

Status of follow up KPMG's report on DFI audit 2009

Below the status of follow up the observations stated in KPMG's report on DFI audit for 2009 circulated by the letters of the Council of Ministers dated Dec.19, 2010 and Jan.25, 2011 respectively:

1. Financial statement of cash receipts and payments:

Response received from both CBI and MoF for par.1-a stated in our letter dated Dec.30, 2010 (sent to the General Secretariat on the Council of Ministers) relating the differences appeared between MoF records and the results reached by the audit firm, stated also in our letter dated Dec.13, 2010 sent to the Minister of Finance and as follows:

a. Ministry of Finance:

Our follow up to MoF response on Jan.6, 2011 to BSA observations, the responses were not sufficient for most of the points as stated below:

No. of point	Summary of the observation	BSA opinion
1	DFI receipts: There is a difference in the amounts received and interception in DFI accounts	The response was not sufficient as: a. The amendments made by the Cash Department were made without accounting entries. b. The cancellation of withdrawing \$2 billion was made according to a letter issued on Sept.9, 2009 signed by the director General of accounting directorate who is not authorized to move the cash assets of the DFI, and the letter did not request the cancellation of the process rather transferring it from account no. 70009 to L/Cs account (deposits). c. No answer was received for the difference of treasury bill interest of \$5000 for CBI did not reply to MoF letter dated Jan.1, 2011, while for the difference of \$29 million there is no accounting entry for it.
2	There is a difference in oil sales between MoF records and KPMG's report	The reply was not sufficient
3	The inaccuracy of the amount of legal services and advices account between KPMG's report and MoF records	The reply is not accurate for the documents provided to us noted that of \$5619000 were spend and not 600 as stated in KPMG's report.
4	Lack of accounting entries and legal records to show the movement of the DFI account	The reply was not sufficient as the book keeping and preparing entries started at the begging of 2010 and these records and documents were not completed formally and legally

The Ministry was informed through our letter dated March 24, 2011 and no reply was received to date.

b. Central Bank of Iraq

A reply related to the control on DFI accounts through a single Excel file since 2004 was received from the CBI according to its letter dated Jan.4, 2011 and the reply was not sufficient. The CBI was informed by our letter dated March 28, 2011 with the valid observations and its reply dated April 5, 2011 still not sufficient. The follow up is ongoing with the CBI.

c. Oil metering system

The follow up of the implementation of the oil metering system showed that the actual percentage of implementation for 2009 and 2010 in comparison with the accumulated planned for the period 2009 - 2012 is 39% as of Dec.31, 2010, while the actual implementation for 2009 and 2010 in comparison to the accumulated planned for the same years is 51%, which are low rates that note that the Ministry of Oil will not be able to accomplish its plan in due date stated earlier by it despite its importance for controlling the produced quantities to reduce the diversion and unjustified loss. The attached table shows the aforementioned.

2. The observations stated in the report:

The table below shows the number of the observations, their percentage and the level of the risk, as 25 high risk, 15 medium risk and 2 low risk observation are still not cleared.

Details	No. of observations	percentage	High risk	percentage	Medium risk	percentage	Low risk	percentage
Total observations	216	100%	98	45%	110	51%	8	4%
Cleared observations	175	100%	74	42%	95	54%	7	4%
Still valid	41	100%	24	58	15	37%	2	5%

The follow up with the concerned administration to clear the remaining 41 observations is ongoing.

3. Observations on Kurdistan region:

Below the status of the observations stated in E&Y and KPMG's reports for 2007- 2009 reports.

	2007	2008	2009	total	percentage
Total number of observations	22	16	199	237	
Cleared observations	16	16	138	170	72%
Under clearance observations	3	0	21	24	10%
Observations not supported by adm.	3	0	40	43	18%

Coordination was made with the audit firms representatives to present the working papers for the observations not supported by administration and a further report will be issued.

4. Follow up on E&Y and KPMG's report for 2007, 2008:

The following table shows the results of the follow up on E&Y and KPMG's reports for 2007 and 2008:

The year	Cleared observations	Under clearance observations	Still valid observations	Total
2007	49 72%	15 22 %	4 6 %	68 100%
2008	174 78%	42 19%	6 3%	222 100%
	223	57	10	290

The follow up is on going with the concerned ministries to clear the remaining 67 observations.