

Development Fund for Iraq

Results of Year End Audit
presentation to the
IAMB and COFE

27 April 2011
Paris - France

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Agenda

1. Scope of Work and Deliverables
2. Draft Financial Statements
3. Key Observations and Issues
4. Oil Analysis
5. Project Overall Progress

Scope of Work and Deliverables



Scope of Work and Deliverables

Scope

- Review of the DFI's Interim statement of cash receipts and payments for the period from 1 January 2010 to 30 June 2010
- Audit of the DFI's statement of cash receipts and payments for the year ending 31 December 2010
- Audit of Oil Export Sales
- 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
- Audit of the Oil Proceeds Receipts Account (OPRA)
- Follow up on Matters Arising from Previous Year's Audit Reports

Deliverables

- Review report on DFI interim statement of cash receipts and payments for the period from 1 January 2010 to 30 June 2010
- Assessment report on progress in implementing the MoO comprehensive oil metering plan as at 30 June 2010
- Audit report on statement of cash receipts and payments for the year ended 31 December 2010
- Special audit report on statement of oil export sales for the year ended 31 December 2010
- Special audit report on statement of proceeds of oil export sales
- Management letter report on DFI entities
- Management letter report on spending ministries, KRG entities, and Governorates
- Report on reconciliation of quantities of petroleum and petroleum products

Reporting Date

- 30 April 2011

Draft Financial Statements



Draft Financial Statements

Draft Statement of Cash Receipts and Disbursements

| For the year ended 31 December | 2010 USD '000 | 2009 USD '000 | From inception to 30 June 2010 USD '000 |
|---|--------------------|-------------------|---|
| <u>Cash Receipts</u> | | | |
| Export sales of petroleum and petroleum products | 48,824,737 | 37,016,434 | 250,956,025 |
| Proceeds from frozen assets in foreign countries | 523 | 47,817 | 1,601,008 |
| United Nation Oil for Food Program | 656,000 | 121 | 11,073,407 |
| Interest received | 25,898 | 128,569 | 2,059,002 |
| Other receipts | 288,594 | 457,292 | 4,777,069 |
| Total cash receipts | 49,795,752 | 37,650,233 | 270,466,511 |
| <u>Cash Disbursements</u> | | | |
| Transfers to the Ministry of Finance | 41,000,000 | 23,000,000 | 183,603,435 |
| Letters of Credit to the benefit of Iraqi Ministries | 11,223,074 | 13,448,572 | 67,680,020 |
| Contracts administered by U.S. Agencies | 2,025 | 852 | 7,859,315 |
| Iraqi external debt repayments | - | 100,000 | 1,614,526 |
| Other disbursements | 3,543 | 1,418,407 | 2,156,469 |
| Total cash Disbursements | 52,228,642 | 37,967,831 | 262,913,765 |
| (Deficit) Excess of receipts over disbursements | (2,432,890) | (317,598) | 7,552,746 |
| Purchased treasury bills | (18,383,796) | (14,679,051) | (89,893,226) |
| Proceeds from treasury bills on maturity | 19,122,667 | 18,357,436 | 84,137,534 |
| Cash and cash equivalents at 1 January | 3,491,073 | 130,286 | - |
| Total cash and cash equivalents at 31 December | 1,797,054 | 3,491,073 | 1,797,054 |
| Treasury bills at 31 December | 5,755,693 | 6,494,563 | 5,755,693 |
| Cash, cash equivalents and treasury bills at 31 December | 7,552,747 | 9,985,636 | 7,552,747 |

Draft Financial Statements

| Draft Statement of Oil Proceeds Receipt Account (OPRA) | | | |
|--|-------------------|-------------------|----------------------|
| For the year ended 31 December | 2010 USD '000 | 2009 USD '000 | Variance USD '000 |
| | | | |
| Total export sales of petroleum | 52,202,645 | 41,329,854 | 10,872,791 |
| Less: | | | |
| Demurrage claims deducted from export sales invoices | (31,672) | (2,782) | 28,890 |
| Proceeds deposited in OPRA after end of period | (4,936,362) | (4,156,197) | 780,171 |
| Add: | | | |
| Proceeds deposited related to prior period export sales invoices | 4,156,197 | 1,780,392 | 2,375,805 |
| Price differential | 3,648 | 13,396 | (9,748) |
| Interest on delayed bank transfers | 4 | 4 | - |
| Proceeds deposited in OPRA | 51,394,460 | 38,964,667 | 12,429,793 |
| Amounts transferred to the Compensation Fund (5%) | (2,569,723) | (1,948,233) | 621,490 |
| Net proceeds deposited in DFI (95%) | 48,824,737 | 37,016,434 | 11,808,303 |

Key Observations and Issues



Key Observations and Issues

United Nation Security Council Resolution

On 15 December 2010, the UNSC has resolved to terminate, on 30 June 2011, the arrangements established in resolution 1483 (2003) for depositing into the Development Fund for Iraq proceeds from export sales of petroleum, petroleum products and natural gas and decided that this is the final extension of the DFI. The UNSC has directed the transfer of the full proceeds from the DFI to the Government of Iraq's successor arrangements account or accounts no later than 30 June 2011.

Key Observations and Issues

Frozen Funds

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.

Key Observations and Issues

Oil Meters

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.

Key Observations and Issues

Other Receipts

Other receipts include USD 103 million of cash receipts that supporting documents and bank transfer advices were available, but those amounts lack sufficient details in order to classify them to the appropriate accounts within the DFI Financial Statements.

Key Observations and Issues

Follow up on Metering Report

- We have met with the Ministry of Oil Technical Department / Metering Division and discussed our assessment report issued on the Comprehensive Oil Metering Plan.
- We have agreed with an oil metering technical expert in order to give technical advice over the oil metering, visits to the oil related locations will commence shortly.
- KELTON Engineering is an independent, UKAS accredited Company, specializing in Flow Measurement Consultancy and Software.

Key Observations and Issues

Follow up on Metering Report

- KELTON have an outstanding reputation in Submissions to Government Agencies, Auditing of Flow Measurement Systems/Allocation Systems/Hydrocarbon Laboratories, Uncertainty Models and Analysis, Training, Operations and Maintenance Procedures, Project Support/ Consultancy, Operational Support/System Management, Validation and Flow Measurement related Software.
- We have noted a progress in the number of meters installed throughout the year. (as shown in the next slide).

Key Observations and Issues

| MoO Entity | Planned Meters to be installed | Planned Meters to be installed up to 2010 | Meters Installed as of 30 June 2010 | Meters Installed as of 30 September 2010 | Meters Installed as of 31 December 2010 | Meters Installed from 30 Sep. Till 31 Dec. 2010 | Variance between planned 2010 and installed 2010 |
|-----------------------------------|--------------------------------|---|-------------------------------------|--|---|---|--|
| North Oil Company | 188 | 76 | 86 | 86 | 86 | - | +10 |
| South Oil Company | 137 | 16 | 38 | 43 | 44 | 1 | +28 |
| Missan Oil Company | 65 | 13 | 19 | 29 | 32 | 3 | +19 |
| North Refineries Company | 239 | 239 | 192 | 195 | 200 | 5 | -39 |
| Middle Refineries Company | 592 | 281 | 87 | 187 | 352 | 165 | +71 |
| South Refineries Company | 137 | 137 | 15 | 24 | 27 | 3 | -110 |
| North Gas Company | 69 | 34 | 29 | 39 | 41 | 2 | +7 |
| South Gas Company | 20 | 20 | 3 | 3 | 3 | - | -17 |
| Pipelines Company | 410 | 364 | 360 | 365 | 379 | 14 | +15 |
| Oil Products Distribution Company | 2,992 | 2,428 | 695 | 695 | 695 | - | -1,733 |
| Gas Filling Company | 49 | 38 | 19 | 25 | 40 | 15 | +2 |
| Total | 4,898 | 3,646 | 1,543 | 1,691 | 1,899 | 208 | -1,747 |

Key Observations and Issues

Management Letter and Internal Control Observations

- BSA has sent previous years reports to every single spending entity including KRG.
- We have received the responses on Management Letter Points issued by previous auditors for the years 2007, 2008 and 2009.
- We followed up with the spending ministries to verify responses obtained.
- Weakness in internal controls that are valid as a result of this years' audit were provided to the IAMB and the COFE.

Key Observations and Issues

Management Letter and Internal Control Observations

- The following weakness are identified as high risk internal control weakness as a result of our audit procedures.

| Observation | Entity | Status |
|--|---------------------------|--------|
| No third party inspector authentication – Shipping documents are not authenticated by SGS. | Ministry of Oil – SOMO | New |
| Absence of system generated loading reports in the shipment file. | Ministry of Oil – SOMO | New |
| Medicines inventory amounting to IQD 32 billion are obsolete and should be disposed. | Ministry of Health | New |
| Um Kasser Navy Base renovation contract – 3 years have passed since the analysis committee recommendation on the contract and the percentage of completion stands at 4%. | Ministry of Defense | New |
| Policies and procedures manual - DFI does not have formal detailed policies and procedures manual to cover all areas of its operations. | DFI – Ministry of Finance | Old |

Key Observations and Issues

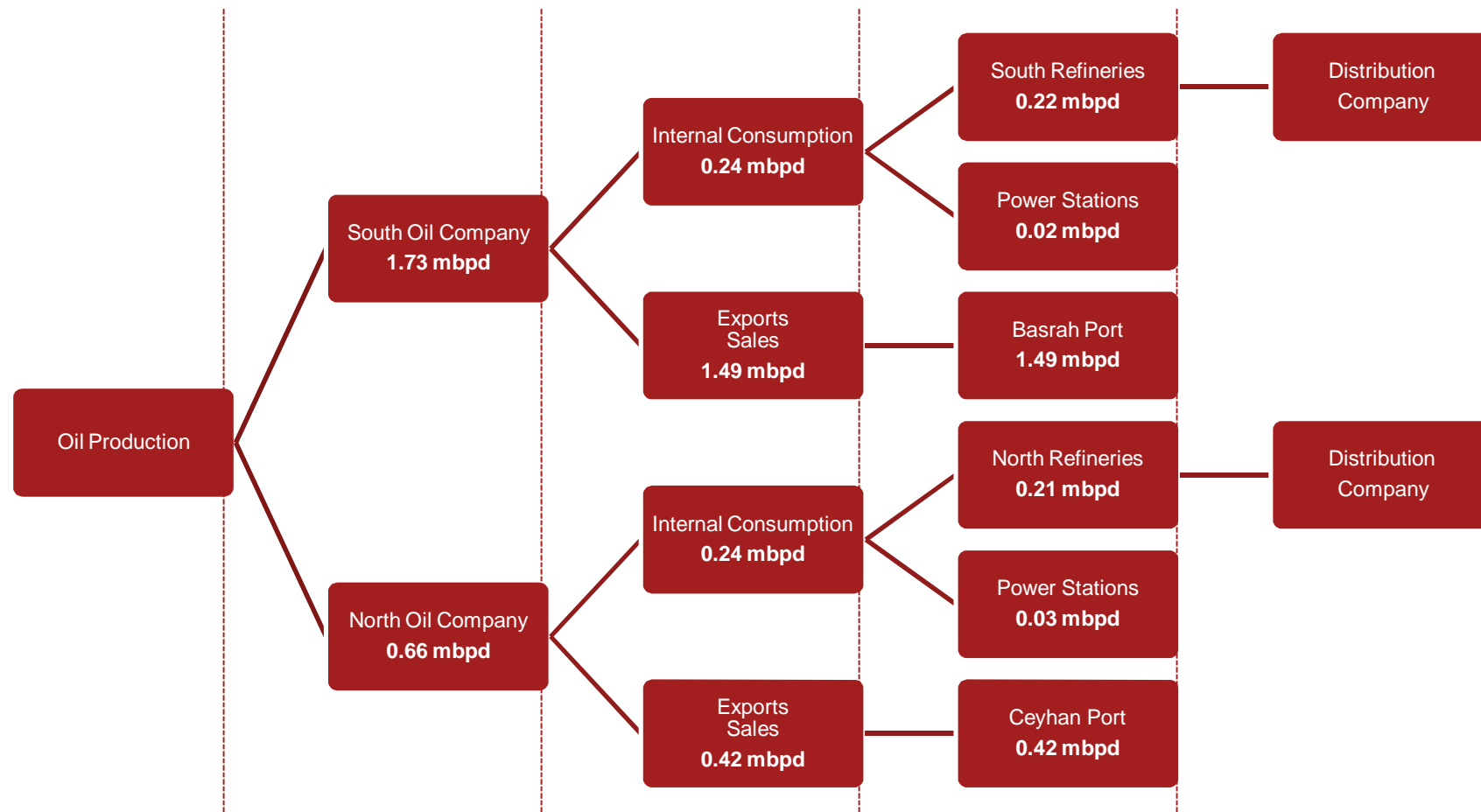
Management Letter and Internal Control Observations

| Observation | Entity | Status |
|--|---------------------------|--------|
| Accounting systems are no longer suitable for the current size and structure of the DFI, and have not been updated. | DFI – Ministry of Finance | Old |
| DFI accounting records are based on information obtained from the CBI, and monthly statements sent by the CBI to the MoF. | DFI – Ministry of Finance | Old |
| Reporting and financial statements preparation – MoF and CBI do not prepare a complete set of the DFI's statement of cash receipt and disbursements. | DFI – Ministry of Finance | Old |

Oil Analysis



Oil Analysis



Source : Ministry of Oil – Reconciliation Department

Oil Analysis

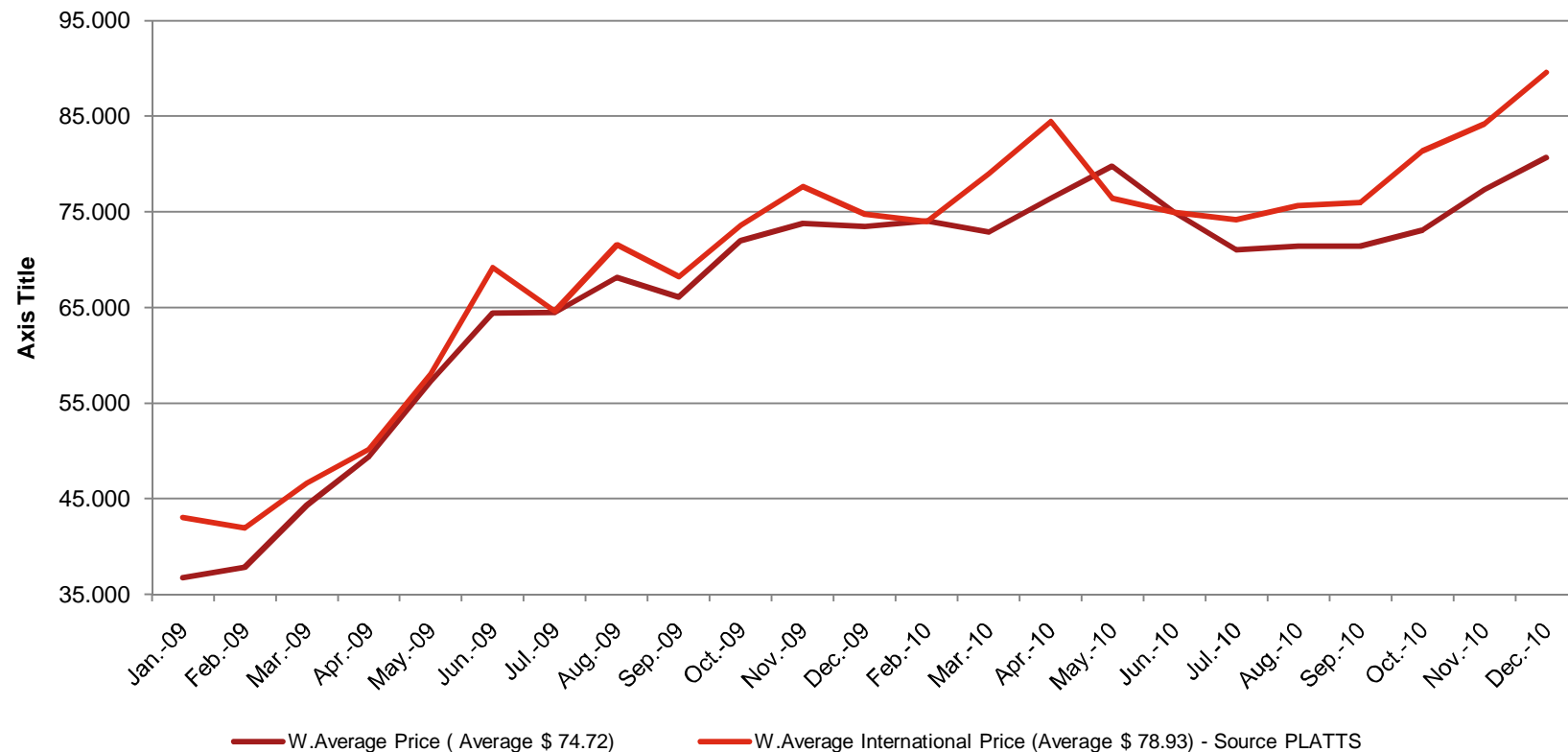
Oil Production, Export Sales and Average Price

| 2010 | | | |
|--------------|-----------------|-----------------|---------------|
| Month | Oil Production | Export Sales | Average Price |
| | Barrels '000 | Barrels '000 | USD |
| January | 74,153 | 59,707 | 74.04 |
| February | 68,476 | 57,891 | 73.13 |
| March | 70,514 | 57,069 | 76.33 |
| April | 68,776 | 53,013 | 79.70 |
| May | 71,138 | 58,682 | 74.05 |
| June | 69,567 | 54,756 | 72.60 |
| July | 71,334 | 56,325 | 71.21 |
| August | 72,305 | 55,418 | 71.43 |
| September | 71,105 | 60,615 | 73.07 |
| October | 73,614 | 58,695 | 77.10 |
| November | 72,136 | 57,357 | 80.59 |
| December | 77,756 | 60,482 | 86.31 |
| Total | 860,874 | 690,010 | 75.80 |

| 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 | 59,084 | 57.17 |
| June | 72,219 | 57,748 | 64.32 |
| July | 74,767 | 63,145 | 64.39 |
| August | 74,090 | 62,287 | 68.07 |
| September | 71,227 | 58,734 | 66.00 |
| October | 73,910 | 58,228 | 71.91 |
| November | 71,304 | 57,024 | 73.74 |
| December | 73,721 | 61,285 | 73.41 |
| Total | 852,342 | 695,540 | 59.42 |

Oil Analysis

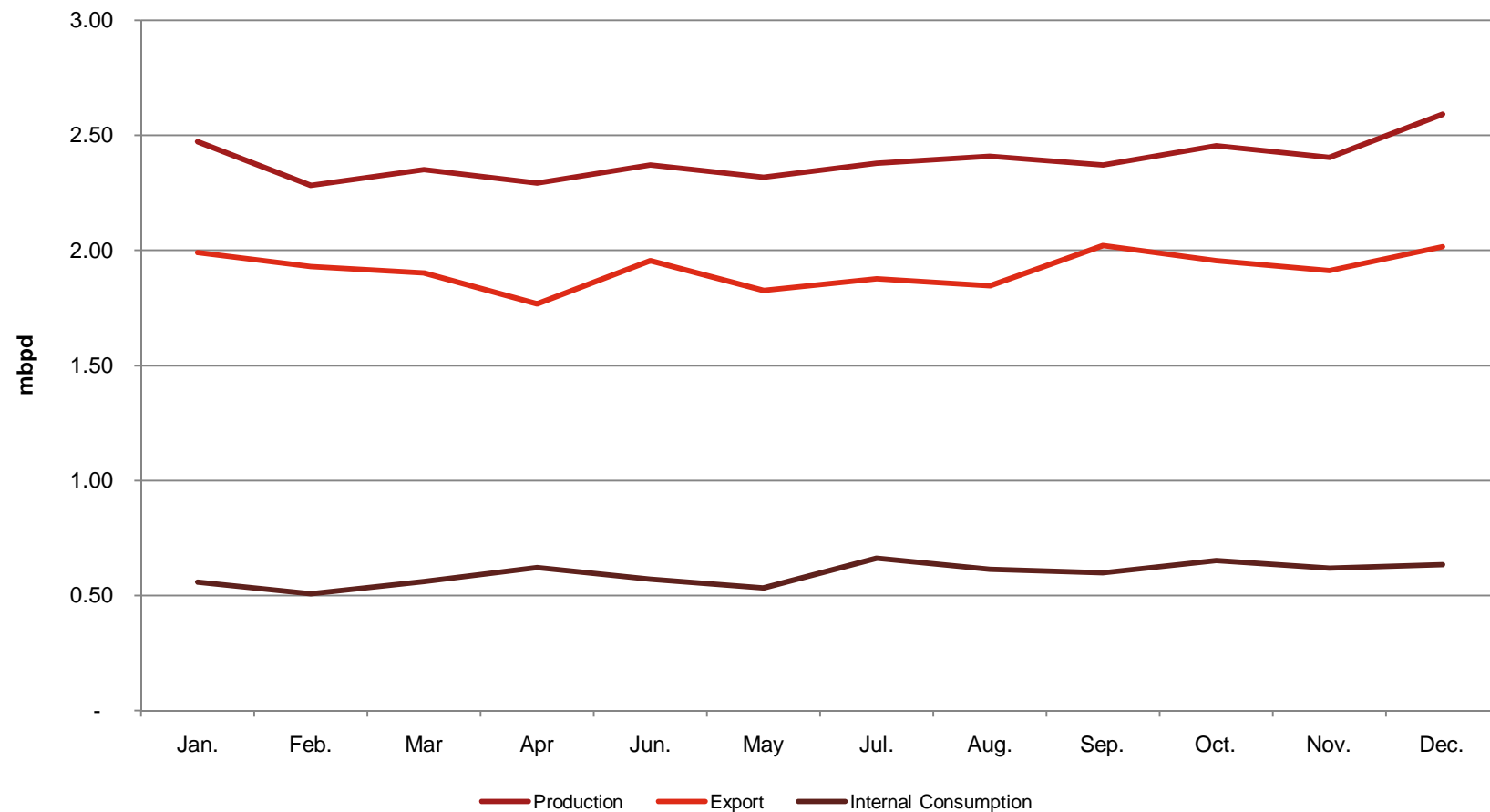
Export Sales Price



The price difference is mainly due to fluctuations in exported oil API.

Oil Analysis

Crude Oil production, Export Sales and Consumption



Oil Analysis

Quantities for the year ended 31 December 2010

| Category | Ministry of Oil Data | North and South Oil Companies' Data | Export and Internal Consumption (SOMO, Power Station & Refineries Reports) |
|--|----------------------|-------------------------------------|--|
| | Barrel ' 000 | Barrel ' 000 | Barrel ' 000 |
| Crude Oil Beginning | 51,928 | 51,928 | - |
| Crude Oil Produced | 860,875 | 860,875 | - |
| Refineries' Waste Blended with Exported Oil | 43,391 | 43,391 | - |
| Crude Oil Exports | 690,011 | 690,011 | 690,011 |
| Available for Internal Consumption | 266,183 | 266,183 | - |
| Quantities Received / Produced by Refineries | 189,329 | 190,633 | 190,595 |
| Quantities Received by Power Stations | 23,382 | 23,391 | 23,391 |
| Internal Consumption | 212,711 | 214,024 | 213,986 |
| Net Crude Oil After Export & Internal Consumption | 53,472 | 52,159 | |

Oil Analysis

Oil products quantities - year ended 31 December 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 | (52,031) | 52,031 | - | - | - |
| Refined Products Received by Distribution Company / Sent By Refineries | (78,483) | - | 78,459 | - | (24) |
| Refined Products Received by Power Generating Companies / Sent By Pipelines Company | - | (23,391) | - | 23,391 | - |
| Refined Products Received By Distribution Company /Sent by Pipeline Company | - | (56,465) | 56,471 | - | 6 |

Oil Analysis

Oil production and consumption

Significant findings and limitations to reconciliation of oil

- Due to the fact that the comprehensive metering plan is not yet fully implemented at the extraction and storage facilities, 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.

Oil Analysis

Oil production and consumption - continued

Significant findings and limitations to reconciliation of oil

- 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.

Project Overall Progress



Project Overall Progress

Outstanding Data

- Approval and authorization of interim financial information for the six months ended 30 June 2010.
- Approval and authorization of financial statements for the year ended 31 December 2010.
- Representation letter to be provided prior to issuance 30 June 2010 Interim Financial Information and 31 December 2010 Financial Statements.

Project Overall Progress

Ministries, KRG and Governorates Visits

Work over ministries, KRG and Governorates is completed except for the following two governorates:

- Governorate of Salah El Dien which was recently replaced by the Governorate of Al Najaf due the recent incidents that took place in the governorate.
- Governorate of Kirkuk

Draft Management letter points on all spending ministries and completed governorates were delivered and currently under GoI's review.

Q & A

Thank you...