO's list of export sales of petroleum and petroleum products for the period from 1 January 2005 to 30 June 2005.
- 1.1.3 We obtained a list of nominated vessels from a US Navy Commander detailing all vessels monitored by the Coalition Naval Forces in the Arabian Gulf. We agreed each vessel to the SOMO list of export sales of petroleum.
- 1.1.4 We found that during the period from 1 January 2005 to 30 June 2005, SOMO held contracts with 28 customers for export sales of petroleum.
- 1.1.5 We found that export sales of petroleum and petroleum products were made through letters of credit (LCs), cash and barter transactions, as recorded in SOMO's accounting records for the period from 1 January 2005 to 30 June 2005, were as follows:

	Petroleum	Petroleum Products	Total
LCs	\$ 10,382,510,546	\$ -	\$ 10,382,510,546
Cash	-	79,716,221	79,716,221
Barter	<u>63,152,138</u>	<u>36,743,995</u>	<u>99,896,133</u>
	<u>\$ 10,445,662,684</u>	<u>\$ 116,460,216</u>	<u>\$ 10,562,122,900</u>

The amount of export sales of petroleum made through LCs includes interest receipts of \$45,474 for delayed bank transfers, and is net of paid demurrage claims of \$12,952,430 incurred during the period from 1 January 2005 to 30 June 2005.

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1.2 Procedure

We compared the list of export sales to amounts deposited into the OPRA account, held on behalf of the CBI at the FRBNY.

Findings

LCs

- 1.2.1 We found proceeds from export sales of petroleum for the period from 1 January 2005 to 30 June 2005, were deposited into the OPRA account approximately 30 days after lifting, in accordance with the terms of the LCs, as follows:

Deposited in OPRA for the period:

1 January 2005 to 30 June 2005	\$ 8,368,115,959
Subsequent to 30 June 2005	<u>2,014,394,587</u>
	<u>\$ 10,382,510,546</u>

Cash

- 1.2.2 We found that net cash advances received for, and proceeds of, export sales of petroleum and petroleum products during the period from 1 January 2005 to 30 June 2005 amounted to \$79,716,221 (from inception (22 May 2003) to 30 June 2005: \$177,478,240), were not deposited into the OPRA account, nor the DFI or the Compensation Fund, in accordance with UNSCR 1483. These funds were deposited in SOMO bank accounts at two Iraqi banks and a Jordanian branch of an Iraqi bank.

During the period from 1 January 2005 to 30 June 2005, SOMO transferred \$58,354,519 (from inception to 30 June 2005: \$82,532,997) to the Ministry of Oil. The balance of the three SOMO bank accounts as at 30 June 2005 is \$94,945,243.

Barter transactions

- 1.2.3 We found that SOMO engages in barter transactions for exports of petroleum and petroleum products. These barter transactions consist mainly of exports of fuel oil in exchange for light petroleum products, and the export of crude oil in exchange for electricity and light petroleum products from the Government of Syria.

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1.2.4 The value and volume of these barter transactions for the period from 1 January 2005 to 30 June 2005, as recorded by SOMO, were as follows:

	Petroleum	Petroleum	Total
	Petroleum	Products	
January	\$ 9,200,180	\$ 4,006,971	\$ 13,207,151
February	9,613,430	914,845	10,528,275
March	14,071,683	9,396,927	23,468,610
April	13,097,141	7,885,030	20,982,171
May	5,948,461	10,806,981	16,755,442
June	<u>11,221,243</u>	<u>3,733,241</u>	<u>14,954,484</u>
	<u>\$ 63,152,138</u>	<u>\$ 36,743,995</u>	<u>\$ 99,896,133</u>
Volume	<u>Barrels: 1,870,406</u>	<u>Tons: 235,441</u>	

Total value of barter transactions for the period from inception to 30 June 2005 was \$561,104,764.

As these were non-cash transactions, no proceeds were deposited in the OPRA account, nor the DFI or the Compensation Fund.

1.2.5 Since September 2003, SOMO engaged in barter transactions for electricity and light petroleum products with the Government of Syria. The import of electricity ceased on 1 September 2004 and resumed in June 2005. The balance due to the Government of Syria, as calculated by SOMO, was \$4,893,949 at 30 June 2005. The balance has not yet been confirmed by the Government of Syria at the date of this report.

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Exports of fuel oil from Iraq

1.2.6 We noted that export sales of fuel oil, as recorded by SOMO, decreased by 420,734 tons, from 1,091,702 tons for the period from 29 June 2004 to 31 December 2004 to 670,968 tons for the period from 1 January 2005 to 30 June 2005, or decreased by 972,369 tons when compared to the period from 1 January 2004 to 28 June 2004.

Period	Cash	Barter	Total
22 May 2003 - 31 December 2003	\$ -	\$ 94,602,158	\$ 94,602,158
1 January 2004 - 28 June 2004	9,943,362	137,693,562	147,636,924
29 June 2004 - 31 December 2004	48,400,537	74,158,210	122,558,747
1 January 2005 - 30 June 2005	<u>88,739,895</u>	<u>36,743,995</u>	<u>125,483,890</u>
	<u>\$ 147,083,794</u>	<u>\$ 343,197,925</u>	<u>\$ 490,281,719</u>
	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>
22 May 2003 - 31 December 2003	-	1,086,280	1,086,280
1 January 2004 - 28 June 2004	94,139	1,549,198	1,643,337
29 June 2004 - 31 December 2004	332,458	759,244	1,091,702
1 January 2005 - 30 June 2005	<u>435,527</u>	<u>235,441</u>	<u>670,968</u>
	<u>862,124</u>	<u>3,630,163</u>	<u>4,492,287</u>

The estimated sales value of the decrease in export sales is approximately \$79,000,000 when compared with the period from 29 June 2004 to 31 December 2004, or \$182,000,000 when compared with the period from 1 January 2004 to 28 June 2004. The estimated sales value of the decrease was calculated using an average price per ton for fuel oil export sales for the current period.

We requested but were not provided with access to complete accounting and shipping records for fuel oil at the Ministry of Oil.

Internal control systems

1.2.7 In the absence of a fully operational metering system and continued sabotage of the pipelines, it is not possible to determine the volume of all exports of petroleum and petroleum products, for which proceeds are to be deposited in the OPRA account.

Due to weaknesses in the internal control systems, we could not extend our procedures sufficiently to quantify such amounts.

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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 2005 to 30 June 2005, 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.

Findings

2.1.1 The proceeds of export sales of petroleum during the period from 1 January 2005 to 30 June 2005, 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.

2.1.2 The proceeds resulting from export sales of petroleum and petroleum products, deposited in the OPRA account and immediately transferred to the DFI and the Compensation Fund during the period from 1 January 2005 to 30 June 2005, were as follows:

Period of export	OPRA	DFI	Compensation Fund
1 January 2005 to 30 June 2005	8,368,115,959	7,949,710,162	418,405,797
29 June 2004 to 31 December 2004	<u>1,326,526,791</u>	<u>1,260,200,451</u>	<u>66,326,340</u>
	<u>\$9,694,642,750</u>	<u>\$ 9,209,910,613</u>	<u>\$ 484,732,137</u>

\$1,326,526,791 represents proceeds of exports sales of petroleum and petroleum products during the period from 29 June 2004 to 31 December 2004, which were deposited in the OPRA account during the period from 1 January 2005 to 30 June 2005.

2.1.3 We found that the allocation was pursuant to 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 from 1 January 2005 to 30 June 2005.

Findings

3.1.1 We agreed the amount transferred from the OPRA account into the Compensation Fund to the amount confirmed by the United Nations for the period from 1 January 2005 to 30 June 2005.

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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 2005 to 30 June 2005. 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 2005 to 30 June 2005, with our audit report issued thereon on 29 September 2005. We expressed a qualified audit opinion on the completeness of cash receipts, as also noted in our findings in section 1.2.2. 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 sections 1.2.6 and 1.2.7. Furthermore, we expressed a qualified audit opinion on the completeness and accuracy of contractual commitments.

This report is intended solely for the information and use of the Government of Iraq and the International Advisory and Monitoring Board of the Development Fund for Iraq, 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.

Baghdad, Iraq
29 September 2005

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Agreed-Upon Procedures
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Appendix A

In accordance with the engagement letter issued on 16 July 2005, 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 SOMO:
 - 1.1 A list of export sales for the period from 1 January 2005 to 30 June 2005, and agree the list of export sales to SOMO's sales ledger; and
 - 1.2 Agree the list of export sales to the amounts deposited in FRBNY.
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 2005 to 30 June 2005.