

Development Fund for Iraq

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The results of the interim review presentation
to the IAMB and the COFE

14 -15 October 2010
Amman , Jordan

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This presentation includes financial information extracted from the draft financial statements for the six months period ended 30 June 2010 of the DFI. The draft financial statements are the responsibility of the Government of Iraq. The draft financial statements have not yet been approved by the Minister of Finance.

Agenda

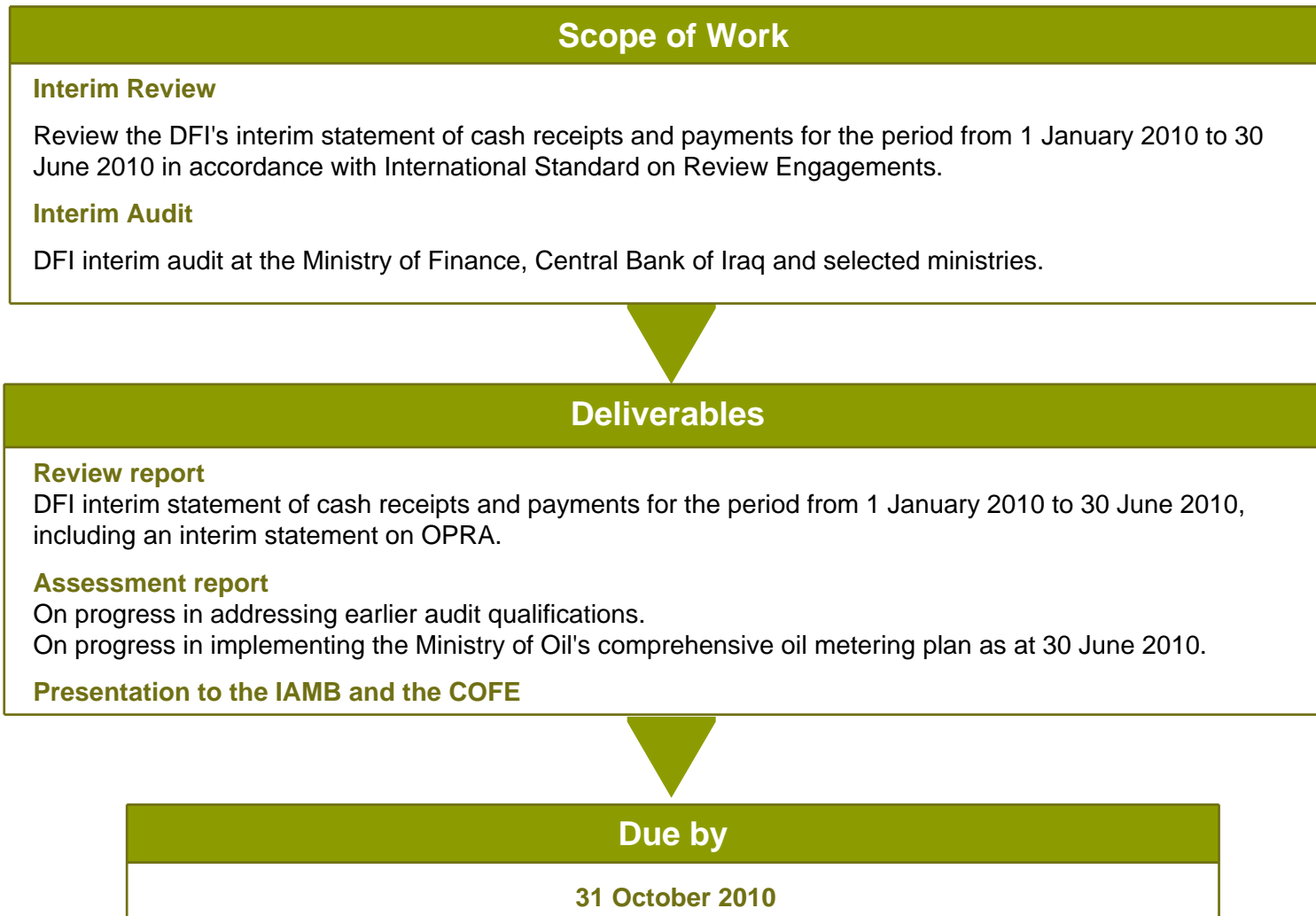
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1. Interim Scope of Work and Deliverables



1. Interim Scope of Work and Deliverables



2. Draft Interim Financial Information



2. Draft Interim Financial Information

Draft Interim Statement of Cash Receipts and Disbursements			
For the six month period ended 30 June 2010	2010 USD '000	2009 USD '000	From inception to 30 June 2010 USD '000
Cash Receipts			
Export sales of petroleum and petroleum products	24,347,158	13,567,081	226,478,446
Proceeds from frozen assets in foreign countries	64	-	1,600,549
United Nation Oil for Food Program	-	121	10,417,407
Interest received	10,501	103,659	2,043,605
Other receipts	67,034	325,142	4,555,509
Total cash receipts	24,424,757	13,996,003	245,095,516
Cash Disbursements			
Transfers to the Ministry of Finance	17,000,000	8,500,000	159,603,435
Letters of Credit to the benefit of Iraqi Ministries	7,570,999	6,396,927	64,027,945
Contracts administered by U.S. agencies	2,025	-	7,859,315
Iraqi external debt repayments	-	100,000	1,614,526
Other disbursements	3,541	85,307	2,156,467
Total cash Disbursements	24,576,565	15,028,234	235,261,688
(Deficit) Excess of receipts over disbursements	(151,808)	(1,086,231)	9,833,828
Purchased treasury bills	(10,289,815)	(8,184,488)	(81,799,245)
Proceeds from treasury bills on maturity	7,771,195	10,172,948	72,786,062
Cash and cash equivalents at 1 January	3,491,073	130,286	-
Total cash and cash equivalents at 30 June	820,645	1,032,515	820,645
Treasury bills at 30 June	9,013,183	8,184,488	9,013,183
Cash, cash equivalents and treasury bills at 30 June	9,833,828	9,217,003	9,833,828

2. Draft Interim Financial Information

Draft Interim Statement of Oil Proceeds Receipt Account (OPRA)			
For the six months period ended 30 June 2010	2010 USD '000	2009 USD '000	Variance
Total export sales of petroleum	25,441,617	16,256,468	9,185,149
Less:			
Demurrage claims deducted from export sales invoices	(23,472)	(2,783)	(20,689)
Proceeds deposited in OPRA after end of period	(3,947,796)	(3,766,340)	(181,456)
Add:			
Proceeds deposited related to prior period export sales invoices	4,156,197	1,780,392	2,375,805
Price differential	2,039	13,396	(11,357)
Interest on delayed bank transfers	1	5	(4)
Proceeds deposited in OPRA	25,628,586	14,281,138	11,347,448
Amounts transferred to the Compensation Fund (5%)	(1,281,428)	(714,057)	(567,371)
Net proceeds deposited in DFI (95%)	24,347,158	13,567,081	10,780,077

3. Key Observations and Issues



3. Key Observations and Issues

Financial Statements Key Issues

- In accordance with the provisions of UNSCR 1483, all frozen funds, other financial assets and economic resources in foreign countries and similar shall be transferred to the DFI. DFI does not maintain a complete records of all frozen assets which it is entitled to receive. Accordingly, completeness of those assets is not assured.
- 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. Exported oil is invoiced based on loaded quantities and proceeds are fully deposited in the OPRA account in accordance with the provisions of UNSCR resolutions. While loaded quantities can be verified, quantities extracted and pumped to export terminals and for internal use can not be verified due to the absence of an overall comprehensive system of controls over petroleum in Iraq.

3. Key Observations and Issues

Financial Statements Key Issues

- On 21 December 2009 the United Nation Security Council (UNSC) adopted resolution 1905 to extend the arrangements established in Paragraph 20 of UNSCR 1483 (2003) until 31 December 2010. No further extension has been agreed on to these arrangements as of the date of this presentation.

3. Key Observations and Issues

Other Key Issues and Outstanding Data

- We were not provided with the DFI's final audit reports for the year ended 31 December 2009. Accordingly, we were not able to finalize our work on our review report on 30 June 2010 financial statements.
- The CBI has requested FRBNY confirmation on the DFI balances as of 30 June 2010. To the date of this presentation, we did not receive the FRBNY confirmation mentioning that the CBI has sent many reminders to the FRBNY. The financial statements were prepared using the FRBNY statements of account previously received by the CBI.
- Upon finalization of the review, representation letter should be provided.

3. Key Observations and Issues

Oil Metering – Comprehensive Oil Metering Plan					
MoO Entity	Meters Installed as of 30 June 2010	Target overall number of meters to be installed	Percentage of Completion as of 30 June 2010 %	Target overall number of meters to be installed as of 30 June 2010	Percentage of Deviation %
North Oil Company	86	188	46	-	-
South Oil Company	38	137	28	14	171
Missan Oil Company	19	65	29	12	58
North Refineries Company	192	239	80	217	-12
Middle Refineries Company	87	592	15	96	-9
South Refineries Company	15	137	11	23	-35
North Gas Company	29	69	42	28	4
South Gas Company	3	20	15	6	-50
Pipelines Company	360	410	88	388	-7
Oil Products Distribution Company	695	2,992	23	1,236	-44
Gas Filling Company	19	49	39	32	-41
Total	1,543	4,898	32	2,052	-25

3. Key Observations and Issues

Oil Metering – Comprehensive Oil Metering Calibration Report					
MoO Entity	Total Actual Meters Installed as of 30 June 2010	Total Calibrated Metering Devices	Percentage of Total Calibrated Metering Devices %	Total Un-Calibrated Metering Devices	Percentage of Total Un-Calibrated Metering Devices %
North Oil Company	86	76	88	10	12
South Oil Company	38	26	68	12	32
Missan Oil Company	19	-	-	19	100
North Refineries Company	192	152	79	40	21
Middle Refineries Company	87	33	38	54	62
South Refineries Company	15	7	47	8	53
North Gas Company	29	17	59	12	41
South Gas Company	3	-	-	3	100
Pipelines Company	360	269	75	91	25
Oil Products Distribution Company	695	362	52	333	48
Gas Filling Company	19	16	84	3	16
Total	1,543	958	62	585	38

3. Key Observations and Issues



Oil Metering Key Issues

North Oil Company

We have observed 40 tanks out of the 76 calibrated and noted the following

- All of the observed tanks are in the process of being calibrated by an external party.
- No calibration inspection was performed, as calibration certificates are not yet available.
- Un-calibrated tanks are being used for fiscal / custody transfer.

North Refineries Company

We have observed 102 out of the 152 calibrated P.D. Meters and noted the following

- Observed meters are calibrated internally.
- Some of the observed meters had leakage.
- No periodic maintenance is performed over the meters.
- The head of the meter is inter-changed or removed in order to facilitate the maintenance, calibration or work flow requirements.

3. Key Observations and Issues



Oil Metering Key Issues

North Gas Company

We have observed 13 meters out of the 17 calibrated and noted the following

- Meter inspection is only performed at the manufacturer site.
- Observed meters are calibrated internally.



South Refineries Company

We noted the following

- Four out of the 7 P.D. Meters were broken during 2010, repairs are still in process.
- The refinery is using the ullage method of measuring the sold oil products.
- Meters are calibrated internally.

3. Key Observations and Issues



Oil Metering Key Issues

South Oil Company

Al Zubair (1) Warehouse:

- We observed one metering system that constitutes three turbine meters and noted that it has been calibrated internally.

Al Basrah Oil Terminal:

- We observed 24 turbine meters and obtained the third party calibration certificates and inspection report.
- All the turbine meters are linked to a Computer Metering System (CMS).

Khor Al Umayyah Oil Terminal:

- We have observed its 12 un-calibrated oil turbine meters.
- The terminal is still in using the ullage method of measuring the sold crude oil.

3. Key Observations and Issues

Oil Metering Key Issues

- Master Oil Metering Plan issued by the MoO, the plan represents the number of meters required by each entity to be installed in their premises but does not include details in relation to the type, location, use of meters (custody or fiscal transfer), and whether meters are in use or operational, this plan was not verified by an independent qualified third party as to its completeness, effectiveness, and efficiency upon full implementation.
- The number of meters installed and calibrated is 25% behind the total number of meters that were planned to be installed and calibrated by 30 June 2010.
- As per the MoO Technical Department / Metering Division, the reasons behind the Plan execution delay can be summarized as follows:
 - Delays in opening Letters of Credit.
 - Meters suppliers' tardiness in providing the meters.
 - The delays in signing the meters supply contracts within the MoO entities.
 - The delays in the meters installation process.

3. Key Observations and Issues

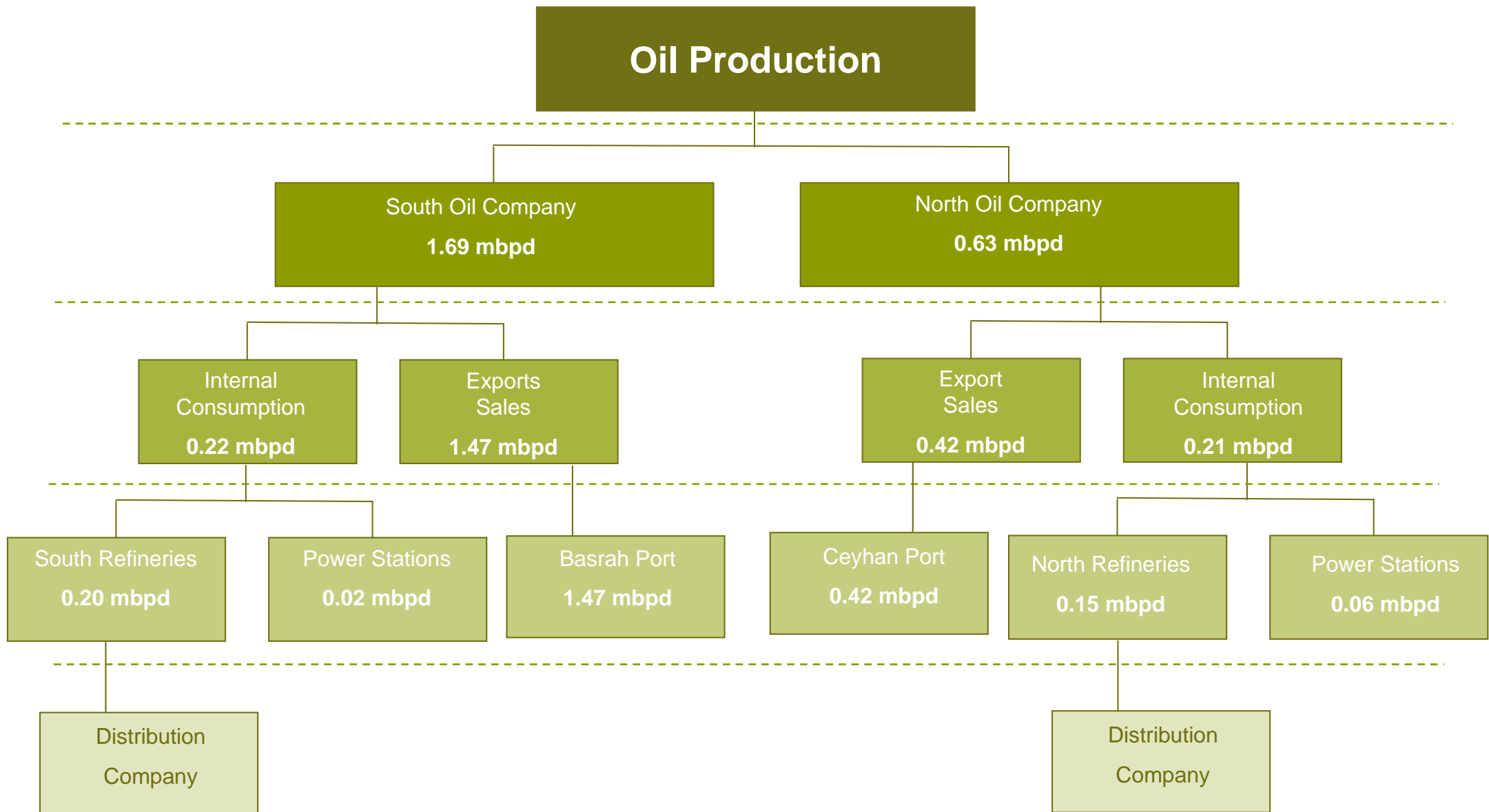
Oil Metering Key Issues

- SOMO shipment files contain manually prepared meter readings while Basrah terminal meters readings can be generated by the CMS.
- South Oil Company reports to MoO the pumped quantities on terminals based on the issued Bills of Lading and not based on the actual quantities pumped.
- In order to reconcile quantities transferred to the sender and receiver records one meter reading is being used instead of reporting the two meters readings and then reconcile. Accordingly, no audit trail is being generated for the reconciliation process.

4. Oil Analysis



4. Oil Analysis



Source : Ministry of Oil – Reconciliation Department

4. Oil Analysis

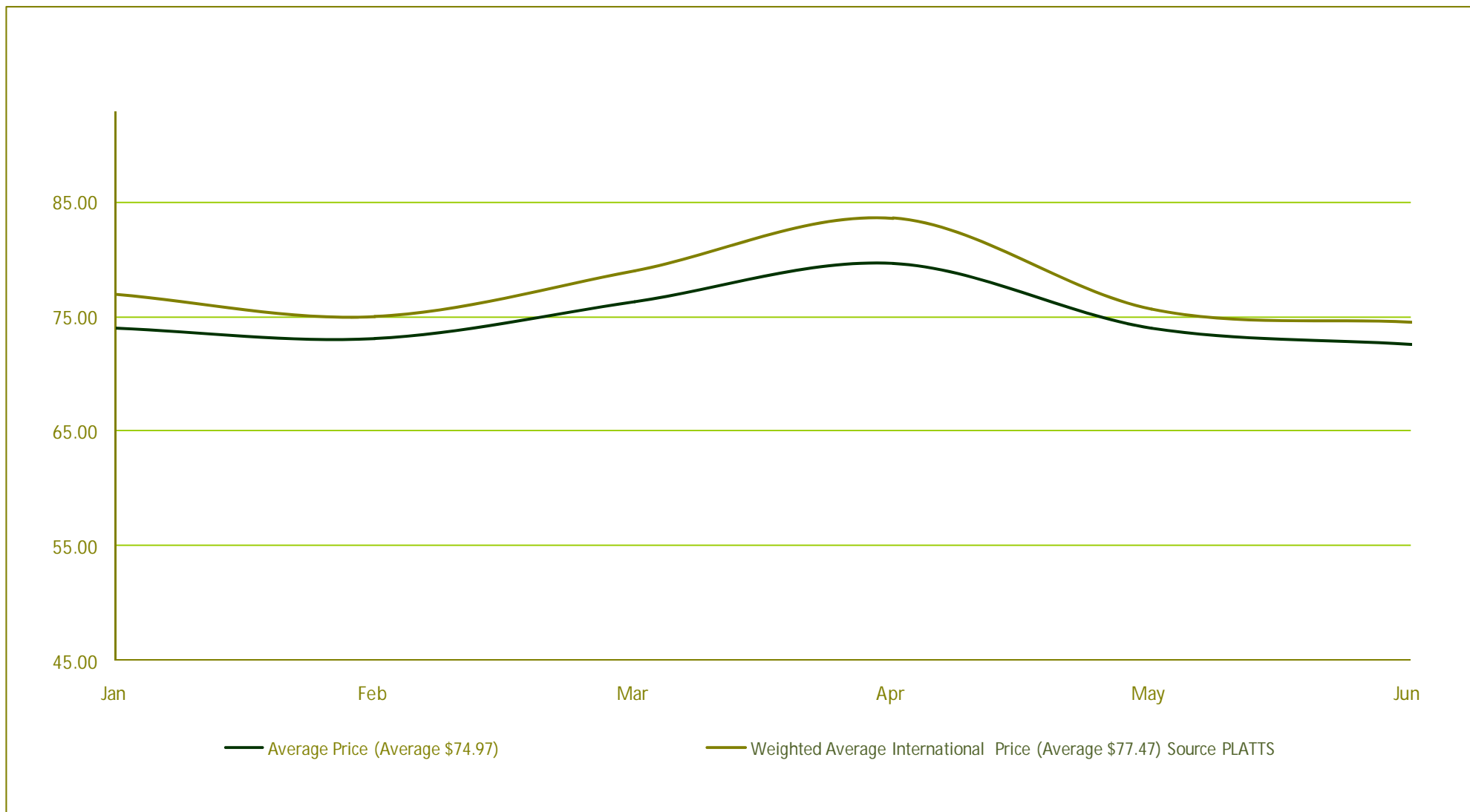
Oil Production, Export Sales and Average Price

2010			
Month	Oil Production	Export Sales	Average Price
	Barrels '000	Barrels '000	USD
January	74,136	59,707	74.04
February	68,560	57,891	73.13
March	70,538	57,069	76.33
April	68,904	53,013	79.70
May	71,161	58,682	74.05
June	69,566	54,756	72.60
Total	422,865	341,119	74.97

2009			
Month	Oil Production	Export Sales	Average Price
	Barrels '000	Barrels '000	USD
January	67,625	58,621	36.68
February	61,231	48,505	37.77
March	72,175	56,254	44.25
April	68,785	54,625	49.29
May	71,648	59,625	57.17
June	72,219	57,748	64.32
Total	413,683	335,378	48.25

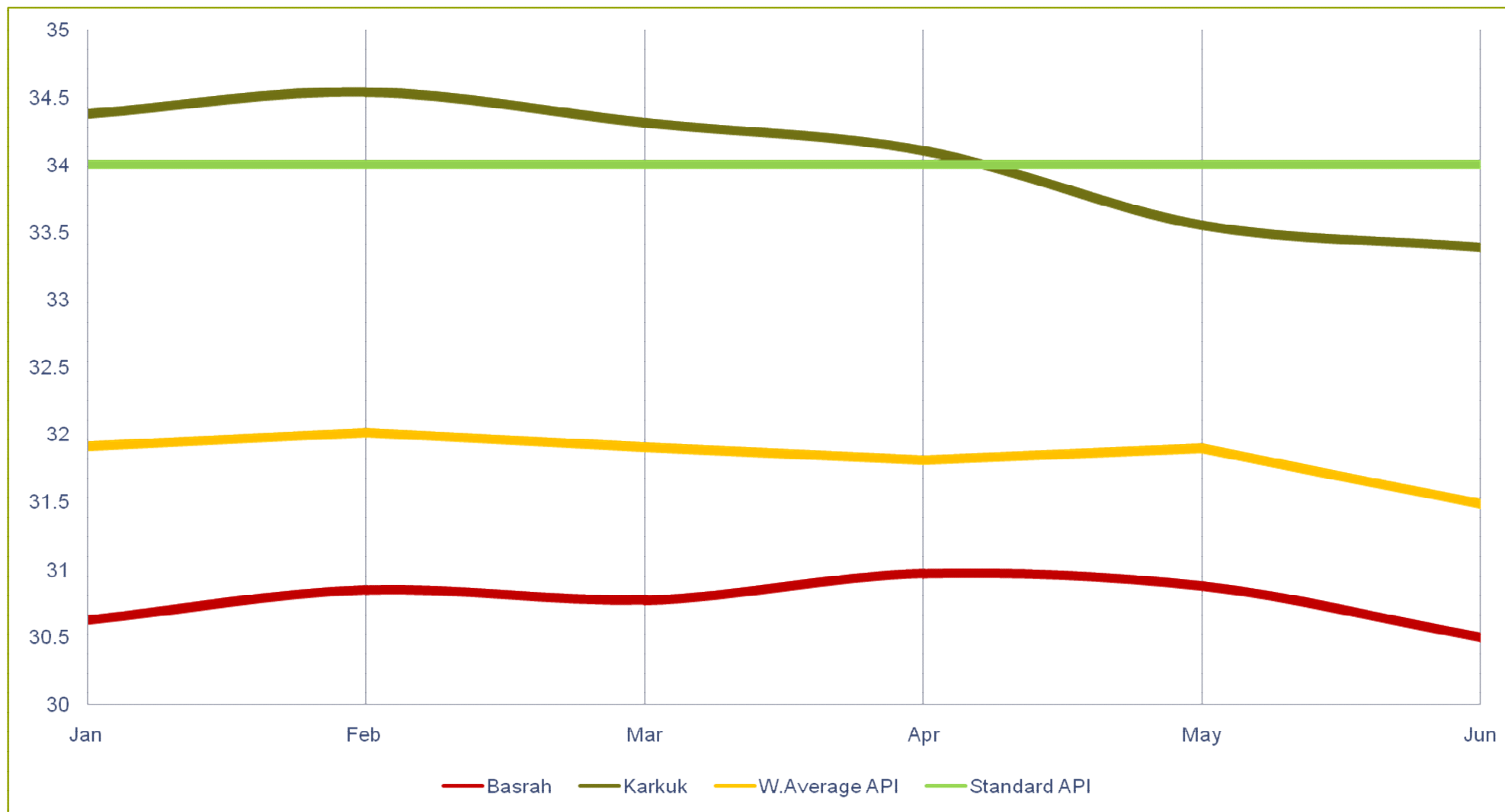
4. Oil Analysis

Export Sales Price



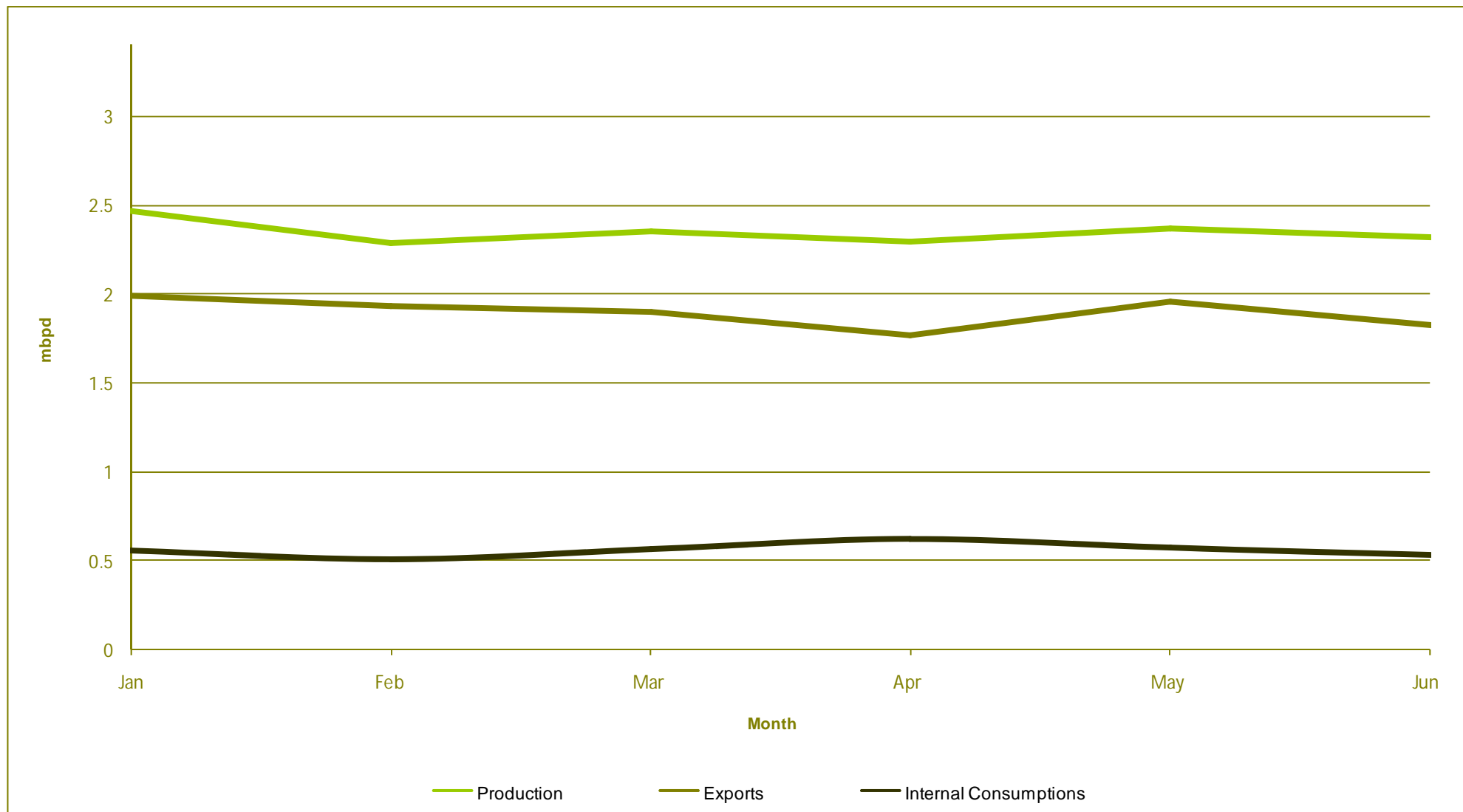
4. Oil Analysis

Iraq Oil's API



4. Oil Analysis

Crude Oil production, Export Sales and Internal Consumption



4. Oil Analysis

Quantities for the period from 1 January 2010 to 30 June 2010

Category	Ministry of Oil Data	North and South Oil Companies' Data	Export and Internal Consumption (SOMO, Power Station & Refineries Reports)	Petroleum Products By Refineries
	Barrel ' 000	Barrel ' 000	Barrel ' 000	Barrel ' 000
Crude Oil Beginning	51,834	51,834	-	-
Crude Oil Produced	422,865	422,865	-	-
Refineries' Waste Blended with Exported Oil	18,222	18,154		
Crude Oil Exports	341,119	341,119	341,119	-
Available for Internal Consumption	151,802	151,735	-	-
Quantities Received / Produced by Refineries	89,534	89,534	89,540	80,958
Quantities Received by Power Stations	10,968	10,977	10,931	-
Internal Consumption	100,502	100,511	-	-
Net Crude Oil After Export & Internal Consumption	51,300	51,224	-	-

4. Oil Analysis

Oil products quantities for the period from 1 January 2010 to 30 June 2010

Category Description / Source of Data	Refineries'	Pipelines'	Distribution Company	Power Station	Difference
	Barrel ' 000	Barrel ' 000	Barrel ' 000	Barrel ' 000	Barrel ' 000
Refined Products Received by Pipelines Company/ Sent By Refineries	(23,985)	23,977	-	-	(8)
Refined Products Received by Distribution Company / Sent By Refineries	(39,012)	-	38,996	-	(16)
Refined Products Received by Power Generating Companies / Sent By Pipelines Company	-	(7,181)	-	7,193	12
Refined Products Sent by Pipeline Company/ Received By Distribution Company	-	(27,194)	27,194	-	-

4. Oil Analysis






Oil production and consumption

Significant findings & limitations to reconciliation of oil

- Due to the fact that the comprehensive metering plan is not yet fully implemented, the petroleum and petroleum products quantities can not be reliably measured.
- In the entities where meters are installed, one meter reading is being used In order to reconcile quantities transferred to both the sender and receiver records instead of reporting the two meters readings and then reconciling. Accordingly, no audit trail is being generated for the reconciliation process.
- As a result of the previous note, no major differences have been identified in relation to petroleum and petroleum products movements.
- Reports provided by different entities are not standardised. Accordingly some information needed for the reconciliation is not available or partially available.





5. Project Overall Progress

5. Project Overall Progress

Milestone		Planned Completion Date	Status	Comments
Audit of the DFI's statement of cash receipts and payments for the year ending 31 December 2010				
Deliverables	Audit reports and management letters for all areas	30 April 2011		
Review the DFI interim financial statement for the six months period ending 30 June 2010				
Deliverables	Review report on DFI interim statement of cash receipts and payments	31 October 2010		We have substantially completed our review procedures on the financial statements pending matters described in the previous slides.
Deliverables	Assessment report on progress in addressing earlier audit qualifications	31 October 2010		These are included in previous slides, however previous year 's auditors' report was not issued to date.
Deliverables	Assessment report on progress in implementing the Ministry of Oil's comprehensive oil metering plan as at 30 June 2010.	31 October 2010		A draft report was issued pending discussion and approval.
Deliverables	Presentation to the IAMB and the COFE, which will include the results of the interim review.	31 October 2010		

 In progress
  Planned
  Slight deviation from plan, no effect on overall project
  Completed

5. Project Overall Progress

Milestone		Planned Completion Date	Status	Comments
Audit of Oil Export Sales				
Deliverables	Audit report on the statement of Oil Export Sales	30 April 2011		
Reconciliation of quantities of oil and oil products produced/purchased with the quantities utilized through export sales, internal consumption, re-injection or any other usages				
Deliverables	An agreed upon procedures report on Oil Production and Consumption from a high level prospective	30 April 2011		
Audit of the Oil Proceeds Receipts Account (OPRA)				
Deliverables	Audit report on the statement of Oil Export Sales	30 April 2011		
Follow up on Matters Arising from Previous Year's Audit Reports				
Deliverables	Report on actions or otherwise on matters which arose in the earlier audit reports	30 April 2011		

 In progress
  Planned
  Slight deviation from plan, no effect on overall project
  Completed

Q&A

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