THE ISLAMIC REPUBLIC OF AFGHANISTAN

THE CONTROL AND AUDIT OFFICE
OF
AFGHANISTAN

AUDIT
MANUAL-CUM-GUIDELINES

FOR
DONOR FUNDED AUDITS
IN AFGHANISTAN
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1 Background

This is the first version of “Audit Manual-cum-Guidelines” and is applicable to donor funded audits conducted by Control and Audit Office of Afghanistan (CAO). These donor funded audits comprise of the annual statutory audit of projects funded and/or administered by World Bank, Afghanistan Reconstruction Trust Fund (ARTF), Counter Narcotics Trust Fund (CNTF), Asian Development Bank (ADB), Danish Government Development Assistance (DANIDA), JSDF, UNDP, USAID etc.

This manual has been prepared by Deloitte Touche Tohmatsu India Pvt. Ltd. (Deloitte) as a part of its mandate to support the CAO in its audit operations and institutional strengthening. Deloitte has already provided two years of audit support to the CAO and has provided on the job training to the CAO audit teams who have worked on these audits over the last two years. Much of these guidelines and procedures including audit documentation requirements have been developed by Deloitte at the beginning of its mandate and have been put to use over the last two years. In that sense, the procedures and guidelines explained in this manual have already been implemented to a large extent by the CAO audit teams. This Manual is therefore a comprehensive documentation of the time tested audit procedures and guidelines to be used by the CAO in the following years.

With increased public awareness, there is heightened demand for public accountability of entities managing public resources. There is greater need for the accountability process to be in place. The CAO Audits of such entities and their projects provides one such measure of accountability on the part of the Government. The quality of the CAO audits directly enhances the accountability of the Ministries and therefore it is important that quality processes and procedures are laid down by the CAO. This manual will provide guidance to auditors in CAO in respect of donor funded audits such that the quality processes and procedures are appropriately followed.

In framing these Manual-cum-Guidelines due care has been taken to suitably adopt the restructured Auditing Standards issued by the INTOSAI. Wherever there is any inconsistency in this document from INTOSAI standards, the standards, principles and guidance enumerated in INTOSAI standards will prevail.

This Manual-cum-Guidelines provide guidance to the Auditor in determining the extent and scope of audit and procedures that should be applied and constitute the criteria or yardstick against which the quality of audit results need to be evaluated. This will serve as a beacon and foster a greater sense of responsibility among Government auditors to secure accountability and as a result, good governance.

Work performed by Government entities and Ministries will continue to change over a period of time. So will the nature of the grants provided by the international community to Afghanistan. Deloitte therefore recommends that this Manual be regularly updated by the CAO by incorporating the changed scenario in the future based on its own increased experience in conduct of the audits. It is recommended that the CAO reviews and updates the contents of this Manual every three years, thereby making it a “live” knowledge base of audit guidelines and procedures.
This Audit Manual-cum-Guidelines is part of the ongoing effort by Deloitte for capacity development within CAO with the objective that CAO staff, in due course of time, will be able to conduct all audits without any external assistance.
2 Introduction

2.1 Control and Audit Office of Afghanistan: The Control and Audit Office of Afghanistan (CAO) is the Supreme Audit Institution of the Islamic Republic of Afghanistan and functions according to the Audit Law in force, from time to time. The Head of the CAO is Auditor General of Afghanistan. The Organization Chart of the Control and Audit Office is provided in Annexure-I.

2.2 Functions of CAO: The CAO discharges the audit and assurance function as enshrined in the Audit Law. The new Audit Law of the country is in process of getting legislated and will add new audit scope and coverage for the CAO. In general, CAO conducts the audit of accounts of Central Government, Provincial Governments, Local Authorities, other independent bodies, public enterprises, projects and programs financed and / or implemented by Government and other entities as contemplated in the law. The AG is required to attest the financial statements of the above referred bodies for which CAO has conducted audit.

2.3 External Aid: Since Afghanistan lacks, sufficient financial / technical resources for funding its Government activities due to prolonged war and civil disturbances, the international community has been providing financial, technical, and managerial assistance to Afghanistan in support of its budget expenditures. The assistance is provided directly by various nations as well as through international agencies such as World Bank, Asian Development Bank, United Nations Development Program (UNDP), USAID, DANIDA, and various NGOs.

2.4 Forms of Aid: The assistance provided by the international community takes any of the following forms:

- Grants and credits for financing specific projects such as infrastructure, community development, micro finance etc.
- Grants for providing budgetary support to Central Government, Provincial Governments, Local Authorities, and independent bodies.
- Grants for financing public expenditure.
- Grants for police related expenditure funded by UNDP under LOTFA.
- Grants for project executed through NGO’s, Facilitating Partners or Implementing Partners.

2.5 Role of World Bank: The International Development Association (called IDA or World Bank), Afghanistan Reconstruction Trust Fund (ARTF), Counter Narcotics Trust Fund (CNTF), and Japan Social Development Fund (JSDF) have financed various development projects in Afghanistan by way of development grants / credits. The World Bank is appointed as an administrator for the projects financed by ARTF and JSDF. Similarly UNDP administers the CNTF.
2.6 The money received by World Bank is accounted by MoF either as direct core budgetary assistance for projects like ARTF or through a development budget for developmental grants / credits.

2.7 **Audit of World Bank Assisted Projects:** The agreements / technical annex entered into between WB/ IDA with the Afghanistan Government require the Auditor General to conduct the audit and attest the financial statements of such projects.

2.8 **Audit period:** The audit of projects in core budget and development funds is done on the basis of Afghan Solar Year. However in case of UNDP the audit is done on the basis of Georgian Calendar Year.

2.9 **INTOSAI:** CAO being a member of International Organization of Supreme Audit Institutions (INTOSAI) is bound to adopt the International Standards for Government Auditing issued by INTOSAI. While preparing this Manual, due care has been taken for harmonizing the standards and practices inherent in INTOSAI Standards with the practices followed by the CAO.

2.10 **Accounting:** The Government of Afghanistan is following the cash basis system for financial reporting. For reporting in financial statements relating to Development Grants it has adopted International Public Sector Accounting Standards (IPSAS). The accounting is centralized in Ministry of Finance (MoF) and they use their own custom made accounting package called AFMIS. For ARTF, a monitoring agent is appointed, to provide oversight on the claims raised by the Government entities on the MoF. In the case of UNDP NEX audits the accounting is done by UNDP itself using its management information system called ATLAS. The accounting entries are made using customized Chart of Accounts.

2.11 **Technical Assistance for Audit:** Due to lack of sufficient capacity and expertise within CAO, to conduct audits in accordance with the international standards of auditing, World Bank considered it prudent to appoint an international auditing and consulting firm to assist the CAO. This assistance program commenced in 2002 and PKF, a firm of chartered accountants in UK assisted CAO in conducting audits for the Solar Years 1381 and 1382. Deloitte Touche Tohmatsu India Pvt. Ltd. (Deloitte) took over from PKF in mid 2005 to assist CAO for the 1383, 1384 & 1385 audits.

2.12 **Centralized Accounting function:** In case of WB donor funded audits, MoF is the centralized accounting authority. MoF is having its offices in provinces, also called Mustofia, which submits the statement of expenditure to the main office of MoF at Kabul.
3 General Philosophy in Government Auditing

3.1 Independence, Objectivity and Impartiality

3.1.1 In all matters relating to the audit work, the independence of auditors should not be impaired by personal or external considerations. Auditors have an obligation to refrain from becoming professionally involved in all audit matters in which they have a vested interest.

3.1.2 The legal mandate provided by the Government of Afghanistan provides for full and free access for the CAO and his auditors to all premises and records relevant to auditable entities and their operations and provides adequate powers to the CAO to obtain relevant information from persons or entities possessing the same.

3.1.3 It is essential that auditors are independent and impartial, not only in fact but also in appearance.

3.1.4 There is a need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in audit reports should therefore, be based exclusively on evidence obtained and assembled in accordance with the SAI’s auditing standards.

3.2 Competence

3.2.1 Since the duties and responsibilities borne by the CAO are crucial to the concept of public accountability, the CAO must apply to his audits, methodologies, and practices of the highest quality. It is incumbent upon the CAO to formulate procedures to secure effective delivery of its responsibilities for audit reports, unimpaired by no less than full adherence by its personnel or external experts to its standards, planning procedures, methodologies, and supervision.

3.2.2 The audit department needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Depending upon the nature of the audits to be undertaken under that mandate, persons whose education and experience are commensurate with the nature, scope, and complexities of the audit task should carry out the audit work.

3.3 Mandate

3.3.1 CAO mandate may include the audits of following entities:

- Ministries,
- Governmental Departments and organizations,
- State Agencies, Municipalities and other local autonomous bodies,
- Banks,
- Public Enterprises and joint stock companies,
- Governmental entities abroad,
- Chambers of commerce and industries,
- Cooperatives,
- Red Crescent,
- Non-governmental entities that use or manage the grants, loans, or donations receive, either directly or indirectly, from the government,
- entities which are required to pay tax and other customs to the government,
- Any other entity assigned by the President for specific examination.

3.4 **Duties and Power:**

3.4.1 The CAO, normally, has the following duties:

- To audit the implementation of revenues and expenditures in administrations,
- To audit the financial and Qatia statements,
- To ensure the achievements of economic, financial and social plans,
- To audit the recording process and utilizing of grants and assets,
- To assess the shortcomings and deficiencies in public departments,
- To practice audit and control in a way to develop and growth national and social economy and strengthen free markets,
- To identify the public properties wasting issues and turning them over to the attorney general,
- To audit the governmental agencies abroad,
- To provide methodical guidance to internal audit of ministries and other public administrations,
- To audit the performance of internal audit of the ministries and other public administrations,
- To notify the audit conclusions to audited entities,
- To submit the consolidated audit report to the President and through its legal channel to the National Assembly,
- To present guidance and reforming opinions,
➢ To coordinate with the Accounting Committee in terms of audit reports,
➢ Drafting and promulgating the audit and accounting standards in the country.

3.4.2 To audit the financial statements and to conduct an audit considering the legality, economy, efficiency, and effectiveness of governmental and nongovernmental entities activities the CAO normally have the following powers:

➢ Power to access to all records, books, financial statements, reports, stamps, valuable documents and other properties subject to audit,
➢ Power to submit questionnaires to get information,
➢ Power to suggest to displace and suspend those who accused to crime and also impose disciplinary punishment according to the law,
➢ Power to conduct physical verifications of goods, vehicles, belongings and other valuable items and also to ensure proper protection, distributions and use of the above mentioned assets,
➢ Power to reopen the audit based on the information and evidences,
➢ Power to audit the performance of internal audit departments for the purpose of working consistency and to ensure effectiveness of the Internal Control Systems,
➢ Power to issue instruction to stop illegal actions,
➢ Power to comment for termination of those contracts which negatively affect the public properties,
➢ Power to attend in preparation of the financial and accounting official documents,
➢ Power to control the construction and productive affairs by taking tentative measures and to ensure that the work is implemented based on the plan and to control the quality of working.

3.5 Due Care

3.5.1 The CAO must be, and be seen to be, objective in its audit of ministries and departments, entities and enterprises. It should be fair in its evaluations and in its reporting on the outcome of audits.

3.5.2 Auditors need to be alert to conflicting or compromising situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results, which could be indicative of fraud, improper, or unlawful expenditure unauthorized operations, waste, inefficiency or lack of probity.
3.5.3 If the CAO employs external experts as consultants, the external entity must also exercise due care. The CAO needs to be assured of the consultants’ competence and aptitude for the particular tasks involved. This standard applies also where outside auditors are engaged on contract for donor funded audits. In addition care must be taken to ensure that audit contracts include adequate provision for the CAO to determine the planning, the audit scope, the actual conduct and reporting on the audit.

3.5.4 When the audit department uses the work of another auditor(s), it must institute adequate procedures to provide assurance that the other auditor(s) has exercised due care and complied with relevant auditing standards, and may review the work of the other auditor(s), at least on a test basis, to satisfy itself as to the quality of that auditor’s work.

3.5.5 Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and the formation of an opinion or in reporting in accordance with the auditor’s responsibilities. It is essential that the audit department maintain confidentiality regarding audit matters and information arising from its audit task. However, the CAO should report offences against the law to proper prosecuting authorities in the manner provided in the Law.

3.5.6 Both the departmental and outside auditors should strictly adhere to the code of ethics and code of conduct approved by the CAO for ensuring professional behavior.

3.6 Conflict of Interest

3.6.1 When auditors are permitted to provide advice or services other than audit to an audited entity, care should be taken that these services do not lead to a conflict of interest. In particular, auditors should ensure that such advice or services do not include management responsibilities or powers, which must remain firmly with the management of the audited entity.

3.6.2 Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities which could influence or be perceived as influencing their independence and integrity.

3.6.3 Auditors should avoid all relationships with managers and staff in the audited entity and other parties which may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently.
3.6.4 Auditors should not use their official position for private purposes and should avoid relationships which involve the risk of corruption or which may raise doubts about their objectivity and independence.

3.6.5 Auditors should not use information received in the performance of their duties as a means of securing personal benefit for themselves or for others. Neither should they divulge information which would provide unfair or unreasonable advantage to other individuals or organizations, nor should they use such information as a means for harming others.

3.7 Quality Assurance Review

3.7.1 Because of the importance of ensuring the expected standard of work by the audit department, it should pay particular attention to quality assurance programs in order to improve audit performance and results. The benefits to be derived from such programs make it essential for appropriate resources to be available for this purpose. It is important that the use of these resources be matched against the benefits to be obtained.

3.7.2 The CAO should establish systems and procedures to:

- Confirm that internal quality assurance processes have operated satisfactorily;
- Ensure that the coverage of audit in value / volume terms is adequate keeping in mind the materiality concept;
- Ensure the quality of the audit report; and
- Secure improvements and avoid repetition of weaknesses.

3.7.3 The value / volume of coverage will depend upon the risk that is assessed using a combination of measures. These include:

- Type of transaction
- Type / value of assets
- Complexity of systems
- Degree of change
- Previous experience of the area
- Overall standard of internal control

3.7.4 Materiality is very important for quality assurance considering the timing and extent of audits to be conducted by CAO. Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material - for example, where the law or regulation requires it to be disclosed separately regardless of the amount involved.
3.7.5 In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to:

- the overall view given to the financial information;
- the total of which it forms a part;
- associated terms;
- the corresponding amount in previous years.

3.8 Other General Principles for CAO

3.8.1 CAO personnel should possess suitable qualifications and be exposed to appropriate training and experience. Afghanistan is a post war country and there is dearth of qualified professionals. Also the pay structure of CAO is not adequately attractive to recruit and retain qualified personnel. In the contemporary Afghan scenario all the staff of CAO may not be adequately qualified. While qualification of staff is a matter of concern in the short / medium run, CAO's mandate enables suitable training and up gradation of the staff in International Auditing practices.

3.8.2 The CAO should adopt policies and procedures to support the skills and experiences available within the CAO and identify those skills which are necessary but absent so that this can be addressed; provide a good distribution of skills to auditing tasks and a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level with due care and concern.

3.8.3 Resources required for undertaking each audit need to be assessed for the audit team as a whole so that suitably skilled staff may be assigned vertically and a control is placed on staff resources to be applied to the audit.

3.8.4 CAO personnel should have a good understanding of the Government environment, including such aspects as the role of the legislature, the legal and institutional arrangements governing the operations of the executive and the charters of public enterprises. This will ensure that the audit findings, conclusions, and recommendations are perceptive and soundly based and reflect an adequate understanding of the subject area of the audit. It is for the audit institution to judge, in its particular circumstances, to what extent its requirements are best met by in-house expertise as against employment of outside experts / audit firms.

3.8.5 In determining the allocation of its resources among different audit activities, the CAO must give priority to any audit tasks, which must, by law, be completed within a specified time frame. Careful attention
must be given to strategic planning so as to identify an appropriate order of priority for discretionary audits to be undertaken.

3.9 **Relationship Between Internal Auditing and the External Auditor**

3.9.1 The role of internal auditing is determined by management, and its objectives differ from those of the external auditor who is appointed to report independently on the financial statements. The internal audit function’s objectives vary according to management’s requirements. The external auditor’s primary concern is whether the financial statements are free of material misstatements.

3.9.2 Nevertheless some of the means of achieving their respective objectives are often similar and thus certain aspects of internal auditing may be useful in determining the nature, timing, and extent of external audit procedures.

3.9.3 Internal auditing is an in house expertise. Irrespective of the degree of autonomy and objectivity of internal auditing, it cannot achieve the same degree of independence as required of the external auditor when expressing an opinion on the financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by any use made of internal auditing. All judgments relating to the audit of the financial statements are those of the external auditor.

3.9.4 **Understanding and Preliminary Assessment of Internal Auditing**

(a) The external auditor should obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures.

(b) Effective internal auditing will often allow a modification in the nature, timing, and a reduction in the extent of audit procedures performed by the external auditor but cannot eliminate them entirely. In some cases, however, having considered the activities of internal auditing, the external auditor may decide that internal auditing will have no effect on external audit procedures.

(c) The external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment.

(d) The external auditor’s assessment of the internal audit function will influence the external auditor’s judgment about the use which may be made of internal auditing in making risk
assessments and thereby modifying the nature, timing, and extent of further external audit procedures.

(e) When obtaining an understanding and performing an assessment of the internal audit function, the important criteria are the following:

- **Organizational status:** Specific status of internal auditing in the entity and the effect this has on its ability to be objective. In the ideal situation, internal auditing will report to the highest level of management and be free of any other operating responsibility. Any constraints or restrictions placed on internal auditing by management would need to be carefully considered. In particular, the internal auditors will need to be free to communicate fully with the external auditor.

- **Scope of function:** The nature and extent of internal auditing assignments performed. The external auditor would also need to consider whether management acts on internal audit recommendations and how this is evidenced.

- **Technical competence:** Whether internal auditing is performed by persons having adequate technical training and proficiency as internal auditors. The external auditor may, for example, review the policies for hiring and training the internal auditing staff and their experience and professional qualifications.

- **Due professional care:** Whether internal auditing is properly planned, supervised, reviewed, and documented. The existence of adequate audit manuals, work programs, and working papers would be considered.

**3.9.5 Timing of Liaison and Coordination**

(a) When planning to use the work of internal auditing, the external auditor will need to consider internal audit tentative plan for the period and discuss it at as early a stage as possible. Where the work of internal auditing is to be a factor in determining the nature, timing and extent of the external auditor’s procedures, it is desirable to agree in advance the timing of such work, the extent of audit coverage, materiality levels and proposed methods of sample selection, documentation of the work performed and review and reporting procedures.

(b) Liaison with internal auditing is more effective when meetings are held at appropriate intervals during the period. The external auditor would need to be advised of and have access to relevant internal auditing reports and be kept informed of
any significant matter that comes to the internal auditor’s attention which may affect the work of the external auditor.

3.9.6 Evaluating the Work of Internal Auditing

(a) When the external auditor intends to use specific work of internal auditing, the external auditor should evaluate and perform audit procedures on that work to confirm its adequacy for the external auditor’s purposes.

(b) The evaluation of specific work of internal auditing involves consideration of the adequacy of the scope of work and related programs and whether the assessment of the internal auditing remains appropriate. This evaluation may include consideration of whether:

✓ The work is performed by persons having adequate technical training and proficiency as internal auditors and the work of assistants is properly supervised, reviewed and documented;
✓ Sufficient appropriate audit evidence is obtained to be able to draw reasonable conclusions;
✓ Conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed; and
✓ Any exceptions or unusual matters disclosed by internal auditing are properly resolved.

3.9.7 The nature, timing and extent of the audit procedures performed on the specific work of internal auditing will depend on the external auditor’s judgment as to the risk of material misstatement of the area concerned, the assessment of internal auditing and the evaluation of the specific work by internal auditing. Such audit procedures may include examination of items already examined by internal auditing, examination of other similar items and observation of internal auditing procedures.

3.9.8 The external auditor would record conclusions regarding the specific internal auditing work that has been evaluated and the audit procedures performed on the internal auditor’s work.

3.9.9 Other matters relating to Internal Audit which are relevant for CAO are typically, the duties and responsibilities of the internal audit unit which are as follows:

✓ Reviewing the compliance with the Government financial regulations, instructions and procedures;
Evaluating the economy and effectiveness of the internal control systems;

- Appraising the economy and effectiveness with which financial and other resources are being used;
- Reviewing the reliability and integrity of record-keeping and reporting on financial and operating information systems;
- Reviewing Appropriation Accounts, Fund Accounts and other accounting statements, before sending it for audit;
- Investigation of irregularities identified or reported and reporting on cases leading to wastage of resources or misappropriation etc;
- Ensuring revenue and other receipts due to the government are collected promptly, banked immediately and fully accounted for;
- Reviewing budgetary controls on issuance of warrants, commitments, expenditures, revenue collection and accounting from time to time;
- Ensuring that government physical assets are appropriately recorded and are kept under safe custody;
- Reviewing the budget reallocation process;
- Procurement/contract audit.

### 3.10 Procurement Laws

#### 3.10.1 Presently in Afghanistan there are varied procurement guidelines viz. World Bank Procurement Guidelines for goods / works and consultancy services, Afghan Procurement Law, UNDP Procurement Procedures etc.

#### 3.10.2 Normally the Afghan Procurement Law applies to all monies spend through or by Government funds. However the Afghan Procurement Law gives the flexibility to apply other guidelines [refer section 4 (3)] in case of donor funds where there exists a stipulation in the Grant / Credit Agreement.

#### 3.10.3 WB Procurement Guidelines will apply for the project that is financed in whole or in part by a Loan from the International Bank for Reconstruction and Development (IBRD) or a Credit or Grant from the International Development Association (IDA). While in UNDP-NEX audits, the Afghan Procurement Laws will apply in concurrence with the UNDP procurement procedures.

#### 3.10.4 Review of procurement related documents is integral part of auditing to determine the extent of applicability of procurement guidelines.

Procurement Documents: These generally consists of bids / quotes received from vendors / contractors, bid evaluation report, minutes
of meeting of bid evaluation committee, copies of advertisements, procurement notices etc.

3.11 **Risk Based Audit**

3.11.1 Audit should be risk-based or focused on areas of greatest risk to the achievement of the audited entity’s objectives. Risk-based audit (RBA) is an approach to audit that analyzes audit risks, sets materiality thresholds based on audit risk analysis and develops audit programmes that allocate a larger portion of audit resources to high-risk areas.

3.11.2 The auditor does not normally need to perform specific audit procedures on all areas of audit. Auditor only needs to design audit programmes and procedures on areas earlier identified as major risks that could result in the financial statements being materially misstated.

3.11.3 RBA is an essential element of financial audit- both in the attest audit of the financial statements and in the audit of financial systems and transactions including evaluation of internal controls. It focuses primarily on the identification and assessment of the financial statement misstatement risks and provides a framework to reduce the impact to the financial statement of these identified risks to an acceptable level before rendering an opinion on the financial statements. It also provides indicators of risks as a basis of opportunity for improvement of auditee risk management and control processes. This affords an opportunity to the auditee to improve its operations from recommendations on risks that do not have a current impact on the financial statements but impact the audited entity’s operational strategies and performance over the longer term.

3.11.4 In the context of performance audit, it is the risk to delivery of an activity or scheme or programme of the entity with economy, efficiency and effectiveness. Awareness of areas that puts the programme or resources at risk from the point of view of economy, efficiency and effectiveness helps focus audit attention on them. The risk analysis provides a framework for assurance in performance auditing.

3.11.5 The auditor should perform an analysis of the audit risks that impact on the auditee before undertaking specific audit procedures. Risk assessment is a subjective process. It is part of the professional judgment of the auditor and of the particular circumstances. Audit risk is the risk that the auditor may unknowingly fail to appropriately modify his opinion on financial statements that are materially misstated.

3.11.6 Audit risks are brought about by error and fraud:
Error is an unintentional mistake resulting from omission, as when legitimate transactions and/or balances are excluded from the financial statements; or by commission, as when erroneous transactions and/or balances are included in the financial statements

Fraud is an intentional misstatement in the accounting records or supporting documents from which the financial statements are prepared. It is intended to deceive financial statement users or to conceal misappropriations.

3.11.7 The auditor has the responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud.

3.11.8 An error risk may arise from an error in principle, estimate, critical information processing, financial reporting process or disclosure.

3.11.9 Fraud risk involves manipulation, falsification of accounting records, or misrepresentation in the financial statements of events, transactions or other significant information, or misapplication of accounting principles or misappropriation of funds.

3.11.10 The risk model is an analytical tool for planning and execution. This approach detects high-risk areas where audit effort can be concentrated. Audit can thus focus on areas which are likely to generate better assurance instead of sampling and testing of larger but low risk areas. It structures the audit procedures and re-organizes the audit work in terms of risk perception.

i. **Inherent Risk** is the susceptibility of an account balance or class of transactions to misstatements that could be material individually or when aggregated with the misstatements in other balances or classes, assuming that there were no related internal controls. Inherent risk is assessed during the preliminary stage of the planning process.

ii. **Control risk** is the risk that a misstatement, that could occur in an account balance or class of transactions that could be material, individually or when aggregated with misstatements in other balances or classes, will not be prevented or detected and corrected by the accounting and internal control systems. Control risk is assessed during the evaluation of audited entity’s strategies and control.

iii. **Detection risk** is the risk that an auditor’s substantive procedures will not detect a misstatement that exists in an account balance or class of transaction that could be material individually or when aggregated with misstatements in other balances or classes. The detection risks are assessed during the execution phase of the audit in the substantive tests of details.
4 Audit of World Bank Aided Projects

4.1 World Bank Project Agreements:

4.1.1 Project funding for Afghanistan is based on agreements signed between the WB / IDA and the Government of Afghanistan. The Ministry of Finance is the nodal agency which signs the agreement on behalf of the Government and also acts as disbursement and accounting agent for the project funds. The project funding to the Islamic Republic of Afghanistan may be in the form of grant-in-aid or in form of credit, repayable after a specified period. MOF is responsible for the accounting of the project funds in an accounting software called AFMIS.

4.1.2 The grant / credit agreement forms the basis of audit. Based upon the terms and conditions, read with the applicable laws of the country, the Auditor General opine whether the funds have been utilized in the manner as specified in the Grant / Credit agreement.

4.1.3 The technical annex, which details various technical, financial, and managerial aspects of the projects, has to be read in consonance with the Grant / Credit Agreement. The Grant / Credit amount is required to be utilized in pursuing the objectives of the project. This amount of the Grant / Credit may be enhanced by WB by way of grant amendment agreement. This technical annex is prepared by WB in some projects, the copy of which can be obtained from the WB web site (http://www.worldbank.org).

4.1.4 The amount of grant / credit is bifurcated into various categories viz. goods, works, consulting services, training, auditing, incremental operating expenditure, sub grants, block grants etc. depending on the requirements of the project.

4.1.5 The items generally specified in the Grant Agreement are:

- Effective date / date of commencement of project
- Closing date
- Description of Project
- Implementing line ministries
- Procurement guidelines
- Financial management, accounting and auditing arrangements
- Requirements as to the Special Account
- Requirements as to the implementing agencies / facilitating partners
- Any other project specific matter

4.2 Audit Objective
4.2.1 The objective of audit which are usually specified in the Grant Agreement and the technical annex of the project can be classified as under;

- To ensure proper presentation of Project financial statements,
- To ensure proper utilization of funds from Special Account of the project and in accordance with the nature of operations and volume of transactions,
- To ensure accuracy of Statement of Expenditure (SOE),
- To ensure whether the accounting system and internal controls are commensurate with the nature of operations and volume of transactions,
- To ensure ability of accounting departments within MOF for adequate documentation of transactions,
- To ensure the eligibility of expenditures for financing under the respective grant / credit agreement and technical annex,
- To ensure compliance with WB Procurement Guidelines, and
- To ensure that periodic Financial Monitoring Reports (FMR) submitted by MOF / Line Ministry to IDA reconciles with the Financial Statements.

4.3 Funding and Disbursement System:

4.3.1 Initial Deposit: On the commencement of the grant, a Special Account (SA) will be opened in DAB and a lump sum amount will be deposited by WB to facilitate payments for the project expenditure. This amount is called Initial Deposit.

4.3.2 Payment from Special Account: The Special Account opened in DAB, as explained above, will be operated by the Treasury Department of the MOF. Most of the payments for the project are made from the SA. The SA is replenished at regular intervals by WB when Statements of Expenditures (SOE) are submitted by MOF to WB. DAB has agreement with the Government for not charging any bank charges etc. The payment through special account is made in US dollars and in case where payments are to be made in Afghan currency then the exchange rate published by DAB apply.

4.3.3 Direct Payment: The Special Account of the grant at times may not have sufficient amount to make large payments to suppliers / contractors. In such cases, the World Bank, on the basis of M-16 sent by MOF, makes direct payments to the parties. Such payments are called Direct Payments. Generally sums above a certain threshold limit are eligible for direct payments. Threshold limit is usually specified in the Technical Annex or in the Grant Agreement. These payments will not appear in DAB statements, but will appear in the Client Connection Statements of WB.
4.3.4 **Replenishments:** From time to time, the amounts disbursed by MOF from SA for the project expenditure are reimbursed by WB. Such payments by WB are called Special Account Replenishment. For claiming replenishment, MOF has to submit SOE to WB.

4.3.5 **Reimbursement:** For many projects, there are Implementing Agency/ies (IA) which are usually international organizations who make payments from their own resources. Subsequently, based on Statement of Expenditure from MOF, WB make payments to IA which are called Reimbursements. These payments will not appear in DAB statement but will appear in Client Connection Statement of WB.

4.3.6 **Blanket payments to Implementing Agencies:** In some cases, lump sum payments are made by WB to Implementing Agencies (UNOPS etc) in advance for project expenditure. IA then disburses the amount for project activities and will send expenditure details to the Line Ministry / MOF for accounting.

4.3.7 **Lending and Borrowing:** The project may temporarily lend surplus funds to other projects or resort to short term borrowings to meet urgent fund requirement. Such lending or borrowing should appear in the project Financial Statements. The authority for such lending / borrowing should be ascertained if not authorized by the Grant Agreement.

4.4 **Major Documents**

4.4.1 **Types of Documents:** The grant documents can be broadly classified into (a) Project documents and (b) Transaction documents.

a. **Project Documents:** These consist of following;
   - Grant Agreement
   - Technical Annex
   - Agreement with Ministries
   - Agreement with the implementing agencies
   - Project Management Manuals including Finance Manual/ Operational Guidelines

b. **Transaction Documents:** which are either for individual transaction or for a group of transactions that occurred during a period. Some examples are given below.
   - M -16 – This is a payment request prepared by the concerned Line Ministry / MOF
   - M 20 – This is the form for submission of SOE through Mustofia in provinces.
   - Project Coding Sheet and Form D-1 – This document gives budget related details of the relevant expenditure / payment
- Application of Withdrawal (AoW) – For initial deposit, direct payments, blanket payment to IA etc, the application for withdrawal has to be sent
- Statement of Expenditure (SOE) – For replenishment, reimbursement etc, SOE has to be sent to WB
- Bank statement – Bank statement for the Special Account as well as for the account of implementing agencies are available. Bank reconciliation statements are usually attached with the financial statements.
- Client Connection Statement (CCS): CCS is the list of payments made by the World Bank. It contains entries for initial deposit, direct payments, SA replenishments, reimbursements, and refunds. It is available from the WB (www.worldbank.org) website through valid login id and password. The auditor can either obtain login rights to CCS website or can ask MOF / World Bank to provide print outs of CCS.
- Financial Monitoring Reports (FMR): These are Financial Statements periodically prepared by the Line Ministry / MOF and sent to WB.
- Annual Reports
- Minutes of the meeting of Steering Committee, Governing Body etc.
- Procurement Documents: These generally consists of bids / quotes received from vendors / contractors, bid evaluation report, minutes of meeting of bid evaluation committee, copies of advertisements, procurement notices etc.
- Contracts / purchase orders - signed with contractors / suppliers for works, goods, consulting, training, auditing etc.
- Invoices
- Shipping documents
- Customs clearance documents
- Letter of credit, bank guarantee
- Insurance for goods in transit
- Fixed asset register
- Project output reports

4.5 **Accounting System and Accounting Organization**

4.5.1 The Government of Afghanistan follows cash basis system for financial reporting and its legislature adopted International Public Sector Accounting Standards (IPSAS). The accounting is centralized in Ministry of Finance (MoF) and they use the own custom made accounting package called Afghanistan Financial Management Information System (AFMIS). For ARTF a monitoring agent is appointed, which provides oversight on the claims made by Government. In case of UNDP NEX audits the accounting is done by
4.5.2 World Bank aided projects usually forms part of the development budget of the country. Special Disbursement Unit (SDU) in MOF only manages payments and reporting for items within the core development budget of the Islamic Republic of Afghanistan. Items within the external budget are included in the budget decree, but are accounted for outside MoF. ARTF audit is part of the operational budget of the country. As per the applicable laws, the audit should be completed within six months from the completion of the calendar / solar year, as the case may be.

4.5.3 The accounting records, documents, and database for the WB projects are maintained by the SDU in MOF. MOF maintains the financial records in the computerized accounting system called AFMIS (Afghanistan Financial Management Information System) which has been developed on an application called Free Balance. AFMIS is a query based system, and so different parameters can be used to classify and analyze data.

4.5.4 The auditor should have working knowledge of AFMIS and should get valid access to the system in order to effectively audit the transactions and to generate required reports / outputs independently from the system.

4.5.5 In order to classify the transactions, a chart of accounts is used by MOF. The auditor should familiarize with the chart of accounts. For the payment or receipt of a particular project / grant, the program code of that grant or project is used.

4.5.6 The entries in the system are generally based upon payment requests (M16) and Request for Direct Payments. The banking entries sometimes are based on DAB statements.

4.5.7 The documents relating to payments are preserved in SDU. The documents are kept separately for each project and within the project, the documents are kept for each contract in separate folders.

4.5.8 The Financial Monitoring Reports (FMR) is prepared by the respective Line Ministry.

4.6 Financial Statements

4.6.1 Financial statements for each project are prepared by MOF. They are prepared on cash basis in accordance with the International Public Sector Accounting Standards (IPSAS).

4.6.2 The Financial Statements contain following documents:
• Summary of cash receipts and payments during the year / period
• Summary of direct payments, replenishments and reimbursements
• Special Account summary
• Bank reconciliation statement
• Significant accounting policies and notes on accounts

4.6.3 The Financial Statements are signed by the Minister of Finance or Deputy Minister of Finance.

4.7 Transaction Processing

4.7.1 Types of transactions: There are only two types of transactions, namely, payments and receipts.

a. Payment transactions: The flow of payment transaction is outlined below:

• The Grant Management Unit in the implementing Line Ministry prepares the form PCS (Project coding sheet) and D1 (letter of allotment) and sends it to the Development budget and external relations department (DBER) for the allotment and approval of the budget.
• The DBER allocates and approves the budget and sends back the approved copy of the PCS and D1.
• The Grant Management Units then prepare the form M16 and send to the SDU along with all the required attachments such as covering letter from the head of Grant Management Unit, contract copy, invoice, PCS, D1 etc.
• On receipt of documents, SDU reviews and checks the documents. If all documents are in order, SDU prepares a cheque for the amount specified in M16 and sends it to the Director General of Treasury (DG) for approval.
• On approval, DG will send back the signed cheque to SDU and then it will be dispatched to DAB for payment / transfer.
• If the SDU decides to make direct payment instead of payment from Special Account, it will check out eligibility with reference to the threshold limit.
• If the amount is eligible for direct payment, SDU will prepare the Application of Withdrawal (AoW) and send the same to the DG for approval.
• Once approved, SDU will send the AoW along with the attachments to the World Bank for direct payment.
• World Bank will review the documents and if in order, make payment accordingly.
b. Receipt transaction: The receipt may be for initial deposit, replenishment, reimbursement, or blanket payment. The procedure for all types of receipt is same with slight variation in documentation as outlined below:

- The SDU prepares the AoW and sends it to DG for approval. If the request is on account of replenishment, the SOE prepared by SDU is attached to the AoW, and if the request is for reimbursement, SOE received from the IA is attached to the AoW.
- On approval by DG, SDU will send the signed AoW along with the attachments to the World Bank for payment.
- World Bank will review the AoW and make payment accordingly.

4.8 Audit Approach

4.8.1 The auditor is expected to adopt an audit approach which is capable of meeting the audit objectives.

4.8.2 Usually there are two types of audit approaches. (1) “Top to Bottom” approach or (2) “Bottom to Top” approach.

a. In Top to Bottom approach, the audit is planned from the Financial statements level and line items are identified and selected for audit. For each selected line item, the auditor reviews the internal controls and conduct substantive testing. For example if the auditor select “Goods” as one of the line items, he will zoom in for verification of the controls and risks relating to the procurement, receipt, storage and issue of goods, then identify the database of the transaction for that line item, select samples of transactions and perform the substantive testing on the selected samples. This approach is recommended for the statutory audit of companies where more emphasis is on the Financial Statements and the auditor reports whether it is true and fair.

b. In the Bottom to Top approach, the auditor lists out the controls and selects the transactions from the database and track the transaction to the different levels by zooming out. This approach is more suitable for internal audits, concurrent audit and Government audits where more emphasis is on the effectiveness of controls and accuracy of transactions.

4.8.3 For WB grant audits, since the CAO is expected to provide audit opinion on the Financial Statements prepared by MOF, the first method (Top to Bottom) is recommended.

4.8.4 In this audit since the program / projects are executed in several provinces and more that one Ministry may be involved, the audit approach should be macro oriented. Hence M 16 will be checked with
the related documents like contract documents, site inspection reports, stock register, bill of quantities, payroll records etc.

4.9  **Auditing Standards**

4.9.1 The standards for auditing are aimed at streamlining the auditing practice and ensure the quality of results.

4.9.2 There are country specific auditing standards which are usually applicable. Also the audit law of the country prescribes the adoption of the standards.

4.9.3 CAO being a member of International Organization of Supreme Audit Institutions (INTOSAI) is bound to adopt the International Standards for Government auditing pronounced by INTOSAI.

4.9.4 The INTOSAI Auditing Standards consists of four parts:

   (i) Basic Principles
   (ii) General Standards
   (iii) Field Standards
   (iv) Reporting Standards

   The auditor should be familiar with details of the above standards.

4.9.5 If the terms of reference for an audit require the auditor to adopt any other standard, such specified standard should also be considered.

4.9.6 In case where INTOSAI does not give adequate guidance the CAO should apply best judgment based on fundamental auditing principles and audit objectives.

4.10  **Audit Planning and Preliminary Assessment:**

4.10.1 The auditor should plan the overall engagement and make an Audit Plan, which should contain the following;

   - The audit objectives and scope of work
   - Background information about the entity and activities to be audited and the risks associated with these activities
   - The resources necessary to perform the audit
   - Planned starting / ending dates, total man days required
   - The persons to be informed about the audit and the plan
   - Important information, if any, from past years’ audit experience
   - When and to whom the audit results will be communicated
   - Audit program including province visits.

4.11  **Communication for Audit Commencement**
4.11.1 The auditor should establish appropriate channels of communication with MOF / Line Ministry / Project Management / WB etc and should identify resource persons in the respective organization and obtain their contact details.

4.11.2 Before commencement of audit, the auditor should send a communication to the client, containing:

- Audit Plan
- Request for confirmation of audit readiness
- List of documents required / to be kept ready,
- Terms of Reference (TOR), if not already agreed
- Any other important matter

4.11.3 Thereafter, the auditor should request for an Entry Meeting with the departmental representative of the auditee. The purpose of this meeting is to acquaint the auditors with the auditee personnel, familiarize the auditees with the audit objectives & audit areas and answer auditee questions and concerns. Arrangements should be made at this time for work space for the auditors.

4.11.4 Auditor should also insist upon a focal coordinator from MoF who will be responsible to co-ordinate with CAO in getting the information needed to conduct the audit.

4.12 **Collection of Data and Documents**

4.12.1 On commencement of audit, the auditor should collect the requisite documents / information, some of which are mentioned below.

a. Accounting Manuals, Operational Manuals and Systems Manuals
b. Organization structure of the accounting activity
c. Chart of Accounts
d. Donor assistance database
e. World Bank Procurement Guidelines
f. Copies of budgets (operation and development)
g. Grant Agreement / Technical Annex
h. Draft Financial Statements
i. Client Connection Statement
j. Bank Statements
k. Bank Reconciliation Statement
l. Financial Monitoring Reports
m. Summary of accounts (obtained from AFMIS)

n. Other accounting and financial data such as payroll register, asset register, expense register, insurance register etc. Other data such
as list if NGOs acting as facilitating partners, list of contractors / vendors, list of advances made, list of bank guarantees etc.

4.13 **Project Study**

4.13.1 A review of the collected documents will enable the auditor to have a good knowledge of the entity and the concerned project/s.

4.13.2 The knowledge of the project, operations and business process will help in identifying the risks.

4.14 **Risk Assessment**

4.14.1 In view of the increasing complexity of operations, increased application of information technology tools and the significantly large population of data, auditors are required to consider the key risks and perform risk based auditing.

4.14.2 Risk is defined as a probability that a certain event or phenomenon will have a negative impact on the auditee organization. The identification of risks should serve as a basis for the selection of areas that are to be audited.

4.14.3 Once the risk assessment is done, the auditor should decide the critical audit areas where intense verification is required. The auditor should assess the impact of the overall environment risk on the project.

4.14.4 The auditor should also identify the controls mitigating the risks and risk management process of the organization.

4.15 **Internal Controls Review**

Internal control is the process implemented by the organization’s management which is designed to provide a reasonable assurance that the objectives of the organization are being met in terms of:

- Effectiveness and efficiency of operations
- Reliability of financial and operational reporting
- Compliance with applicable laws and regulations

The Auditor must assess the internal controls in place and make his own review assessment on the effectiveness of the internal control process existing in the organization.

4.16 **Analytical Review**

The auditor should conduct an analytical review of the Financial Statements, based on the knowledge gained by reviewing the grant documents, previous year’s Financial Statements / audit reports etc, which will assist him in gaining an insight into the information contained in the Financial Statements and especially in;
Identifying the unexpected differences or absence of expected differences
Identifying the potential errors, irregularities, misstatements and frauds
Identifying other unusual, non-recurring and abnormal transactions or events.

4.17 **Substantive Testing**

4.17.1 The auditor should then perform the substantive testing on the transactions selected on sample basis.

4.17.2 The samples should be selected using any of the following well accepted sampling methods:

- Statistical sampling methods viz. random sampling or stratified random sampling
- Judgmental sampling

4.17.3 The samples selected can be tabulated in the following Table:

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Area</th>
<th>Total Population</th>
<th>% of Sample Population</th>
<th>Basis of selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Direct payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Reimbursements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Replenishments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Loan taken</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Goods</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Consultant services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Works</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Incremental operating expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.17.4 Substantive tests of the sample transactions so selected, should cover the different kind of transactions so as to attain the required level of assurance.

4.17.5 The following paragraphs briefly describe the method of auditing different types of transactions specific to the WB grants.

a. **Audit of Direct Payments:**
   - Trace the direct payment to the CCS and check the date, amount and other particulars
   - Verify the AoW with the supporting documents viz. invoice, contracts etc. for the requisite details and evidence
   - Verify the recording of AoW into the AFMIS

b. **Audit of Blanket Payments:** The auditor can adopt the following method to verify the blanket payments:
   - Trace the blanket payment to the CCS
• Verify the amount with the IA contract authorizing blanket payment
• Verify the AoW
• Verify the recording of AoW into the AFMIS

c. **Audit of Special Account:**
• Initial deposit should be verified with reference to the AoW and should be traced to the CCS.
• The payments / expenses from the SA should be verified with the supporting evidences viz. M16, Invoices, PCS, D1, Contract etc.
• Verify the proper recording of the transactions into the AFMIS system.

While covering the above types of payments, the auditor should ascertain whether the payment for the year under audit and cumulative payment upto the year is properly categorized and classified, as stipulated in the grant / credit agreement, and the total amount is within the budget allocations.

4.17.6 *The detailed checklist attached in Chapter 8 in this Manual will help the auditor to cover all the audit areas in detail.* The check list should be periodically modified for its relevance to the current conditions.

4.18 **Physical Verification and other auditing procedures**

4.18.1 The auditor should complement the testing of records and verification of accounting information with other auditing procedures such as physical verification, observation, inspection, re-computation etc. to get the required level of assurance.

4.18.2 The auditor should physically verify the cash, assets, goods, and works. The physical verification may be pre-informed or may be conducted by surprise depending on the circumstances and professional judgment of the auditor. Following procedure should be adopted for verifying the assets:

- Contact the Accountant-in-Charge to determine the number of counts required.
- Visit the sites where inventory is stored with a member of the ministry staff.
- Observe inventory counting and documentation. Note if procedures are being followed, and if these procedures are adequate to conduct an accurate count.
- Perform test counts for both understatement and overstatement testing.
- Note any obsolete, damaged, or superseded stock.
- Obtain samples of items that may require further analysis or additional expense.
- Ensure that they have tested items stored in unopened cartons, piles, tanks, etc.
- Determine differences between our test counts and counts by the client, and evaluate if recounts are required.
- Note the first and last receiving and shipping documents before and after the count.
- Obtain copies of count sheets.
- Ensure that the Ministry retains copies of tags or count sheets for later follow up.

4.18.3 The auditor should resort to the auditing procedures, observation, and inspection, for service provision transactions such as consulting services, training etc.

4.18.4 The auditor should resort to the auditing procedures, such as re-computation in case of payroll, verification of log book for fuel expenditure (of vehicles) etc.

4.18.5 The auditor should review the contract management process in detail. Compliance to the terms of contract viz. bank guarantee, advance / progressive / final payment, bill of quantities, rates, progress reports, site visits, insurance of assets, liquidated damages etc. should be scrutinized. Apart from this the concept of value for money i.e. relating to effectiveness of amounts spent should be seen.

4.18.6 In case of any new contract / amendment in existing contract, for works / goods or services, the compliance to the relevant procurement guidelines should be seen. Presently in Afghanistan there are varied procurement guidelines viz. World Bank Procurement Guidelines for goods / works and consultancy services, Afghan Procurement Law, UNDP Procurement Procedures etc. Normally the Afghan Procurement Law applies to all monies spend through or by Government funds. However, the Afghan Procurement Law gives the flexibility to apply other guidelines [refer section 4 (3)] in case of donor funds where there exists a stipulation in the Grant / Credit Agreement. So the World Bank Procurement Guidelines will apply for the project that is financed in whole or in part by a Loan from the International Bank for Reconstruction and Development (IBRD) or a Credit or Grant from the International Development Association (IDA). While in UNDP-NEX audits the Afghan Procurement Laws will apply in concurrence with the UNDP procurement procedures.

4.18.7 In cases where NGO / other agencies has been appointed as implementing partners, their performance and deliverables should be verified, and if needed, a visit to that NGO after the consent of Ministry, should be undertaken.

4.18.8 The audit procedure should be fact finding and should not be limited to:
- Reporting on project delivery and performance audit
- Verifying administrative procedures
- Checking minutes of the project management committee, steering committee, site visits plans
- Verifying adequacy of check list for payments
- Evaluation of Monitoring procedure adopted by Ministry / Implementing Partner
- Review of Internal audit reports or external audit reports (where ever applicable) in case of independent implementing partners like MISFA
- Adequacy of internal control
- Effectiveness of capacity building
- Review of recruitment process
- Bank Reconciliation
- Proper preparation of time sheets
- Accurate Head Count

4.19 **Documentation**

4.19.1 The auditor should adequately document the audit work carried out by preparing Audit working papers.

4.19.2 Audit working papers are the documents which maintain all audit evidences obtained during financial statements auditing. Audit working paper should support the audit work in terms of ensuring that the same is done in order, sufficient and assurance audit evidences have been obtained and reasonable assurance audit conclusion can be made in due course.

4.19.3 The auditor should document the understanding of the client's internal control structure elements obtained to plan the audit. The form and extent of this documentation is influenced by the size and complexity of the operation, as well as the nature of the internal control structure. For example, documentation of the understanding of the internal control structure of a large, complex operation may include flowcharts, questionnaires, or decision tables. For a smaller operation, however, documentation in the form of a memorandum may be sufficient. Generally, the more complex the internal control structure and the more extensive the procedures performed, the more extensive auditor's documentation will be required.

4.19.4 Working papers should contain sufficient information to allow an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors’ significant conclusions and judgments.

4.19.5 Proper working papers demonstrate professionalism and document the work that was done from the preliminary stages of a project audit.
through the final report. Audit working papers also show whether due professional care was exercised and illustrate compliance with professional auditing standards. Careful documentation of work performed is necessary to support the findings, recommendations, and opinions contained in the final audit report or close-out letter.

4.19.6 The organization, design, and content of audit working papers will depend on the nature of the audit. Audit working papers should, however, document the following aspects of the audit process:

- Planning.
- The examination and evaluation of the adequacy and effectiveness of the system of internal controls.
- The auditing procedures performed, the information obtained, and the conclusions reached.
- Review.
- Reporting.
- Follow-up.

4.19.7 Two separate file should be maintained for documents. First one marked ‘permanent file’ which should contain the year to year important papers and other one marked ‘current file’ which should relate only to current year transactions. Such files should be preserved for the prescribed number of years as per applicable laws of the country.

4.19.8 The working papers should be adequately supported by the copies of the external documents. The following matters should be properly documented:

- Audit plans
- Communications with the audit client and other external parties
- Description of the project and operations
- Conclusions on data analysis
- Report on risk assessment
- Internal Controls Review
- List of audit samples selected for substantive testing
- Audit procedures applied and significant observations
- Interim reports and Management Letter
- Audit Report

4.19.9 The external documents such as Financial Statements, bank statement, CCS, copies of relevant SOE etc. should be kept in the audit file to support the working papers.

4.19.10 **Working Paper Guidelines:**
Working papers should provide:
- Documentation of information obtained about the area being reviewed;
- Authoritative support for findings and recommendations contained in the audit report;
- Uniformity to the audit process;
- A means of evaluation - both in performance reviews and quality assurance reviews; and
- A guide for subsequent audits.

General guidelines for the preparation of working papers are:
- Completeness and accuracy – Working papers should be complete, accurate, and support observations, testing, conclusions, and recommendations. They should also show the nature and scope of the work performed.
- Clarity and understanding - Working papers should be clear and understandable without supplementary oral explanations. With the information the working papers reveal, a reviewer should be able to readily determine their purpose, the nature, and scope of the work done and the preparer's conclusions.
- Pertinence - Information contained in working papers should be limited to matters that are important and necessary to support the objectives and scope established for the assignment.
- Logical arrangement - Working papers should follow a logical order.
- Legibility and neatness - Working papers should be legible and as neat as practical. Sloppy working papers may lose their worth as evidence. Crowding and writing between lines should be avoided by anticipating space needs and arranging the working papers before writing.

4.19.11 The extent of documentation will depend upon the nature of audit and will depend upon best judgment of auditors. Following is the illustrative list of documentation:

**External Documents:**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Document</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>List of Grants under audit for the audit year with following details:</td>
<td>MoF / WB</td>
</tr>
<tr>
<td></td>
<td>- Grant Commitment Value</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Expenditure for the year from SA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Direct Payments / SC for the year</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Replenishment / Reimbursement for the year</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Technical Annex of Grants</td>
<td>MoF / WB</td>
</tr>
<tr>
<td>3.</td>
<td>Grant Agreements of New Grants</td>
<td>MoF / WB</td>
</tr>
<tr>
<td>4.</td>
<td>Amendments / Variations to Grant Agreements</td>
<td>MoF / WB</td>
</tr>
<tr>
<td>Sr. No.</td>
<td>Document</td>
<td>To be prepared by</td>
</tr>
<tr>
<td>--------</td>
<td>---------------------------------------------------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td>1</td>
<td>Audit Check List</td>
<td>Auditor In-charge</td>
</tr>
<tr>
<td>2</td>
<td>Audit Planning Memorandum</td>
<td>Auditor General in consultation audit agents, if any</td>
</tr>
<tr>
<td>3</td>
<td>Province Visit Report</td>
<td>Auditor In-charge</td>
</tr>
<tr>
<td>4</td>
<td>Physical verification report</td>
<td>Auditor In-charge</td>
</tr>
</tbody>
</table>

### 4.20 Audit Reporting

4.20.1 The auditor should prepare the draft audit report in the prescribed format and also the draft management letter.

4.20.2 While preparing the audit report (AR) the auditor should verify the compliance of previous year audit recommendations. Any non-compliance should be brought to the notice of management in the form of a Management Letter (ML).
4.20.3 The drafts of the AR and ML should be sent to the ministry / department concerned for their comments and if required, an exit meeting should be held with all concerned to discuss the reports.

4.20.4 Adequate opportunity should be given to MoF / LM / IP and if needed, re-verification of documents should be conducted. Based upon these the draft audit report should be suitably modified.

4.20.5 The draft audit report and management letter along with response from the ministry / department should be forwarded to the Directors / AG of CAO for their review.

4.20.6 Separate audit reports for each project should be issued. However a combined management letter can be issued giving grant / credit wise observations to bring to the attention of the Line Ministries the deficiencies in systems and controls, compliance failures, inadequate documentation, poor pace of expenditure, performance failures, double funding of objectives and other irregularities in transactions; to enable corrective measures to be instituted. Recommendations in bold and / or italics fonts at appropriate places should be made for enabling good reading.

4.20.7 The scope of audit should not be limited only to financial audit. The grant agreement / terms of reference issued by WB / UNDP stipulates that the concepts of program delivery, value for money, performance audit, steward ship of assets (asset management, recovery of advances) etc should also be covered by the auditors. CAO team should be aware of these techniques and audit methodology and the audit report should include comment on these, if any. Note on performance audit is provided at the end of this chapter

4.20.8 **Guidance for preparing the audit report and management letter is attached in Chapter 9 of this Audit Manaul.**

4.20.9 Categorization of Major audit findings may be made in the following manner:

- Ineligible payments
- Unsubstantiated payments
- Expenses over the budgeted amounts
- Differences between financial statements and financial monitoring reports
- Non Submission of financial monitoring reports
- Non maintenance or improper maintenance of Cash Books
- Payments not made as per contract or contract missing
- Breach of WB procurement guidelines
- Fixed assets register not maintained or deficient
• Un-reconciled debits / credits
• Absence of bank guarantees and insurance cover
• Un-recovered bank charges, tax not deducted
• Deficient SOEs / Applications of withdrawal
• Un reconciled payments against estimates and / repayments of advances
• Inappropriate category wise classification of payments
• Slow progress and non utilization of grant amount
• Improved monitoring of NGOs / Facilitating Partners / Implementing Partners and retrieval of closing cash balances with these authorities including Provincial Governors
• Multi funding of objectives through different grants
• Other comments including on structural deficiencies, poor capacity, delayed responses etc

4.21 **Illustrative list of Audit Observations**

The list given below is only an illustrative list of audit observations based upon earlier audit experiences. This should not be considered as exhaustive illustrations of all audit observations. There may be other types of observations as well which might not be covered in the list below:

• Lack of technical capacity of the accounting department officials and inadequate knowledge base of the professionals at Ministries which need to be scaled up to avoid some of the persistent failures. Such lack of technical capacity may be due to lack of knowledge, improper staff deputation, inadequate experience of staff.

• Poor documentation and improper management system in the Special Disbursement Unit and Grants management units in the Line Ministries. Document management implies that before releasing the funds SDU takes complete documents and files them appropriately in a systematic manner;

• Absence of comprehensive contracts database in the Ministry of Finance, so as to ensure effective control over the contractual payments. Ministry of Finance being the disbursing and accounting authority, hence it should maintain a copy of contracts entered by various ministries and create a proper system to ensure the compliance of terms of contract from time to time;

• Lack of co-ordination between budget department, accounting department and the Bank. These departments are inter linked with each other and proper co-ordination is must to maintain the efficiency in transaction processing;

• Non availability of bank balance confirmations from the Bank;

• Poor project planning and execution due to weak coordination between the Project Implementing Units and Ministry of Finance.
Such co-ordination is very important for proper project management;

- Lesser control over specialized transactions such as letters of credit and bank guarantees. There should be a responsibility centre for handling such documents, and care should be taken for timely action as and when required;
- Special Accounts and the corresponding account statements not being reconciled on periodic basis. This reconciliation is usually made at year end only which is not proper policy;
- No timely submission and poor quality of FMRs without adequate system of immediate reconciliations to satisfy monitoring requirements. Differences between FMR and Financial Statements;
- Improvement in response time of the system to rectify errors located during the year by Line Ministries, FMA, and Finance Ministry. This is also due to lack of systems and procedures and poor co-ordination between line ministries and MoF;
- Non implementation of Asset management policies including maintenance of fixed assets register and the concept of value for money. Asset management policy are must to ensure the concept of value for money and proper accounting for fixed assets;
- Multi Grant Project Monitoring in projects like National Solidarity Program needs to be looked into so that a project is assessed in its entirety;
- End of the year retrieval of closing balances with various NGOs / Facilitating Partners / Implementing Partners and Provincial Governors need to be introduced to satisfy Cash Basis Accounting;
- Development of special procedures for agreements in which reimbursement of expenses are on percentage basis without submission of bills etc.;
- Funds has been released to CDC (Community Development Councils) without relating the release of funds to the progress of the project;
- Radical improvement in the system of monitoring system for advance payments and / or payments thorough requests based upon budget;
- Internal audit system needs to be re-worked and a ministry wise internal audit department with professional expertise, with reporting to the Head of that Ministry, should be in place;
- Capacity building measures for handling bank guarantees, shipping documents, insurance. etc to be instituted;
- Release of funds after the Grant / Contract period should be avoided;
- Pace of utilization of Development Grants and monitoring should be improved;
- Adherence to WB Procurement Guidelines should be insisted upon.
- Budget provision without any categorization / allocation (unallocated expenses) defeats the very purpose of budgeting and therefore should be avoided.
- Recommendations for improvement in system and practices for better internal control.
- Following is the chart showing the audit performance and monetary value of objections raised during the WB audits conducted by CAO for the year 1381 to 1384:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>1381 (PKF)</th>
<th>1382 (PKF)</th>
<th>1383 (Deloitte)</th>
<th>1384 (Deloitte)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Projects Audited</td>
<td>04</td>
<td>20</td>
<td>28</td>
<td>32</td>
</tr>
<tr>
<td>No. of Unqualified Reports Issued</td>
<td>00</td>
<td>05</td>
<td>18</td>
<td>31</td>
</tr>
<tr>
<td>No. of Qualified Reports Issued</td>
<td>00</td>
<td>01</td>
<td>00</td>
<td>0</td>
</tr>
<tr>
<td>No. of Opinions (Qualifications)</td>
<td>00</td>
<td>04</td>
<td>23</td>
<td>78</td>
</tr>
<tr>
<td>Money Value of Opinions (Qualifications) (US$)</td>
<td>00</td>
<td>224,309</td>
<td>17,927,774</td>
<td>89,619,905.56</td>
</tr>
<tr>
<td>Total Money Value of all Projects audited (US$)</td>
<td>14,743,418</td>
<td>107,116,148</td>
<td>253,733,766</td>
<td>289,952,724.00</td>
</tr>
<tr>
<td>Money Value of Opinions to Money Value of Projects Audited (%)</td>
<td>0.00%</td>
<td>0.20%</td>
<td>7.00%</td>
<td>30.91%</td>
</tr>
</tbody>
</table>

4.22 **Performance Audit**

- Performance audit is concerned with the audit of economy, efficiency and effectiveness and embraces the following:
  
  i. audit of the administrative activities in accordance with sound administrative principles & practices and management policies;
  
  ii. audit of the efficiency of utilization of human, financial and other resources, including examination of information system, performance measurement and monitoring arrangements & procedures followed by audited entities for remedying identified deficiencies; and
  
  iii. audit of effectiveness of performance in relation to the achievements of the objectives of the audited entity and audit of the actual impact of the activities compared with the intended impact.

- Performance auditing is an independent assessment or examination of the extent to which and entity, program or organization operates efficiently and effectively, with due regards to economy.

- Performance auditing has the objective of improving public sector administration and accountability by adding value through an effective program of performance audit. One of the main objectives of performance audit is to assist the policy objectives and their implementation. In summary, the performance audit may examine and report on:
i. the quality of information and advice available to Government for the formulation of policy;

ii. the existence and effectiveness of administrative machinery to inform the Government whether program objectives and targets have been determined with a view to fulfilling policy objectives;

iii. whether and to what extent, stated program objectives have been met;

iv. the economy, efficiency and effectiveness, equity and ethics of the means used to implement a program / activity;

v. the intended and unintended, direct and indirect other impacts of the programs / activities; and

vi. compliance to applicable laws and regulations in the context of the performance objectives.

- Performance audit should not confine the objectives to 'what has been done' but should also examine 'what has not been done' to meet the policy objectives.
5 Audit of ARTF

5.1 Introduction to ARTF

5.1.1 ARTF (Afghanistan Reconstruction Trust Fund) is the consolidated pool of funds donated by various countries. The fund is managed by the World Bank as the administrator.

5.1.2 ARTF is one of the grants (Grant No. 50577) which supports the recurrent window (operational budget) of the Afghanistan Government. Hereinafter the ARTF Grant No. 50577 shall be simply referred to as ARTF.

5.1.3 The ARTF differs from the other World Bank Grants in the sense that the World Bank grants supports the development budget whereas the ARTF supports the operational budget.

5.1.4 Afghanistan has meager internal revenue resources to support the operational expenditure. So the ARTF Grant No. 50577 was launched with the objective of supporting the operational expenditure of the Government which mainly consists of payroll and operating & maintenance (O&M) expenditure.

5.2 Audit Approach

5.2.1 As stated earlier ARTF is also one of the grants and hence the audit objective, approach, and methodology are quite similar to the World Bank grants. However the audit procedures should be modified keeping in view some special characteristics of the ARTF which are outlined below:

- The monetary quantum of ARTF is quite big in comparison of the World Bank grants.
- The major expenditures are payroll and O&M expenditure.
- A special monitoring agent (MA) is appointed for determining the eligibility of the expenditures to be financed from ARTF. The current monitoring agent is PricewaterhouseCoopers (PWC).
- The MA conducts the concurrent reviews of the expenses and issues the monthly report called MA report which forms the basis of financing the expenses.
- MA has prepared the Eligibility Manual which can be used by the auditor for performing the audit.
- The military and police related expenditures are not eligible for financing out of ARTF.
- Capital expenditure viz. purchase of land and buildings are not eligible for financing from ARTF unless there is amendment to the contrary in ARTF agreement.
• The data of the ARTF transactions is very voluminous and hence information technology tools should be leveraged to carry out the audit.
• The major audit objective of ARTF is to give an opinion on the eligibility of the expenses financed from the fund.
• Only one consolidated SOE is prepared for the ARTF for each month. In addition to the 12 SOE for twelve months, an additional SOE for the month of Hoot is prepared to give effect to the adjustments including the findings of auditors for the previous year.
• Most of the source documents are in the local language Dari.

5.3 **Specific Accounting Points:**

5.3.1 Following are the specific accounting related points for ARTF:

• The expenses incurred by the central ministries are paid as per the M16 procedure and a separate expense voucher (EV) is prepared for each M16.
• The expenses incurred in the provinces are entered into the system through journal vouchers (JV). So there are no specific EV’s for the province expenditure. The JV is accompanied with the Statement of Expenditure which details the M16.
• The payroll is recorded in the M41.

5.4 **Audit Planning:**

The audit plan for the ARTF should be prepared in such a way so as to cover the major Central Ministries and Provinces.

5.5 **Audit Sample:**

5.5.1 There are about 26 ministries (this may change from time to time) in the Central Government. The auditor should select some of the ministries for audit on a sample basis. The ministries should be selected on the basis of value analysis. Further within each ministry, the auditor should select the sample of transactions from the EV’s. Again the sample should be selected on the basis of value analysis. Due to the high volume of data of ARTF, the auditor should apply Computer Assisted Audit Techniques (CAAT). tools for data analysis such as MS Excel, MS Access, ACL, SQL etc.

5.5.2 Following is the illustrative sample methodology which may be followed while selection samples:

• Around 40 to 60 % of the ministries can be optimally selected for sampling constituting 80 to 90 % value to total qualified expenditures. Following factors should be kept in mind while selecting ministries:-
• Value of Eligible/Qualified expenditure. (Ministries with higher value of eligible expenditure should be considered)
• Value of Unqualified expenditure (Ministries with High Value of Un-qualified expenditure were selected)
• Last Yr Coverage (Ministries of not very high value but covered last Yr should be dropped in the current year)
• Before selecting sample should gain understanding on earlier year’s observation and ministries where more mistakes were found has been selected for audit.
• Avg. 30 to 60 samples can be selected from each ministries
• All Blacklisted items should be excluded
• Data is divided 3 categories
  i. Expenses on Employee-Payroll Based
  ii. Expenses on Employee-Non Payroll Based
  iii. Operations & Maintenance Expense
• More weight to be given to Operation & Maintenance due its nature of having mistake
• In payroll also more weight should been given to Direct payments
• Majority samples should constitute cases which are not checked by the monitoring agent of ARTG. But cases which are material value and because of its nature, should be selected in all ministries, which will give comfort on internal control.
• The province visit of around 4-6 ministries can be done each year. The sample selection methodology is same as central ministries. The ministry selected in centre should be common in provinces as well, by doing this detailed analysis of a particular ministry can me undertaken at province and central level.

5.6 **Internal Controls Review:**
Major expenditure financed from ARTF is payroll and O&M. The auditor should review the controls for both types of the expenditure in each Line Ministry. Head count policy should be verified and commented upon.

5.7 **Substantive Testing:**
The substantive testing should be performed in each ministry selected in the sample.
6 Audit of UNDP NEX Projects

6.1 Introduction to UNDP NEX Projects

6.1.1 UNDP NEX projects are similar to the World Bank projects.

6.1.2 Like World Bank, UNDP acts as an administrator of the pool of funds donated by different nations.

6.1.3 UNDP has two types of projects. One is DEX i.e. direct execution where UNDP directly executes the project and makes the payments without involving any of the implementing agencies or line ministries. Another is NEX i.e. national execution where the execution of the project is made by the local implementing partners who are generally line ministries.

6.1.4 The UNDP NEX grants do not form part of the core budget. They are part of the external budget.

6.2 Audit Approach

6.2.1 The audit objective, approach, and methodology are similar to the audit of WB grants. However, in case of UNDP audits the auditor has to give his opinion on the following additional areas at the end of the calendar year:

   (a) Whether the statement of expenditure (combined delivery report) presents fairly, in all material respects, the expenditure incurred by the project relating to the quarterly reports and the list of direct payments processed by UNDP at the request of the Government, in accordance with the UNDP accounting requirements;

   (b) Whether the statement of assets and equipments reflects fairly, in all material respects, the inventory balance of the project in accordance with UNDP requirements;

   (c) The statement of cash position fairly, in all material respects, the cash balance of the project in accordance with UNDP requirements.

6.3 Key Documents to be Reviewed

✓ Statement of Expenditure (CDR)
✓ Quarterly Financial Reports (QFR)
✓ Project documents, budget allocations
✓ List of the request for direct payments processed
✓ List of disbursement for support services
UN agency expenditure statement for the year
Contracts for consultancy services / works / supplies
M-16, bank statement, cash book fixed assets register, invoices etc.
Others like - shipping / transportation document, bank guarantee / LoC, insurance, goods receipt etc.
Project manuals, operational guidelines, project / steering committee minutes, monitoring / site committee reports & certifications, project output reports

6.4 Specific Audit Points

6.4.1 Some special points are outlined in the following paragraphs.

(a) The scope of audit should not be limited only to financial audit. The Grant Agreement / Terms of Reference issued by UNDP stipulates that the concepts of program delivery, value for money, performance audit, stewardship of assets (asset management, recovery of advances) etc should be covered by the auditors. The CAO team should be aware of these techniques and methodology of audit and the audit report should include comment on these, if any.

(b) Accounting System: The accounts of the United Nations are maintained in their global accounting system called ATLAS. For the NEX SA payments, the accounts are maintained in the concerned implementing ministry and not in the MoF.

(c) The Terms of Reference (ToR) for appointment of Auditors contains the scope and extent of audit exercise. Usually CAO is requested to do the audit of NEX portion only and all DEX payments are outside the purview of audit. All payments made by Line Ministries and direct payments made by UNDP on request of Line Ministries are within scope of audit. However payments made to UN Agencies (like UNOPS, UNHCR etc.) for implementation of projects are outside the audit scope. Payments made by UNDP as part of support services are within the scope of audit.

(d) There are no separate project financial statements. The document which is to be attested is called the Combined Delivery Report (CDR) which acts as a financial statement for the project. The structure of the CDR is like a Trial Balance.

(e) Apart from the above, the auditor has to verify the mathematical accuracy of the CDR.

(f) The audit period is usually the calendar year starting from January and ending at December.

(g) The auditor should select the sample of balances from the back end data of CDRs.
(h) The auditor should ask the list of transactions for the particular balance selected.

(i) The auditor should select the sample of transactions from the list and perform substantive testing. The vouchers and source documents relating to the SA payments are usually available in the implementing Line Ministry.

(j) For the audit of direct payments, the auditor should obtain the list of direct payments from UNDP.

(k) From the list of direct payments, the auditor should select the sample of payments and perform the substantive testing. The vouchers and source documents are available in UNDP Country office.

(l) The procurement procedure followed in case of UNDP related projects is usually the Afghan Procurement Law. Auditors of CAO should have the understanding of these procedures.

(m) UNDP is eligible for financing police related expenditure in the project named LOFTA

(n) Finance manuals etc. are important documents and should be thoroughly reviewed

(o) Project Manual and Progress Reports should be carefully studied

(p) The management letter should incorporate the response of the concerned implementing agency / ministry. A draft audit report and management letter should be given to UNDP, and all the relevant points should be discussed in an exit meeting. Only after taking their viewpoint, a final audit report and management letter should be delivered.

6.5 Illustrative Audit Observations

The list give below are illustrative audit observations only based upon earlier audit experiences. This should not be considered as an exhaustive list of illustrations of deficiencies. There may be other types of deficiencies as well which might not be covered in the list below:

- Ineligible payments
- Unsubstantiated payments
- Expenses over the budgeted amounts
- Inappropriate category wise classification of payments
- No follow up of advances, unauthorized advances
- Tampering of documents / overwriting
- Un-deducted taxes and double payments
- Breach of procurement guidelines
- Payments outside contractual conditions / contracts missing
✓ Contract abandoned after taking money/ incomplete work
✓ Non-levy of liquidated damages for time over run
✓ Re-contracting without authorization
✓ Retention money paid before expiry of period
✓ Inadequate coding system for sub-contacts
✓ Absence of bank guarantees and insurance cover
✓ Fixed assets register not maintained or deficient
✓ Physical verification of assets not done
✓ Delay in project completion
✓ Non / improper maintenance of cash books / heavy cash balances
✓ Failure in monitoring structural deficiencies, poor capacity, delayed responses etc
✓ Slow progress and non utilization of grant amount
✓ Annual reports / Afghan MIS not prepared
✓ Non accounting of short term loans to staff and other projects
✓ Lack of arithmetical accuracy between CDR and QFR
✓ Failure to repossess cash and advances on project closure
✓ Partial delivery of project and lack of co-ordination with interlinked project components

6.6 Terms of Reference

Following are the important extracts of the Terms of Reference issued by UNDP.

(a) Audit services required

The scope of audit services shall cover the overall management of the project’s implementation, monitoring, and supervision. The audit work should include the review of work plans, progress reports, project resources, project budgets, project expenditure, project delivery, recruitment, operational and financial closing of projects (if applicable) and disposal or transfer of assets. To this effect, the scope of the audit shall cover the following areas as they are performed at the level of the project:

i. Human resources

The audit work shall cover the competitiveness, transparency, and effectiveness of the recruitment and hiring of personnel and include performance appraisal, attendance control, calculation of salaries and entitlements, payroll preparation and payment, and management of personnel records.

ii. Finance
The audit work shall cover the adequacy of the accounting and financial operations and reporting systems. These include budget control, cash management, certification, & approving authority, receipt of funds, disbursement of funds, recording of all financial transactions in expenditure reports, records maintenance, and control.

iii. **Procurement**

The audit work shall cover the competitiveness, transparency and effectiveness of the procurement activities of the project in order to ensure that the equipment and services purchased meet the requirement of either the government (or NGO) or UNDP and include the following:

- As applicable, delegations of authorities, procurement thresholds, call for bids and proposals, evaluation of bids and proposals and approval / signature of contracts and purchase orders;
- Receiving and inspection procedures to determine the conformity of equipment with the agreed specifications and, when applicable, the use of independent experts to inspect the delivery of highly technical and expensive equipment;
- Evaluation of the procedures established to mitigate the risk of purchasing equipment that do not meet specifications or is later proven to be defective;
- Management and control over the variation orders.

The audit work in the area of procurement shall also cover the use of consulting firms and the adequacy of procedures to obtain fully qualified and experienced personnel and assessment of their work before final payment is made.

iv. **Asset Management**

The audit work shall cover equipment (typically vehicles and office equipment) purchased for use of the project. The procedures for receipt, storage, and disposal shall also be reviewed.

v. **Cash Management**

The audit work shall cover all cash funds held by the project and review procedures for safeguarding of cash.

vi. **General Administration**

The audit work shall cover travel activities, vehicle management, shipping services, office premises and lease management, office communications, and records maintenance.

vii. **Information System**

The audit work shall cover the information and communication systems and the control and security of equipment and data.

viii. **Scope Limitation**
The above scope shall cover those transactions performed at the level of the project. Transactions / actions that are performed by the UNDP office at the request and on behalf of the project are not to be included in the audit scope.

(b) Definition of Audit Opinions

- **Unqualified (Clean) Opinion**
  An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

- **Modified Unqualified or Emphasis of Matter paragraph**
  In certain circumstances, an auditor’s report may be modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The emphasis of matter paragraph would ordinarily refer to the fact that the auditor’s opinion is not qualified in this respect, by adding a paragraph to highlight a material matter regarding an ongoing concern or problem or a significant uncertainty. An uncertainty is a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.

- **Qualified Opinion**
  A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being ‘except for’ the effects of the matter to which the qualification relates.

- **Disclaimer of opinion**
  A disclaimer of opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.

- **Adverse**
  An adverse opinion should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

(c) Categorization of Audit Findings by Risk Severity

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Action that is considered imperative to ensure that</td>
</tr>
</tbody>
</table>
UNDP is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).

Medium Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).

Low Action that is considered desirable and should result in enhanced control or better value for money.

(d) Classification of possible causes of Audit Findings

- Compliance Failure to comply with prescribed UNDP regulations, rules and procedures
- Guidelines Absence of written procedures to guide staff in the performance of their functions
- Guidance Inadequate or lack of supervision by supervisors
- Human error Mistakes committed by staff entrusted to perform assigned functions
- Resources Lack of or inadequate resources (funds, skills, staff, etc.) to carry out an activity or function

(e) The management letter should cover the following topics / issues:

- A general review of project progress and timeliness in relation to progress milestones and the planned completion date, both of which should be stated in the project document or AWP. This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs. However general compliance with broad covenants such as implementing the project with economy and efficiency might be commented upon but not with the legal force of an audit opinion.
- An assessment of the project's internal control system with equal emphasis on (i) the effectiveness of the system in providing the project management with useful and timely information for the proper management of the project and (ii) the general effectiveness of the internal control system in protecting the assets and resources of the project.
- A description of any specific internal control weaknesses noted in the financial management of the project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve / eliminate the internal control weaknesses noted should be included.

(f) The management letter should also include the following:

- The categorization of audit findings by risk severity: High, Medium, or Low.
- The classification of possible causes of the audit findings.
• Comments as to whether recommendations made in the management letter for the previous audit were implemented or, if not, the implementation status.
• Management comments / response (project management and / or UNDP, as applicable).

(g) More detailed guidance for each of the above general categories is provided below.

i. **Review of project progress**
   - As part of the general review of project progress, specific steps could include the following:
   - Review annual and quarterly work plans, quarterly financial reports, and requests for direct payments and assess in terms of their timeliness and their compliance with the project document or the AWP, the UNDP Programming Manual (6.5.3 and 6.5.4) and the upcoming UNDP User Guide on Results Management.
   - Review the Annual Project Reports prepared by the implementing partner & assess in terms of compliance with UNDP guidelines and whether the implementing partner met its responsibilities for monitoring described in the project document or AWP.
   - Review whether the decisions and / or recommendations of the above activities have been followed through by the implementing partner.
   - Review the pace of project progress and comment on the causes for delays.
   - Comment on whether implementation services of the UN Agency(s) were provided in line with project document or AWP.

ii. **Assessment of Internal Control**
   - The auditor is expected to conduct a general assessment of internal controls according to established internal control standards. An example of established internal control standards is available from the Organization of Supreme Audit Institutions (INTOSAI). The INTOSAI standards are intended for use by government managers to use as a framework to establish effective internal control structures. For further information, the INTOSAI Guidelines for Internal Control Standards can be found on the INTOSAI Web site www.intosai.org. An overview of the standards can be found in the UNDP Contact tool.

iii. **In addition to the above general assessment, additional specific steps could include the following:**
- Review expenditures made by the implementing partner and assess whether they are in accordance with project document, AWP and budgets; and are in compliance with the UNDP Programming Manual (6.4) and the upcoming UNDP User Guide on Results Management.

- Review the process for procurement / contracting activities and assess whether it was transparent and competitive.

- Review the use, control, and disposal of non-expendable equipment and assess whether it is in compliance with the UNDP Programming Manual (6.4.5) and the upcoming UNDP User Guide on Results Management; and also whether the equipment procured met the identified needs and whether its use was in line with intended purposes.

- Review the process for recruiting project personnel and consultants and assess whether it was transparent and competitive.

- Review the implementing partner accounting records and assess their adequacy for maintaining accurate and complete records of receipts and disbursements of cash; and for supporting the preparation of the quarterly financial report.

- Review the records of requests for direct payments and ensure that they were signed by authorized government officials.

iv. **Recommendations for improvement**

- Recommendations should be directed to a specific entity so there is no confusion regarding who is responsible for implementation. The response of the entity should be included in the management letter, immediately following the recommendation.

- Also, the auditor may wish to comment on “good practices” (if any) that were developed by the implementing partner that should be shared with other project personnel.

v. **Available Facilities and Right of Access**

- There should be a description of the nature and the location of all records belonging to the project. This list should specify those records kept at the implementing partner's headquarters and those that are located at other offices.

- The TOR should state that the auditor would have full and complete access at any time to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices, and contracts etc.) and all employees of the entity. The auditor should be advised that he / she has a right of access to banks, consultants, contractors and other persons or firms engaged by the project management. If an auditor does not have
unrestricted access to any records, person or location during the course of the audit, this restriction should be clearly defined, with reasons, in the TOR.
7 Audit of DANIDA projects

7.1 Introduction to the DANIDA projects

7.1.1 Danish International Development Agency (DANIDA) is actively financing various projects in Afghanistan.

7.1.2 The projects are similar to the World Bank projects and follow the same structure and implementation and operating procedures.

7.2 Audit Approach

7.2.1 The audit objective, approach, and methodology are similar to the World Bank grants.

7.3 Specific Audit Points

7.3.1 Some of the specific matters are delineated in the following paragraphs.

(a) Financial Statements: The structure of Financial Statements is more or less same as of WB grants; however the presentation style may differ. The auditor should study the same.

(b) Direct Payments: Usually the direct payments by DANIDA are out of the purview of audit by Auditor General of Afghanistan as they are audited by the Danish Auditor General. The auditor should however obtain the confirmation of the direct payments.
# 8 Grant Audit– Suggested Audit Check List

## Audit Check List – for Auditors
(This checklist is for internal use of CAO and should be filled by the field audit staff)

<table>
<thead>
<tr>
<th>Project Name:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Project No.:</td>
<td></td>
</tr>
<tr>
<td>Accounting Year:</td>
<td></td>
</tr>
<tr>
<td>Date of Grant/Credit Agreement (amendment):</td>
<td></td>
</tr>
<tr>
<td>Grant Amount:</td>
<td></td>
</tr>
<tr>
<td>Amount Disbursed:</td>
<td></td>
</tr>
<tr>
<td>Names of Audit Staff:</td>
<td></td>
</tr>
<tr>
<td>Concerned Line Ministries:</td>
<td></td>
</tr>
<tr>
<td>Names, e-mail, contact details of concerned person in Ministry:</td>
<td></td>
</tr>
<tr>
<td>Date of receipt of 1st Draft of Financial Statements:</td>
<td></td>
</tr>
<tr>
<td>Audit start date:</td>
<td></td>
</tr>
<tr>
<td>Date of Sending Audit Observations to MoF/LM:</td>
<td></td>
</tr>
<tr>
<td>Date of Compliance of Audit Observations:</td>
<td></td>
</tr>
<tr>
<td>Date of Receipt of Signed Financial Statements:</td>
<td></td>
</tr>
<tr>
<td>Audit end date:</td>
<td></td>
</tr>
</tbody>
</table>

## Field Staff Checklist - Index

<table>
<thead>
<tr>
<th>No</th>
<th>Check List Title</th>
<th>Y/N /N. A.</th>
<th>WP Ref</th>
<th>Prepare by</th>
<th>Reviewed By</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>List of Major Documents to be collected</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Statement of Receipts &amp; Payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Opening Balances</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Sample selection</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Procurement of Goods &amp; Works</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>6.</td>
<td>Selection of Consultants</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>7.</td>
<td>Payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Payroll</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Internal Audit System</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Specific Points for Computerized Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Fixed Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comments (if any)
### 1- List of Major Documents to be collected

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Y / N</th>
<th>WP Ref.</th>
<th>Checked by</th>
<th>Reviewed by</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Obtain the Grant Agreement along with the latest amendment / modifications.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2</td>
<td>Obtain copy of Technical Annex, wherever available (if required visit World Bank web site)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3</td>
<td>Obtain copies of WB “Guidelines for Procurement under IBRD Loans and IDA Credits” and copy of Afghanistan guidelines for procurement of goods. (This is required to be collected only once. Need not collect for each project.) Refer Grant Agreement for applicability of relevant procurement guidelines.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4</td>
<td>Obtain copy of agreement entered with concerned Line Ministry and/or implementing agency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.5</td>
<td>Obtain the Financial Statements (Cash Receipts and Payments etc) as at the end of the period.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.6</td>
<td>Obtain bank statement of the Special Account for the project as at the end of the year, preferably verified by the Bank.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.7</td>
<td>Get copy of Client Connection Statement of World Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8</td>
<td>Obtain copies of Project Manuals, Operation Guidelines, Progress Report and Mid-Term Review of the project, if any</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.9</td>
<td>Any other document (specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comments (if any)
## Statement of Cash Receipts & Payments

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Y / N / NA</th>
<th>WP Ref.</th>
<th>Checked by</th>
<th>Reviewed by</th>
<th>Remarks, if any</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Cash Receipts &amp; Payments i.e. year end financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Verify the arithmetical accuracy of the financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2</td>
<td>Verify the bank reconciliation statement and query for any abnormal entries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3</td>
<td>Check the financial statements are prepared based upon the “value dates” mentioned in CCS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.4</td>
<td>Verify the figures shown in Statement of Cash Receipts and Payments and match with AFMIS data</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.5</td>
<td>Verify the balances in the Statement of Cash Receipts and Payments and agree with the Financial Monitoring Report submitted to the IDA. Difference if any is to be reconciled or reported.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.6</td>
<td>Verify that the cumulative expenditure under each category is within the limits specified in the Grant / Loan Agreement.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.7</td>
<td>Verify the IDA’s approval in case the cumulative expenditure under each category is more than the limit specified in the Agreement.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.8</td>
<td>Where ever SDR rates are given, check the year end conversion rate as provided by World Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.9</td>
<td>Verify that the reimbursement / replenishment applications are accompanied with SOE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.10</td>
<td>If any unallocated expenditures, thoroughly check the figures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.11</td>
<td>Check the contents sated in Notes to Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comments (if any)
### Opening Balances

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Y/N/N.A.</th>
<th>WP Ref</th>
<th>Checked By</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Check opening balances of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Receipt and Payment Statement with</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Previous Year Audited Financial Statements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• DAB Statement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Bank Reconciliation Statement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• FMR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Account Statement (AFMIS)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Bank Statements – check with</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Previous Year Audited Financial Statement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Closing Balance of Previous Year Bank Statement</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Remarks**

Comments (if any)
## Sample selection

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Y/N/N.A.</th>
<th>WP Ref</th>
<th>Checked By</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Obtain M-16 wise list of payments during the year for the grant – from MOF / Line Ministry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.2</td>
<td>Group them category wise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.3</td>
<td>Select samples out of the M-16 (on random basis or any scientific basis) and tabulate them in the following Table. Ensure that minimum 25% of M-16 in terms of number and value are selected as samples</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.4</td>
<td>Substantive (detailed) audit of the selected samples should be done and documented</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area</th>
<th>Total population</th>
<th>Sample population</th>
<th>Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of transactions</td>
<td>Value USD</td>
<td>No. of transactions</td>
</tr>
<tr>
<td>Direct payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Replenishments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan taken</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultants’ payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Works</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incremental Operating Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comments (if any)
### 5- Procurement of Goods & Works

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Y / N / NA</th>
<th>WP Ref.</th>
<th>Checked by</th>
<th>Reviewed by</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>Refer Grant Agreement for Applicability of relevant procurement guidelines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.2</td>
<td>Ensure that the procurements are as per prescribed guidelines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.3</td>
<td>Verify that the procurement plan is prepared by the Line Ministry and approved by IDA before any bid is invited.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.4</td>
<td>Verify that Limited International Bidding is undertaken for procurement contracts over the threshold limit as mentioned in Grant Agreement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.5</td>
<td>Verify statement of evaluation of bids wherever invited and the basis of award of contract is in accordance with the guidelines set out in the agreement.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.6</td>
<td>Verify whether contract for supply of goods costing less than threshold limit (as mentioned in Grant Agreement) complies with the International Shopping guidelines of World Bank, in particular, at least 3 quotations from 2 countries are obtained.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>5.7</td>
<td>Verify whether contract for supply of goods costing less than threshold limit (as mentioned in Grant Agreement) complies with the National Shopping guidelines of World Bank, in particular, at least 3 quotations should be obtained.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.8</td>
<td>Verify whether Competitive Bidding is advertised locally for purchase of goods contract as per threshold limit (as mentioned in Grant Agreement)</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>5.9</td>
<td>Verify that the invitation of bids is</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>advertised in local newspaper in local language.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.10</td>
<td>Verify the invitation of bid provides for at least 30 calendar days for submission of response.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.11</td>
<td>Verify that the bid process comply with the requirements laid down in the Grant Agreement.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.12</td>
<td>Verify that the direct contracting without competition (single source) is employed only in case of supply of books, periodicals, software, training material, including video and audio equipments and proprietary equipment and spare parts estimated to cost up to US$ 5,000 per contract and maximum US$ 250,000 in aggregate. It should comply with para 3.7 of World Bank “Guidelines for Procurement under IBRD Loans and IDA Credits”.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.13</td>
<td>Check delivery challans’ quantity with invoices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.14</td>
<td>Check rates with purchase orders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.15</td>
<td>Check quantity into asset records</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.16</td>
<td>Ensure that all goods received notes are correlated to purchase invoices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.17</td>
<td>Is the authority for signing purchase orders well defined?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.18</td>
<td>Is comparative quotations invited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.19</td>
<td>Is comparative cost statement prepared?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.20</td>
<td>Justification for awarding P.O./Contract well documented</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.21</td>
<td>Is there a vendor evaluation system</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.22</td>
<td>Are suppliers making delivery on due dates as per P.O. If not, is Liquidated Damages (LD) recovered</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.23</td>
<td>Have any supplier been blacklisted for not adhering to the P.O. terms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.24</td>
<td>Has guarantee been taken as</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>mentioned in the contract</td>
<td></td>
<td></td>
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<tr>
<td>---</td>
<td>--------------------------</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5.25</strong></td>
<td>Are advance payments made to suppliers before delivery? If so, are advances recovered properly</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5.26</strong></td>
<td>Imported purchase.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. To be checked with customs clearance documents.</td>
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<tr>
<td></td>
<td>2. Verify conversion rate used for booking of purchase</td>
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Comments (if any)
## Selection of Consultants

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<th>WP Ref.</th>
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<th>Reviewed by</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Selection &amp; Employment of Consultants</td>
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<tr>
<td>6.1</td>
<td>Refer Grant Agreement for Applicability of relevant procurement guidelines for consultancy contracts</td>
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</tr>
<tr>
<td>6.2</td>
<td>Verify that the proposed plan for selection of consultant for the project is approved by the IDA.</td>
<td></td>
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<tr>
<td>6.3</td>
<td>Verify that the selection of the consultant is pre-approved by the IDA in case the contract value exceeds: for firms – US$ 100,000 for individual – US$ 50,000</td>
<td></td>
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</tr>
<tr>
<td>6.4</td>
<td>Verify that the service contracts costing more than threshold limit (as per grant agreement) are awarded using either Limited International Bidding or National Competitive Bidding.</td>
<td></td>
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</tr>
<tr>
<td>6.5</td>
<td>Verify the contracts costing less than threshold limit (as per grant agreement) - ensure that they are either awarded by Limited International Bidding, National Competitive Bidding, Shopping (National / International) or Direct Contracting.</td>
<td></td>
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</tr>
<tr>
<td>6.6</td>
<td>Verify the guidelines for bidding process as set for procurement of goods and works. Are they also followed for selection of consultants?.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>6.7</td>
<td>Verify the contract if it contains the Tax Deduction clause</td>
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Comments (if any)

Version 1-May 2007
7- **Payments**

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<th>Remarks</th>
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<tr>
<td>7.1</td>
<td>Verify that only eligible operating expenses as per the agreement are paid. Ensure that the salaries of officials of the recipients’ (Line Ministry) civil services are not paid from the grant, unless otherwise specified.</td>
<td></td>
<td></td>
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<tr>
<td>7.2</td>
<td>In case the Line Ministry is having its internal Finance Manual, verify that all payments are made in agreement with the manual</td>
<td></td>
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<tr>
<td>7.3</td>
<td>Verify that the &quot;Statement of Accounts&quot; supporting the withdrawals from the Grant Accounts are adequately supported, verified and authorized by the concerned officials.</td>
<td></td>
<td></td>
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<tr>
<td>7.4</td>
<td>Verify that the cash book is properly prepared and all the cash payments are duly entered</td>
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<tr>
<td>7.5</td>
<td>Ensure all the payments are adequately supported with the original documents, duly verified, approved and authorized by the concerned officials in line ministries and MOF.</td>
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<tr>
<td>7.6</td>
<td>Verify that the purchase orders are in accordance with the supply contract and is duly authorized by the concerned official of the Line Ministry.</td>
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<tr>
<td>7.7</td>
<td>Verify that the quality and quantity of goods supplied, and rates charged in the supply / works bills are as per the supply / work contract and purchase order and verified by the concerned Line Ministry official.</td>
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<td>7.8</td>
<td>Verify whether payments to suppliers are made by the due date as per the contracts.</td>
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<td>7.9</td>
<td>Ensure all the payments are correctly accounted under correct project and under correct category.</td>
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<tr>
<td>7.10</td>
<td>Ensure all the direct payments by the IDA charged by the bank in the Special Account pertain to the project.</td>
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<tr>
<td>7.11</td>
<td>Verify that payments for any the sub-grants, are in compliance with the Grant Agreement.</td>
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<tr>
<td>7.12</td>
<td>In case of advance payments, verify the same is allowed as per grant agreement and it is duly adjusted in short term</td>
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<td>7.13</td>
<td>Verify any unauthorized payments made in last year is duly received back</td>
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Comments (if any)
8- Payroll

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<td>8.1</td>
<td>Ensure the salaries of officials of the recipients’ (Line Ministry) civil services are not paid from the grant.</td>
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<tr>
<td>8.2</td>
<td>Check salary summaries in the cash book/bank book/journal</td>
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<tr>
<td>8.3</td>
<td>Check attendance with time card or muster</td>
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<tr>
<td>8.4</td>
<td>Check increments with approval/agreements</td>
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</tr>
<tr>
<td>8.5</td>
<td>Check deductions for :</td>
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<tr>
<td></td>
<td>1. Loans / Advance Salary Payments</td>
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<tr>
<td></td>
<td>2. Any other item</td>
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<tr>
<td>8.6</td>
<td>Check overtime payments with necessary register and Government rules</td>
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<tr>
<td>8.7</td>
<td>Check payment of salary &amp; wages with register</td>
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<tr>
<td>8.8</td>
<td>Check incentive payment with its basis</td>
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<td></td>
<td></td>
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<tr>
<td>8.9</td>
<td>Is salary advances regularly recovered as per terms</td>
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Comments (if any)
## Internal Audit System

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<th>Sr. No.</th>
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<td><strong>INTERNAL AUDIT SYSTEM</strong></td>
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<tr>
<td>9.1</td>
<td>Does the Project have an internal audit system:</td>
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</tr>
<tr>
<td></td>
<td>1. In the form of an outside consultants</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td>2. In the form of its own internal audit department.</td>
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<tr>
<td>9.2</td>
<td>Has the internal audit program been reviewed? Was it drawn in consultation with external auditors?</td>
<td></td>
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<tr>
<td>9.3</td>
<td>Is the coverage of internal audit adequate?</td>
<td></td>
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<tr>
<td>9.4</td>
<td>Are the persons carrying out the internal audit adequately qualified for the job?</td>
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<tr>
<td>9.5</td>
<td>To whom does the internal auditor report.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.6</td>
<td>Have the internal audit reports been perused and ensured that they have been duly acted upon.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>9.7</td>
<td>In view of what is stated above, is the internal audit system of the ministry commensurate with its size and nature of its business.</td>
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Comments (if any)
## Specific Points for Computerised Accounts

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<th>Particulars</th>
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<th>Remarks</th>
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<td><strong>Computerized Accounts</strong></td>
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<td>10.1</td>
<td>Has the system been studied? Is it:</td>
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<tr>
<td></td>
<td>1. An accounting package</td>
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</tr>
<tr>
<td></td>
<td>2. A comprehensive package covering other areas of online systems</td>
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<tr>
<td>10.2</td>
<td>Has the system of codification been studied</td>
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<tr>
<td>10.3</td>
<td>Is there control over the system in :</td>
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<tr>
<td></td>
<td>1. Records</td>
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<tr>
<td></td>
<td>2. Data input</td>
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<tr>
<td>10.4</td>
<td>Study the data input – What are details fed in</td>
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<tr>
<td>10.5</td>
<td>Whether there are any built-in checks for error detection</td>
<td></td>
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<tr>
<td>10.6</td>
<td>Who has the access to</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>1. Data input</td>
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<tr>
<td></td>
<td>2. System software</td>
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<td></td>
<td>3. Output</td>
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<td>10.7</td>
<td>How is the authorization at various levels for :</td>
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<td>1. Voucher preparation</td>
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<td>2. Data correction</td>
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<td>3. Check writing</td>
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<td>4. Journal entries</td>
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<td>10.8</td>
<td>Inquire regarding</td>
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<tr>
<td></td>
<td>1. Back up</td>
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<tr>
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<td>2. Training.</td>
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<tr>
<td>10.9</td>
<td>Is the computerized output in Ministry is tallying with data in AFMIS</td>
<td></td>
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<tr>
<td>10.10</td>
<td>Are regular printouts taken, and authorized by responsible officer</td>
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Comments (if any)
## Fixed Assets

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<td>Fixed Assets</td>
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<tr>
<td>11.1</td>
<td>Was physical verification of assets done? If not, why?</td>
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<tr>
<td>11.2</td>
<td>Has the list of assets physically verified correlated with book records</td>
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<tr>
<td>11.3</td>
<td>Have major differences (if any) between physical and book records satisfactorily explained.</td>
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<tr>
<td>11.4</td>
<td>Have all comments / observations at the time of physical verification considered for reporting</td>
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<tr>
<td>11.5</td>
<td>Is the FA Register adequately maintained and updated with full details of assets like tag number, serial number, date of purchase, value, location, issued to etc.</td>
<td></td>
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<tr>
<td>11.6</td>
<td>Is regular printout of fixed assets register is taken and authorized by responsible personnel?</td>
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### Remarks

#### Comments (if any)

Auditors - (sign)-
Name:

Auditors - (sign)-
Name:

Auditors - (sign)-
Name:
### Audit Check List – for Director
(This checklist is for internal use of CAO and should be filled by the Director in charge for Audits)

#### Index

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Y/N/N.A.</th>
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<tr>
<td>1.</td>
<td>Review of Field Staff Check Lists – 1 to 11</td>
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</tr>
<tr>
<td>2.</td>
<td>Checklist for Adherence to INTOSAI Auditing Standards</td>
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<tr>
<td>3.</td>
<td>Checklist for Fixation of Sampling Criteria</td>
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<tr>
<td>4.</td>
<td>Statistics Relating to Audit</td>
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<tr>
<td>5.</td>
<td>Discussion of draft report and ML</td>
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Comments (if any)
# CLT 2. CHECKLIST FOR ADHERENCE TO INTOSAI AUDITING STANDARDS

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<th>Sr No.</th>
<th>LIST OF INTOSAI STANDARDS</th>
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<td>Basic principles</td>
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<td>General standards</td>
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<td>3.</td>
<td>Field standards</td>
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<td>4.</td>
<td>Reporting standards</td>
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Comments (if any)
## CLT3: CHECKLIST FOR SAMPLING CRITERIA

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<th>Total Population</th>
<th>% of Sample Population</th>
<th>Basis of selection</th>
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<td>Reimbursements</td>
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<td>Replenishments</td>
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<td>Loan taken</td>
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<tr>
<td>5</td>
<td>Goods</td>
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<td>6</td>
<td>Consultant services</td>
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<td>7</td>
<td>Works</td>
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<td>8</td>
<td>Incremental operating expenses</td>
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Comments (if any)
## CLL4: Statistics Related To Audit

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<td>1.</td>
<td>Man-hours spent:</td>
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<td>1. Audit Staff</td>
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</tr>
<tr>
<td></td>
<td>2. Directors</td>
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<tr>
<td></td>
<td>3.</td>
<td></td>
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<td>2.</td>
<td>No of Visits made for the audit:</td>
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<td>1. Audit Staff</td>
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<td></td>
<td>2. Director</td>
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<td>3.</td>
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<td>4.</td>
<td>Percentage of checking:</td>
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Man-hours Spent: _______________________

Comments (if any)

Director - (sign)-
Name:
9 GUIDANCE ON AUDIT REPORT SAMPLE AND MANAGEMENT LETTER

9.1.1 The Audit Report represents the final product of the audit work performed and contains major findings and recommendations. The audit report includes the audit conclusions, recommendations and opinions, as appropriate.

9.1.2 While prepare Audit report due care should be exercised in making judgments, and the report should indicate the nature and extent of information reasonably available (or which ought to have been available) to the audited entity at the time the decisions were taken. By stating clearly the scope, objectives and findings of the audit, the report demonstrates to the reader that the auditor is being fair.

9.1.3 Following is the format of Sample Audit Report for Development Grants / Credits:

1. **Addressee**
   President of the Islamic Republic of Afghanistan

2. **Introductory Paragraph**
   I have audited the accompanying financial statements of the ABC (Grant No. 123) under the Development Grant Agreement concluded between the International Development Association and the Islamic Republic of Afghanistan on this date, for the solar year ended ________.

3. **Respective responsibilities of the ministry and the auditors**
   These financial statements are the responsibility of the Ministry of Finance. My responsibility is to express an opinion on these financial statements based on my audit.

4. **Scope Paragraph**
   I conducted the audit in accordance with the auditing standards produced by the International Organisation of Supreme Audit Institutions (INTOSAI). Those Standards require that I plan and perform my audit to obtain reasonable assurance on whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and internal control systems. I believe that my audit provides a reasonable basis for my opinion.

5. **Our comments**
   My audit opinion is subject to the following comments:

   Here the report should show the major audit findings.
6. **Opinion Paragraph**

Subject to the comments in the preceding paragraph, in my opinion, the project financial statements properly present the receipts and payments of the Development Grant Agreement ABC (Grant No. 123), for the solar year ended __________. Further, in my opinion, the sums expended have generally been applied for the purposes specified in the Development Agreement unless otherwise stated.

In addition:

(a) The expenditures are eligible for financing under the Grant Agreement;

(b) The financial statements of the Special Accounts properly present the financial position of those accounts as of ________ date.

(c) Instances of absent or deficient internal controls have been brought to the notice of Ministry of Finance through Management Letters.

7. **Emphasis of Matter**

Here the auditor can write comments relating to format of financial statements, notes to accounts, suggestions, if any affecting the financial statements etc.

SD-
**Auditor General of Afghanistan**

Date:

The Auditor General of Afghanistan has provided more detailed information in a Management Letter to the Minister of Finance.

**Management Letter**

9.1.4 Apart from Audit Report the Management Letter is issued which contain grant/credit wise observations to bring to the attention of the Line Ministries the deficiencies in systems and controls, compliance failures, inadequate documentation, poor pace of expenditure, performance failures, double funding of objectives and other irregularities in transactions.

9.1.5 The Management Letter is recommendations to management to enable corrective measures to be instituted. Recommendations should be given in bold / italics at appropriate places.

9.1.6 The Management Letter should contain the following:
Executive Summary

Background

Objectives of Audit

Scope and Methodology of Audit

Scope and Controls
  - Accounting Organization
  - Accounting Systems
  - Accounting Policies, Practices and Procedures

Information Systems & Internal Controls

Pending Issues of Audit of Years

Project wise Audit Findings

For detailed information in above please refer the Management Letter issued for Development Grants.
## 10 Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AFMIS</td>
<td>Afghanistan Financial Management Information System</td>
</tr>
<tr>
<td>AG</td>
<td>Auditor General</td>
</tr>
<tr>
<td>AoW</td>
<td>Application for Withdrawal</td>
</tr>
<tr>
<td>ARTF</td>
<td>Afghanistan Reconstruction Trust Fund</td>
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<tr>
<td>CAO</td>
<td>Control and Audit Office of Afghanistan</td>
</tr>
<tr>
<td>CCS</td>
<td>Client Connection Statements</td>
</tr>
<tr>
<td>CoA</td>
<td>Chart of Accounts</td>
</tr>
<tr>
<td>DAB</td>
<td>Da Afghanistan Bank</td>
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<tr>
<td>DBER</td>
<td>Development Budget and External Relations Department</td>
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<tr>
<td>DG</td>
<td>Director General of Treasury</td>
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<tr>
<td>FMR</td>
<td>Financial Monitoring Reports</td>
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<tr>
<td>IA</td>
<td>Implementing Agencies</td>
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<tr>
<td>IDA</td>
<td>International Development Association</td>
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<tr>
<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
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<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
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<tr>
<td>JSDF</td>
<td>Japan Social Development Fund</td>
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<td>JV</td>
<td>Journal Vouchers</td>
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<tr>
<td>LOTFA</td>
<td>Law and Order Trust Fund</td>
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<tr>
<td>MA</td>
<td>Monitoring Agents</td>
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<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
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<tr>
<td>NA</td>
<td>Not Applicable</td>
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<tr>
<td>SA</td>
<td>Special Account</td>
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<tr>
<td>SAI</td>
<td>Supreme Audit Institution</td>
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<tr>
<td>SOE</td>
<td>Statement of Expenditure</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>UNOPS</td>
<td>United Nations Office for Project Services</td>
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<tr>
<td>USAID</td>
<td>US Agency for International Development</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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<td>WP</td>
<td>Working Paper</td>
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11 Annexure I - Organization Chart of the Control and Audit Office

Auditor General (highest rank)

AG Secretariat Grade (3)

Research Deputy Higher rank
  - Foreign Publication Dept (2)
  - Training Dept (2)
  - Comptroller and Monitor Audit Dept
  - Controlling and Monitoring Department Grade (1)
  - Financial and Administrative Dept

Operational Deputy Higher rank
  - Foreign Grants Audit Dept (1)
  - Internal Audit Direct (1)
  - Construction Affairs Audit Direct (1)
  - Organizations and Enterprises Audit Direct (1)
  - Provincial Budgetary Administrations and Municipalities Audit Direct (1)
  - Central Budgetary Administration Audit Direct (1)
  - Coordinating Direct (1)

Foreign Relations Dept
  - Publications Dept (2)
  - Computer Dept (2)
  - Environmental Audit Dept
  - Controlling and Monitoring Department Grade (1)
  - Financial and Administrative Dept

Foreign Grants Audit Dept (1)
  - Foreign Grants Audit Dept (1)

Internal Audit Direct (1)
  - Internal Audit Direct (1)

Construction Affairs Audit Direct (1)
  - Construction Affairs Audit Direct (1)

Organizations and Enterprises Audit Direct (1)
  - Organizations and Enterprises Audit Direct (1)

Provincial Budgetary Administrations and Municipalities Audit Direct (1)
  - Provincial Budgetary Administrations and Municipalities Audit Direct (1)

Central Budgetary Administration Audit Direct (1)
  - Central Budgetary Administration Audit Direct (1)

Coordinating Direct (1)
  - Coordinating Direct (1)