

DRAFT--FOR
PURPOSE



Development Fund for Iraq

Interim Results As of June 30, 2007

COFE Meeting- October 31, 2007

IAMB Meeting - November 1, 2007

 **ERNST & YOUNG**

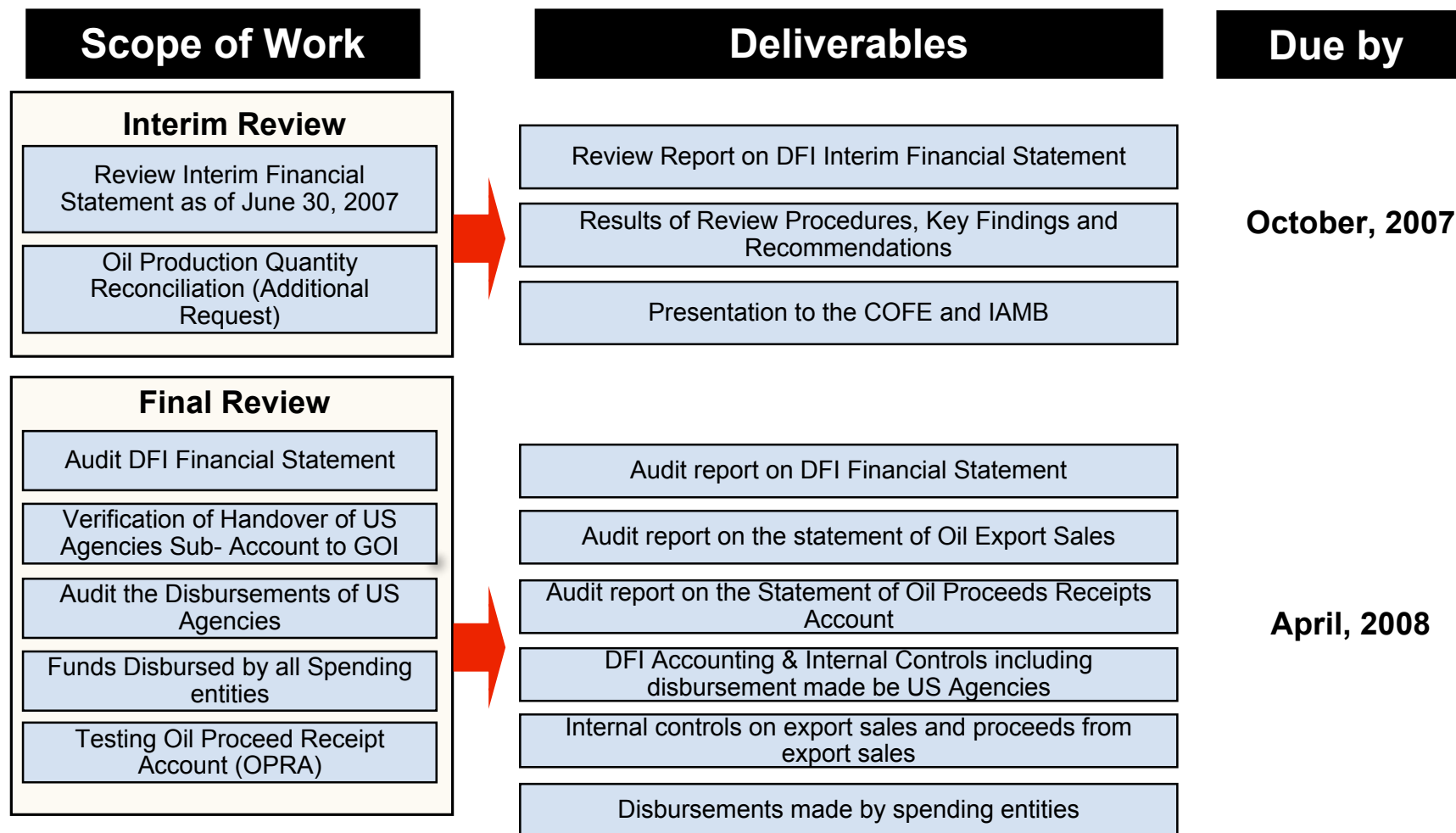
Quality In Everything We Do

Content

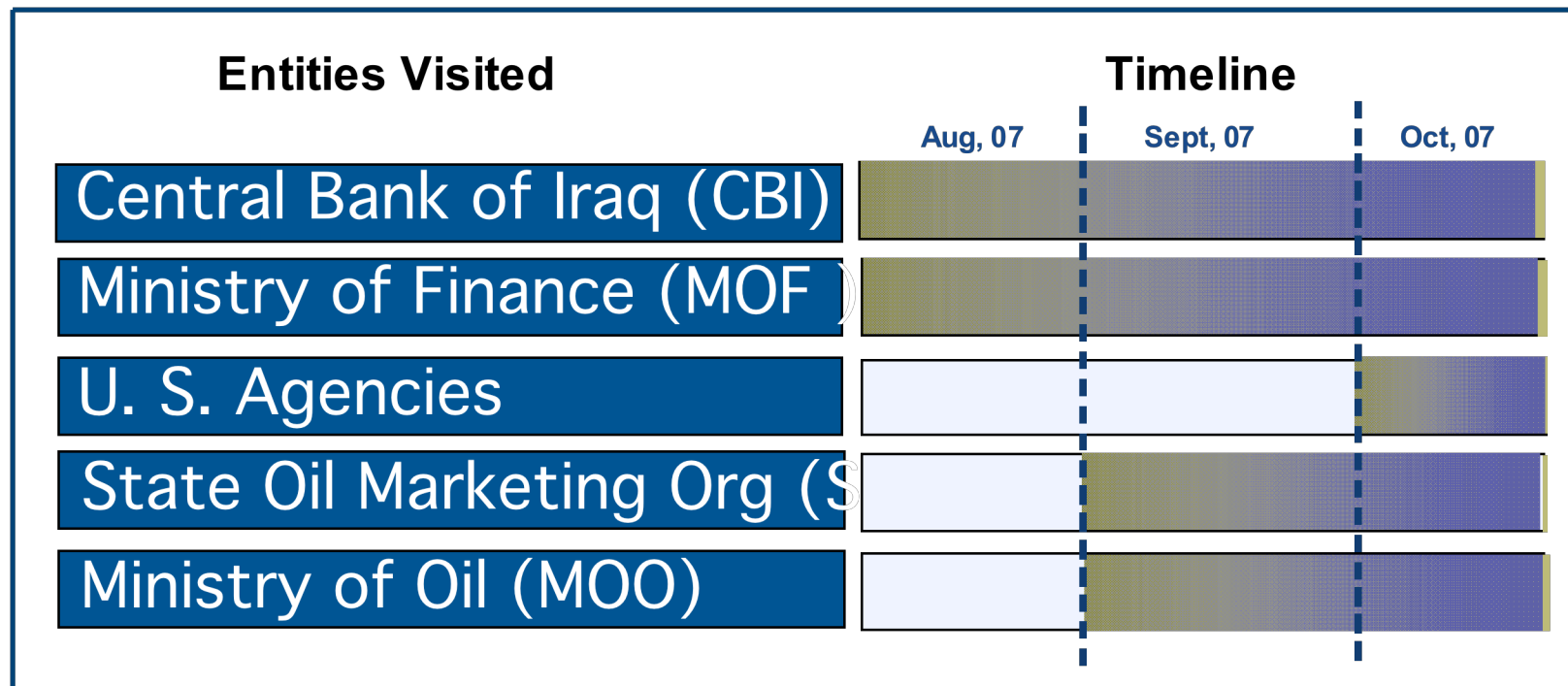


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Scope of Work and Deliverables



Interim Review - Entities Visited



Interim Financial Statement



Statement of Cash Receipts and Payments

Description	January 1 to June 30,2007 US\$ Million	January 1 to June 30 th ,2006 US\$ Million	From inception to June 30 th , 2007 US\$ Million
Cash Receipts			
Crude Oil Exports	13,814	12,569	84,256
UN Oil for Food Program	-	-	10,225
Proceeds from Frozen Assets	1	9	1,548
Interest Received	309	172	1,079
L/Cs Cash Margins refunds	568	195	1,750
Total Cash Receipts	<u>14,692</u>	<u>12,945</u>	<u>98,858</u>

Interim Financial Statement



Statement of Cash Receipts and Payments – Cont'd

Description	January 1 to June 30 ,2007 US\$ Million	January 1 to June 30, 2006 US\$ Million	From inception to June 30 , 2007 US\$ Million
Cash Payments			
Transfers to MoF	8,900	5,900	56,279
LC's to the Benefit of Iraqi entities	3,525	4,598	22,585
Contracts Administered by US Agencies	41	141	7,467
Iraqi External Debt Repayments	111	353	1,254
Other Payments	181	63	2,283
Total Cash Payments	12,758	11,055	89,868
Excess of Receipts Over Payments	1,934	1,890	8,990
Purchased Treasury Bills During the Period	(6,568)	(1,955)	(18,446)
Proceeds From Treasury bills on maturity During the Period	6,641	1,968	12,930
Cash and Cash Equivalent, Beginning of the Period	1,467	4,315	-
Net Cash Available For Use	3,474	6,218	3,474
Treasury Bills, End of Period	5,516	1,955	5,516
Cash, and Cash Equivalents and Treasury Bills, End of Period	8,990	8,173	8,990

Outstanding Data



- Confirmation of Balances from FRBNY, United Nations, JP Morgan Chase and Citibank.
- Copy of bank account agreement related to Ministry of Defense account with FRBNY.
- Detailed schedule related to transfers in IQD from MOF to Iraqi entities and Kurdistan region during this period.
- Report on US Agencies authority status, given that Agencies authority officially expired on December 31, 2006.
- Details of two payments received by CBI related to frozen assets released amounting to US\$ 831,000. The origin of these payments is not included in the transfer SWIFTS and should be requested from the transferring banks.

Key Issues



- DFI accounting records are maintained by MOF as part of its records and DFI is not recognized as a separate reporting entity. In addition MOF does not maintain a separate bank account for DFI at CBI.
- MOF records do not include a complete set of accounting records to support DFI's interim financial statement figures and related notes disclosures. Accordingly data obtained may not be tested for completeness.
- DFI's interim statement of cash receipts and disbursements was compiled from the following records which has not been officially reconciled :
 - Monthly statements of DFI's main account prepared by CBI,
 - DFI's sub-account maintained by US Agencies and CBI,
 - FRBNY statements,
 - MOF manual records and Access Data Base.

Key Issues – Cont'd



- Ministry of Oil does not have in place a full operational loading and metering system at production and loading points in order to determine produced and loaded quantities accurately.
- SOMO was engaged in barter transactions with the Syrian Government valued at US\$ 111 million in exchange for electricity and petroleum products. These transactions are not reported in DFI records. Cumulatively barter transactions since inception amount to US\$ 926 million.
- Cash received from export sales of petroleum products of US\$ 375 million for this period is deposited in SOMO's bank accounts instead of OPRA as required by UNSCR 1483.

Key Issues – Cont'd



- US Agencies list of contractual commitments amounting to US\$ 149 million as of 30 June 2007 is incomplete.
- MOF paid US\$ 595 million from DFI accounts for LCs related to self financing entities that are paid back to MoF by the entities. Moreover, MOF has received advances of US\$ 910 million from these entities to cover their LCs. This amount has not been deposited in DFI accounts.

Key Issues – Cont'd



- Total cash transfers from DFI to MOF account for this period amounting to US\$ 8,900 million has been recorded as cash payments in DFI 's financial statement before the amounts were transferred to the entities.
- The total amount transferred to the entities during this period by MOF is US\$ 12,953 million. (Exceeds MOF receipts by US\$ 4,053 million)
- The accumulated excess of funds transferred to MOF over amounts transferred to entities is US\$ 1,984 million as at June 30, 2007.

Key Issues – Cont'd



- Only 95% of export sales proceeds are deposited in DFI's accounts
- According to UNSCR 1483 (2003), 5% of the proceeds of export sales of oil and oil products shall be deposited into United Nations' Compensation Fund. However MOF has no information on the following:
 - The balance available at the Compensation Fund.
 - The remaining outstanding amounts due to United Nations Compensation Fund.
 - The duration of the Fund

Internal Control Material Weaknesses



Cash Margins at Corresponding Banks

- CBI and MOF do not maintain any records of the outstanding entities' cash margins against LCs. There is a large number of long outstanding cash margin balances with TBI's corresponding bank for LCs that were opened through TBI.

Internal Control Material Weaknesses



CBI Transfers to MOF's Current IQD Account

- There is currently no written agreement between MOF and CBI as to the arrangements to be followed to finance MOF's Iraqi Dinar current account at CBI from DFI FRBNY account.

CBI is financing MOF's current account by withdrawing the amount from DFI account at FRBNY in US\$ and then transferring an equivalent amount in Iraqi Dinar to MOF's current account at CBI.

The exchange rate used is CBI's formal exchange rate plus a commission of IQD 15 for each US\$.

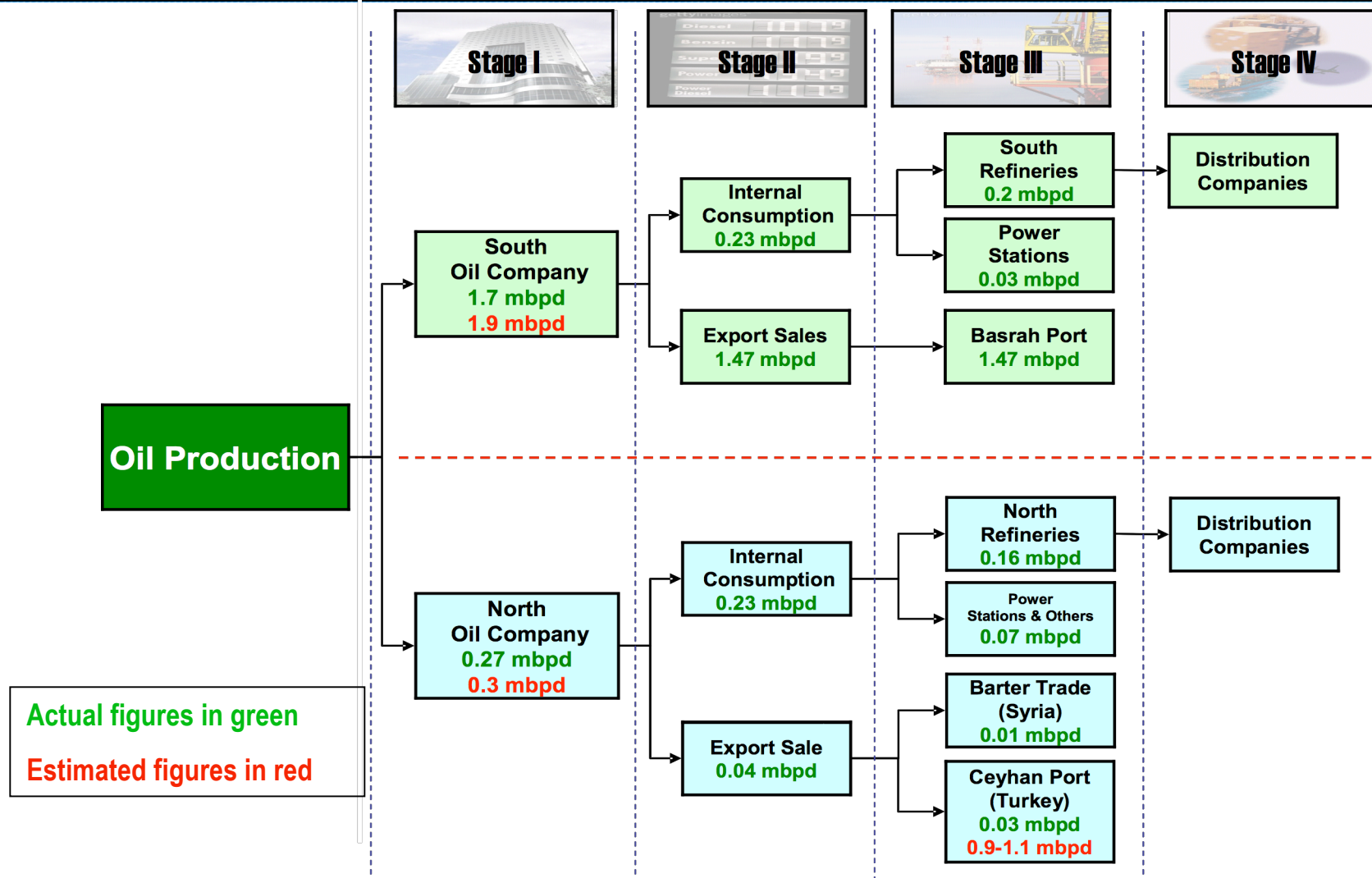
Internal Control Material Weaknesses



US Agencies Contracts

- US Agencies do not maintain a complete set of DFI accounting records. They maintain two separate Excel databases for payment transactions and contracts. However, these databases are not integrated.

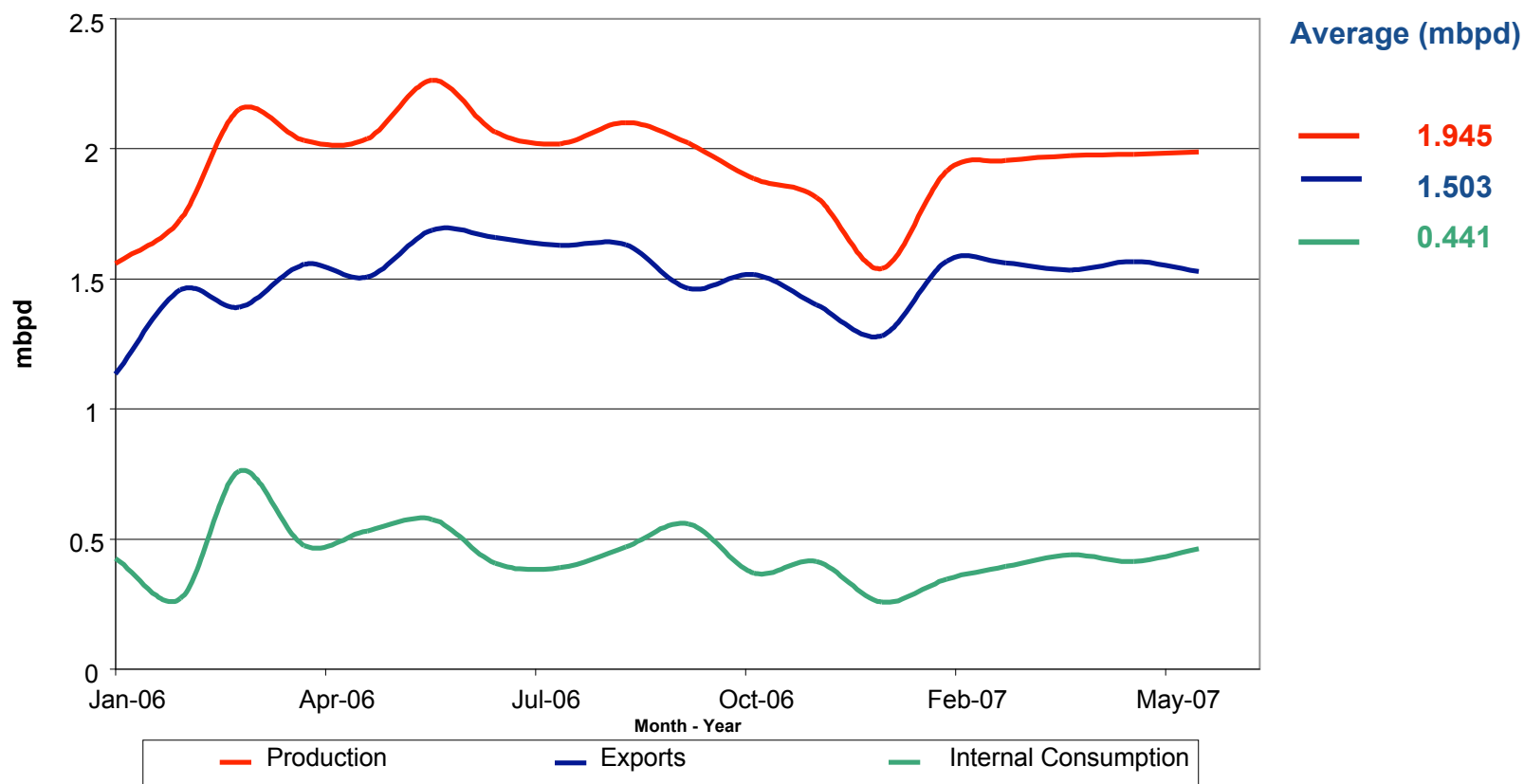
Crude Oil Usage – High Level Analysis



Crude Oil Usage – High Level Analysis – Cont'd



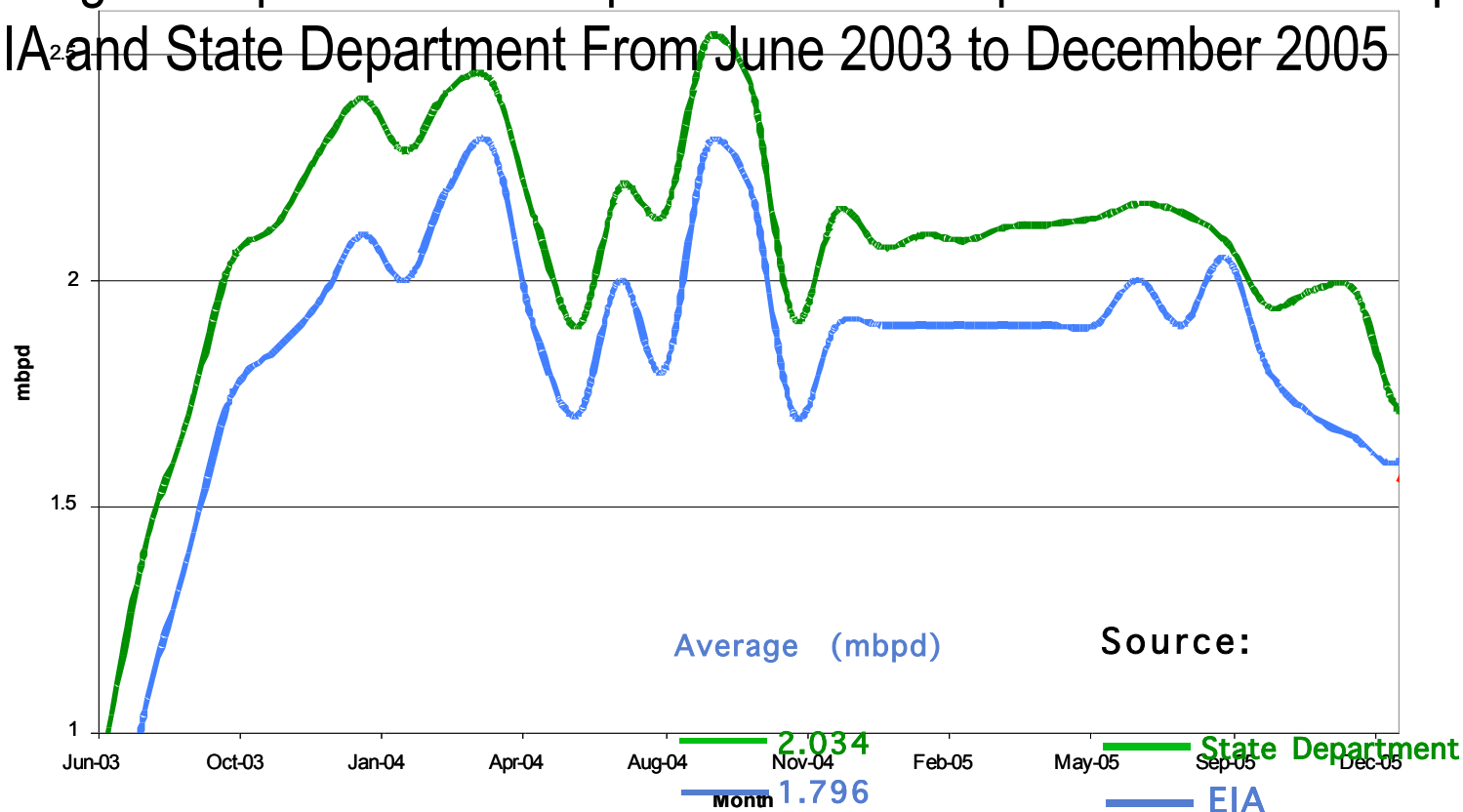
This diagram represents crude oil production, exports and internal consumption extracted from data provided to EY.



Crude Oil Usage – High Level Analysis – Cont'd



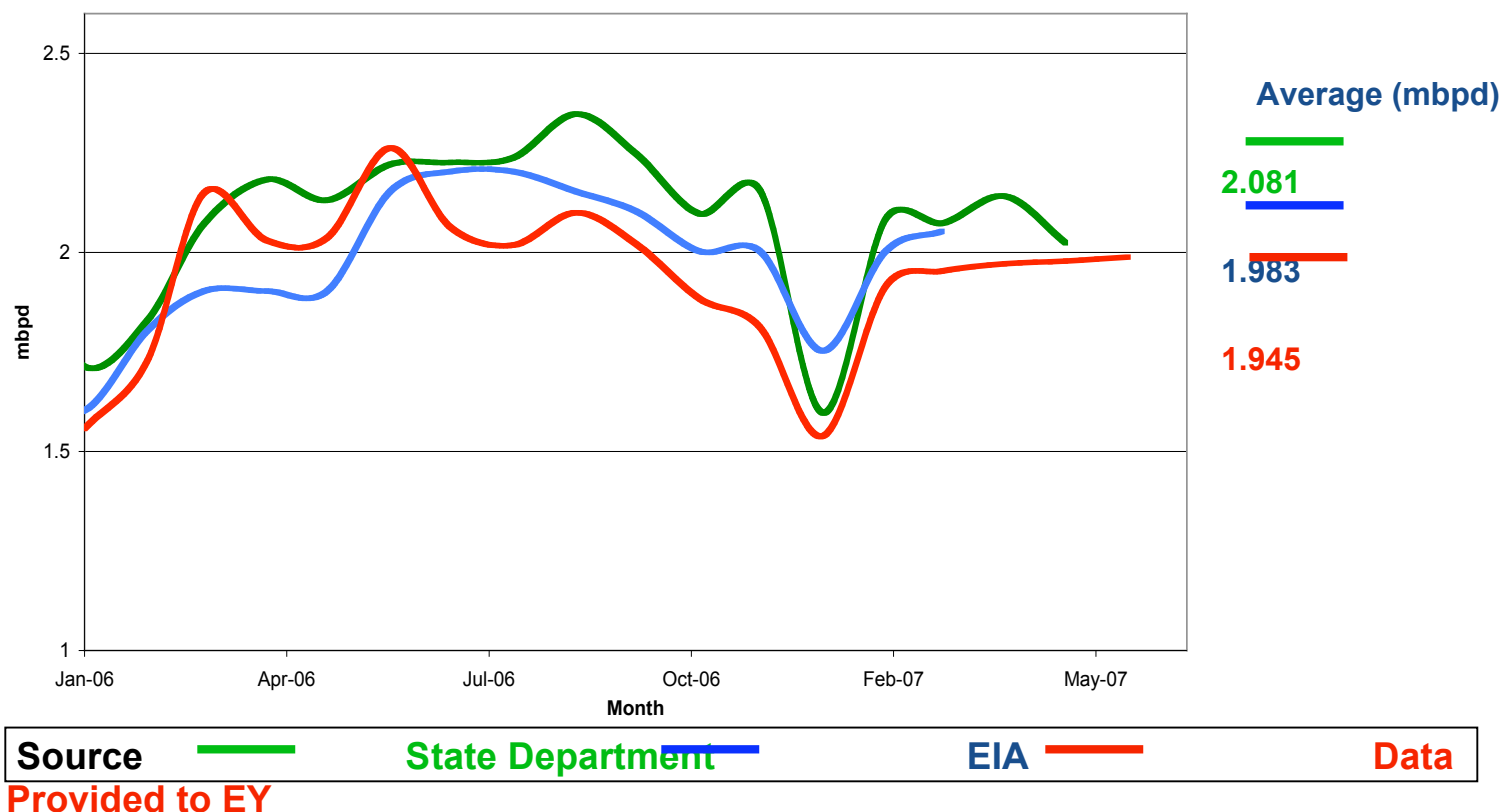
This diagram represents a comparison between production data as provided by EIA and State Department From June 2003 to December 2005



Crude Oil Usage – High Level Analysis – Cont'd



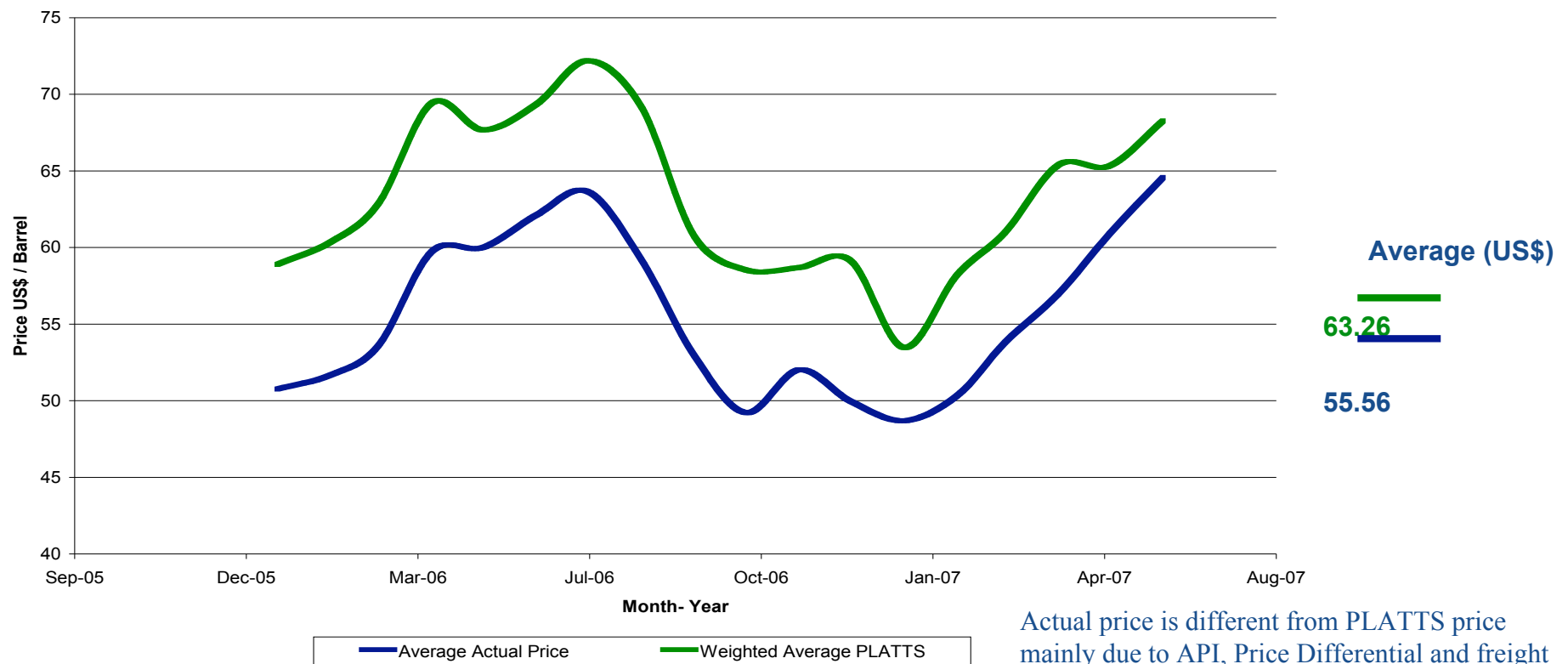
This diagram represents a comparison between crude oil production data as provided by EIA, State Department, and data provided to EY from January 2006 to June 2007.



Crude Oil Usage – High Level Analysis – Cont'd



This diagram represents a comparison between Iraqi Actual Oil Price and Weighted Average Quoted international Oil price.



Crude Oil Usage – High Level Analysis – Cont'd



Quantities For the Year Ended December 31, 2006

Category	Ministry of Oil Data	North & 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 Produced	713,594	713,595	-	-
Crude Oil Exports	550,986	550,986	549,395	-
Available for Internal Consumption	162,608	162,609	-	-
Quantities Received / Produced by Refineries	126,990	124,304	126,335	124,188
Quantities Received by Power Stations	16,498	14,614	16,486	-
Internal Consumption	143,488	138,918	142,821	-
Net Crude Oil After Export & Internal Consumption	19,120	23,691	-	-

Crude Oil Usage – High Level Analysis – Cont'd



Quantities For the Period from January 1, 2007 to June 30, 2007

Category	Ministry of Oil Data	North & 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 Produced	341,966	341,966	-	-
Crude Oil Exports	275,144	274,199	275,144	-
Available for Internal Consumption	66,822	67,767	-	-
Quantities Received / Produced by Refineries	55,838	58,672	55,838	56,890
Quantities Received by Power Stations	8,869	7,242	8,869	-
Internal Consumption	64,707	65,914	142,821	-
Net Crude Oil After Export & Internal Consumption	2,115	1,853	-	-

Crude Oil Usage – High Level Analysis – Cont'd



Significant Limitations to Reconciliation of Oil

- Oil Reconciliation is not officially prepared and checked by an independent party.
- The previous slides show discrepancies in oil production data between different sources including official sources. In addition, the actual usage of crude oil destined for domestic consumption is not clearly understood
- Reports provided by different entities are not standardised. Accordingly some information needed for the reconciliation is not available or partially available (i.e. Re-injection, storage, pipeline waste information).
- As mentioned earlier, due to lack of a comprehensive metering system, crude oil production cannot be reliably measured.

Crude Oil Usage – High Level Analysis – Cont'd



Significant Limitations to Reconciliation of Oil *(Cont'd)*

- Lack of effective controls over refined fuels which can be diverted to black market or smuggled. This is further exasperated by subsidies and the lower prices in Iraq compared to neighbouring countries.
- There should be a technical reconciliation between crude oil delivered to refineries and their output.
- The Government's priority in this regard should therefore be to properly designing, installing, operating and maintaining measurement equipment sufficient to accurately determine produced, transported, refined, imported, consumed, and sold products at all points along Iraq's oil product related networks

Un-audited Interim Statement of Cash Receipts & Payments As of September 30th 2007



Description	30 September 2007 US\$ Million
Cash Receipts	
Crude Oil Exports	23,050
Proceeds from Frozen Assets	1
Interest Received	412
Other Receipts	1,258
<u>Total Cash Receipts</u>	<u>24,721</u>

Un-audited Interim Statement of Cash Receipts & Payments As of September 30th 2007



Description	30 September 2007 US\$ Million
Cash Payments	
Transfers to MoF	16,200
LC's to the Benefit of Iraqi entities	7,899
Contracts Administered by US Agencies	379
Iraqi External Debt Repayments	192
Other Payments	186
<u>Total Cash Payments</u>	<u>24,856</u>
<u>Excess of Payments Over Receipts</u>	<u>(135)</u>
Purchased Treasury Bills During the Period	(9,838)
Proceeds From Treasury bills on maturity During the Period	9,778
Cash and Cash Equivalent, Beginning of the Period	3,020
<u>Net Cash Available For Use</u>	<u>2,825</u>
Treasury Bills, End of Period	5,649
<u>Cash, and Cash Equivalents and Treasury Bills, End of Period</u>	<u>8,474</u>

Next Steps



Work To Be Performed	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08
- Performing test of controls over MOO, SOMO, MOF, US Agencies, Ministries							
- Visiting Iraqi Ministries Baghdad & Kurdistan region (extent of the testing in each ministry will be based on our professional judgment based on the materiality level of the DFI financial statement. the test will cover the major capital expenditures financed by DFI)							
- Receiving third party confirmation.							
- Visiting the remaining Iraqi Ministries and update interim work.							
- Completing the test of oil export sales at SOMO.							
- Completing the test of Oil Proceeds Receipt Account.							
- Test cash receipts from oil export sales.							
- Testing cash payments from DFI.							
- Review the reconciliations between the MOF and other DFI related parties							
- Testing the cash balances at the FRBNY at year end.							
- Testing records and reconciliation of OPRA account							
- Preparing drafted reports on the DFI based on contract with COFE							
- Submission of drafted reports to COFE							



Q&A