



Islamic Republic of Afghanistan



Supreme Audit Office

# Auditor General's Report & Opinion

## Qatia Statements of FY 1397

Supreme Audit Office of Islamic Republic of Afghanistan  
Government Qatia Statements Audit Commission  
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## **Abbreviations**

AFMIS	Afghanistan Financial Management Information System
ARTF	Afghanistan Reconstruction Trust Fund
EUR	Euro
GDP	Gross Domestic Product
GFS	Government Finance Statistics
INTOSAI	International Organization of Supreme Audit Institutions
IMF	International Monetary Fund
ISD	Islamic Dinar
ISSAI	International Standards of Supreme Audit Institutions
KWD	Kuwaiti Dinar
LC	Letter of Credit
NTA	National Technical Assistance
SAR	Saudi Arabia Riyal
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
XDR/SDR	Special Drawing Rights

**Islamic Republic of Afghanistan****Supreme Audit Office****Independent Audit Report of Auditor General**

Independent Audit Report of the Auditor General of Supreme Audit Office on Qatia Statements of the Government of Islamic Republic of Afghanistan for the fiscal year 1397 (1<sup>st</sup> of Jaddi 1396 up to 30<sup>th</sup> of Qaws 1397).

**To**

**His Excellency,**

**The President of the Islamic Republic of Afghanistan**

**Audit Report on Qatia Statements for the fiscal year 1397**

We audited the Qatia Statements for the fiscal year (FY) 1397, which contained Operating Expenditure Qatia Statements, Development Expenditure Qatia Statements and Revenue Qatia statements and debit and credit accounts of Da Afghanistan Bank (Central Bank) along with how the payments were made by the General Treasury Directorate of Ministry of Finance ( MoF).

**Responsibility of the Ministry of Finance**

According to Article 55, Paragraph 1 of the Public Finance and Expenditure Management (PFEM) Law, the Ministry of Finance of the Islamic Republic of Afghanistan is responsible to publish the following information after their submission to the President and the Government:

1. Final budget reconciliation report on the budget for previous fiscal year. This shall be submitted no later than the end of the month of Sonbola ( the second quarter of the year);
2. A set of financial statements compiled according to the international accounting principles that have audited as required of Article 59 of this law.

**Responsibility of the Supreme Audit Office**

According to Article 12, paragraph (1) of the Supreme Audit Office Law, the Auditor General shall present the audit report on the last year's Government financial statement within six months of the following year to the State President and the National Assembly.

**Audit Scope and Methodology**

We conducted the audit in accordance with INTOSAI's ISSAIs and the authority of the

Supreme Audit Office's Audit law. These standards, and principles require that audit is planned and performed to obtain reasonable assurance whether the Qatia Statements are free from material misstatements and whether the financial transactions and information reflected in the Qatia statements comply with budgetary authorities, accounting rules, standards and principles.

In the process of this audit, the supporting documents and papers relating to the Qatia Statements, including the mandates, authorities and budgetary documents and their due consideration and reflection while preparing and presenting the Qatia Statement were reviewed in audit. Moreover, accounting rules and guidelines applied in preparation of Qatia Statements were also reviewed.

We believe that the audit evidence we have obtained provides a reasonable basis for our opinion.

### **Audit opinion**

In pursuance to Article (12), paragraph (1) of the SAO Law and Article (59), paragraph (1) of the PFEM Law, in my opinion, taking into account the observations accompanied herewith for management's considerations, the operating and development Qatia Statements of budget expenditure and revenue Qatia statement of FY1397 (Jaddi 1<sup>st</sup> 1396 to end of Qaws 1397) presented a true and fair view.

**Sincerely**

**Mohammad Naiem Haqmal  
Auditor General  
Supreme Audit Office**

## **Highlights**

### **What we audited**

Qatia Statements present the comparison of the expenditure with the original and final budget and actual revenue collection compared with the budgeted revenue estimates for the Government budgetary agencies in a fiscal year.

Annual Qatia Statements of the GoIRA prepared and presented by the Ministry of Finance were audited by the SAO taking into account the original approved budget at the beginning of the year, budget supplements, mid-year budget amendments and the related budgetary authorities and approval documents. The audit also took into account the individual Qatia Accounts of the budgetary ministries, departments and agencies, Provincial expenditure reports (M22), Provincial and Central Revenue Reports (M27 and M29), Payment Reports of Mustofiat (the MoF/Treasury unit in provinces) and Central Bank's agencies in the provinces - T-8 forms), Treasury General Ledger (TGL), its supporting documents and DAB's Bank Statement, information in the Afghanistan Financial Management Information System (AFMIS). Further, audit also reviewed and examined relevant documents related to the deliberations and decisions of the Budget Committee, Presidential Decrees and GoIRA's Cabinet decisions supporting the figures contained in the Qatia Statements.

Audit of the Qatia Statements aims at obtaining assurance on the accuracy of figures included in Qatia Statements on the basis of the budget documents, books of accounts and other accounting documents and records based on which Qatia Statements are prepared. Hence, we didn't audit documents of contractors, cash transfer papers, and other expenditure related documents.

### **Importance of Qatia Statements**

Qatia Statements enable the the Ministry of Finance (MoF), the President Office, the National Assembly and other relevant stakeholders to assess budgetary performance by comparison of the budget appropriation and the actual expenditure, intra-year amendments in the approved budget, as well as budgetary variations in terms of under-budgeting and over-budgeting. Assessment of the reasons for substantial budgetary variations for which intra-year amendments are made shall be helpful to the budget makers, oversight committee and the legislature in approaching the subsequent years' budget in a rational manner keeping in view the reasons. In the absence of adequate and exact information about the weaknesses and strength of the previous budget implementation, there is the risk of the subsequent year budget not having sound basis posing challenges in implementation.

To have a clear view of the estimated and the collected revenues and the status of expenditure during the fiscal year and to assess and prevent the risk of non-realization and non-implementation of budget, preparation as well as audit of Qatia statements is needed as per law.

## What we found

During the audit, the following issues have been found as audit finding and recorded in Qatia Statement Audit Report.

1. Clause 9, Article 32, Chapter 6 of Public Finance and Expenditure Management Law, (preparation and approval of budget, revenues and expenditure plan) stipulates an appropriation for the expected expenditure not exceeding 3% of total program expenditures.

Taking into account the original budget document and the mid-year amendments in FY1397, a total of Afs 54,893,567,643 was approved as contingency funds for the operating budget. As against the 3% limit, the contingency fund was 19% of the operating budget of FY1397.

Further, an amount of Afs 2,200,000,000 included in the approved budget under Code 22 (Goods and Services) of the Ministry of Public Work, though also contingency fund, was not classified as such.

2. The budget is an estimate of revenues and expenditures of the government and executed after approval by the National Assembly and endorsement by the President. It is the basis for controlling the government expenditures, therefore, no expenditures should be incurred without the the legislative approval. Further, considering that the Qatia Statement is a statement of how the budget was implemented, all payments incurred out of the budget should be duly reflected in the Qatia Statements. Difference between the expenditures incurred as per the budget document and those in the Qatia Statement raises question on accuracy and credibility of Qatia Statements.

As per the national budget, an amount of Afs 7,900,000,000 was estimated towards Central Bank recapitalization under the contingency code 900029. However, this receive neither the approval of the National Assembly nor the endorsement of the President. This caused a difference between the total of the operating budget set forth in the Budget Decree and the total of the entity-wise budget distribution.

In addition, as per the information and documents provided by the Treasury General Directorate, a total of Afs 54,841,407,649 was utilised from the contingency funds including contingency code 900029. However, only Afs 25,071,611,649 was recorded in the Qatia Statement under the Reserve Codes, which indicated an understatement of Afs 29,769,796,000 under the Reserve Codes. The understated amount included Afs 7,900,000,000 on account of the Central Bank recapitalization, which has not been recorded in the Qatia Statements at all and Afs 21,869,796,000 relating to contingency codes 900006, 900007 and 900031, which is recorded as part of Code 24 (Subsidies, Grants and Social Benefits) of the main budget of the Ministry of Labor and Social Affairs, instead of under the Reserved Codes column of the Qatia Statement.

3. As per the budget documents of FY1397, the proposal of the Budget General Directorate and the separate orders of the Minister of Finance, a total of Afs 2,546,522,875 was amended within the contingency codes. On the one hand, the amendments resulted in significant changes in the approved ceiling of the contingency codes, on the other, it led to the spending of the funds for other than the originally intended purposes.
4. In addition to the inter-se amendments within the contingency codes mentioned above, a large part of the contingency and miscellaneous funds was not spent for the purpose approved by the National Assembly and endorsed by the President. Contrary to the purposes specified in the budget document, these funds were amended and used for other purposes which include 35 such cases with Afs 2,445,253,593
5. Decree No.146 dated 03.02.1397 of the President's office states: "Afs 300 million from code AFG/360124 for renovation and protection of historical sites/relics is approved for purchasing land and construction of Ahmad Shah Baba tomb as an ancient monument in Kandahar." Likewise, Decree No 147 dated 03.02.1397 of the President's office states: "In the first instance, Afs 150 million from code AFG/240096 is approved for completion of Omar Ibn ul Khatab mosque construction project in Kandahar."

As such, the President's Office ordered the approval of funds through two separate decrees for the two projects under the Development Budget (AFG/360124 and AFG/240096). However, as per the execution and utilisation documents, they were found to have been executed from contingency codes under the Operating Budget. Accordingly, Afs 150 million from contingency code 900050 (funds for maintenance) and Afs 300 million from contingency code 900024 (contingency funds for purchasing of land) have been deducted and included under Code 25 (Acquisition of assets) of the Independent Directorate of Local Governance.

6. As per the budget documents of FY1397, a total of Afs 274,033,334,956 was approved under the Operating Budget. Of which, Afs 22,941,850,000 was for contingency funds related to MoF. Therefore, Afs 251,091,484,956 should have been reflected in the Operating Budget Qatia Statement (principal budget column) after deduction of this amount. Instead, Afs 247,491,484,955 was recorded, indicating a difference of Afs 3,600,000,000.

As per the information provided by the Treasury General Directorate, the Ministry of Public Work had an approved budget of Afs 2,292,120, 000 under Code 22 (Goods and Services). However, the Ministry recorded only Afs 92,120,000 in its Qatia Statement (principal budget) and treated the expenditure of Afs 2,200,000,000 as part of reserved codes. Likewise, the Railway Authority had an approved budget of Afs 1,415,680,000 under Code 22. However, Afs 15,680,000 only has been recorded in the Railway Authority Qatia Statement (principal budget) and Afs 1,400,000,000 has been treated as part of the reserve codes.

The above instances indicate the lack of sufficient information and clarity with regard to the figures under the contingency funds and the principal budget in national budget, which resulted in misclassification of the expenditure and understatement of the principal budget expenditure in the Qatia Statements.

7. Article 25 of the Budget Execution Rules / Guidelines of FY1397 states: “all budgetary units are required to adjust their advances paid before the end of the fiscal year. They will not be eligible for advances under the operating budget in the subsequent year in case of non-adjustment.”

As per the Qatia Statements, an amount of Afs 1,477,591,630 of the advance payments in FY1397; 23% of the total advances, remained un-settled at the end of the year. However, as per the additional information available for the FY1398, it was found that despite certain budgetary units having not adjusted their advances of operating budget in 1397, Afs 1,506,499,960 was paid as advances in FY 1398 without considering the limitation placed by Article 25 of Budget Execution Rules / Guidelines.

8. A total of Afs 1,234,786,702 of advances paid in 1381 to 1396 by the beudgtary units are still unadjusted.
9. Petty cash is the amount dedicated for small expenditure and as per the Section 6.1 of article 6 of the Cash Accounting Manual, is not to exceed Afs 250,000. The amount of petty cash will be recorded in the system as advances and shall be accounted during the year or repaid at the end of the year.

As per the information provided by the Treasury General Directorate of the MoF, a total of Afs 191,035,000 have been paid as petty cash advances in the fiscal year 1397, of which, Afs 76,300,000 related to the President’s Office, Afs 76,850,000 related to the Chief of Staff of the President’s Office and the rest (20%) is related to other entities. Petty cash amount of Afs 21,735,326 (11.4% of the total) has remained unaccounted till the closure of the Qatia audit. This is in contradiction with Article 25 of the Budget Execution and Cash Accounting Manual.

10. Cash Accounting Manual states: post-paid expenditure includes recording of operating budget expenditures that contains commitment documents and shall be paid after collecting/receiving goods and services.

Afs 16,877,856 for Afghanistan Embassy in USA, Afs 4,000,000 for the President’s Office and Afs 737,000,000 as operative funds in FY1397 for the National Directorate of Security upon execution, could have been considered as expenditure on the basis of payment documents. However, they have been recorded as post paid expenditure though there is no expenditure documents.

11. Article 43 of the Budget Execution Rules / Guidelines of FY1397 states: “Ministries and entities are required to prepare their Tashkeel (organizational structure) differentiated by national and subnational levels based on the budget ceiling assigned by the National Council to each ministry and strictly avoid any increase in Tashkeel in the course of the fiscal year. Approved Tashkeel levels which appear in the budget document are final.

As per the information from the IARCSC, some entities and ministries have expanded (recruited staff) their organizational structure during FY1397 by making proposals and obtaining decree from the president’s office even after approval of the budget for 1397. Details are provided in this report.

12. In the fiscal year 1397, additional operative expenditure of Afs 1,035,980,000 for the national directorate of security, Afs 30 million for the President Protection Security-PPS directorate, Afs 4,000,000 for the Chief of Staff of the President’s Office and Afs 10,000,000 for the Chief Executive Office have been paid in contradiction with Article 25 of the Budget Execution Regulation.
13. A total of Afs 125,000,000 have been paid by the National Directorate of Security from National Budget for salaries and expenditures of agencies that are not part of the government organizational structure and in making payments, the required accounting principle and procedures were not followed.
14. Three accounting adjustment entries carried out in FY 1398 have been reflected in FY1397 Qatia Statement.
15. As per the Form B-23, No.1446 dated 16.08.1397 and Decree No.6624 dated 16.08.1397 of the MoF, an amount of Afs 430,019 was deducted from Code 900050 (contingency code for maintenance) and transferred to Code 22 (Goods and Services) of the MoF for payment of extra expenditure for lapis lazuli railway inauguration. As per the information provided by Finance and Accounting Directorate of the MoF, an extra payment of Afs 200,000 only was observed.
16. As per the Form B-23, No.28 dated 13.08.1397, proposal No.28 dated 13.08.1397 of the Presidential Protective Services (PPS) Directorate and Decree no.6572 dated 13.08.1397 of the MoF, an amount of Afs 60 million has been transferred from Code 22 (Goods and Services) to the Code 21 (Wages and Salaries) for the PPS Directorate. This is contrary to the provisions of Article 47 of the Public Finance and Expenditure Management (PFEM) Law, which *inter alia* requires adjustment not exceeding 5% limit of the total fund. Moreover, budget surplus of Afs 60 million in Code 22 and shortage of the amount in Code 21 also raises question on the budget integrity.
17. Budgeting for the projects reflected inadequacy as much as expenditure for 23 projects was nil for two years; of which 16 projects were found to have been transferred to next year. In

addition, 29 projects have no intended progress and their expenditure are reported less than 50%.

18. Under the Development Budget, against a total advance payment of Afs 5,099,423,190, Afs 4,199,438,524 or 82% of the advances remained unadjusted in FY1397.
19. Advances of Afs 1,447,542,038 which were paid in 1381 to 1396 remained unadjusted.
20. A comparison of the percentage utilisation of the development budget with the report of Ministry of Economy revealed that both the budget realization percentage and the percentage of work progress in some entities varied. The details are provided in the the report.
21. As per the Article 32 of the Budget Execution Rules / Guidelines FY 1397, “Financing decision of the discretionary projects is the authority of the Afghan government, and donors have the authority to make decisions in respect to financing the non discretionary. In case any non-discretionary project is secured or discarded or in case of increase/decrease of its fund during the fiscal year, Ministry of Finance is authorized to execute budget annex after approval of office of the president and send it to the National Assembly within 7 working days for their information”.

Article 47 (1) of the Public Finance and Expenditure Management Law states: “Where requested by a state administration, the Ministry of Finance, in consultation with the Budget Committee, may authorize the adjustment of the approved appropriations for that Ministry provided the adjustment does not exceed 5% of the registered funds.”

A total of Afs 5,098,968,106 have been deducted from discretionary development funds and added to budget of several entities. This has been recorded in Qatia Statement as deduction and addition as budget supplement. However, the Budget Execution ~~Rules / Guidelines~~ Regulation allows the deduction and addition of non-discretionary development funds only, not discretionary funds. Further, Article 47 of PFEM Law authorizes the amendment of the appropriation provided that the adjustment does not exceed 5%.

22. As per the documents relating to budget amendments / supplement, a total of Afs 10,216,663,775 have been deducted from approved funds of certain projects and added to other projects according to Decisions No. 13 and 15 of the Cabinet of Islamic Republic of Afghanistan. However, a review of the development budget expenditure reflected in the Qatia Statements 1397 revealed that a total of Afs 10,215,537,900 have been recorded as deduction of budget supplement in Qatia Statement; showing an understatement of Afs 1,125,875.
23. A scrutiny of the development budget Qatia statements and intra- and inter- agency amendments during the year reveals that funds of 189 projects have been amended and transferred to other projects and funds of certain projects have been completely (100%) deducted and the projects have been excluded from budget document. This is contrary to the

provision of section 1, Article 47 of the PFEM Law and Article 25 of public finance and expenditure management regulation.

24. Though nine L/Cs opened in previous years and 12 in FY1396 have expired, they remained un-adjusted locking up public funds in on account of the L/Cs. Details are provided in this report.
25. 10 L/Cs opened in FY1397 have not been utilised / redeemed locking up public funds in L/C accounts.
26. As per the Qatia Statement of the development budget expenditure of FY1397, an amount of Afs 210 million has been added as budget supplement to a project titled “Design, Lighting and Construction of Urban Road” (AFG/790007) related to Kabul Municipality.

As per the information from the Budget General Directorate, the fund was transferred from the Contingency code 910049 and added to the project. However, as per the primary budget document and mid-year amendment of FY1397, the Contingency code 9100049 is meant for and approved as “development budget for provinces (1 million for each province)”. Therefore, adding the aforementioned funds to the project AFG/790007 related to Kabul Municipality is contrary to the objective specified in budget document.

27. A total amount of Afs 142,956,267 from revenues of codes 13105, 13106, 13107 and 13108 related to central entities have been recorded in their respective Qatia Statements. However, as per the Revenues Qatia Statement of MoF, a total of Afs 459,071,589 from the above sources has been recorded based on forms M-27 of General Directorate of Properties.

Since the General Directorate of Property of MoF is responsible for signing of all contracts for governmental properties with tenants and collecting revenues under the aforementioned codes (rents), there is a risk that Afs 142,956,267 revenue included in Revenue Qatia Statement of the entities might have been double counted and reflected in Revenue Qatia statement of the government or the revenue is overstated.

28. Paragraph 4 of Article 42 of the Constitution states that: “every kind of tax, duty as well as paid income shall be deposited to a single state account.” Further, section four of Article 60 of public finance and expenditure management regulation stipulates:

- Collection of state revenue when it becomes obligatory and immediate deposit to bank;
- Pursuing debtors seriously for immediate collection of receivable amounts and deposit to bank.

A total of Afs 3,786,190,956 have been recroded as advance estimated revenue and Afs 4,604,065,850 as realizable revenues under code 13330 (10% tax on credit cards - telecommunication services) in revenues Qatia Statement of FY1397. Against which, Afs 3,898,844,099 has been collected; Afs 705,221,751

remained pending. The MoCIT stated that the remaining amount is related to Roshan Telecommunication Company.

29. The figure of revenues pending collection, carried over from the previous year (as in the previous years Revenue Qatia Statements) should match with the opening balance figures in the next year Qatia statement.

Upon matching the audited Revenue Qatia Statement of FY1397 with the Revenue Qatia Statement of FY1396, it was found that revenues pending for collection recorded in Qatia Statement of FY1396 and to be carried over to FY1397, did not match with figures carried forward in Revenues Qatia Statement of FY1397. Details are provide in this report.

### **Comments of the Ministry of Finance on draft Audit Report**

Although the Qatia Statement Audit Commission communicated audit observations / findings for the relevant department of the MoF through separate queries during the audit and received their response, the audit commission prepared a draft audit report including the audit findings and submit it those charged with governance in the respective departments of the MoF according to INTOSAI standards and audit policy.

The Audit Commission received comments on the Qatia audit draft report from the Treasury General Directorate (TGD) through letter No.323410 dated 28.03.1398, Budget General Directorate (BGD) through Letter No.3969 dated 28.03.1398 and Afghanistan Revenues Department (ARD) through Letter No. 52 dated 27.03.1398. However, the Accounting and Finance Directorate of the MoF did not provide any comment on the draft report despite of official request.

In addition, an exit meeting was conducted between the Finance Deputy Minister, Mr. Zahid' Hamdard and the Professional Deputy Auditor General, Mr. Fazel Hadi Fazel, and the officials of Treasury and Budget Directorates and the members of the Qatia Statement Audit Commission on audit findings in the SAO headquarters. In the exit meeting, audit observations were discussed.

Taking into account the relevant and valid responses and evidences provided by the Ministry of Finance on the draft audit report and based on the audit evidences and conclusions drawn by the audit, final audit report was prepared. Wherever relevant and required, response of the MoF has been duly reflected in the audit report.

# Chapter 1

## General

The Qatia Statements for the Fiscal Year 1397 has been audited on basis of self-determined SAO's Audit Plan as per the SAO's Audit Law and in pursuance of the Presidential Decree No. **1561** dated **18.10.1397**.

### Definition of Qatia Statements

Qatia Statements consist of complete records of annual expenditure of the government budgetary agencies in comparison to the approved budget reflecting advance and post payments (cash basis) and the complete records of government actually collected revenue in comparison to the realizable revenue and the estimated revenue plan.

In other words, Qatia Statements presents budget implementation and the fiscal operation of the government in a financial period, which is usually one year. In fact, Qatia Statement is the reflection of the Government's budget implementation.

### Importance of Qatia Statements preparation

Qatia Statements enable the the Ministry of Finance (MoF), the President Office, the National Assembly and other relevant stakeholders to assess budgetary performance by comparison of the budget appropriation and the actual expenditure, intra-year amendments in the approved budget, as well as budgetary variations in terms of under-budgeting and over-budgeting. Assessment of the reasons for substantial budgetary variations for which intra-year amendments are made shall be helpful to the budget makers, oversight committee and the legislature in approaching the subsequent years' budget in a rational manner keeping in view the reasons. In the absence of adequate and exact information about the weaknesses and strength of the previous budget implementation, there is the risk of the subsequent year budget not having sound basis posing challenges in implementation.

The Government of the Islamic Republic of Afghanistan presents its Qatia Accounts in three different statements, which are Operating Budget Qatia Statement (code-wise), Development Budget Qatia (both code and project-wise) Statement, and Revenue Qatia Statement.

Operating expenditures of the government are ordinary operating expenditures, which include economic categories such as salaries and wages, use of goods and service, payment of interest and repayments of debt, subsidies, grants and social benefits and acquisition of assets.

Development Expenditures, as per Qatia Statement prepared by MoF, are mainly expenditures included in code 22 (use of goods and services) and code 25 (acquisition of assets), and sometimes it includes code 24 (subsidies, grants and social benefits) in the Development Budget Qatia Statements.

The government manages the expenditure of the budgetary units through Treasury Single Account (TSA) administered by the Ministry of Finance. As such, the ministries, independent departments, Mustofiat (Provincial finance departments, which though have separate expenditure account and cheque drawing authority) and other budgetary units do not have specific and controlled bank account and have no independent cash balances. Because the entire revenue including foreign aids are credited to the Treasury Single Account (TSA), and the entire expenditures of the ministries, independent departments and other entities are made after approval of MoF through TSA. Payments are processed as per Cash Accounting Manual with consideration to contents of M-16 form along with relevant supporting documents, and are recorded in the Afghanistan Financial Management Information System (AFMIS).

Development budget is substantially implemented thorough donor's grants and commitments and to a small extent from internal revenues and a small portion through loans. The expenditures for each project are made based on the approved budget and in case, the project cannot be completed during FY, the remaining fund is carried forward to next year for the purpose of completion of project.

The entire Bank accounts for the core budget (operating and development) are controlled through the TSA. These accounts include TSA for the operating budget and the special accounts related to development projects financed by donors' funds including the multi-donors' funding.

Government finances its budget requirements from domestic revenues and grants from other countries and donors. However, most part of the development budget is funded by donor's grants and sometimes domestic revenues and loans and the expenditure is made through the on-budget mode under the National Budget. Though some part the development budget funded by grants are directly spent by relevant donors through the 'direct payment' mechanism. There might be off-budget expenditures by the development partners, which are outside the National Budget. Such expenditures are not included in AFMIS and Qatia Statement of the Government and not covered under the audit of the SAO.

To have a clear view of the estimated and the collected revenues and the status of expenditure during the fiscal year and to assess and prevent the risk of non-realization and non-implementation of budget, preparation as well as audit of Qatia statements is needed. Accordingly, the Constitution (Article 98), the PFEM Law (Article 55-60) and the SAO's Audit Law have given the responsibility to MoF to prepare the Qatia Statements and present these to the SAO for Qatia Statement audit and submission of the audit report to the President's Office and the National Assembly.

### **Responsibility of the Budgetary Units**

As per the PFEM Law and the Cash Accounting Manual, all budgetary units (ministries and independent departments/agencies) are required, at the end of FY, to prepare their operating and development Qatia Statements in the designated M-91 Form (Qatia Report) and M29, M30 and revenue Qatia statements and submit them to the MoF.

The Budgetary units Qatia Statements are prepared on the basis of their revenues and expenses (both Central and Provincial) Reports and submitted to the MoF and the final Consolidated Qatia Statements of the Government budgetary units as whole are prepared by the MOF on the basis of reconciliation.

### **Responsibility of the Ministry of Finance**

As per Article 55 of the PFEM Law, the MoF is responsible for the preparation of the Qatia Statements on the basis of the Qatia statements of budgetary units and submit them to the Supreme Audit Office for audit. With reference to the Constitution, the SAO Law and the PFEM Law, first six month of the subsequent year (after the end of the relevant fiscal year) is allocated for preparation and presentation of the Qatia Statements by the MoF and conducting audit and submission of the audit report by SAO to the President and the National Assembly.

The MoF is responsible for the preparation and presentation of the the development and operating budget expenditure Qatia Statements and government revenue Qatia Statements within the first three months of the subsequent year and submit it to SAO by the beginning of the 2<sup>nd</sup> quarter (3<sup>rd</sup> Hamal) for audit.

As the preparation and submission of Qatia Statement is the responsibility of Ministry of Finance, they are fully accountable for accuracy and completeness of the accounts including audit assertions of the management (the MoF).

### **Responsibilities of the Supreme Audit Office (SAO)**

As per Article 98 of the Constitution of the Islamic Republic of Afghanistan and the Article 11(2), and Article 12(1) of SAO Law, and the Article 59 of the PFEM Law, as the independent and supreme audit institution (SAI) for auditing financial and accounting affairs of the country, the SAO has the mandate to audit the Annual Qatia Statements prepared and presented by the MoF (reporting entity) and submit the report to the State President of the Islamic Republic of Afghanistan and the National Assembly of Afghanistan.

The SAO has the responsibility to seek assurance, foremost on the audit assertions made by the management (the MoF) and on the accuracy of figures listed in Qatia statements as per documentary evidences and budgetary authorities and to prepare the audit report and provide independent audit opinion on Qatia Statements based on the INTOSAI standards and by observing the principle of the best practices and the SAO's code of ethics and impartially prepare the report and sent them to the relevant entities.

It is the responsibility of the budgetary units to prepare their Qatia Statements as per the relevant budgetary authorities and applicable documents after reconciliation with their secondary units and the MoF and to ensure the accuracy of the figures. They should send them to the MoF for consolidation and for the preparation and presentation of the General Government Sector (GGS) Consolidated Qatia Statements.

After preparation and presentation of the Government Consolidated Qatia Statements, the related accounting and finance officials and relevant authorities shall be responsible for the accuracy of

the figures recorded in the Qatia Statements and the SAO shall not bear any responsibility of figures listed in budgetary units Qatia Statement and in the Government Consolidated Qatia Statement.

### **Scope of the Audit**

The scope of audit covers FY1397 (1<sup>st</sup> Jadi -30<sup>th</sup> Qaws), which includes the audit and reconciliation of operating and development budget expenditures included in the Qatia Statements of budgetary agencies and the Government Consolidated Qatia Statements in comparison with of the approved budget at the beginning of the year, development budget supplements (final transferred projects), the amended budget during the year, expenses made and the budget remaining unutilised. It also includes reconciliation of central and regional revenue reports with revenue Qatia Statements in comparison to the estimated revenues from domestic revenues and foreign grants in the budget at the beginning of the year and budget supplements and reconciliation of transactions of Treasury General Directorate during the year with regard to the opening and closing balances of Da Afghanistan Bank, AFMIS and other supporting documents in accordance with budget execution guideline, the PFEM Law and regulations, budget, other rules and regulations and related guidelines and procedures.

However, external budget not part of the the national budget (Off-budget) and not channeled through the TSA and is not part of government Qatia Statement and such was not covered in the audit and the audit opinion of the SAO.

### **Auditable Documents (Qatia Statement Supporting Document)**

In audit of the Qatia Statements, the SAO audited those documents on the basis of which the management, responsible for the preparation and presentation of the Qatia statements, prepared and presened them . These include:

- National Budget
- Development Budget supplement (Second final term transitional projects), and documents related to mid-year amendments, related documents to budget supplement (operating and development);
- Form M-29 of revenue reports, M-30 outstanding revenue reports, Form M-22 (provincial expenditure reports) Forms T8 (reports on payment by Mustofiats and Branches of DAB in the provinces);
- Payments Reports of General Department of Treasury and debit and credit Statements of DAB;
- Forms B-23 and B-27 (amendments in budget and in issued appropriations) and its attached documents;
- Expenditure Qatia reports of the budgetary units;
- Information and figures recorded in the AFMIS system;

- Documents related to budget committee decision;
- Presidential decrees, decisions made by the Cabinet of Islamic Republic of Afghanistan in respect to budget;
- Other relevant documents supporting figures recorded in the Qatia Statements.

No contracts documents and related cash payments, and other expenditure documents has been audited during the audit of Qatia Statements, therefore Qatia Statement Audit Commission has no responsibility of reporting in this regard.

It is worth noting that the contents of this report are based on documents and information presented by the MoF, therefore audit commission has no responsibility regarding misstatement of information in any other respects.

### **Transparency in Transactions**

Transparency is the main principle in accounting transactions. Transparency requires maintaining records of transactions in systematic, regular, accurate and timely manner, timely presentation of the accounting reports of the relevant entities, inclusion of all accounting transactions in the reports that are free from misstatements and ambiguity, establishing efficient and effective control systems, appropriate arrangement of accounting records and in relevant files and existence of a proper list of the accounting documents that lead to creation of transparency in accounting performances.

Any incorrect accounting entry, inconsistency of figures (in words and numbers), in currency (Afghani & foreign currency), records in accounting forms, lack of reconciliation between approved budget, accounting forms, AFMIS system and Qatia Statements, improper arrangements of accounting documents, lack of documents or placing copies of documents instead of original in record files, ambiguous corrections in documents, deletions and omissions, use of pen correction for changes in figures, and recording calculation and numbers with pencils etc. adversely affect transparency of Qatia Statements, which should be avoided.

### **Audit Methodology**

SAO has conducted audit of the Qatia statements in accordance to the auditing principles and auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI). These standards require audit to be planned and performed in a way that can obtain reasonable assurance on the accounts that are free from material misstatements, either due to error or fraud and to obtain reasonable assurance that the statements fairly present the financial affairs of the Government. This audit includes auditing the supporting documents related to Qatia Statements, audit of all accounts, and evaluation of applicable accounting policies and regulations, and presentation of the Qatia Statements.

It is also pertinent to mention that in auditing the AFMIS, we have used IDEA or CAATs software and we believe that the audit evidence we obtained provides a basis for giving opinion on Qatia Statements.

### **MoF comments on the draft report**

In accordance with the INTOSAI ISSAIS and the SAO policy, it is required to present the audit findings as a draft report to MoF to express their opinions regarding the findings before preparing the final report. A joint meeting (Exit conference meeting) shall be held with MoF to discuss the findings for mutually agreed position. Subject to which final report shall be prepared, .

The Qatia Statement Audit Commission during the audit required the reason of accounting and documentation on each finding through separate inquiries from the relevant offices. As per the INTOSAI ISSAIS and the audit policy of the SAO, the Qatia Statement audit commission officially offered the draft of findings to related departments of MoF.

The General Treasury, National Budget and General Revenue directorates submitted their opinions separately via letter No. 323410 dated 28.03.1398, letter No. 3969 dated 28.03.1398 and letter No. 52 dated 27.03.1398 to the Qatia Statement Audit Commission. In spite of official suggestion of the MoF, Finance and Accounting Directorate didn't express opinion on draft of audit findings.

In addition, separate meeting has been held on audit findings with MoF, DM for finance affairs and official of the General Budget and Treasury Directorates with the of SAO professional Deputy Auditor General and the members of the Qatia Statement Audit commission to discuss and exchange views before finalisation.

The Qatia Statements Audit Commission considered results of the meetings with MoF, DM for finance affairs in finalising and presenting the audit report.

## Chapter 2

### An Overview of Government Finances and Budget Implementation in 1397

The Qatia Statements for the financial year 1397 (2018) presented the budget appropriations and the annual expenditure of the government budgetary ministries / departments and their agencies, both for the Operating budget (major code-wise) and the Development budget (major code wise and project wise) as well as revenue estimates, revenue assessed and revenue collected (major code-wise).

This chapter presents an overview of the governments' finances and fiscal scenario, sources and usages of money and budget implementation for the year 1397 along with inter-year comparisons for trends in expenditure, revenues and budget implementation.

Government financed its operating and development expenditures from tax, non-tax and miscellaneous revenues and donor's assistance as well as a small portion from development loans.

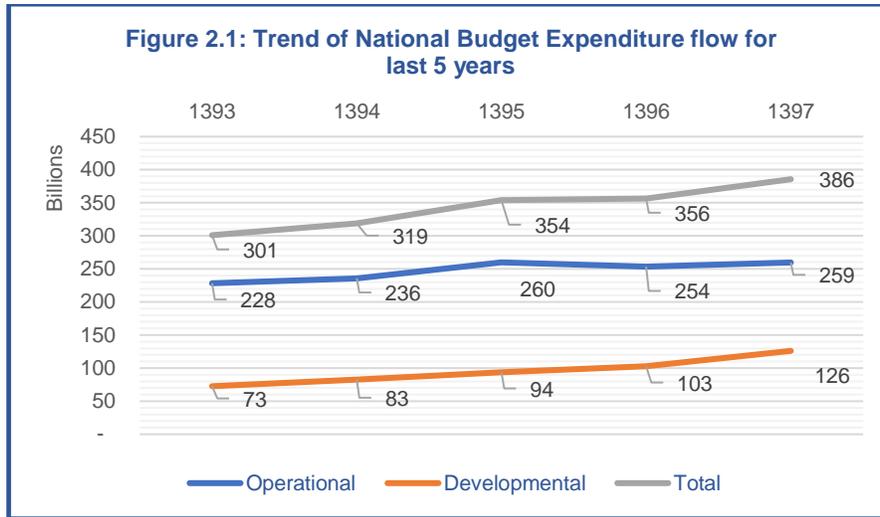
### Summary of Expenditure and Receipts

#### Trends in Operating and Development Expenditures

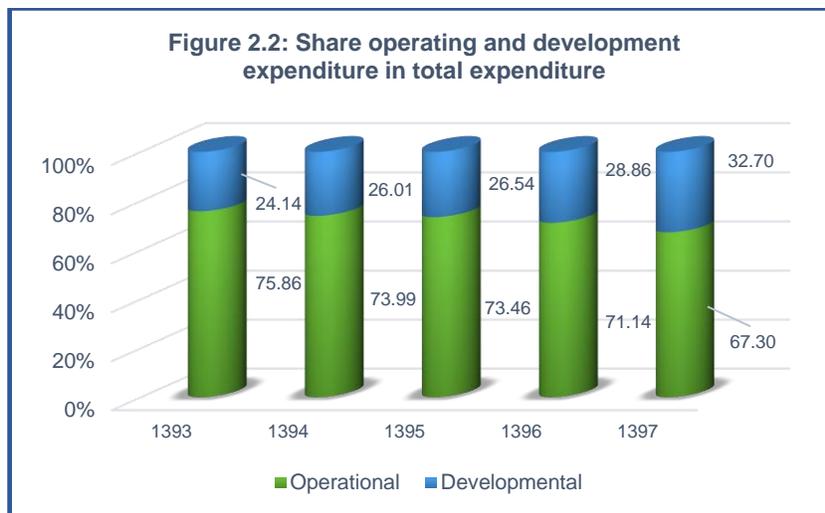
In 1397, Government's total expenditure through operating and development budgets was Afs 385,569,265,330, showing an increase of about 8 *percent* over 1396. The operating budget expenditure was Afs 259,496,341,970 and the development expenditure was Afs 126,072,923,360. While operating expenditure in 1397 increased by about 2.3 *percent* over 1396, the development expenditure increased by about 22.6 *percent* over 1396. The **table 2.1** and **figure 2.1** provide details and trends of operating and development expenditure for the last five years.

Table 2.1: Total expenditure by the Government for last 5 years (Afs)

Budget	1393	1394	1395	1396	1397
Operational	228,337,230,782	235,889,089,744	259,891,407,671	253,591,918,595	259,496,341,970
Developmental	72,648,883,256	82,908,924,659	93,891,607,133	102,861,523,519	126,072,923,360
<b>Total</b>	<b>300,986,114,038</b>	<b>318,798,014,403</b>	<b>353,783,014,804</b>	<b>356,453,442,114</b>	<b>385,569,265,330</b>
<i>% Year on Year (YoY) increase</i>	-	<i>5.92</i>	<i>10.97</i>	<i>0.75</i>	<i>8.17</i>



Core budget expenditure continued its increasing trend; more in the development expenditure in 1397. The share of the development expenditure in the total expenditure went up to 32.7 percent in 1397 from 26.5 percent in 1395, while the share of the operating expenditure came down to 67.3 percent in 1397 from 73.5 percent in 1395, as depicted in the **figure 2.2** below.



Over the last few years, change in the expenditure trend in development expenditure could be attributed positively to the insistence of the National Assembly on achieving the development budget implementation of at least up to 70 percent by the government agencies and projects. However, such a trend is also a reflection of the fact the operating budget implementation has reached a plateau in its absorption level between 92-95 percent where further absorption is limited. To some extent, increase in development budget implementation is also due to the advance payments. While the advance payments for the operating expenditure in 1397 stood at 2.5 percent of the total operating expenditure, it stood at about 4 percent of the total development expenditure in 1397. As against 23 percent of the operating budget advances remaining unadjusted, about 82 percent of the advance payments under the development expenditure in 1397 remained unadjusted.

This is matter of concern for both the quality of expenditure and the internal controls on the adjustments of the advances.

As per the estimates available, the Gross Domestic Product (GDP) of the country in 1397 was Afs 1,478,707,000,000. In macro-economic terms, the Government’s core national budget expenditure in 1397 of Afs 385,569,265,330 was about 26.1 *percent* of the GDP, comprising 17.55 *percent* of the operating expenditure and 8.53 *percent* of the development expenditure of the GDP in 1397 (2018). The total core budget expenditure in 1396 was 24.85 *percent* of the GDP (2017).

### Implementation of Operating and Development Budgets

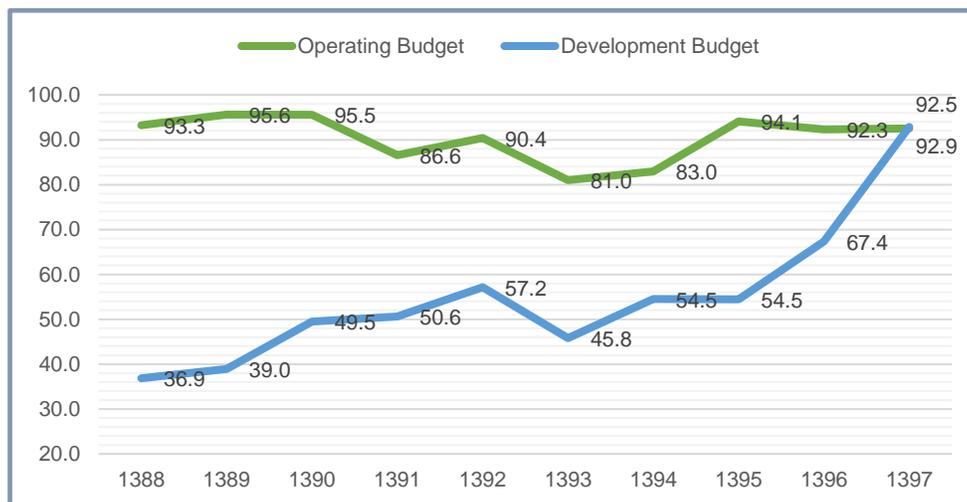
The utilisation of the appropriations and the implementation of budgetary approvals and the projects in compliance with the budgetary authorities and applicable rules and regulations is a measure of Government’s effort to implement the budget given by the National Assembly.

In 1397, total utilisation of the operating budget was 92.52 *percent* of the appropriations and for the development budget, it was 92.87 *percent* of the appropriations. A summary of the budget implementation for the operating and the development budgets is given below in **table 2.2** below.

Table 2.2: Budget Execution for last 10 years										
	1388	1389	1390	1391	1392	1393	1394	1395	1396	1397
Operating	93.3	95.6	95.5	86.6	90.4	81.0	83.0	94.1	92.3	92.5
Development	36.9	39.0	49.5	50.6	57.2	45.8	54.5	54.5	67.4	92.9

As can be seen from the table 2.2, while operating budget execution in last 10 years has varied from 81 *percent* to 96 *percent*, the development budget expenditure has gone up from 37 *percent* in 1388 to 93 *percent* in 1397. This suggests somewhat a limit of the government agencies to absorb operating expenditure up to a level and a growing capacity of the government budgetary agencies to absorb development budget. A graphical presentation of the budget execution for last 10 years is given in **figure 2.3** below.

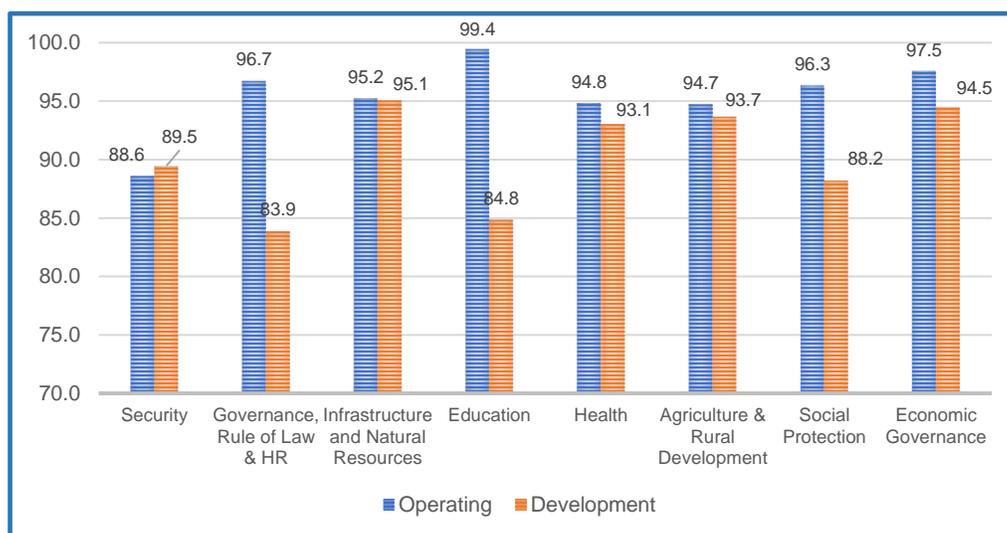
Figure 2.3: Budget execution for last 10 years (1388-1397)



In 1397, against the combined final budget of Afs 416,240,307,147 (operating and development), the total expenditure was Afs 385,569,259,330, about 93 percent. The increased implementation of the development expenditure is reflected in all sectors in 1397, as shown below.

Table 2.3: Budget Implementation by sectors 1397		
Sectors	Operating	Development
Security	88.6	89.5
Governance, Rule of Law & Human Rights	96.7	83.9
Infrastructure and Natural Resources	95.2	95.1
Education	99.4	84.8
Health	94.8	93.1
Agriculture & Rural Development	94.7	93.7
Social Protection	96.3	88.2
Economic Governance	97.5	94.5

Figure 2.4: Sectoral budget implementation in 1397



### Implementation of Revenue Budget, 1397

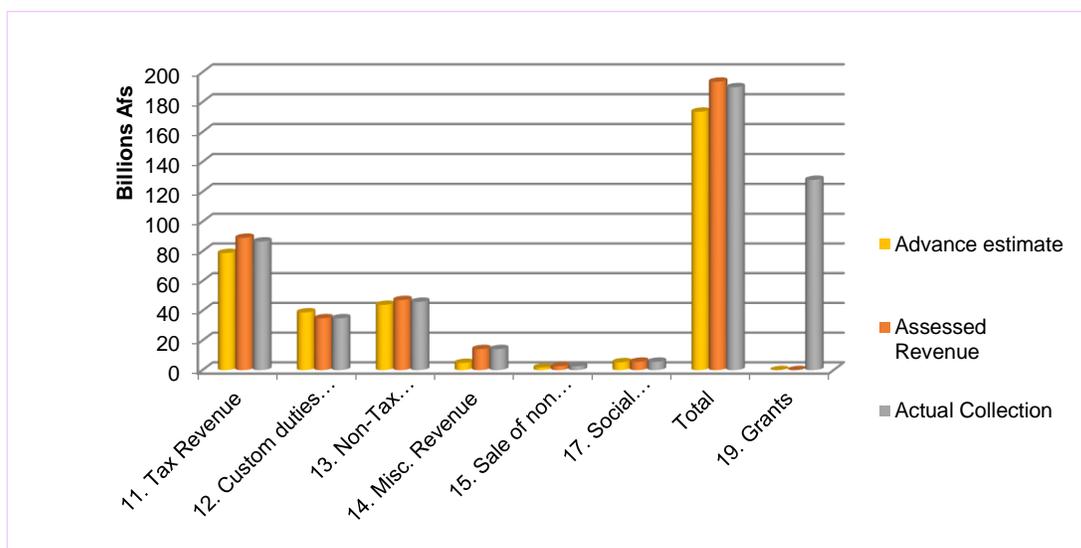
One of the important, rather a pressing requirement, of the government is to augment the sources and the volume of domestic revenue for fiscal self-reliance in terms of meeting the operating and development budget requirements. Bringing buoyancy in tax revenue, i.e., efficient and increased tax collection linked to increase in the national income and the gross domestic product (GDP), combined with an appropriate policy towards utilisation of natural resources and non-current assets for augmenting non-tax revenue and reaping the benefits of state owned enterprises (SoEs) will be helpful in progressing towards sustainable fiscal system. Government may also devise appropriate policy to receive share of revenue from agencies, which are collecting/generating money due to being public sector entity but not sharing with government at present such as ATRA and the surplus proceed of DAB's investment of government money.

Performance of the revenue administration in 1397 appears to show optimal level of revenue collection against assessments as shown in **table 2.4**.

Table 2.4: Revenue Qatia 1397				
Sources of domestic revenue	Advance estimate	Assessed Revenue	Actual Collection	Collection as % of assessed revenue
11. Tax Revenue	78,818,725,605	89,069,115,001	86,579,530,087	97
12. Custom duties & Fees	38,879,782,529	34,907,810,358	34,907,810,358	100
13. Non-Tax Revenue	43,938,743,421	47,179,047,849	45,981,685,070	97
14. Misc. Revenue	4,865,441,987	14,167,486,708	14,163,009,794	100
15. Sale of Non-Current Assets	1,730,434,849	2,640,601,524	2,640,178,524	100
17. Social contributions	5,293,278,274	5,635,572,956	5,635,506,669	100
<b>Total (a)</b>	<b>173,526,406,665</b>	<b>193,599,634,396</b>	<b>189,907,720,502</b>	<b>98</b>
<b>19. Grants (b)</b>	-	-	<b>127,910,347,494</b>	-
<b>Grand total (a + b)</b>	<b>173,526,406,665</b>	<b>193,599,634,396</b>	<b>317,818,067,996</b>	<b>183</b>

Against the advance revenue estimates of Afs 173.5 billion and the assessed revenue of Afs 193.6 billion in 1397, the actual collection of revenue in 1397 from domestic sources was Afs 189.9 billion as reported in the Revenue Qatia 1397. Component-wise revenue realisation in 1397 is given in **figure 2.5** below.

**Figure 2.5: Revenue collection compared with advance estimate and assessed revenue in 1397**

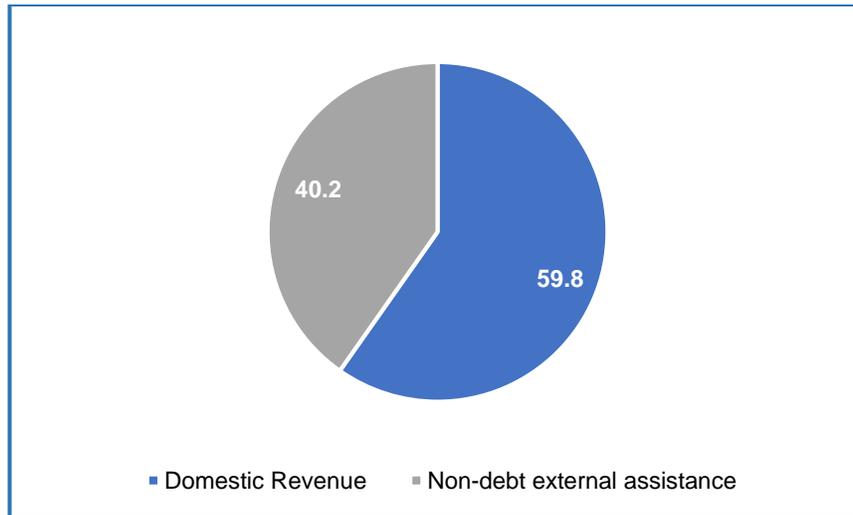


### Financing the Budget: Domestic Revenue and External Assistance 1397

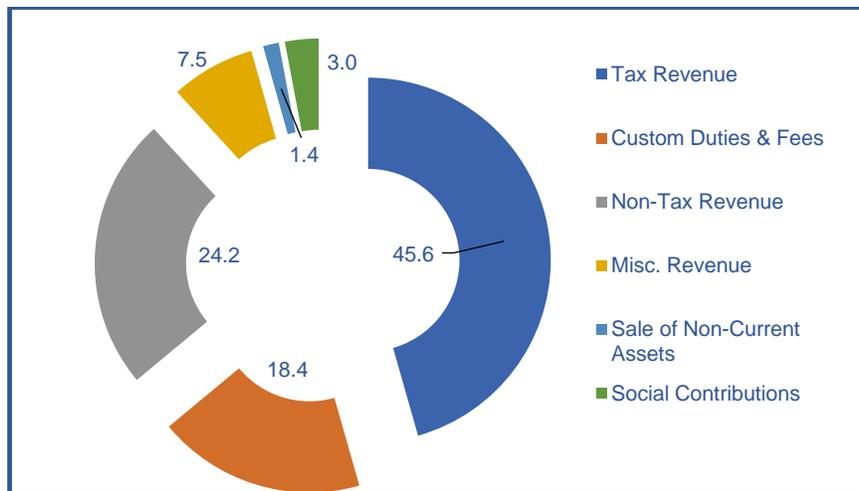
The total revenue from the domestic sources in 1397 was Afs 189,907,720,502, which is about 12.84 percent of the GDP in 1397. The domestic revenue was about 73.2 percent of the total operating budget expenditure, still short of about 28.8 percent in meeting the operating expenditure. Taking into account the operating and the development expenditure, the national core budget expenditure in 1397 had a deficit of about 49.3 percent, which indicates the net external

dependence of the core budget in 1397. This also indicates the lack of operating budget expenditure sustainability and more so of the core budget expenditure sustainability in immediate terms. Domestic revenue and non-debt external assistance were 59.8 percent and 40.2 percent respectively in 1397. The share of domestic revenue and non-debt external assistance and the share of different sources in domestic revenue in 1397 is depicted in figures 2.6.1 and 2.6.2 below.

**Figure 2.6.1: Percentage share of domestic revenues and non-debt external assistance in 1397**



**Figure 2.6.2: Percentage share of different components in domestic revenues in 1397**



The domestic revenues in 1397 through taxes stood at 45.5 percent, non-tax revenues at 24.2 percent, customs and duties at 18.4 percent, miscellaneous revenue at 7.5 percent, sale of non-current assets at 1.4 percent and social contributions at 3 percent of the total domestic revenue.

A comparison of receipts of the last five years for financing the operating budget suggests an increasing trend of inflow, both from domestic sources and donor’s grants. However, the share of

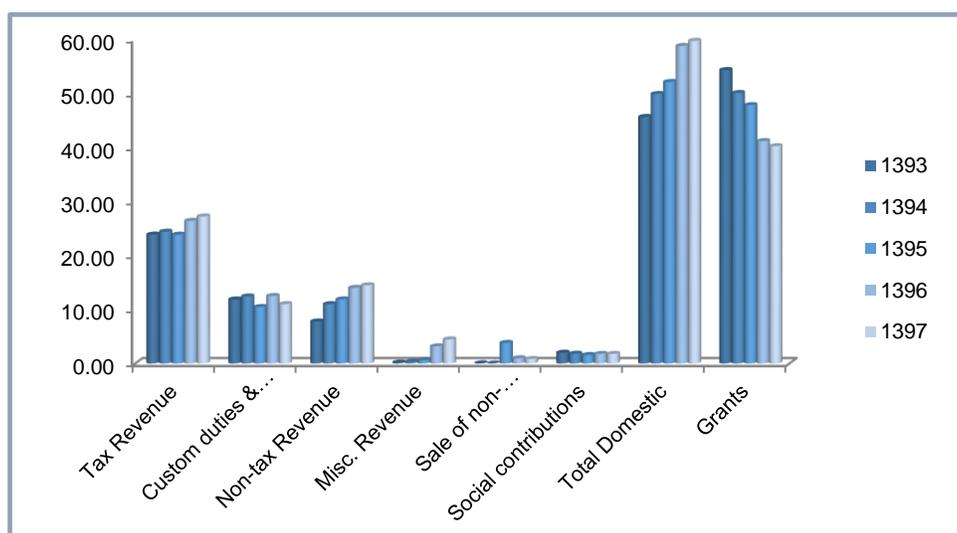
donor's grants in the total operating revenue, declined in 1396 and again went up in 1397. Table 2.5 gives details of operating revenue for the last 5 years.

Table 2.5: Revenue receipts during the last 5 years (Afs million)									
Year	Tax Revenue	Custom Duties & Fees	Non-Tax Revenue	Misc. Revenue	Sale of Non-Current Assets	Social Contributions	Total Domestic	Grants	Total
1393	52,313	25,965	17,024	343	35	4,370	100,050	119,100	219,150
1394	59,827	30,420	26,945	696	25	4,436	122,349	122,818	245,167
1395	71,347	31,265	35,473	1,808	11,376	4,674	155,943	143,100	299,043
1396	75,920	35,897	40,273	9,093	2,778	5,096	169,057	118,393	287,450
1397	86,580	34,908	45,982	14,163	2,640	5,636	189,909	127,910	317,819

Share of the domestic sources of revenue and grants for meeting the operating budget indicates that the share of Tax Revenue, Customs Duties & Fees and Non-Tax Revenues in the overall operating revenue has progressively increased over the last 5 years. A noteworthy feature about the miscellaneous receipt (cash and non-cash assistance, share in enterprises, previous years transfers, unclassified revenues, reimbursements returned, etc.,) in 1397 is substantial increase; almost 56 percent over 1396, from Afs 9,093 million to Afs 14,163 million.

A comparison of the last five years share of different components of the revenue (domestic and grants) is depicted in **figure 2.7** below. This suggests that while the share of domestic revenue components has gone up, the share of the grants has gone down.

**Figure 2.7: Share of different components in operating revenues for last 5 years**



### Financing the Development Budget Expenditure in 1397

Government's financing of the development budget expenditure was from grants (75.2%), other assistance and sources (24%), development loans (0.7%), and miscellaneous receipts (0.1%).

Table 2.6: Sources of financing the Development budget 1397		
Sources	Afs	%
Donor's Grants for Development Budget	94,765,109,330	75.2
Loans	900,505,398	0.7
Miscellaneous Receipts	113,492,260	0.1
Other sources	30,293,816,372	24.0
Total Development Fund in 1397	126,072,923,360	
Total Development Expenditure in 1397	126,072,923,360	

### Domestic Revenue and Fiscal Sustainability

For financing its operating expenditure, Government uses revenues from both domestic sources and foreign aid/grants from donors. Development budget is implemented mainly on the basis of donor's grants and a very small portion from retained contributions and development loans.

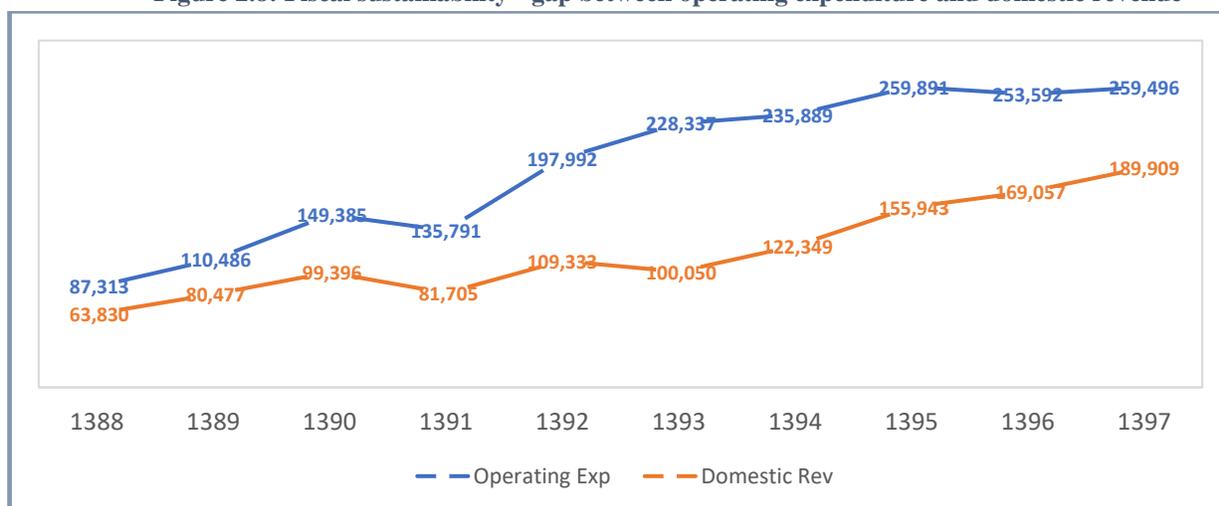
The Government's fiscal sustainability objective includes fully financing the operating budget from domestic revenues and excluding any dependence on donor's fund in the short to medium term.

In 1397, for financing the operating budget expenditure of Afs 259,496,341,970, the Government's total domestic revenue receipt was Afs 189,907,720,502. The domestic revenue, as a percentage of the operating expenditure in 1397, was about 73.2 percent. The details of operating expenditure and domestic revenues for last ten years is given **table 2.7** below.

**Table 2.7: Domestic revenue as percentage of operating expenditure (Afs million)**

Description	1388	1389	1390	1391	1392	1393	1394	1395	1396	1397
Operating Expenditure	87,313	110,486	149,385	135,791	197,992	228,337	235,889	259,891	253,592	259,496
Domestic Revenue	63,830	80,477	99,396	81,705	109,333	100,050	122,349	155,943	169,057	189,909
Domestic Revenue as % of Operating Expenditure	73.10	72.84	66.54	60.17	55.22	43.82	51.87	60.00	66.66	73.18

**Figure 2.8: Fiscal sustainability - gap between operating expenditure and domestic revenue**



As can be seen, in last five years (1393-97), the domestic revenue as the *percentage* of operating expenditure has increased from 43.82 *percent* in 1393 to 73.18 *percent* in 1397, which seems to support the Government's fiscal sustainability objective. Meeting the fiscal sustainability objective in the last five years (1393-1397), when compared with the position in the previous five years (1388-1392), suggests that the trend appears to have been reversed. In 1388, the domestic revenue was 73.11 *percent* of the operating expenditure, which came down to 55.22 *percent* of the operating expenditure in 1392 but has gone up to 73.18 *percent* in 1397.

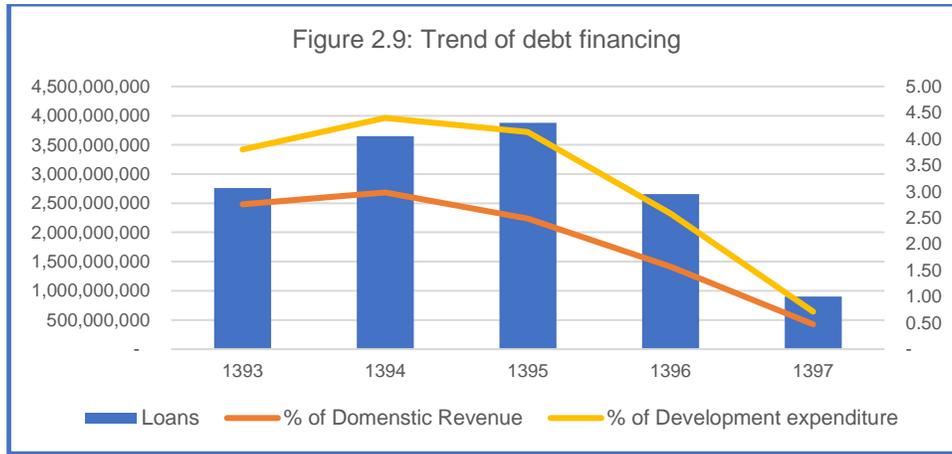
Notwithstanding the growing trend of the domestic revenue in meeting the operating expenditure in the previous five years, there is still a gap of about 27 *percent* in fiscal sustainability in 1397 defined by the Government in terms of domestic revenues in meeting the operating expenditure. Furthermore, when a broad budget (combined operating and development budget expenditure) approach is taken into account, the domestic revenue of Afs 189,907,720,502 is only 49.25 *percent* of the total expenditure of the core budget of Afs 385,569,265,330 in 1397. As such, the government's core national budget dependence remains more than 50 *percent* of the domestic revenues in 1397.

### **Borrowings / Loans and their usage and repayment**

Government does not borrow from domestic sources to meet its development budget requirements; nor does it borrow to fund operating budget expenditure, which is met through the usage of domestic revenues and grants from donors. Development budget expenditure is met largely from the aid/grants from donors, from domestic revenue and a small portion from loans/borrowings. Loans received by the Government are used for funding development expenditure, for acquisition of goods and services and assets, mainly contracted services (individual and firm consultancy), Tools and Materials, Machinery and Equipments and Building and Structures, etc., alone (Golden Rule of Borrowing).

As per the Revenue Qatia 1397, a total loan of Afs 900,505,398 from different donors was received by the government in 1397, which is 0.06 *percent* of the GDP. The loans constitute about 0.71 *percent* of the total development budget financing in FY1397.

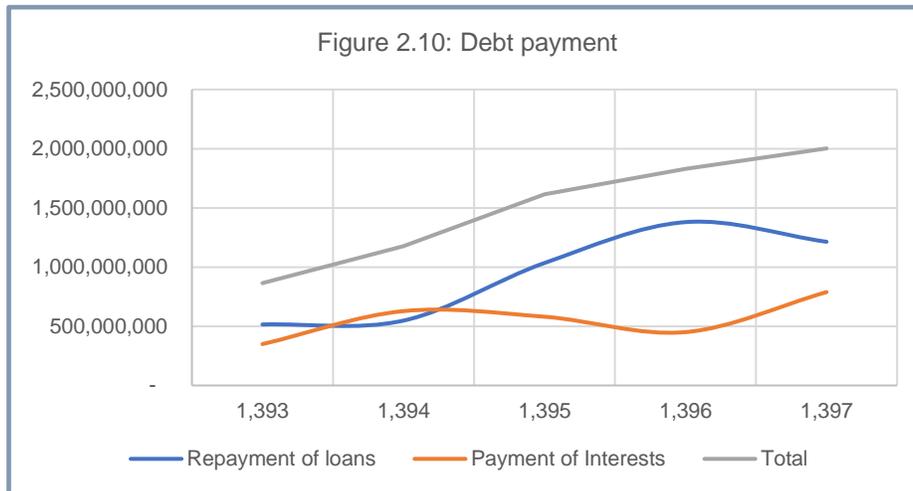
As can be seen from the **figure 2.9** below, debt financing by the Government in last five years has declined in terms of both the domestic revenue and the share in financing the development expenditure. Debt financing of development expenditure declined from 3.8 *percent* of the development expenditure in 1393 to 0.71 *percent* in 1397 and as a *percentage* of domestic revenue from 2.76 *percent* to 0.47 *percent* for the same period.



On the other hand, however, combined together, the repayment of borrowings and payment of interests thereon, has shown an increasing trend over the last five years; which suggests a slight decline in payment of loans but increase in repayment of interest in 1397 compared with 1396. In 1397, the Government paid a total of Afs 2,002,475,993, 0.14 percent of the GDP; Afs 1,213,813,841 towards repayment of loans and Afs 788,662,152 towards interest payment. The trend of payment towards interests and repayment of loans for last five years is depicted below in **table 2.8** and **figure 2.10**.

**Table 2.8: Debt payment**

	1393	1394	1395	1396	1397
Repayment of loans	515,257,025	547,934,888	1,034,525,936	1,380,145,064	1,213,813,841
Payment of Interests	349,304,274	628,102,682	580,470,975	450,617,776	788,662,152
Total	864,561,299	1,176,037,570	1,614,996,911	1,830,762,840	2,002,475,993



**Usage of funds for operating and development activities: distribution by economic categories**

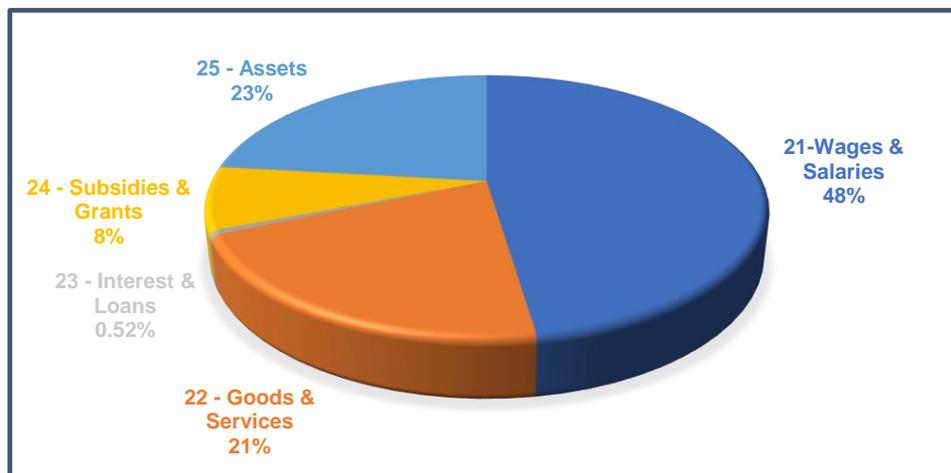
Through the operating and development budget, government seeks to achieve various current and long term objectives in the designated sectors and economic categories. As per the economic

categories, government spends on five segments, namely, a) wages and salaries, b) goods and services, c) interest payment and loan repayment, d) subsidies, grants and social benefits, and e) acquisition of assets.

Distribution of the expenditure from operating and development budgets suggests that in 1397, the Government spent 47.6 percent of the total core budget expenditure on salaries and wages (decrease from 48.9 percent in 1396), 20.9 percent on use of goods and services (decreased from 24.6 percent in 1396), 23.2% for acquiring assets (increased from 18.9 percent in 1396), 7.8 percent on subsidies, grants, social benefits (increased from 7.1 percent in 1396) and 0.52 percent on repayment of loans and payment of interests (marginally increased from 0.51 percent in 1396). Development expenditures are mainly in the categories of acquisition of assets, use of goods and services (salaries paid from development budget are treated for analysis in this chapter as part of use of services and are excluded from the salaries and wages of 47.6 percent mentioned above) and subsidies, grants, social benefits.

Table 2.9: Economic category wise expenditure 1397				
	<i>Operating</i>	<i>Development</i>	<i>Total</i>	<i>%</i>
<b>21 - Wages &amp; Salaries</b>	183,691,058,473	-	183,691,058,473	<b>47.6</b>
<b>22 - Goods &amp; Services</b>	37,697,199,526	42,859,127,464	80,556,326,990	<b>20.9</b>
<b>23 - Interest &amp; Loans</b>	2,002,475,994	-	2,002,475,994	<b>0.5</b>
<b>24 - Subsidies &amp; Grants</b>	29,937,769,506	100,560,970	30,038,330,476	<b>7.8</b>
<b>25 - Assets</b>	6,167,838,471	83,113,234,956	89,281,073,427	<b>23.2</b>
	<b>259,496,341,970</b>	<b>126,072,923,390</b>	<b>385,569,265,360</b>	<b>100.0</b>

Figure 2.11: Share of economic categories in total core budget expenditure in 1397

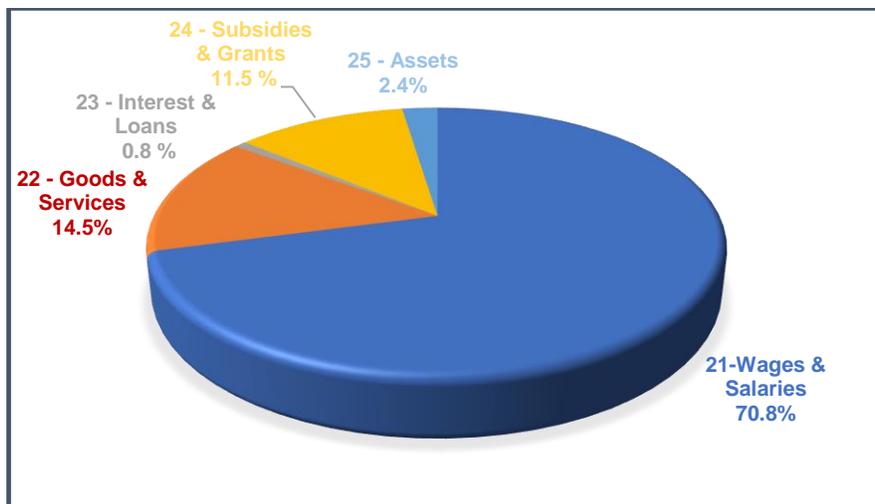


#### Distribution of operating expenditure by economic categories

Out of the total operating expenditure of Afs 259,496,341,970 in 1397, share of wages and salaries was about 71 percent; goods and services was 15 percent; interest payment and repayment of loan

less than one *percent*; subsidies, grants and social benefits was 11.5 *percent* and asset acquisition about two and a half *percent*. **Graph 2.12** provides percentage distribution of operating expenditure in 1397 as per economic categories.

**Figure 2.12: % Share of economic categories in operating expenditure in 1397**



Wages and salaries, the largest component in operating budget expenditure, about 79 *percent* of the total wages and salaries is mainly shared by four agencies only namely, the Ministries of Defence, Interior, Education and General Directorate of National Security in 1397. If another four ministries namely, the ministries of Foreign Affairs, Higher Education and Public Health and the Supreme Court are added, the total share goes up to 86.15 *percent* of the total operating expenditure. This shows the predominance of the defence, law and order, education, health, justice and foreign affairs administration in the operating expenditure.

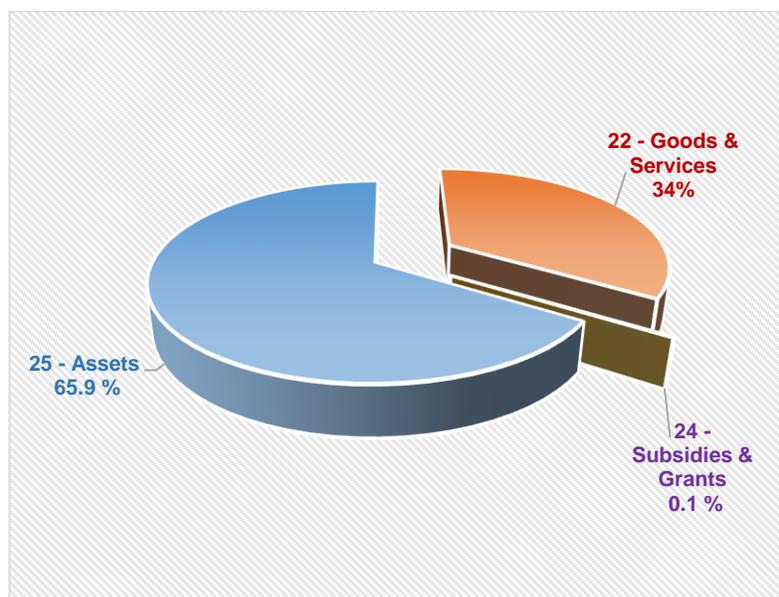
Taken together, the operating expenditure of the seven agencies of Afs 158,248,110,144 is about 83 *percent* of the total domestic revenue of Afs 189,907,720,502. This suggests that the Government has only 17 *percent* of the domestic revenue flexibility to spend for all the other ministries and agencies under operating expenditure.

### **Distribution of development expenditure by economic categories**

The development expenditure of Afs 126,072,923,390 in 1397 was shared by three economic categories, namely “Asset Acquisition”, 65.9 *percent* or Afs 83,113,234,956, “Use of Goods and Services”, 34 *percent* or Afs 42,859,127,464 and “Subsidies, Grants and Social Benefits”, 0.1 *percent* or Afs 100,560,970. An important aspect of the development expenditure is predominance of the four agencies namely, the ministries of public works, Breshna Shirkat, rural development and rehabilitation and energy and water, which shared about 63 *percent* of the expenditure under asset acquisition category. **Figure 2.13** provides percentage distribution of development expenditure as per economic categories in 1397.

Under the development expenditure, five economic sub-categories namely, contracted services, tools and materials, building and structures, machinery and equipment and capital advance constitute 98.4 *percent* of the total capital expenditure.

Figure 2.13: % Share of Economic Categories in Development Expenditure 1397



#### Usage of funds for operating and development activities: distribution by sectors

Government through the operating and development budgets seeks to achieve various sectoral allocative targets. The core national budget (operating and development) expenditures of Afs 385,569,265,330 in 1397 was spread across eight sectors, namely: i) Security, ii) Governance, Rule of Law and Human Rights, iii) Infrastructure and Natural Resources, iv) Education, v) Health, vi) Agriculture and Rural Development, vii) Social Protection, and viii) Economic Governance.

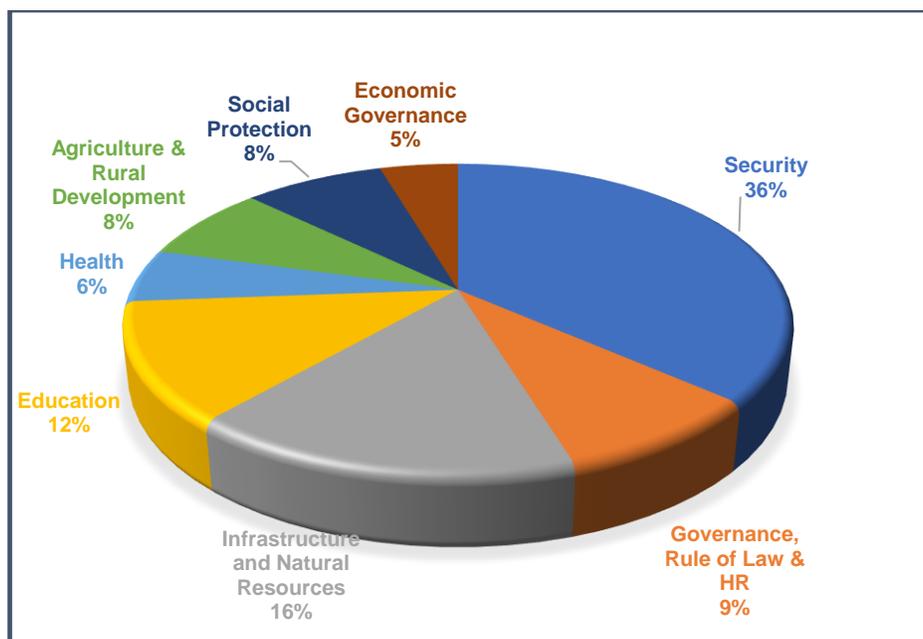
Table 2.10: Sectoral expenditure 1397

Sectors	Operating	Development	Total	%	% of GDP
Security	137,805,275,779	2,909,133,776	140,714,409,556	36.5	9.5
Governance, Rule of Law & Human Rights	24,832,464,863	8,924,724,225	33,757,189,089	8.8	2.3
Infrastructure and Natural Resources	6,906,092,100	55,509,860,764	62,415,952,865	16.2	4.2
Education	41,954,021,466	5,666,490,859	47,620,512,325	12.4	3.2
Health Sector	4,284,456,312	17,119,117,707	21,403,574,019	5.6	1.4
Agriculture and Rural Development	2,466,912,872	27,920,581,453	30,387,494,325	7.9	2.1
Social Protection	30,391,850,757	1,241,100,170	31,632,950,928	8.2	2.1
Economic Governance	10,855,267,821	6,781,914,405	17,637,182,226	4.6	1.2
<b>Total</b>	<b>259,496,341,970</b>	<b>126,072,923,361</b>	<b>385,569,265,330</b>	<b>100.0</b>	<b>26.1</b>

Share of the different sectors in the total budget is marked by the predominance of Security sector with 36.5 percent, about 9.5 percent of the GDP in 1397, followed by Infrastructure and Natural

Resources 16.2 percent, about 4.2 percent of the GDP and Education 12.4 percent, about 3.2 percent of the GDP as shown in **table 2.10** above and **figure 2.14** below.

**Figure 2.14: % Share of Sectors core budget expenditure 1397**



Under the operating expenditure 1397, Security sector has the highest share of 53.1 percent followed by Education sector 16.17 percent, Health 13.46 percent and Social Protection 11.71 percent, mostly due to disbursement of salaries and wages and subsidy and social benefits.

Under the development expenditure 1397, Infrastructure and Natural Resources shared 44 percent followed by Agriculture and Rural Development 22.1 percent and Health 13.6 percent, showing allocative priority for these critical sectors.

### **Quality of Budgeting, Expenditure and Financial Reporting**

Quality of budgeting, expenditure and financial reporting in terms of transparency, budgetary rigour, allocative efficiency and optimal utilisation of resources as well as service delivery and performance measurement is important.

An analysis of budgeting under contingency and reserve funds, advance accounted for as payments but remaining unadjusted in the year and projects with appropriations but having no activity or expenditure during the year indicate inadequacy in budgeting, expenditure and financial reporting.

### **Operation of contingency and reserve funds**

In 1397, under the Contingency and Reserve code, a total of Afs 32,379 million was provided for under the different codes of chart of accounts for reserve items; Afs 25,072 million for operating and Afs 7,307 million for development expenditures. Together, the fund constituted about 7.8 percent of the final budget and 8.4 percent of the total core budget expenditure as shown in **table 2.11**.

**Table 2.11: Contingency and Reserve Budget 1397 (Afs)**

	Operating	Development	Total
Contingency and Reserve	25,071,611,649	7,307,450,216	32,379,061,865
% of total final budget	8.9	5.4	7.78
% of total expenditure	9.7	5.8	8.40

In certain ministries / agencies, budgeting through Contingency and Reserve codes was as high as 95-99 percent of the final budget appropriation and 97-100 percent of the expenditure. Some representative cases are depicted in the **tables 2.12 and 2.13** below.

**Table 2.12: Contingency and Reserve Operating Budget 1397**

Ministries / agency	Reserve code appropriation (Afs)	% of final Budget	% of Expenditure
Railway Authority	1,457,967,306	99.1	101.2
Permanent Election Commission	851,077,428	98.2	101.2
Ministry of Public Works	1,695,561,036	80.3	82.6
Administrative Office of the President	1,631,671,453	42.2	45.3
Ministry of Finance	3,814,537,910	38.7	39.2
Ministry of Health	949,041,169	21.0	22.2
Ministry of Labour and Social Affairs	4,154,402,785	14.1	14.6
Ministry of Education	1,652,729,862	4.7	4.7
Ministry of Interior Affairs	1,948,559,863	3.4	4.1
<b>Total</b>	<b>18,155,548,812</b>		
Percentage of total fund	<b>72%</b>		

**Table 2.13: Contingency and Reserve Development Budget 1397**

Ministries / agency	Reserve code appropriation (Afs)	% of final Budget	% of Expenditure
Central Statistic Organisation	1,629,472,397	95.15	97.01
Ministry of Refugees and Repatriates	184,255,000	67.51	69.81
Railway Authority	170,000,000	35.20	41.25
Ministry of Labour and Social Affairs	134,451,352	15.57	17.70
Directorate of Local Governance	465,559,279	14.75	16.63
Ministry of Finance	568,034,983	13.29	14.03
Ministry of Education	505,553,328	12.50	14.96
Ministry of Energy and Water	414,620,128	7.17	7.73
Ministry of Higher Education	145,546,254	6.92	7.69
Ministry of Health	709,764,640	3.86	4.15
<b>Total</b>	<b>4,927,257,361</b>		
Percentage of total fund	<b>67 %</b>		

As per the Chart of Account 1397, under the operating budget, 34 count of contingency codes and under the development budget 14 counts of contingency codes were operated and final expenditure was reported in 29 codes under operating and 13 under development expenditure. Operating large number of contingency codes with about 8 percent of final core budget / total core budget expenditure, though renders flexibility to the Government in meeting emergent needs, nevertheless compromises budgetary and allocative rigour.

### Advances paid, accounted for but not adjusted

Government makes payments for the services and goods and other considerations it has received as well as for meeting its social and welfare obligations as cash payments. Payments are also made in advance of services, goods and considerations received and the actual occurrence of the obligations. Both the cash payments and the advance payments are accounted for as expenditure in the year.

In 1397, against the total advances of Afs 11,609,587,898 for the core budget, Afs 5,677,030,155 or about 49 percent remained unadjusted; comprising 22.70 percent in operating and 82.35 percent in development expenditure as shown in **table 2.14** below.

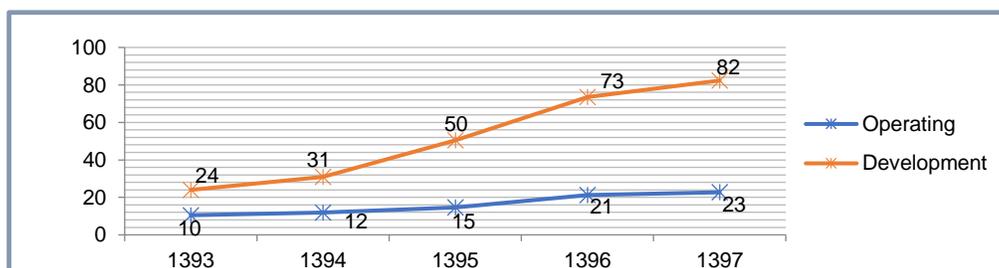
**Table 2.14: Advances not adjusted 1397**

	Advances	Not adjusted	% of advances not adjusted	Advances not adjusted as % of total expenditure
Operating	6,510,164,708	1,477,591,630	22.70	0.6
Development	5,099,423,190	4,199,438,525	82.35	3.3
	<b>11,609,587,898</b>	<b>5,677,030,155</b>	<b>48.90</b>	<b>1.5</b>

Large sum of advances remaining unadjusted in the year to which they relate means uncertainty or lack of finality in terms of both the purpose for which the expenditure needs to be incurred and the corresponding accounting documents. Furthermore, once remaining unadjusted in the year, they go out of the accounting and reporting mechanism and are open to irregularities and leaving the unadjusted amount opaque.

An analysis of advances paid and adjusted in the relevant year for the last five years show that while under the operating budget, unadjusted advances went up from 10 percent in 1393 to 23 percent in 1397, under the development budget, it went up from 24 percent to 82 percent for the same period as shown in **figure 2.15**.

**Figure 2.15: Trend of unadjusted advances (1393-1397)**



### **Projects budgeted for but no expenditure was incurred**

Under the development budget, government budgets and allocates funds both major code-wise as well as project-wise. In 1397, a total of 741 projects were included in the budget. Of which, in 188 projects or 25 *percent* of the total projects, which had original appropriation of Afs 5,401,878,584 or 5.3 percent of the total original appropriation, no expenditure was incurred. Moreover, there were at least 93 projects or 13 *percent* of the total for which final appropriations of Afs 414,979,070 were made but no expenditure was reported. The projects with no expenditure, amongst others, related to important areas of education, health, energy and water, public works, civil aviation, municipality services (Kabul Municipality), power supply (Breshna Shirkat).

## Chapter 3

### Presentation of the Documents

Article 98 of the Constitution of the Islamic Republic of Afghanistan on Qatia Statement stipulates: “The precise account of the previous year financial budget shall be presented to the National Assembly during the next six months according to the provisions of the law.”

Furthermore, Article 12, Section 1 of the SAO Law states that that Auditor General is responsible to provide Qatia Statement Audit Report of previous year’s budget within six months of the subsequent year to the state President and National Assembly. Likewise, Article 59, paragraph 2 of the PFEM Law states that the SAO shall prepare and submit an independent financial statement report of previous year within six months of the following year to the government.

The above constitutional and statutory provisions prescribe that the first six months of the following fiscal year are dedicated to the preparation, auditing and reporting of the Qatia Statement.

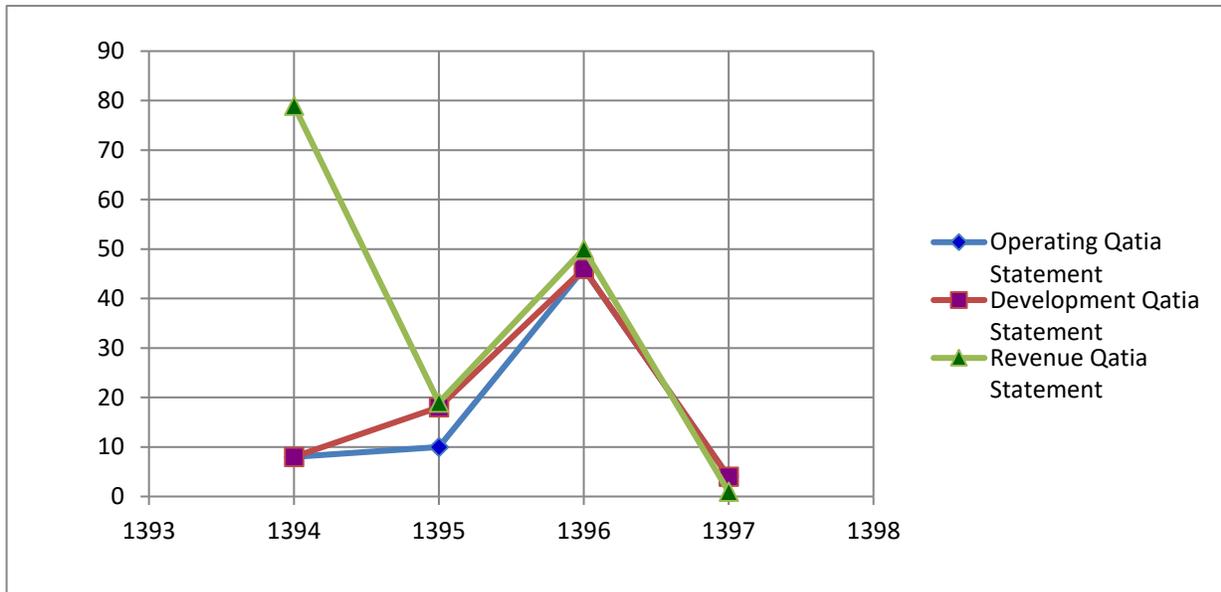
Therefore, based on the Decree No. 6084 Dated 03.10.1391 of the state President, all the budgetary units and the MoF are obligated to prepare their Qatia Statements within the first three months of the subsequent fiscal year and submit to SAO for auditing at the beginning of the 2<sup>nd</sup> quarter (3<sup>rd</sup> of Hamal). The SAO is obligated to complete the auditing within the next three months and submit the Qatia statement audit report along with opinions to the state President and the National Assembly within the stipulated time.

Although, the MoF presented the FY1396 Qatia Statement with 50 days delay for audit, which caused difficulties in the conduct of audit, fortunately, they could present the Revenue Qatia Statement for FY1397 with a day delay on the fourth of Hamal of FY1398 and presented development and operating expenditure Qatia statement with four days delay on the 6<sup>th</sup> Hamal FY1398, which shows the promptness of the MoF in preparation and presentation of Qatia Statement in a timely manner.

The following table shows the presentation of the Qatia Statements from 1394-1397.

Year of Audit	Date of QS presentation			No. days delayed in the presentation of QS		
	Operating QS	Development QS	Revenue QS	Operating QS	Development QS	Revenue QS
1394	10.1.1395	10.1.1395	19.3.1395	8	8	79
1395	13.1.1396	20.1.1396	21.1.1396	10	18	19
1396	19.2.1397	19.2.1397	23.2.1397	46	46	50
1397	6.1.1398	6.1.1398	4.1.1398	4	4	1

Figure 3.1: Submission of Qatia Statement from FY1394-1397 for audit



Although the above table and figure show that the FY1397 Qatia Statement has been presented on time (with minor delay), however, the presentation of revenue and expenditure documents were delayed, which created problems in the conducting of the audit. Whereas the documents relevant to the operating budget amendments and allotments were presented on the 10<sup>th</sup> of Hamal, development budget on 13<sup>th</sup> Hamal and revenue documents on 12<sup>th</sup> Hamal. The audit of Qatia Statements started on the receipt of the documents.

At the meeting held on 13.01.1398 between the Auditor General with the Finance Minister and relevant unit's officials decided that the information asked for by the SAO through audit queries

shall be provided within 48 hours to avoid disturbance in the audit of Qatia Statements. The matter was brought to the noticed of all the relevant units of MoF through circular No. 2681 dated 14.01.1398 sent by the MoF chief of staff. But the auditing process revealed that the inquiries were responded with considerable delays in some cases; namely the following inquiries:

1. The response of inquiry No.13 dated 15.01.1398 related to approval of secret fund, delayed 20 days.
2. The response of inquiry No.18 dated 05.01.1398 related to cash aids of donors related to grants coordination directorate, delayed 20 days
3. Inquiry No. 55 dated 21.01.1398 related to list of direct payments to donors, delayed 30 days
4. Inquiry No.91 dated 03.02.1398 related to funds of contingencies code (910049), delayed 21 days.
5. Inquiry No.97 dated 14.02.1398 about custom exemptions, delayed 25 days.
6. Inquiry No.104 dated 18.02.1398 related to difference of advances in Qatia Statement and AFMIS system, delayed 20 days.
7. Inquiry No.151 dated 01.03.1398 related to contingency fund sent to Budget General Directorate, delayed 22 days.
8. Inquiry No.119 dated 24.02.1398 about increment in organization structure (Tashkil) sent to IARCSC has not been received by audit commission in spite of a follow-up inquiry No.117 dated 19.03.1398.

## Chapter 4

### Description of National Budget for FY1397 and its Sources of Financing

As per the budget document, FY1397 (budget document at the beginning of the year) approved through the decision No. 295 dated 27.10.1396 of the National Assembly and the Decree No. 41 dated 05.11.1396 of the President of the Islamic Republic of Afghanistan, the total of the national budget (operating and development) for FY1397 is Afs 377,190,203,000. Compared to Afs 429,413,715,000 of the national budget for FY1396, the national budget in FY1397 is less by Afs 52,223,512,000 or 12% percent.

FY1397 National Budget constitutes 25.5% of Gross Domestic Product (GDP). The GDP level in FY1397 has been shown Afs 1,478.707 million according to information provided by the National Statistic and Information Authority (NSIA).

The National Budget FY1397 comprised of the operating budget of Afs 266,133,335,000 (70.5% of the national budget) and the development budget of Afs 111,056,868,000 (29.5% of the national budget). The decrease in the National Budget FY1397 over that of the FY1396 is more pronounced in the development budget; as the development budget FY1397 of Afs 111,056,868,000 compared to the development budget FY1396 of Afs 161,001,496,000 shows a decrease of Afs 49,944,628,000 or 31%.

The share of core and contingency budget components in FY1397 is depicted in the table below:-

**Table 4.1: Share of the core and the contingency budgets in the National Budget**

No	Budget type	Description	Amount in Afs	Core and Contingency budget	Total Operating and Development Budget	% share of core and contingency budget in Operating and Development Budget	% share of operating and development budget in national budget
1	<b>Operating</b>	Main Budget	225,621,688,956	225,621,688,956	274,033,334,956	<b>82.3</b>	<b>71</b>
		Contingency fund for MoLSAMD	21,869,796,000	48,411,646,000		<b>8.0</b>	
		Contingency fund for maintenance of Hiaratan-Mazar Railway	2,200,000,000			<b>1.3</b>	
		Contingency fund for MoPW	1,400,000,000			<b>8.4</b>	
		Contingency fund for MOF	22,941,850,000				
2	<b>Development</b>	Main Budget	102,431,552,852	102,431,552,852	111,056,868,000	<b>92</b>	<b>29</b>
		Contingency budget	8,625,315,148	8,625,315,148		<b>8</b>	
FY1397 national budget Total.					385,090,202,956	-	100

The total National Budget (operating and development) FY1397 as per the the Budget Decree is Afs 377,190,203,000, while as per the entity wise budget classification, it is Afs 385,090,202,956; showing a difference of Afs 7,900,000,000.

Based on the information made available by the MoF, a fund of Afs 7.9 billion was allocated for the Central Bank (DAB) recapitalization, referred to as asset injection and not expenditure as per the Government Finance Statistics (IMF-GFS)<sup>1</sup>. Hence, the above figure is not included in the operating expenditure.

Out of the the total operating budget of Afs 274,033,334,956 for the FY1397 (original budget), Afs 225,621,688,956 or 82% constitutes core budget and Afs 48,411,646,000 or 18% constitutes contingency budget. The operating budget FY1397 constitutes 71% of the National Budget including contingency codes; about 18.5% of GDP in FY1397.

Likewise, out of the total Development Budget FY1397 (original budget) of Afs 111,056,868,000, Afs 102,431,552,852 or 92% constitutes core budget and Afs 8,652,315,148 or 8% constitutes contingency budget. The share of development budget is 29% of the National Budget FY1397.

The Development Budget FY1397 (original budget) indicates a decrease of Afs 49,944,601,000 or 31% compared to Afs 161,001,469,000 of the Development Budget FY1396. The total Development Budget FY1397 covers 7.5% of GDP.

### Sources of Financing for the National Budget

A summary of sources of financing the National Budget (operating and development) is depicted in Table 4.2 below.

**Table 4.2: National Budget (Operating and Development) - sources of financing (in Afs)**

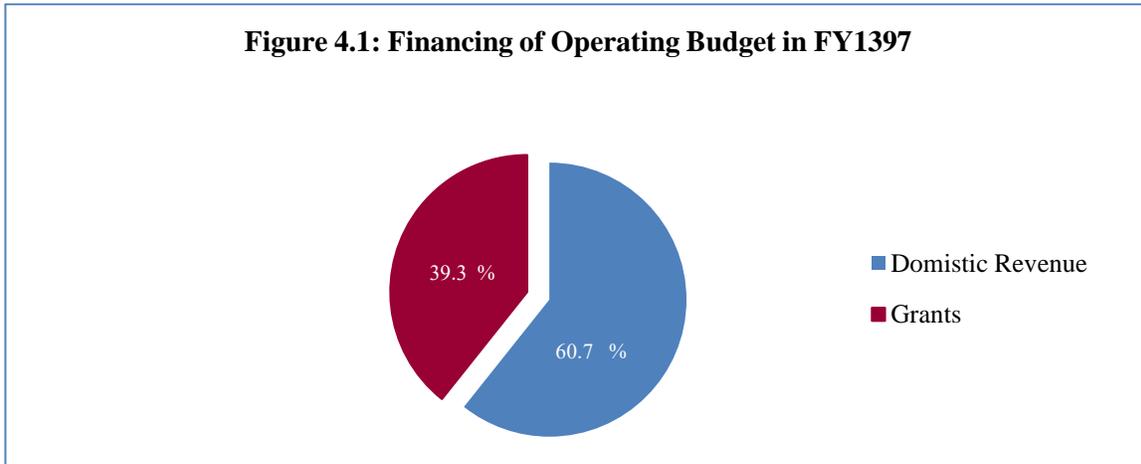
No	Budget Type	Approved Core budget	Sources of financing			Total budget Financing	Balance
			Domestic sources	Donors	Loans		
1	Operating	266,133,335,000	161,621,818,000	104,511,517,000	-	266,133,335,000	-
2	Development	111,056,868,000	10,000,000,000	85,861,195,000	908,967,000	96,770,162,000	(14,286,706,000)
<b>Total</b>		377,190,203,000	171,621,818,000	190,372,712,000	908,967,000	362,903,497,000	(14,286,706,000)

As per the original National Budget document FY1397, approved operating budget of Afs 266,133,335,000 was budgeted to be financed through domestic sources of Afs 161,621,818,000 or 60.7% and Afs 104,511,517,000 or 39.3% from external grants. No gaps in finance sourcing compared to the approved core budget was witnessed.

The domestic financing of the Operating Budget in FY1397 increased from 55 percent to 60.7 percent compared to FY1396. The total Operating Budget FY1397 compared to the Operating

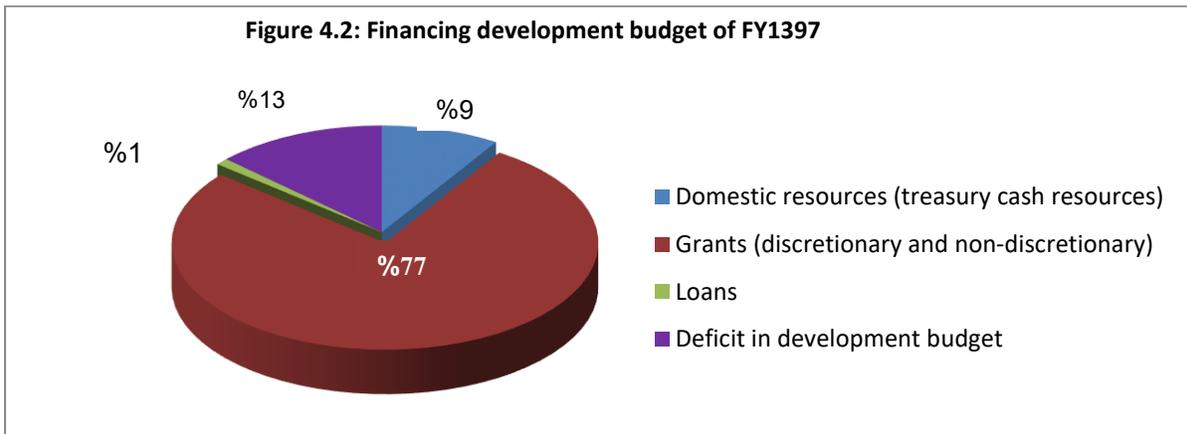
<sup>1</sup> As the GoIRA has not declared any accounting policy including treatment of the re-capitalisation as per the IMF-GFS, the audit was not able to ascertain the treatment of the transaction.

Budget FY1396 of Afs 268,412,219,000 shows a decrease of Afs 2,278,884,000 and with the Operating Budget FY1395 of Afs 276,053,895,870, a decrease of Afs 9,920,560,870.



As per the approved National Budget, the financing for the development budget in FY1397 was Afs 10,000,000,000 from the domestic resources, Afs 27,798,685,000 from the discretionary grants, Afs 58,062,510,000 from the non-discretionary grants and Afs 908,967,000 from loans; total Afs 96,770,162,000. Therefore, as against the approved development budget of Afs 111,056,868,000, the national budget had a deficit of Afs 14,286,706,000 or 12.86%.

However, a review of the budget document suggested that the actual budget deficit of Afs 25,195,673,000 or 22.68% in the development budget of FY1397 could be managed at Afs 14,286,706,000 or 12.86% by sourcing from loan and retained treasury balance.



It is worth noting that the foreign grants (discretionary and non-discretionary) for financing development budget of FY1397 decreased from Afs 135,594,458,000 in FY1396 to Afs 85,861,195,000. On the other hand, while Afs 12,702,253,000 was sourced from domestic sources to finance the development budget of FY1396, Afs 10 billion has been considered from cash resources of treasury general directorate to finance development budget of FY1397. This issue needs to be considered, as financing the development budget from retained balances shall pose problem in the future for sustainability.

## Summary of Organizational Structure (Tashkeel) in FY1397

Total of 880,037 positions have been presented for FY1397 organizational structure in the budget document. It shows an increase of 20,983 positions compared with 859,054 positions mentioned in budget document of FY1396 and an increase of 30,274 positions with respect to 849,763 positions mentioned in budget document of FY1395.

As per the above, the organizational structure of FY1396 has increased over the previous years, but the operating budget of FY1397 decreased to Afs 2,278,884,000 compared with the operating budget of FY1396 and Afs 9,920.561,000 compared with the operating budget of FY1395. This shows a reverse relationship between the organizational structure and the budget of the government.

Table 4.3: Entities with the highest share in the organizational structure from 1394 to 1397

No	Entities	Fiscal Year							
		1394		1395		1396		1397	
		Actual organizational structure	Share in percentage						
1	MoE	263.996	30.40	263.961	31.00	263.961	30.72	271.785	30.88
2	MoI	205.854	24.15	202.696	23.85	208.354	24.25	208.354	23.67
3	MoD	207.916	24.39	202.886	23.87	204.449	23.80	208.113	23.65
4	NDS	40.741	4.78	40.741	4.79	40.741	4.72	42.941	4.88
5	MoPH	18395	2.16	18.395	2.16	18.403	2.14	18.403	2.09
6	MoHE	12.844	1.51	12.844	1.51	13.444	1.56	13.844	2.00
	Total	749.746	87.96	741.523	87.26	749.352	87.30	763.440	86.75
	Other entities	102.559	12.04	108.240	12.74	109.702	12.77	116.598	13.25
	Grand total	852.305	100	849.763	100	859.054	100	880.037	100

As per the table above, Ministry of Education with 271,785 positions has about 30.88% share of the organizational structure in FY1397 and is at the top of governmental agencies that has the highest number personnel. It is followed by the Ministry of Interior Affairs (MoIA) with 208,354 staff or 23.65%; Ministry of Defense (MoD) with 208,113 positions has about 23.65%. In total, these three entities, constituted 688,252 positions or 78% of the total staff working for the government. If another three top entities are also counted, 6 entities mentioned in the table above 763,440 or 86.75% of total positions and all other entities are allocated 116,598 or 13.25% of the total organizational structure.

### Mid-Year Review Changes

Mid-year amendments in the Budget approved by the National Assembly through Decision No. 00394-23 dated 04.05.1397 and endorsed by the President of the Islamic Republic of Afghanistan

through Decree No.54 dated 22.05.1397 indicates the following changes in the original budget of the year and its financing sources. Details are provided in the following table.

**Table 4.4: Mid-year budget amendments in the National Budget for FY1397**

Description				Amount (in Afs)	National budget deficit as per mid-year amendments
Total of operating and development budget at the beginning of FY1397				377.190.203.000	6.123.649.866
Supplements during the year (until preparation of mid-year review document)				17.479.076.371	
Changes in mid-year review	Increment	Operating budget	9.361.505.349	17.477.396.612	
		Development budget	8.115.891.263		
	Deduction	Operating budget	-	(4.887.831.420)	
		Development budget	4.887.831.420		
Revised budget of mid-year review		Operating budget	284.314.213.000	407.258.845.000	
		Development budget	122.944.632.000		
Financing sources of budget at the beginning of the year		Financing sources at the beginning of the year	380.382.573.000	401.135.195.134	
		Increment	20.752.622.134		

As per the table above, total amended national budget was Afs 407,258,845,000, of which Afs 284,314,213,000 related to the operating budget and Afs 122,944,632,000 to the development budget.

Total of amended national budget in mid-year review including supplement during the year (supplement that included in national budget from the beginning of the year until mid-year review) shows Afs 30,068,642,000 or 8% increment compared to Afs 377,190,203,000 of the approved budget at the beginning of FY1397. Afs 8,819,372,396 has been presented as the budget supplements and Afs 9,361,505,000 as addition due to mid-year amendment, a total of Afs 18,180,877,396 related to the operating budget. Afs 8,659,703,975 as budget supplements and Afs 3,228,060,000 as supplementary for mid-year review, a total of Afs 11,887,763,975 related to the development budget.

The financing resources for the National Budget have been upwardly revised from Afs 380,382,573,000 at the beginning of the year to Afs 401,135,196,134. It reveals a budget deficit of

Afs 6,123,647,866 or 1.5% with respect to Afs 407,258,844,000 amended budget in mid-year review.

Details related to financing sources of the National Budget (operating and development) for FY1397 are provided in the following table. This is based on the changes as per the mid-year review.

<b>Table 4.5: Details related to financing resources of the National Budget for FY1397 from domestic resources</b>					
<b>No</b>	<b>Financing Resources</b>	<b>Description</b>	<b>Amount (figures in Afs)</b>		
<b>1</b>	Domestic Resources	<b>Total</b>			
		Tax Income	119.919.678.687		
		Non-Tax Income	53.580.321.315		
<b>Total of domestic revenues</b>			<b>173.500.000.000</b>		
<b>2</b>	Foreign financial resources	<b>Foreign financial resources for operating budget</b>	ARTF(incentive funds)	5.000.000.000	
			ARTF(Incentive-plus)	3.483.000.000	
			LOTFA(Law and Order Trust fund for Afghanistan)	29.388.000.000	
			CSTC-A funds for Ministry of Defense	55.328.000.000	
			CSTC-A funds for Ministry of Interior	16.357.000.000	
			NATFO	89.000.000	
			New Development Policy	6.900.000.000	
			European Union (state-building contract)	2.169.000.000	
		<b>Total of foreign financial resources for operating budget</b>			<b>118.714.000.000</b>
		<b>Foreign financial resources for development budget(discretionary)</b>	ARTF(incentive funds)	12.768.000.000	
			ARTF(Incentive funds-plus)	18.796.000.000	
			SMAF(Self-Reliance Through Mutual Accountability Framework)	3.417.000.000	
			European Union(Refugees and Repatriates Trust Funds)	1.119.000.000	
			European Union(state-building contract)	5.485.000.000	
		<b>Total of foreign resources for development budget(discretionary)</b>			<b>41.584.000.000</b>
				The Global Alliance for Vaccines and Immunization	390.153.060
				Australia	19.203.540
Germany	683.400.000				
Italy	3.816.973.390				
Islamic Development Bank	116.133.333				
Asian Development Bank	13.937.914.640				
World Bank	7.353.084.779				

		Bureau of International Narcotics and Law Enforcement Affairs	455.896.140
		Kazakhstan Government	62.599.000
		International Funds for Agricultural Development	1.364.291.260
		UNESCO	153.764.999
		ARTF	28.161.777.121
		SAARC	30.680.596
		TDF(Telecommunication Development Fund)	974.180.000
		France	31.919.156
		UNHCR	16.575.586
		US Aids	2.997.569.314
		Kuwait	478.380.000
		India	1.216.099.422
		UNICEF	412.486.347
		China	34.170.000
		CASA-1000	54.672.000
		Japan non-Project Grants	1.074.137.634
		International Monetary Fund	138.046.800
		UNDP	231.321.196
<b>Total of foreign Resources (non-discretionary)</b>			<b>64.204.929.803</b>
<b>3</b>	<b>Loans</b>	Italy	234.500.000
		Islamic development bank	127.199.430
		Asian development bank	134.000.000
		Saudi development bank	536.000.000
<b>Total of loans</b>			<b>1.031.699.430</b>
<b>4</b>	<b>Domestic Resources for development budget</b>	Treasury reserved funds	<b>10.000.000.000</b>
<b>Grand total</b>			<b>409.034.629.036</b>

According to the table above, from the amount of Afs 224,502,929,803 of the external grants for financing the national budget (discretionary and non-discretionary) for FY1397, Afs 84,716,000,000 or 38% was related to the Combined Security Transition Command-Afghanistan (CSTC-A), Afs 68,208,777,121 or 30% to the ARTF (multidonor), Afs 29,388,000,000 or 13% to the LOTFA, Afs 13,937,914,640 or 6% to the ADB, Afs 8,773,000,000 or 4% to the EU, Afs 7,353,084,779 or 3% to the WB, Afs 6,900,000,000 or 3% to the New Development Policy and the rest, Afs 5,226,153,263 or 2% to other donors/external sources.

As per the relevant documents, the committed amount under the CSTC-A for financing the national budget increased from Afs 71,046,315,000 in FY1396 to Afs 84,716,000,000, YF ni 1397, for the ARTF from Afs 57,098,065,000 to Afs 68,208,777,121 and for the LOTFA, from Afs 28,315,696,000 to Afs 29,388,000,000.

On the other hand, the amount of the commitment of the Asian Development Bank decreased from Afs 33,773,465,000 in FY1396 to Afs 13,937,914,640 in FY 1397, the WB from Afs 13,876,073,000 to Afs 7,353,084,779 and the New Development Policy from Afs 12,060,000,000 to 6,900,000,000.

The mid-year amendment has considered an amount of Afs 1,031,699,430 from loans for financing the development budget. These included Afs 234,500,000 loan from Italy, Afs 127,199,430 from the Islamic Development Bank loans, Afs 134,000,000 from the Asian Development Bank and Afs 536,000,000 from the Saudi Development Bank.

It is worth mentioning that the total of domestic revenues considered as per the supplements / mid-year amendments for financing the national budget FY 1397 was Afs 165,600,000,000 (table 1 attached). While a total of Afs 173,500,000,000 was approved from the domestic revenues (tax and non-tax revenues) for financing the national budget in the original budget. This figure shows a difference of Afs 7,900,000,000 compared with the figures mentioned in table 1- budget supplements of mid-year review.

According to the information provided by the Treasury General Directorate, this amount of Afs 7.9 billion has been reduced from the total of domestic revenues and expenditures due to the Central Bank Recapitalization. More details have been provided in audit findings in this report.

## Chapter 5

### Results of Audit of the Qatia Statements for FY1397

#### Operating Budget Qatia Statement

After the the intra-year amendments FY1397 (from the beginning of the year upto the mid-year amendments), the operating budget was Afs 284,314,213,000; of which, Afs 229,420,645,357 or 81% was the core budget and Afs 54,893,567,643 or 19% was the discretionary budget of FY1397.

The total Operating Budget after the intra-year amendments for FY1397 compared with Afs 267,752,157,000 Operating Budget after intra-year amendments for FY1396 shows an increase of Afs 16,562,056,000 or 6%.

As per the intra-year amendments for the FY1397, Afs 54,893,567,643 was approved as discretionary budget in 31 Reserve Codes; the details of which, with respect to the approval at the beginning of the year and the mid-year changes, are explained in the table below.

<b>Table 5.1. : Approval of Operative Budget</b>					
No	Code	Code Title	Core Approval	Mid-year review Changes	Total
1	900001	Policy Fund	1.300.000.000	-	1.300.000.000
2	900002	Fund for Emergencies status	1.580.000.000	-	1.580.000.000
3	900003	Fund for loan interests	1.802.850.000	-	1.802.850.000
4	900004	Fund for Currency Balance	250.000.000	100.000.000	350.000.000
5	900005	Fund for Civil service reform and grading and salaries	300.000.000	470.000.000	770.000.000
6	900006	Pensions of Martyrs and Disabled	15.500.000.000	-	15.500.000.000
7	900007	Pensions of Civil and Military personnel	6.170.796.000	4.000.000.000	10.170.796.000
8	900008	Membership of the Ministries in International Organizations	550.000.000	300.000.000	850.000.000
9	900009	PRR and Super Skill Fund	150.000.000	-	150.000.000
10	900020	Discretionary fund for repayment of revenue	500.000.000	-	500.000.000
11	900023	Fund for National Cricket Team	120.000.000	-	120.000.000
12	900024	Fund for Purchasing Land	1.000.000.000	600.000.000	1.600.000.000
13	900027	Fund for maintenance of railway of Hyratan- Mazar e sharif	1.400.000.000	22.000.000	1.422.000.000

14	900029	Central Bank Recapitalization	7.900.000.000	-	7.900.000.000
15	900031	Fund for unpaid pensions of previous years	199.000.000	-	199.000.000
16	900036	Fund for Protection of Strategic Projects	1.400.000.000	-	1.400.000.000
17	900045	Discretionary fund for National Olympic Committee	50.000.000	-	50.000.000
18	900047	Discretionary fund for the rent of land in Bagram (Ministry of National Defense)	114.000.000	-	114.000.000
19	900049	Fund for Strategic stocks	100.000.000	-	100.000.000
20	900050	Fund for Maintenance	5.000.000.000	-	5.000.000.000
21	900052	Discretionary fund for Election	700.000.000	414.840.000	1.114.840.000
22	900053	Discretionary fund for creating the Taskforce	500.000.000	-	500.000.000
23	900056	Discretionary fund for Customs protection special unit	497.000.000	-	497.000.000
24	900058	Discretionary fund for non-forecasted occasions/situations	478.000.000	-	478.000.000
25	900059	Fund for cadre payment in Ministry of Public Health	150.000.000	-	150.000.000
26	900060	Fund for Helmand Boost Enterprise	200.000.000	-	200.000.000
27	900061	Fund for Judicial Programs reform (General attorney , Ministry of Justice and Supreme court)	500.000.000	-	500.000.000
28	900062	Participation in the rehabilitation of Historical Areas	-	68.340.000	68.340.000
29	900063	Support of Holding Afghan Premier League	-	82.000.000	82.000.000
30	900064	Debt of Entities from Aryana Afghan Airline	-	288.061.643	288.061.643
31	900065	Fund for the costs of Treatment of Heart Holes affected	-	136.680.000	136.680.000
<b>Total</b>			<b>48.411.646.000</b>	<b>6.481.921.643</b>	<b>54.893.567.643</b>

As apparent from the table above, in the original budget, under the discretionary fund for the year, Afs 48,411,646,000 was approved in 27 Reserve codes. Subsequently, through the intra-year amendments, the following were added under the discretionary funds.

- Afs 100,000,000 to code No 900004 currency balance,
- Afs 470,000,000 to contingency code No 900005 Grading and Salary Program,
- Afs 4,000,000,000 to code No 900007 civil and military personnel pensions,

- Afs 300,000,000 to contingency code No 900008 of Ministries Membership in international organizations,
- Afs 600,000,000 to contingency code No 900024 purchasing land,
- Afs 22,000,000 to contingency code No 900027 maintenance of the Heiratan - Mazar-e Sharif Railway,
- Afs 414,840,000 to contingency code No 900052 Election Funds, and
- Afs 575,081,643 in four in other Contingency codes (added by the intra-year amendments).

As such, a total of Afs 6,481.921.643 have been added to the contingency funds in mid-year review. With this addition, the total contingency fund covers Afs 54,893,567,643 for the FY1397 Operating budget.

For the Ministry of Public Works, under code 22 (Goods and Services), Afs 2,292,120,000 was the approved budget, of which Afs 92,120,000 only was the core budget and the Afs 2,200,000,000 was contingency Budget. However, the core budget and the contingency budget of the Ministry was not segregated in the original budget Document and in the intra-year review document. Taking into account the contingency fund of the Ministry of the Public Works, total contingency budget under the Operating budget of FY 1397 was Afs 57,093,567,643 (Afs 54,893,567,643 + 2,200,000,000).

The amount of Afs 54,893,567,643 Contingency Funds of the fiscal year 1397 compared to Afs 49,640,411,310 of the total contingency fund for the fiscal year 1396, showed an increase of Afs 5,253,156,333 or 10.58% and compared to Afs 47,700,012,130 of total the contingency funds of the fiscal year 1395 showed an increment of Afs 7,193,555,513 or 15% .

### **The realization of Operating Budget for Fiscal Year 1397**

According to the Operating Budget Qatia Statement, after intra year amendments, the Operating Budget for the Fiscal Year 1397 of Afs 280,489,882,634 as has been recorded, against which, Afs 259,496,341,970 has been recorded as expenditure and Afs 20,993,540,664 as unspent balance. The details are described in the table below:

<b>Table 5.2. : Realization of Operating Budget for FY 1397</b>		
<b>Details</b>	<b>Amount (figures/Afs)</b>	<b>Remarks</b>
Actual approval of Operating Budget	<b>247.491.484.955</b>	In the aforementioned figure, the amount of Afs 21,869,796,000 contingency budget for Martyrs and Disabled Rights and Civil and Military Employees' pension and Afs 1,400,000,000 of contingency code of Hairatan Mazar-e-Sharif Railway and Afs 2,200,000,000 contingency funds of Maintenance related to Ministry of Public works are included as well.

Addition	Addition of Mid-year review	2.879.583.706	
	Amendment of contingency and reserve codes	25.071.611.649	
	Deduction of Budget supplement	12.544.096.527	
<b>Amount after increments</b>		<b>287.986.776.837</b>	
Deduction of Budget Supplement		(7.496.894.203)	
<b>Grand total</b>		<b>280.489.882.634</b>	
<b>Total Expenditures</b>		259.496.341.970	
<b>Remainings</b>		<b>20.993.540.664</b>	

As noted in the table above, in the Qatia Statement of Operating Budget of FY1397, Afs 12,544,096,527 has been registered under the title of addition and Afs 7,496,894,203 has been registered as deduction of the Operating Budget supplement.

Article 33 of the Budget Execution Rules for the fiscal year 1397 (contained in the National Budget), states that "Supplementary additions and operating budget deductions in the non discretionary budget is executable provided it has proper justification, written agreement of the donor and approval by the President's Office and relevant information must be shared within 7 working days with Parliament".

1. Based on the Decision No. 1 dated 15.1.1397 of the Cabinet of the Islamic Republic of Afghanistan, the following amounts have been approved as the Operating budget supplement and its information has been submitted to National Assembly / Wolesi Jirga through Letter No. GBDO-1076 dated 4.2.1397 by the State Ministry of Parliamentary Affairs:
  - 1.1. Afs 779,329,720 of the Operational Budget of the Ministry of Interior Affairs is based on the commitment of the CSTC-Afghanistan.
  - 1.2. Afs 8,040,042,676 of the Operational Budget of the Ministry of Defense is based on the commitment of the CSTC-Afghanistan.
2. Based on Decision No.7 dated 3.5.1397 of the Cabinet of the Islamic Republic of Afghanistan, the following amounts have been added to the Operating budget of fiscal year 1397 as Budget supplement and its information has been submitted to the National Assembly/Wolesi Jirga through letter No (GBDO-1838) dated 13.05.1397:

- 2.1. Afs 40,920,488 granted by IBB Organization of US for the Budget of the General Directorate of National Radio and Television towards payment of Maintenance, Employee Capacity Building and Electricity Expenditure on 400 KW Radio Station located in Pulcharkhi.
  - 2.2. Afs 666,409,424 granted by CSTC-Afghanistan to the National Defense Ministry.
  - 2.3. In addition, Afs 4,635,594,203 has been deducted from the Operating Budget of the Ministry of Interior Affairs. This was due to change in CSTC-A Commitments.
3. Based on the Decision No. 12 dated 11.7.1397 of the Cabinet of Islamic Republic of Afghanistan, the following amounts have been added into the Operating Budget of FY 1397 as Budget supplement:
- 3.1. Afs 116,011,759, a new commitment of financial support under CSTC-A of the Operating Budget of the Ministry of Defense for financing 4 contracts of FY 1396 which were carried forward to 1397.
  - 3.2. Afs 20,082,460 granted by IBB Organization to the Operating Budget of the General Directorate of National Radio and Television for the payment of expenditures of Maintenance, Employees Capacity Building and Electricity Expenditure on 400 KW Radio Station located in Pulcharkhi.
4. In addition, on the basis of Decision No (15) dated 1.9.1397 of the Cabinet of Islamic Republic of Afghanistan and Letter No 2802 dated 21.9.1397 of the Budget General Directorate, Afs 2,861,300,000 has been deducted from the Operating Budget of the Ministries of Education, Women affairs, Borders and Tribal, Chief of Staff of Presidential Office, National Authority of the Disaster Management and Land Authority and Afs 20,000,000 has been deducted from contingency code No 900063 for supporting holding the Afghanistan Premier league, total of Afs 2,881,300,000 has been deducted and has been added to the Operating Budget of the Ministries of Interior Affairs, Finance, Labor and Social Affairs, office of the Chief Executive and the secretariat of the Ministers' Council, NDS, Electoral Complaints Commission and National Assembly/Wolesi Jirga.

Also Afs 25,071,611,649 has been added in contingency codes in the Qatia Statement of Operating Budget Expenditure. However, the total executed funds from contingency codes is Afs 54,841,407,649. Details are described in the table below considering the original approval of the year, mid-year amendments (amendments within the contingency codes) as well as the executed funds and the remainings from contingency code and miscellaneous code:

**The Table 5.3 Below shows the actual primary approval, changes within year, amended funds and remainings of FY 1397.**

Sl. No.	Contingency Code	Title	Actual primary approval of the year	Increment in Mid-year review	Changes within year		Amount after changes	Paid funds	Remainings
					Increment	Deduction			
1	900001	Policy Related Fund	1,300,000,000	-	1,720,000,000	-	3,020,000,000	3,014,377,832	5,622,168
2	900002	Fund for Emergency Cases	1,580,000,000	-	243,000,000	-	1,823,000,000	1,817,682,213	5,317,787
3	900003	Fund for payment of loan installments	1,802,850,000	-	202,701,054	-	2,005,551,054	2,002,476,000	3,075,054
4	900004	Fund for currency Balance	250,000,000	100,000,000	-	235,821,821	114,178,179	113,000,000	1,178,179
5	900005	Fund for implementation of grading and salary program	300,000,000	470,000,000	-	100,000,000	670,000,000	664,075,901	5,924,099
6	900006	Fund for the payment of the financial rights of Martyrs and Disabled	15,500,000,000	-	115,821,821	-	15,615,821,821	15,615,821,821	-
7	900007	Fund for pension of civil and military employees	6,170,796,000	4,000,000,000	-	-	10,170,796,000	10,170,796,000	-
8	900008	Membership of the Ministries in International Organizations	550,000,000	300,000,000	-	450,000,000	400,000,000	399,575,355	42,465
9	900009	Fund for PRR	150,000,000	-	-	6,000,000	144,000,000	138,808,722	5,191,278
10	900020	Contingency fund for repayment of revenue	500,000,000	-	-	100,000,000	400,000,000	399,497,318	502,682
11	900023	Contingency fund for National Cricket Team	120,000,000	-	-	-	120,000,000	120,000,000	-
12	900024	Contingency fund for Purchasing Land	1,000,000,000	600,000,000	100,000,000	800,000,000	900,000,000	899,766,133	233,867
13	900027	Contingency fund for the maintenance of Hyratan-Mazar-sharif Railway	1,400,000,000	22,000,000	-	-	1,422,000,000	1,422,000,000	-

14	900029	Central Bank Recapitalization	7.900.000.000				7.900.000.000	7.900.000.000	-
15	900031	Fund for unpaid pensions of previous years	199.000.000	-	-	-	199.000.000	199.000.000	-
16	900036	Funds for securing strategic development projects	1,400,000,000	-	-	-	1.400.000.000	1.400.000.000	-
17	900045	Contingency fund for National Olympic Committee	50,000,000	-	25.000.000	-	75.000.000	75.000.000	-
18	900047	Contingency Fund for Rent of lands in Bagram	114,000,000	-	-	114.000.000	-	-	-
19	900049	Contingency fund for strategic stocks	100,000,000	-	-	-	100.000.000	99.175.912	824.088
20	900050	Contingency fund for the Expenditures of Maintenance	5.000.000.000	-	26.000.000	170.000.000	4.856.000.000	4.855.828.459	171.541
21	900052	Contingency fund for the expenditures of Elections	700,000,000	414.840.000	114.000.000	-	1.228.840.000	1.228.441.234	398.766
22	900053	Contingency fund for establishment of Taskforce	500,000,000	-	-	227.701.054	272.298.946	271.807.386	491.560
23	900056	Contingency fund for Customs protection Battalion	497.000.000	-	-	-	497.000.000	496.971.280	28.720
25	900058	Contingency fund for forecasted situations	478,000,000	-	-	-	478.000.000	477.763.000	237.000
26	900059	Contingency fund for the privileges of cadres in Ministry of Public Health	150.000.000	-	-	-	150.000.000	149.892.400	107.600
27	900060	Contingency fund for Boost Helmand Enterprise	200.000.000	-	-	-	200.000.000	198.340.000	1.660.000

28	900061	Contingency fund for the reform of Judicial program of General attorney, Ministry of Justice and Supreme court	500.000.000	-	-	343.000.000	157.000.000	156.569.040	430.960
29	900062	Contingency fund for Historical places	-	68.340.000	-	-	68.340.000	68.340.000	-
30	900063	Contingency fund for supporting the Afghanistan premier League	-	82.000.000	-	20.000.000	62.000.000	62.000.000	-
31	900064	Contingency fund for the Entities loan payment to Aryana Company	-	288.061.643	-	-	288.061.643	288.061.643	-
32	900065	Contingency fund for the treatment of the patients of heart holes	-	136.680.000	-	-	136.680.000	136.340.000	340.000
<b>Total</b>			48.411.646.000	6.481.921.643	2.546.522.875	2.566.522.875	54.873.567.643	54.841.407.649	32.159.994

According to the above, the original approval for the Operating funds of the fiscal year 1397 was Afs 48,411,646,000 and Afs 6,481,921,643 was added to the contingency codes in the mid-year review. So, the total of contingency and miscellaneous funds were increased from Afs 48,411,646,000 to Afs 54,873,567,643 due to additions and changes in the mid-year review. Of which, Afs 54,841.407,649 was paid and Afs 32,159,994 remained during the year. More details are reflected in the findings in this report.

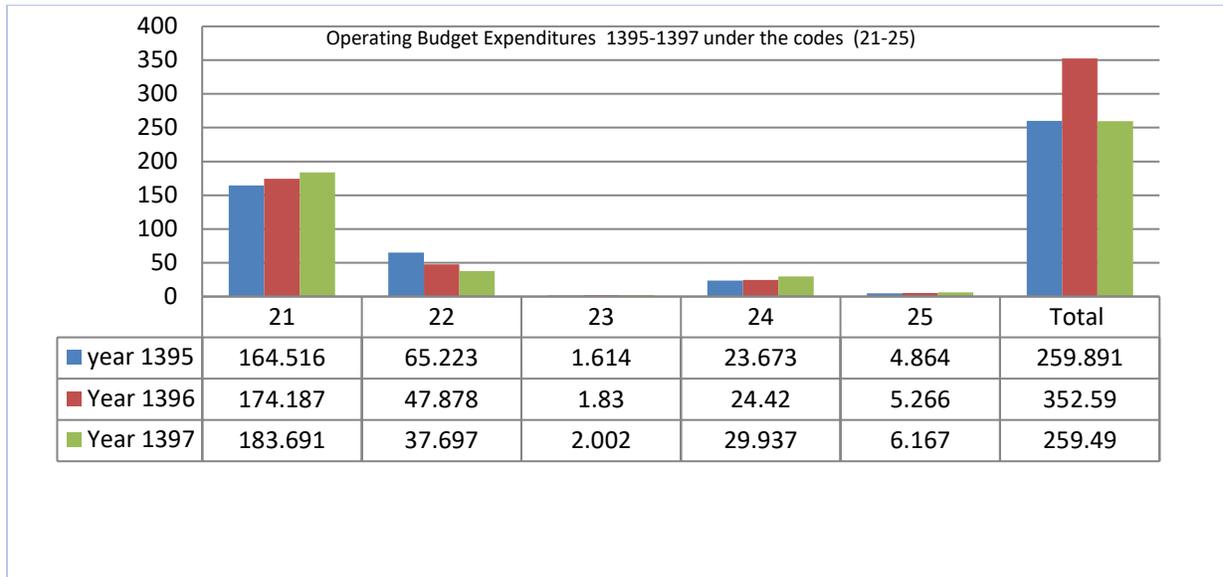
As per the Qatia Statement, Afs 259,496,341,970 of the operating budget for FY1397 has been spent in five accounting codes (21, 22, 23, 24 and 25) which are explained in detail considering the total budget, expenditure and remainings in the table below:

<b>Table 5.4. : Share of accounting codes in grand total of Operating Budget, total expenditures and remainings of FY 1397</b>					
<b>Code Title</b>	<b>Grand Total of Budget based on Qatia</b>	<b>Total Expenditure</b>	<b>Remainings</b>	<b>Percentage of Expenditure</b>	<b>Percentage of share of each code in total Expenditure</b>
21	192.581.005.620	183.691.058.473	8.889.947.147	95	71.00
22	46.327.298.253	37.697.199.526	8.630.098.727	81	15.00
23	2.002.476.000	2.002.476.994	6	100	1.00
24	30.776.381.289	29.937.769.506	838.611.783	97	12.00
25	8.802.721.472	6.167.383.471	2.634.883.001	70	2.00
<b>Total</b>	280.489.882.634	259.496.341.970	20.993.540.664	92	100

According to above, from the amount of Afs 259,496,341,970 of the total expenditure of the Operating Budget for FY1397, Afs 183,691,058,473 or 71% has been spent in code No 21 (Wages and Salaries), Afs 37,697,199,526, or 15% in code No 22 (use of Goods and Services), Afs 2,002,476,000 or 1% in code No 23 (Interest payment and Loan repayments), Afs 29,937,769,506

or 12% in code No 24 (Subsidies, Grants and Social Benefits) and Afs 6,167,383,471 or 2% in code No 25 (Acquisition of Assets).

Figure 5.1. Shows the share of Operating budget expenditures of FY1395-1397 in accounting codes (figures in billion Afs)



As it is seen, the expenditures under Codes No 21, 23, 24 and 25 for the years 1395 to 1397 have shown increasing trend, but on the contrary, the expenditures under code No 22 has shown decreasing trend. The following amounts have increased:

- expenditures of code No 21 (salaries and wages) from Afs 164,516 billion in FY1395 to 174,187 billion in FY1396 and to Afs 183,691 billion in FY1397,
- expenditures of Code No 23 (profit and repayment of loans) from 1,614 billion in 1395 to Afs 183 billion in 1396 and Afs 2,002 billion in 1397,
- expenditures of Code No 24 (subsidies, grants and social benefits) from 23,673 billion in 1395 to Afs 2,442 billion in FY1396 and Afs 29,937 billion in FY1397, and
- expenditures of code No 25 (acquisition of assets) from Afs 4,864 billion in 1395 to Afs 5,266 billion in 1396 and Afs 6,167 billion in FY1397.

However, expenditures of code No 22 (goods and services) decreased from Afs 65,223 billion in fiscal year 1395 to 47,878 billion in FY1396 and Afs 37,697 billion in FY1397.

The following table shows the details of the Operating Budget of FY1397 in codes 21-25 in comparison with 1396.

**Table 5.5: The details of Operating Budget on the basis of Budgetary codes**

Code	Chapter	Description	Expenditures of FY 1396		Percentage of share of codes in total expenditures	Percentage of share of chapters in related codes	Expenditures of FY 1397		Percentage of share of codes in total expenditures	Percentage of share of chapter in related codes
			Parts of code	Total of code			Parts of code	Total of code		
21	211	Cash wages and salary	145,759,908,410	174,187,898,917	68.6	83.68	157,235,179,805	183,691,058,473	70.78	85.59
	212	Goods/food wages and salaries	25,616,621,776			14.71	21,865,640,706			11.90
	213	Advances wages and salary	49,219,867			0.03	84,421,147			0.04
	214	Cash Social profits	2,762,148,864			1.59	4,505,816,814			2.45
22	221	Travel allowance	2,510,559,520	47,878,243,855	18.9	5.24	3,226,197,139	37,697,199,526	14.52	8.55
	222	Food	3,810,155,114			7.96	3,927,881,163			10.41
	223	Contractor services	1,973,601,404			4.12	2,216,374,480			5.87
	224	Repairing and maintenance	6,893,419,771			14.40	6,326,867,354			16.78
	225	Public Interest	6,101,742,843			12.74	8,591,338,552			22.79
	226	Lubricants	10,882,310,194			22.73	5,470,128,383			14.51
	227	Tools and Equipment	4,842,138,161			10.11	4,643,015,222			12.31
	228	Other expenditures	10,811,032,158			22.58	3,175,927,636			8.42
	229	Advances and returning the Expenditures	53,284,689			0.11	119,465,593			0.31
23	230	Profit/Benefit	450,617,776	1,830,762,840	0.8	24.61	788,662,152	2,002,476,994	0.77	39.38
	232	Repayment of loans	1,380,145,064			75.39	1,213,813,841			60.62
24	242	Subsidies	1,389,950,000	24,428,032,494	9.7	5.69	1,398,000,000	29,937,669,506	11.53	4.66
	244	Foreign Grants	413,075,080			1.69	425,883,310			1.42
	245	Ongoing Grants from other Governmental	49,209,406			0.20	36,400,000			0.12
	247	Cash Social Security Benefits	22,095,536,072			90.45	27,336,095,010			91.31
	248	Cash social Benefits	22,000,000			0.09	20,000,000			0.06
	249	Subsidies, Grants and social benefits advances	458,261,936			1.88	721,291,186			2.40

25	251	Buildings and Mansions	2,761,812,201	5,266,980,489	2.1	52.44	3,280,487,277	6,168,383,471	2.37	53.18
	252	Machineries and Equipment	2,078,619,503			39.47	2,217,782,227			35.95
	257	Valuable Tools/goods	489,600			0.01	162,000			0.002
	258	Land	386,618,047			7.34	653,859,033			10.60
	259	Advance Payments, assets and returning	39,441,138			0.75	15,547,934			0.25
<b>Total Expenditures of Codes 21-25</b>			<b>253,591,918,595</b>	<b>100</b>		<b>259,496,341,960</b>	<b>100</b>			

According to the table above, highest expenditure in the Operating Budget in 1397 is in code 21 (Wages and Salaries) of Afs 183,691,058,473 or 68.6%. Afs 157,235,179,805 or 85.59% of code 21 has been spent in the minor code 211 Wages and Salaries in cash, Afs 21,865,640,706 or 11.9% in the minor code 212 of Wages and Salaries in kind (food etc.) and the rest are spent in other minor codes under code 21.

Followed by Code 21, Afs 37,697,199,526 or 14.52% of the Operating Budget in 1397 has been spent in code No 22 (Goods and Services). Afs 8,591,338,552 or 22.79% of the Code 22 has been spent in minor code 225 of Utilities, Afs 6,326,867,354 or 16.78% in minor code 224 of Repair and Maintenance, Afs 5,470,128,383 or 14.51 in minor code 226 Lubricants/fuel, Afs 4,643,015,222 or 12.31% in minor code 227 Tools and Materials and the rest in other minor codes under Code 22.

Likewise, in Code 24 (Subsidies, Grants and Social Benefits), a total of Afs 29,937,669,506 was spent, of which Afs 27,336,095,010 or 91.31% has been spent in minor code 247 social security benefits cash, Afs 1,398,000,000 or 4.66% in minor code 242 of subsidies and remaining in the rest of the minor codes under code 24.

A total of Afs 6,168,383,671 was spent in code No 25 Acquisition of Assets, with the the largest expenditure component of Afs 3,280,487,277 or 53.18% under minor code 251 of buildings and structures and Afs 2,217,782,227 or 35.95% under minor code 252 machinery and equipment.

The total Expenditure of Code No 23 is Afs 2,002,476,994, of which Afs 1,213,813,841 or 60.62% is in minor code 232 of repayments of loans and Afs 788,662,152 or 39.38% in minor code 230 interest.

Comparison of the Operating budget expenditure for FY1397 with FY1396 indicates that in the code No 21 of wages and salaries the cash wages and salaries has increased from Afs 145,759,908,410 in FY1396 to Afs 157,235,179,805 or 8%, cash social benefits from Afs 2,762,148,864 in FY1396 to Afs 4,505,816,814 or 63%. On the contrary, the goods wages and salaries in code No 212 has decreased from Afs 25,616,621,776 to Afs 21,865,640,706 or 17%.

In Code 220 of Goods and Services, the travel allowance included under the minor code 221, there has been increase from Afs 2,510,559,520 in FY1396 to Afs 3,226,197,139 or 28% in 1397, Contract Services including minor code 223 from Afs 1,973,601,404 in FY1396 to Afs 2,216,374,480 or 12%, the utilities from Afs 6,101,742,843 in FY1396 to Afs 8,591,338,552 or 41%. But on the contrary, the fuel/Lubricants has decreased from Afs 10,883,310,194 in FY1396 to Afs 5,470,128,383 or 99%, other expenditures has decreased from Afs 10,811,032,158 in FY1396 to Afs 3,175,927,636 or 240%.

In the code 24 subsidies, minor code 247 social security benefits in cash increased from Afs 22,059,536,072 in FY1396 to Afs 27,336,095,010 or 24%. In code 25 of acquisition of assets, buildings and structures included in the minor code 251 has increased from Afs 2,761,812,201 in the FY1396 to Afs 3,280,487,277 or 19%, the Land included in minor code 258 has increased from Afs 386,618,047 to Afs 653,859,033 or 69%.

In addition, it is noted that the expenditures under minor code 226 fuel/Lubricants has decreased from Afs 25,165,599,899 in 1395 to Afs 10,882,310,194 in 1396 and Afs 5,470,128,383 in FY1397 which needed to be assessed.

### **The major findings of the results of audit of the Operating budget Qatia Statement**

Because of the Audit of the Operating budget Qatia Statement for fiscal year 1397, the following are significant:

#### ***1. Determination and approval of Contingency funds exceeding those specified in the Public Finance and Expenditure Management Law.***

Section 9 of article 32 of Chapter 6 of the Public Finance and Expenditure Management (PFEM) Law (Preparation and Approval of Budget) - "Income and Expenditure Plan" stipulates **"appropriations for future contingent expenditure not exceeding 3% of the total expenditures of the program"**.

According to the original budget document of the year and the changes of mid-year review document of FY1397, a total of Afs 54,893,567,643 has been estimated and approved as contingency fund for the Operating Budget, which consists 19% of the total Operating Budget of mid-year review for FY1397. Further, an Afs 2,200,000,000, which was included in code 22 of the

Ministry of Public Works as core budget, is also contingency fund, but was not distinguished in the budget document.

### *Comments of the MoF*

The Ministry of Finance's Budget General Directorate in response stated that, "in order to ensure effective financial management for a transparent, accountable and timely execution, a number of codes has been added in the contingency code of the National Budget Document apart from the Budgetary Units budget, as there is a need for government-prioritized activities and to control and oversee the implementation of budgeting". The MoF stated that these were legally processed through procedures of Cabinet and Parliament Budget Committee.

Further, the Budget General Directorate of the Ministry of Finance does not accept that section (9) of Article 32 of the PFEM Law is related to contingency codes and stated that section (9) of Article 32; chapter 2 of the public finance expenditure management law is described as below:

“The appropriations for the future contingent expenditures not exceeding 3% of the total program expenditures”.

As it is seen, section (9) of Article 32, restricted the percentage expenditure under the contingent expenditures of program. Moreover, most of the contingency codes provisions are in fact not in the nature of contingent expenditure as the object of the expenditures are specified. These expenditures are mainly included in the contingency codes for the following reasons:

1. To further control and ensure that funds are expended for its main purpose
2. Prevent misuse of funds;
3. In some cases, holding cash in the contingency funds until the implementation of the reform in the relevant sector.

A review of the contingency codes reveals that only a few codes, namely 900001 policy funds, 900002 contingency funds for emergency cases, 900004 contingency funds for currency balance (normal) have the nature of the contingency expenditures. Other codes such as those relating to pension and maintenance – 900005, 900006, 900007, do not have the nature of contingency expenditures and have been registered under the contingency codes for the reasons stated above.

It may be noted that the Ministry of Finance has endeavored to minimize contingency codes in terms of their number and volume of funds. Though some of the contingency codes remained as before in the FY1397, the amounts related to certain agencies were however shown under the core budget of the relevant agencies. Moreover, the contingency codes have been minimized in terms of number and volume in FY1397."

The Ministry of Finance also wrote in response to the draft report that, "... it should be mentioned that contingency codes do not necessarily mean contingency expenditures but it means contingency

and non-contingency expenditures. It is worth mentioning that Contingency expenditures have several specifications that distinguish them from other codes, and they are as follow:

- The volume of Expenditures is not specified
- In some cases, the type of Expenditure not specified, and
- Time of Occurrence is not known.

This may in some cases lead to additional funds being left in some codes or in some of the codes; we may be experiencing budget shortages. That is why amendments are made.

A look at the list of contingency codes at the beginning of the year, most of which have the condition of contingency expenditures, reveals the following :

<b>Contingency Funds</b>	<b>Amounts Afs</b>
900001-Policy Funds	1.300.000.000
900002-Contingency fund for Emergency cases	1.580.000.000
900004-Contingency fund for currency balance (Normal)	250.000.000
900005-Civil services reforms - grading and salary	300.000.000
900008-Membership of the Ministries in the International Organizations	550.000.000
900009-Contingency fund for PRR and Super skill	150.000.000
900024-Contingency fund for Purchasing Land	1.000.000.000
900036-Contingency fund for the protection of Strategic projects	1.400.000.000
900058-Contingency fund for non-forecasted Situations	478.000.000
910033-Contingency fund for currency balance (Development)	469.000.000
910039-Small development Projects- 100 million Grants of India	2.506.875.148
910042-Contingency fund for Kunduz Province	335.000.000
910046-Development funds for the municipalities which have less revenue	100.500.000
910047-Incentive funds for the municipalities which have collected extraordinary revenue	234.500.000
910049-(Development funds for Each province-one million for each province)	2.278.000.000
<b>Total</b>	<b>12.931.875.148</b>

Accordingly, the amount of contingency expenditure is much lower than that reported by the audit.

Audit notes that according to the documents, the contingency codes have increased from 28 codes in FY1396 to 32 codes in FY1397 which covers Afs 54,893,567,643. This indicates an increase of Afs 5,253,156,333 or 10.58% compared to Afs 49,640,411,310 as the total contingency funds for FY1396 and Afs 7,193,555,513 or 15% compared to Afs 47,700.012,130 as the total contingency funds of FY1395.

In addition, funds relating to a number of contingency codes are being estimated and approved in excess of even the actual requirements, and most of the funds under the codes are then amended and used during the financial year. Further explanations are provided below.

***2. Mismatch between the operating budget figures mentioned in the budget decree and the components of the budget documents and the executed contingency funds with the Qatia Statement.***

Since the budget document is an estimation of government revenues and expenditures and is executed after the approval of the National Assembly and the endorsement of the President of the Islamic Republic of Afghanistan, and the budget document is a basis for control of government expenditures, therefore, no expenditures can be executed without and beyond the approved budget.

Also, as the Qatia Statement is an account of budget execution hence, any payments from the approved budget should be reflected in the Qatia statement. Mis-match between the budget figures and the amounts paid from the budget with that of those reflected in the Qatia statement carries the risk of validity and reliability of the Qatia statement.

As per the Budget Decree, the total operating budget for the FY1397 was Afs 266,133,335,000, however, it was recorded at Afs 274,033,334,956 in the entity-wise budget classification mentioned on pages 103-105 of the Budget Document, which indicates a difference of Afs 7,900,000,000.

It should be noted that the aforementioned funds in the contingency code 900029 are estimated as Central Bank Recapitalization, but have neither been approved by the National Assembly/ Wolesi Jirga nor endorsed by the President of the Islamic Republic of Afghanistan.

***Comments of MoF***

The DG of Budget stated that, “the national budget for the first time in FY1397 was prepared in accordance with adopted international standards, in particular the International Monetary Fund (IMF). The Government's Finance Statistics Guidelines (GFSM) developed by the International Monetary Fund specify the classification or categorizing of financial events in various cases, according to their nature.

The amount of Afs 7.9 billion indicated by the Audit Board is related to the central bank recapitalization, that the Government's Finance Statistics Manual does not define it as expenditure but as injection of assets. Therefore, the above amount does not include ordinary expenses and is considered as an infusion of assets. Further, the endorsement decree of the Mid-Year Review was also sent to the Audit Board in which the issue was explained. It is worth mentioning that each sheet of the budget document is sealed and signed by the National Assembly and the Office of the President of the Republic, before the endorsement by the President”.

According to the information provided by the Accounting and Finance Directorate of the MoF, the said funds have been transferred to the central bank account under Decree no. 54 dated 22/1397 (approval decree of Mid-Year Review Budget) of the Office of the President through M16 of No. 4926- 4265-5096.

Audit notes that notwithstanding the explanation of the MoF, the following issues need to be considered:

- 2.1. If the funds are not expenditure and is as asset infusion, why was it included in the budget document as part of the government revenue and expenditure over a financial period of one year and was not provided for as such in the documents.
- 2.2. There is no amendment regarding the transfer of the funds and it was not included into any of the codes of Ministry of Finance. The provisioning, treatment of the fund and its transfer for the said purpose remains unclear.
- 2.3. While the aforementioned funds have been included int the budget document in code 900029 of contingency fund for Central Bank Recapitalization, and paid into the aforementioned bank account, it was not reflected in the Qatia Statement.
- 2.4. The Finance and Accounting Directorate indicated that the mentioned fund has been transferred from a notional head of the government revenue, however, the notional revenue head is not even known to the Directorate.
- 2.5. The Finance and Accounting Directorate in its Revenue Qatia statement has shown the payment of the said fund from chapter 15 (sale of government property), whilst no amount has been recorded in chapter 15 of the Qatia statement of the Directorate. The total collected revenue recorded in the Consolidated Revenue Qatia statement is Afs 2,640,178,524 only, which is far less than the recapitalisation amount of Afs 7.9 billion. Further, direct payment or transfer without considering accounting proceedings is also not clear.

In addition, the total amount of payments from the contingency funds, including contingency code 900029 (under which the recapitalisation provision was included), was Afs 54,841,407,649. However, only Afs 25,071,611,649 has been recorded in the Qatia Statement, which shows a difference of Afs 29,769,796,000. Out of which, Afs 7.9 billion related to the Central Bank recapitalization has not been recorded in the Qatia Statement at all. The rest of understated amounts of Afs 21,869,796,000, which related to the codes 900006, 900007 and 900031 have been recorded in the column of core budget approval under code 24 of the Ministry of Labor, Social Affairs of Martyrs and Disabled, instead of recording them in the column of the respective reserved codes.

It should be mentioned that in the original budget document of the year, the amount of Afs 15,500,000,000 has been estimated and approved in the contingency code 90006 for pension of Martyrs and Disabled, Afs 6,170,796,000 in the contingency code 90007 for pension of civil and military personnel, and Afs 199,000,000 in the contingency code 900031 for unpaid pension of

previous years. However, in the mid-year review, an amount of Afs 4,000,000,000 has been added in the contingency code 900007 and Afs 115,821,821 in the contingency code 900006 due to amendments within the contingency code. Out of this total of Afs 25,985,617,821, Afs 21,869,796,000 has been recorded in the column of core budget approval of Qatia and Afs 4,115,821,821 has been recorded in column of reserved codes of Qatia. This reflects duality in recording of the expenditures from the contingency funds by the the Ministry of Finance in Qatia Statement. Such reording not only distorts the balance of accounts but also raises questions on transparency of accounts.

### ***3. Budgetary amendments in contradiction with the objectives determined in the budget document***

#### ***3.1. Amendments within the contingency and miscellaneous codes***

Since the contingency funds have been specified in the budget document under separate titles and codes for realization of the specific objectives, it is executable after the approval of the National Assembly and the endorsement of the President of the Islamic Republic of Afghanistan. Therefore, expenditures from them must be made for the same purposes stated in the budget document. In the Budget Decree, it is delegated to the Ministry of Finance to amend from contingency codes for the same specific objectives (with the exception of contingency code 900001 of Policy and code 900002 of emergency) to spend the budget for the main purposes specified in the budget document and to save funds and avoid from unnecessary spending.

Therefore, when the budget is approved and endorsed, any changes to the contingency codes ceiling should be made in mid-year review with the approval of the National Assembly /Wolesi Jirga.

According to Documents of FY1397, based on the suggestion of the Directorate General of Budget and Separate Orders of the Ministry of Finance, a total of Afs 2,546,522,875 have been amended within the contingency codes. On the one hand, significant changes have been made in the approved ceiling of the contingency codes, on the other, there were diversions from their original purpose as explained below:

- 3.1.1. Based on decree No.4159 dated 18.07.1397 and form B 23 No 10979 dated 18.07.1397, Afs 114,000,000 has been amended from the contingency Code 900047 funds for Land rent in Bagram to code 900052 funds for Election.
- 3.1.2. Based on decree No.5382 dated 04.06.1397 of MoF and form B23 No 10580 dated 04.06.1397, Afs 100,000,000 has been amended from the contingency Code 900008 of Ministries' membership in Social Organizations to contingency Code 900001 of Policy.

- 3.1.3. Based on decree No.5777 dated 26.06.1397 of MoF and form B 23 No 10764 dated 27.06.1397, Afs 200,000,000 has been amended from the contingency Code 900024 funds for purchasing Land to contingency Code 900001 of Policy.
- 3.1.4. Based on decree No.7136 dated 06.09.1397 and form B 23 No 17034 dated 10.09.1397, Afs 25,000,000 has been amended from the contingency Code 900053 funds for Establishing Taskforce to contingency Code 900045 for National Olympic Committee.
- 3.1.5. Based on decree No. 5131 dated 14.05.1397 and form B 23 No 10451 dated 15.05.1397, Afs 250,000,000 has been amended from Code 900024 of purchasing Land to Code 900001 of Policy.
- 3.1.6. Based on decree No.4757 dated 26.04.1397 of MoF and form B23 No 10273 dated 26.04.1397, Afs 150,000,000 has been amended from the contingency Code 900024 funds for Purchasing Land to Code 900001 of Policy.
- 3.1.7. Based on decree No. 5494 dated 12.06.1397 of MoF and form B23 No. 10659 dated 12.06.1397, Afs 150,000,000 has been amended from the contingency Code 900008 for the membership of the Agencies in the International Organizations to Code 900001 of Policy.
- 3.1.8. Based on decree No.2919 dated 04.02.1397 and form B23 No 9539 dated 05.02.1397, Afs 170,000,000 has been amended from the contingency Code 900050 for the Expenditure of maintenance to contingency Code 900001 of Policy.
- 3.1.9. Based on decree No.7296 dated 14.09.1397 and form B23 No 1136181 dated 14.09.1397, Afs 343,000,000 has been deducted from the contingency Code 900061 funds for reform of Judicial program and Afs 200,000,000 added to contingency Code 900001 of Policy, Afs 43,000,000 to Contingency Code 900002 of Emergency Circumstances and Afs 100,000,000 to Contingency Code 900024 of Purchasing Land.
- 3.1.10. Based on decree No.6812 dated 22.08.1397 and form B 23 No 11311 dated 22.08.1397, Afs 100,000,000 of contingency Code 900005 of Grading and Salary Program, Afs 100,000,000 from the contingency Code 900008 of Membership of the Ministries in the International Organizations and Afs 200,000,000 from the contingency Code 900024 funds of purchasing Land; a total of Afs 400,000,000 have been deducted. Of which, Afs 200,000,000 has been added to Contingency Code 900001 of policy and Afs 200,000,000 to contingency code 900002 of Emergency circumstances.

- 3.1.11. Based on decree No.7058 dated 04.09.1397 and form B 23 No 21662 dated 10.09.1397, Afs 115,821,821 has been amended from the contingency Code 900004 of currency balance to contingency Code 900006 of pension of Martyrs and Disabled.
- 3.1.12. Based on decree No.6964 dated 28.08.1397 and form B 23 No 16987 dated 06.09.1397, Afs 202,701,054 has been amended from the contingency Code 9000053 for establishing taskforce to contingency Code 900003 for payment of external loan installment.
- 3.1.13. Based on decree No.3835 dated 12.03.1397 and form B 23 No 34460 dated 13.03.1397, an amount of Afs 100,000,000 from the contingency Code 900004 of currency balance, Afs 100,000,000 from the contingency code 900008 of Ministries' membership in the International Organizations and Afs 100,000,000 from the contingency Code 900020 funds for revenue repayment have been deducted and added to code 900001 of policy.
- 3.1.14. Based on the proposal of the General Directorate of Budget and decree No.1146 dated 15.12.1397 of the MoF and form B 23 No. and Date Nil, an amount of Afs 20,000,000 has been amended from Code 900004 funds for currency balance and Afs 6,000,000 from the contingency Code 900009 for PRR and Super skill, a total of Afs 26,000,000 to Contingency code 900050 for maintenance. (The mentioned funds has been amended on 15<sup>th</sup> of Hoot FY 1398)

**Table 5.6: The details of the contingency Code funds after amendments & their application**

No	Code	Title	primary and mid-year review Actual approval	Changes within the year		Amount after amendment	Used Funds	Remaining
				Increment	Decrement			
1	900001	Funds relevant to Policy	1,300,000,000	1,720,000,000	-	3,020,000,000	3,014,377,832	5,622,168
2	900002	Funds for Emergency cases	1,580,000,000	243,000,000	-	1,823,000,000	1,817,682,213	5,317,787
3	900003	Funds for payment of Loan Installment	1,802,850,000	202,701,054	-	2,005,551,054	2,002,476,000	3,075,054
4	900004	Funds for Currency Balance	350,000,000	-	235,821,821	114,178,179	113,000,000	1,178,179
5	900005	Funds for Implementation of Pay and Grading Program	770,000,000	-	100,000,000	670,000,000	664,075,901	5,924,099
6	900006	Funds for the rights of Martyrs and Disabled	15,500,000,000	115,821,821	-	15,615,821,821	15,615,821,821	-
7	900008	Membership of the Ministries in the International Organizations	850,000,000	-	450,000,000	400,000,000	399,575,355	424,645
8	900009	Funds for PRR	150,000,000	-	6,000,000	144,000,000	138,808,722	5,191,278
9	900020	Contingency funds for repayment of Revenue	500,000,000	-	100,000,000	400,000,000	399,497,318	502,682
10	900024	Contingency funds for Purchasing Land	1,600,000,000	100,000,000	800,000,000	900,000,000	899,766,133	233,867
11	900045	Funds for National Olympic Committee	50,000,000	25,000,000	-	75,000,000	75,000,000	-

12	900047	Funds for the rent of Lands in Bagram	114,000,000	-	114,000,000	-	-	-
13	900050	Contingency funds for the Expenditure of Maintenance	5,000,000,000	26,000,000	170,000,000	4,856,000,000	4,855,828,459	171,541
14	900052	Contingency funds for the Expenditures of Elections	1,114,840,000	114,000,000	-	1,228,840,000	1,228,441,234	398,766
15	900053	Contingency funds for creating Taskforces	500,000,000	-	227,701,054	272,298,946	271,807,386	491,560
16	900061	Contingency funds for the Justice and Judicial Reform Program of the Attorney General, Ministry of Justice of the Supreme Court	500,000,000	-	343,000,000	157,000,000	156,569,040	430,960
17	900063	Contingency funds for Support of Afghan Premier League	82,000,000	-	20,000,000	62,000,000	62,000,000	-
Total			31,763,690,000	2,546,522,875	2,566,522,875	31,743,690,000	31,714,727,414	28,962,586

As apparent from the table above, from the amount of Afs 31,763,690,000 as the total funds related to 17 Contingency codes, a total Afs (2,566,522,875) has been deducted from 11 contingency codes and has been added to 7 other Contingency codes. These amendments have caused change both in the approved ceiling of the respective codes and in the usage of expenditure of these Codes from their main purpose indicated in the budget.

### ***3.2. Transfer from Contingency Codes to other items***

As per sample test of document relevant to budgetary amendments, it has been found that in addition to the amendments to the contingency codes described above, a large part of the contingency and miscellaneous funds has not been consumed for the purposes originally approved by the National Assembly and endorsed by H.E. President of the Islamic Republic of Afghanistan in the Budget Document. It has been amended and applied contrary to the goals set forth in the budget document. Some examples are presented as follows:

3.2.1 Based on form B 23 No. 13785, date nil, Decree No 7536 dated 27/09/1397 of the MoF, a total of Afs 1,065,000,000 has been deducted from a number of contingency Codes contrary to the purposes set forth in the Budget document and has been added to the Core Budget Code 21 (Wages and Salaries) of the Ministry of Education for meeting the lack of salaries of the the Ministry. They are described below.

- An amount of Afs 84,000,000 from the contingency code 900004 of contingency funds for currency balance.
- An amount of Afs 118,000,000 from the contingency code 900008 of Ministries' membership in International Organizations.
- An amount of Afs 16,000,000 from the contingency code 900020 funds for repayment of revenue.
- An amount of Afs 74,000,000 from the contingency code 900024 funds for purchasing land.

- An amount of Afs 25,000,000 from the contingency code 900045 funds for National Olympic Committee.
- An amount of Afs 13,000,000 from the contingency code 900049 funds for Strategic reserves.
- An amount of Afs 184,000,000 from the contingency code 900050 funds for the expenditure of maintenance.
- An amount of Afs 13,000,000 from the contingency code 900052 of contingency funds for Elections.
- An amount of Afs 230,000,000 from the contingency code 900053 of contingency funds for creating taskforce.
- An amount of Afs 98,000,000 from the contingency code 900056 of contingency funds for Customs Protection Detachment.
- An amount of Afs 40,000,000 from the contingency code 900058 of contingency funds for unpredicted Situations.
- An amount of Afs 10,000,000 from the contingency code 900059 funds for cadre privileges of Ministry of Health.
- An amount of Afs 30,000,000 from the contingency code 900060 of contingency funds for Helmand boost Enterprise.
- An amount of Afs 62,000,000 from the contingency code 900063 funds for the support of Afghanistan premier league.
- An amount of Afs 68,000,000 from the contingency code 900065 funds for treating patients with heart holes.

3.2.2. According to form B 23 No 2 dated 20.12.1396, Afs 5,858,878 has been amended from the contingency Code 900020 funds for financial reimbursement to Core Budget Code 22 (Goods and Salaries) of the Independent Election Commission for payment of the travel expenses.

3.2.3. Based on the proposal of the Independent Directorate of Local Governance and decree No 838 dated 26.11.1396 of the Office of the President, amendments have been made from funds for implementation of Pay and Grading from the contingency Code 900005 for civil servants and teachers to Codes (210, 220 and 225) of the Independent Directorate of local Governance for payment of salaries and administrative expenditures of personal support staff for FY 1397, as below:

- According to form B 23 No 79, Dated 08.12.1396 Afs 28,808,500.
- According to form B 23 No 151, Dated 07.01.1397 Afs 28,808,500
- According to form B 23 No 222, Dated 06.04.1397 Afs 28,808,500
- According to form B 23 No 295, Dated 07.07.1397 Afs 28,808,500

3.2.4. Based on Letter No GBDO-1079 of the General Budget Directorate of the Ministry of Finance and form B 23 No. 168, dated 25.02.1397, Afs 150 million has been

amended from the contingency Code 900050 funds for maintenance to Core Budget Code 25 (acquisition of assets) of the Independent Directorate of Local Governance for providing financial resources for Omar Bin Khattab mosque in Kandahar province.

3.2.5 According to form B 23 No 2840, dated 04.02.1397, Afs 9,879,898 has been amended from code of contingency funds 900050 for operation and maintenance to core budget code 22 (goods and services) of the Ministry of Public Works for payment of 32 items of subsistence material, 2 items meat and 3 items fuel.

3.2.6 According to form B 23 No 2957 dated 21.01.1397, Afs 43,624,253 has been amended from code 900050 of contingency funds for operation and maintenance to core budget code 22 (goods and services) to the Ministry of Public Works for payment towards purchase of beef.

3.2.7. According to form B 23 No 1796 dated 27.08.1397 Afs 4,146,687 has been amended from code 900050 of contingency funds for operation and maintenance to core budget code 22 (goods and services) to Ministry of Public Works for the construction of a protective wall in Dara-e-Abshar and Peryaan Districts of Panjshir province.

3.2.8. According to form B 23 No 3177 dated 04.02.1397, Afs 27,911,310 has been amended from contingency code 900050 for operation and maintenance to core budget code 22 (goods and services) to Ministry of Public Works for payment of funds of 30 items subsistence material and 2 items meat.

3.2.9. According to form B 23 No 10309 dated 09.08.1397, Afs 38,491,283 has been amended from code 900050 of contingency funds for operation and maintenance to core budget code 22 (goods and services) to Ministry of Public Works for construction of roads from Kilagi to Nahreen of Baghlan Province and pule Hassan Karez of Zabul Province.

3.2.10. According to form B 23 No 4249, dated 09.03.1397, Afs 6,291,509 has been amended from code 900050 contingency funds for operation and maintenance to core budget code 22 (goods and services) to Ministry of Public Works for payment of funds of 32 items subsistence material, 2 items meat and 3 items fuel.

3.2.11. According to form B 23 No 3499 dated 28.03.1397 and based on decree No 412, dated 20.02.1397 of the Office of the President, Afs 4,200,000 has been amended from code 900008 international membership of ministries to core budget code 22 (goods and services) of the Ministry of Foreign Affairs for celebrating the achievements of the second Foreign Minister during the reign of Ghazi Amanullah Khan.

- 3.2.12. According to form B 23 , Number and Date nil recorded on No BV 1397003099 in AFMIS, Afs 2,690,700 has been amended from the contingency code 900027 funds for the maintenance of railway from Hyratan to Mazar-e- Sharif for payment of supplies of Spena Dara Company.
- 3.2.13. According to form B 23 No 262, dated 13.08.1397, Afs 30,000,000 has been amended from code 900050 funds for operation and maintenance to core budget code 22 (goods and services) of the National Security Council for budget shortages.
- 3.2.14. According to form B 23 No 619, Dated 25.02.1397, based on decree No 3364 Dated 23.02.1397 of MoF, Afs 6,825,075 has been executed from code 900008 international membership of ministries to core budget code 22 (goods and services) for MoF for payment on account of currency exchange loss of IMF.
- 3.2.15. According to form B 23 No 976, dated 12.12.1397, based on decree No 915 dated 02.12.1396 of the Office of the President, Afs 5,000,000 has been executed from code 900002 Disaster Contingency Fund for celebrating the 4<sup>th</sup> anniversary of Marshal Mohammad Qaseem Fahim.
- 3.2.16. According to form B 23 No 3566 dated 23.04.1397, based on decree No 931 dated 20.04.1397 of the Office of the President, Afs 1,500,000 has been executed from code 900002 Disaster Contingency Fund to core budget code 22 of Administrative office of the President for providing costs of celebrating 11<sup>th</sup> anniversary of Ali hazrat Mohammad Zaher Shah, the former King and Baba e Millat (Father of the Nation).
- 3.2.17. According to form B 23 No 2917 dated 20.03.1397, based on decree No 5 dated 14.03.1397 of Office of the President, Afs 12,900,000 has been executed from code 900002 Disaster Contingency Fund for the costs of holding International seminar for respecting the scientific and cultural personality of a famous scientist of the country, Abu Raihan Albironi.
- 3.2.18. According to form B 23 No 4054 dated 15.05.1397, based on decree No 1129 dated 10.05.1397 of Office of the President, Afs 500,000 has been executed from code 900002 Disaster Contingency Fund to code 22 of Administrative Office of the President for the costs of assigned delegations to inspect how illegal and low quality oil is imported from the ports of the country.

### ***Comment of MoF***

The General Budget Directorate, MoF stated that; “As you may appreciate, the amendments which have been made during the FY, are based on the requirements. Amendments from one

miscellaneous code to another code are due to shortage of funds in some other miscellaneous codes, and have been made to prevent the non-execution of the allocations and suspension of the essential matters of the budget units and for balancing among various miscellaneous codes. As in case of non-execution of these activities, the Agencies would face stagnation and problems.”

Furthermore, in response to the amendments within the contingency codes, the MoF stated that: “pursuant to the provision of Article 4 of the Decree No. 41 dated 15.11.1396 of the Office of the President, except codes 900001 and 900002, the authority to amend from other codes are conferred to MoF in order to quickly execute the budgetary matters. Amending from one code to other is done in accordance with provision of this law to resolve the problems of budgetary units and balance the contingency codes.”

Audit feels that the above explanation of the Ministry of Finance implies that the amendments were made due to the lack of funds in some miscellaneous codes and for preventing suspension of essential expenditure of budget units and for balancing among different codes. In addition, it has been stated by the MoF that pursuant to provision of Article 4 of Decree No 41 dated 15.11.1396 of the Office of the President, except policy and emergency contingency codes, the authority to amend from other codes are conferred to MoF in order to quickly execute the budgetary affairs. However, based on above decree, the Ministry of Finance has the authority to amend the aforementioned codes for goals determined in the budget document and not to amend from one contingency code to other or amend from one contingency code to another cases (objective).

Therefore, the Ministry of Finance could make such amendments in the mid-year review, so that they would avoid stagnation or stopping the activity and the amendments were made in accordance with the principles and accounting standards .

#### ***4. Amendments in contradiction with provision of the Decrees No. 146 and 147 dated 03.02.1397 of the Office of the President.***

Decree No 146 dated 03.02.1397 of Office of the President states that, “execution of Afs three hundred million from code AFG/360124 related to renovation and maintenance of Historical sites and relics is approved for purchasing land and construction of Historical Monument of Ahmad Shah Baba in Kandahar Province.”

In the same way, the Presidential Decree no. 147 dated 3.2.1397 stated that "in order to fully implement the construction project of the mosque of Omar ibn Khattab in Kandahar province in the first stage, execution of Afs one hundred and fifty million is approved from code AFG / 240096 for the construction of the mosque " .

As it has been noted, the Office of the President has ordered for execution of funds from two development projects through decrees. However, the aforesaid amendments were made from the contingency codes of Operating Budget after the documents were audited and reviewed. As based on Form B 23 No 186 dated 25.2.1397, Afs 150 million from the contingency code 900050 funds for operation and maintenance and Afs 300 million has been deducted from the contingency code

900024 contingency funds for purchasing Land, and added to code 25 (acquisition of assets) of IDLG.

***Comment of MoF***

The General Budget Directorate accepted that "As there were no funds in the codes mentioned in decrees No 146 and 147 dated 03.02.1397 of the Office of the President, in order to implement the above decrees from Office of the President and according to Letter No GBDO-1079 of the MoF, the funds have been executed from the contingency codes 900024 and 900050.

The General Budget Directorate, in connection with these amendments, have stated in response to the draft report, that "it should be noted that due to the urgency of the subject matter and the expending nature of the funds ordered from code 900024 for the purchase of land and code 900050 for maintenance have been done in accordance with the objectives of the mentioned codes."

However, according to the decree of the Office of the President, the funds that were to be executed from the development budget was executed from operating budget in contrary to the purpose of the aforementioned codes. Therefore, it required a new decree of the Office of the President. However, the General Budget Directorate has not only failed to have a fresh decree of the Office of the President, but also has failed to receive the order of the MoF to execute the mentioned funds from the operating budget.

***5. Lack of adequate information with regard to the provisions of the Operating and Contingency Budgets in the Budget document and inadequate coordination between MoF and Budgetary Units in incurring expenditures from the funds.***

According to the original budget document of FY1397, a total amount of Afs 274,033,334,965 was approved under the Operating Budget. Of which, Afs 22,941,850,000 was contingency funds relating to the MoF. After the deduction of this amount, Afs 251,091,484,956 should have been reflected in the original approved Operating budget Qatia Statement. However, Afs 247,491,484,955 was recorded in the column of original approved budget of the Qatia Statement; which indicates a difference of Afs 3,600,000,000 in the original Budget of the year.

***Comment of MoF***

The General Directorate of Treasury stated that "... there are Afs 2,292,120,000 in Code 22 (goods and services) according to description at page 104 of the original approved budget of the year for the Ministry of Public Works. However, the Ministry has recorded only Afs 92,120,000 in its own Qatia Statement and the use of Afs 2,200,000,000 was included as part of the relevant reserve codes. In addition, the Railway Authority had approval of Afs 1,415,680,000 in Code 22, of which Afs 15,680,000 has been recorded in its Qatia Statement and the use of the remaining amount of Afs 1,400,000,000 has been included in the relevant contingency codes. The total of the two items cover Afs 3,600,000,000, which was the difference mentioned in the enquiry letter of the Commission. "

The above description of the General Directorate of Treasury shows a lack of adequate information on figures of provisions and allocation of the core and the contingency funds in the National Budget, which creates problems for the Governmental agencies in spending the funds and its recording in the Qatia Statement.

## **6. Non-adjustment of Advances**

According to Article 25 of the Budget Execution Rules/Guidelines of 1397 , “All budgetary units are required to clear their advance balances before the end of fiscal year. Advances will be audited by the Supreme Audit Office (SAO) and any budgetary unit which has failed to clear its advances before the end of the year will not be eligible for advances next year. Advance payment in contracts and Letter of Credit (LC) are exempted. Article 9 of Budget Execution Rules/Guidelines of 1397 states that “Budget Execution Guidelines approved as part of the 1397 Budget is considered as law and execution against these laws are considered as violation of law.

In addition, paragraph 4 of Article 60 of PFEM Regulation requires "*follow up with creditors with the aim of prompt collection of account receivables and immediate depositing it to the bank*". Similarly, paragraph 4, 6 and 5 of the Cash Accounting Manual, M 90 Balances, states:

"The primary budgetary units should submit the M 90 Book of previous year to the General Directorate of Treasury of the Ministry of Finance one month after the end of the year. They are also required to put on record all the documents of advance payments which are under process and are with the Cashiers. Information for M 90 Book is received directly from the M 20 Book and the primary Budgetary Units have to compare all of the M 10 advance requests with the M 12 Adjusting Advances and then after consolidation record the balance pending amount in M 90.

All advances made to Cashiers must be reimbursed by them at the end of FY. If they do not reimburse within the specified period and they have no valid reason for it, the cashiers would be fined financially. This can be condoned only on the basis of a Presidential Decree in accordance with Article 30 of the law relating to pending amounts. "

In addition, according to Circular (TSI 4644) dated 13.3.1388 related to Management of Unadjusted Balances, the General Management Reporting of the General Directorate of Treasury of the Ministry of Finance; Advances shall be accounted for within four weeks and deducted from the account of Cashier.

However, the results of the Qatia Statement audit shows that significant amounts of advance payments of some of the entities have remained non-adjusted since the previous years until the end of the FY1397. Details are provided as follows:-

### **6.1 Un-adjusted Advances of FY 1397**

according to the Qatia Statements, total advances under operating budget for FY1397 was Afs 6,510,164,708, of which Afs 5,232,573,078 has been adjusted and Afs 1,477,591,630 or 23% of total advances of FY1397 has remained un-adjusted.

As it is seen, despite the provision of Article 25 of the Budget Execution Rules/Guidelines for 1397 related to adjustment of advances at the end of the FY and the provision of the PFEM Regulation, the Cash Accounting Manual, Circulars of the General Treasury Directorate of the MoF and previous recommendations of the Supreme Audit Office with regard to the timely adjustments of advances, notwithstanding the previous unadjusted advances, the advances relating to FY1397 have not been fully adjusted and have increased in FY 1397 over that of the previous years. The un-adjusted advances for FY1397 compared with Afs 1,336,778,509 of the un-adjusted advances of FY1396 shows increase of Afs 140,813,121 or 11%; compared to Afs 942,074,509 of the un-adjusted advances in FY1395, an increase of Afs 533,517,121 or 57%; compared to Afs 671,373,002 of the un-adjusted advances in FY1394, and of Afs 806,218,628 or about 120%.

Increase in the level of un-adjusted advances shows non-seriousness, weak controls and lack of management responsibility of the relevant entities against the applicable authorities and the recommendation of the Supreme Audit Office.

### **6.2. Payment of Advances in FY1398 when the advances of the previous year(s) remain unadjusted.**

As noted above, according to Article 25 of the Budget Execution Rules/Guidelines, entities not adjusting their advances at the end of the fiscal year are not to make advances in the next financial year.

However, the audit revealed that a number of entities have not adjusted their advances of the Operating Budget of FY1397 until the end of the audit of the Qatia Statement FY1397. However, a total of Afs 1,506,499,960 advances have been paid for the fiscal year 1398 also, which is in contradiction with the provision of Article 25 of the Budget Execution Rules/Guidelines. Details are given below.

### **6.3 Un-adjusted advances for the years 1381-1396.**

As per the reconciliation during the audit of Qatia Statements for FY1396 audited during FY1397 with the M-90 Book of Balances of the Ministry of Finance and the information provided by the the General Directorate of Treasury, the status of the unadjusted balances for the years 1396-1381 are provided below:

6.3.1 The total un-adjusted advances of FY1396 in the FY 1397 was Afs 1,336,778,509. According to the information provided by the General Treasury Department and based on the relevant documents, an amount of Afs 983,001,240 were adjusted and Afs 353,777,269 remained un-adjusted.

6.3.2. The un-adjusted balance of FY1395 in FY1397 was Afs 380,611,637. According to the information provided by the General Directorate of Treasury and based on the relevant documents, an amount Afs 298,738,133 or 78.5% was adjusted and Afs 81,873,504 remained un-adjusted.

6.3.3. The un-adjusted balance of 1394 in FY 1397 was Afs 55,426,313, of which Afs 24,967,986 was adjusted and Afs 30,458.323 remained un-adjusted.

6.3.4. The un-adjusted balance of 1393 in FY 1397 was Afs 176,407,297, of which Afs 10,711,184 was adjusted and Afs 165,696,113 remained un-adjusted.

6.3.5. According to the information provided by the General Treasury Department and based on the relevant documents, total unadjusted advances under the Operating Budget relating to the previous years (1381-1392) in FY1397 was Afs 652,720,698; of which Afs 49,739,205 has been adjusted and Afs 602,981,493 remained un-adjusted.

Details are presented in the following table.

No	Ministries/Entities	Years (figures In Afs)					Total remainings of years 1381-1396	Non-adjusted Advances of The year 1397	Executed advances of FY 1398
		1381-1392	1393	1394	1395	1396			
1	Afghanistan National Disaster Management Authority	-	-	3.786.501	-	214.385.816	218.172.317	714.692.692	383.875.000
2	Ministry of Foreign Affairs	76.126.208	7.608.596	5.645.519	8.140.193	52.526.741	150.047.257	151.735.502	138.251.776
3	Administrative office of the president	-	-	7.614.738	21.128.544	54.512.920	83.256.202	108.353.749	169.947.656
4	General Directorate of physical Education and Sport	567.653	-	434.592	6.979.840	17.709.286	25.691.371	1.415.375	17.134.697
5	Ministry of Finance	79.873.505	6.278.391	2.353.714	9.734.210	2.961.419	101.201.239	15.919.724	42.414.295
6	Ministry of Education	39.147.837	583.745	3.525.957	578.011	1.287.999	45.123.549	4.132.316	7.299.313
7	Ministry of Information and culture affairs	16.018.086	-	-	-	3.926.406	19.944.492	5.966.391	8.757.980
8	Ministry of Commerce and Industry	602.555	9.474.161	6.090.026	10.851.422	1.765.673	28.783.837	30.967.465	4.241.710
9	Upper House (Meshrano Jirga )	1.097.299	580.986	282.433	30.980	2.822.292	4.813.990	58.602	160.000
10	National Assembly (Wolesi Jirga)	-	-	-	-	973.060	973.060	151.500	-
11	Ministry of Justice	22.600	17.230	42.442	31.118	260.246	373.636	2.087.117	982.650
12	Independent Directorate of Local Governance	1.128.599	-	-	-	203.240	1.331.839	1.458.052	21.552.166
13	Independent General Directorate of Kochis (Nomad)	-	-	-	-	269.586	269.586	358.958	2.136.240
14	Independent Election Commission	-	-	-	692.383	68.750	761.133	14.744	800.000
15	Ministry of Economy	2742	311.105	15.000	-	52.856	381.703	272.808	2.002.110
16	Ministry of Transportation	447.288	-	53.080	35.723	22.002	558.093	-	-

17	Ministry of Refugees affairs	1.108.738	214.961	-	-	14.830	1.338.529	59.900	13.190.775
18	Ministry of Interior affairs	513	-	-	-	14.137	14.650	277.394.875	279.823.182
19	Office of the Chief Executive	-	-	-	16.334.195	-	16.334.195	25.503.543	16.418.985
20	Ministry of National Defense	54.397.613	140.439.999	6.230	7.316.378	-	202.153.990	67.359.258	165.806.910
21	Ministry of Energy and Water	154.512.782	-	-	20.498	-	154.533.280	289.028	2.456.471
22	Ministry of Public Works	-	-	607.960	-	-	607.960	714.260	773.885
23	Ministry of Communication and Information Technology	3.816.697	157.647	-	-	-	3.974.344	36.000	516.690
24	Ministry of Agriculture and Water Irrigation	4.499.274	29.090	-	-	-	4.528.364	2000	512.320
25	Ministry of Public Health	57.130.407	-	-	-	-	57.130.407	57.338	1.174.022
26	Ministry of light Industry	66.812.798	-	-	-	-	66.812.798	-	-
27	Ministry of Labor, social affairs, Martyrs and Disabled	745.720	-	-	-	-	745.720	319.322	1.734.752
28	General Attorney	15.626.698	-	-	-	-	15.626.698	-	-
29	Ministry of Irrigation and Water resources	14.061.673	-	-	-	-	14.061.673	-	-
30	Ministry of Borders and Tribal	12.505.993	-	-	-	-	12.505.993	-	-
31	National Protection Environment Authority	2.255.898	-	-	-	-	2.255.898	67.330	387.298
32	Civil Aviation Authority	255.783	-	-	-	-	255.783	23.060	985.182
33	Deputy Ministry for Youth affairs	104.000	-	-	-	-	104.000	-	-
34	Academy of Sciences of Afghanistan	92.165	-	-	-	-	92.165	-	-
35	Ministry of Mines and Petroleum	20.367	-	-	-	-	20.367	145.600	1.083.185
36	National Security Council	-	-	-	-	-	-	41.563.136	195.000.000
37	Chief of staff of the office of the president	-	-	-	-	-	-	23.620.049	150.000
38	Ministry of Urban Development and Housing	-	-	-	-	-	-	1.117.643	2.321.100
39	Afghanistan Land Authority (Arazi)	-	-	-	-	-	-	1.046.372	833.820
40	Ministry of Hajj and Religious Affairs	-	-	-	-	-	-	517.700	5.750.413
41	Radio and TV of Afghanistan	-	-	-	-	-	-	17.222	2.606.554
42	Ministry of Rural Rehabilitation and Development	-	-	-	-	-	-	13.371	10.093.332
43	Central Statistics Office	-	-	-	-	-	-	88.054	3.965.340
44	Afghanistan Atomic Energy High Commission	-	-	-	-	-	-	31.571	1.360.151
<b>Total Remainings</b>		<b>602.981.493</b>	<b>165.696.113</b>	<b>30.458.323</b>	<b>81.873.504</b>	<b>353.777.269</b>	<b>1.234.786.702</b>	<b>1.477.420.130</b>	<b>1.506.499.960</b>

According to the table above, Afs 602,981,493 unadjusted balances related to the years 1381-1392, Afs 165,696,113 to FY 1393, Afs 30,458,323 to FY1394, Afs 81,873,504 to FY1395 and Afs 353,777,269 to FY1396; a total of Afs 1,234,786,702 relating to 1381-1396 remained un-adjusted and uncollected.

In addition, a total of Afs 1,477,420,130 as advances of FY1397 have remained un-accounted/uncollected and a total of Afs 1,506,499,960 have been paid as advances in FY1398 despite the entities have not adjusted their advances for FY1397, which is in contradiction with Article 25 of the Budget Execution Rules/Guidelines.

### ***Comments of MoF***

The Central Accounting Department of the General Treasury Directorate with regard to the adjustments and the un-adjusted balances of the previous years and FY 1397, stated that "for the management of the advance payments, the transferred balances of each Entity in the specific tables based on the second copy of the paid M16 and its accountings is calculated in the system based on M12 and supporting documents sent by Entities. A copy of the daily clearances and the consolidated advances' table of the Entities is submitted to the payment Department to prohibit payment of further advances for the Entities, which have not completed their previous advances..."

Furthermore, the Balances Section of the General Treasury Department with regard to the expenditure, accounting arrangements and adjustment of the balances of the relevant entities stated that "... during these financial years, several circulars were sent to the entities to adjust the unadjusted balances and informed them to pay attention in this regard. Also their unadjusted balances were repeatedly declared through assurance letter about each adjusted amount which has been transferred; samples of circulars are attached with this letter".

The Treasury Directorate of the Ministry of Finance with regard to the payment of the advances in FY1398, where the previous year's advances remained un-adjusted, stated that "previously we have provided necessary and detailed information in response to the enquiry No (42), dated 14.1.1397 (part 6) on un-adjusted advances under the Operating Budget FY1397 of the Central Budgetary Units. Furthermore, a copy of this circular No.318543, dated 21.12.1397 signed by the Finance Deputy Minister indicating the serious actions taken in this regard was also issued to the Entities as well as to payment departments. It is worth mentioning that apart from these and the daily submission of the status of the advances, adjustment and the balances of the Entities in the Operating Budget to the Payment Department and Advance payment management Office, there is no direct access to the information in regard to execution and non-execution of advance payments."

In addition, the General Treasury Directorate responded that "... the General Treasury Directorate in accordance with its duty, has always focused on adjustment of unadjusted balances of the previous years of Entities, and from time to time, made them aware of it through circulars. We can mention a circular No 318543 issued dated 1.12.1397 as a sample which was previously presented to the audit commission in response to the Enquiry No (155) dated 2.3.1398. We also conducted

several meetings with the Admin and Finance Directors of the Budgetary Units and called for their serious consideration for timely submission of the clearance documents relating to the previous years. "

The fact remains that the Ministry of Finance has not taken an effective action on the implementation of Article 25 of the Budget Execution Rules/Guidelines. The payment of advances in the wake of un-adjusted advances of the previous years was not only contrary to the budget execution rules but also caused accumulation of the unadjusted balances with the Entities, which would lead to problems in the future.

## **7. *Petty Cash***

In accordance with Section 6.1 of Article 6 of the Cash Accounting Manual: "petty cash is an amount used for small expenditures, this amount is paid by the Budget Primary Units for unexpected small expenditures. The purpose of petty cash is to enhance the effectiveness of administrative affairs and to limit small bank cheques by the Treasury Directorate and the Mustofiats.

As a general practice, the amount of the petty cash is not to exceed Afs 250,000 and the petty cash amount will be registered as an advance in the system until its clearance. This is only a transfer of the amount from the Treasury Single Account (TSA) to the government budgetary units and should be adjusted during the year or to be repaid to the TSA at the end of the year.

In addition, the Cash Accounting Manual stipulates that if the previously paid petty cash has not been adjusted, no further petty cash advance shall be made.

As explained above, the Cash Accounting Manual has stipulated payment of petty cash for unexpected small expenditures to a maximum of Afs 250,000. However, according to the information provided by the General Treasury Directorate of the Ministry of Finance for the year 1397, a total of Afs 191,035,000 petty cash was paid for 45 Budget Units in advance, of which Afs 76,300,000 or 40% is related to the Chief of Staff of the President Office and Afs 76,850,000 or 40% is related to the Administrative Office of the President and the rest, 20% to all the other Entities.

Out of the total said petty cash advance, Afs 169,299,674 has been accounted and Afs 21,735,326 remained un-adjusted till the audit of the Qatia Statements, which is contrary to the provisions of Article 25 of the Budget Execution Rules/Guidelines and the Cash Accounting Manual. Out of the un-adjusted advances, Afs 21,076,610 or 97% is related to the Chief of Staff of the President Office, Afs 379,801 to the Ministry of Finance, Afs 83,543 to the Independent Directorate of Kuchis (Nomad), Afs 73,060 to the Ministry of Public Works, Afs 54,299 to the Ministry of Urban Development and Housing and Afs 26,571 to the Atomic Energy High Commission, Afs 22,836 to the Ministry of Labor and Social Affairs and the rest, Afs 18,606 to the Electoral Complaints Commission, IDLG and Environmental Protection Authority.

This is in spite of the fact that the Cash Accounting Manual and the Budget Execution Rules stipulate either the settlement or repayment of the petty cash by the end of the year.

### ***Comments of the MoF***

"Copies of the Decree No. 840 dated 26.11.1396 and No. 3257 dated 30.11.1396 of the Office of the President attached to be considered by the Audit Commission regarding the adjustment documents of petty cash of the Chief of Staff of the President Office and the Administrative Office of the President."

In addition, in response to the draft audit report, the General Directorate of Treasury stated that follow up on un-adjusted petty cash, beside all the other unadjusted balances are always followed by the relevant follow-up Department.

As per the relevant documents, a monthly petty cash of Afs 10,000,000 as per the proposal of Chief of Staff of the Office of the President and Decree No. 840 dated 26.11.1396 and a monthly petty cash of Afs 7,000,000 as per the proposal of the Administrative Office of the President and the President Decree No. 3257 has been maintained.

According to the above, the aforementioned Entities had obtained a Decree from the Office of the President for petty cash payments exceeding the amount specified in the Cash Accounting Manual, which however, did not mean relaxation of the stipulation for their adjustment as per the applicable provisions. The advances were required to have been adjusted during the FY or have been repaid at the end of FY in accordance with the Cash Accounting Manual. However, as noted, Afs 21,735,326 petty cash of FY1397 remained un-adjusted and no information was provided about the status of adjustment of Afs 19,741,114 petty cash remaining for the FY 1397.

### **8. *Payment of funds as postpaid expenditures***

The Cash Accounting Manual states that "postpaid expenditure includes recording of operating budget expenditures that contains commitment documents and shall be paid after collecting/receiving goods and services."

The following amounts should have been paid as advance and recorded as per valid expenditure documents and finally considered as expenditure against the relevant entities. However, they have been recognised as postpaid expenditure without having any subsequent expenditure documents in this regard. This has the risk of misuse in the future.

8.1 Based on suggestion No. 64 Dated 25.1.1397 of the Ministry of Finance and the Decree No. 242 dated 1.2.1397 of the Office of the President, monthly USD 20,000 or USD 240,000 annually equivalent to Afs 16,877,856 is considered to have been transferred to the account of the Embassy of the Islamic Republic of Afghanistan in Washington to cover the costs of invitations and programs to attract the attention of traders, investors and expansion of relations with the United States.

According to the information provided by Finance and Accounting Directorate of the MoF, out of the total amount, Afs 11,251,200 (eight-months expenditures) was transferred as the postpaid

expenditures to the account of the said Embassy through M16 No.4031 dated 07.02.1397, which is contrary to the Cash Accounting Manual. Moreover, neither in the proposal nor in the Decree of the Office of the President it is mentioned the amount be transferred as postpaid expenditures.

### ***Comments of MoF***

The Finance and Accounting Directorate of the Ministry of Finance stated that "according to the decree No. 242 dated 1.2.1397 of the Office of the President, a total of USD 160,000 equivalent to Afs 11,251,200 of eight months expenditures have been transferred to the Embassy's funds for better diplomatic relations between the Islamic Republic of Afghanistan and the United States. Its documents will be audited by the auditors of Embassy's, because there are problems in submitting the documents to us. Therefore, it has been transferred to the embassy's account. "

8.2 According to form B 23 No 791 dated 30.11.1397 based on decree No. 3150 dated 11.11.1396 of the Office of the President, Afs 4,000,000 has been paid as postpaid expenditures for the secret expenditures of the Administrative Office of the President.

8.3 According to form B 23 No 4054 dated 15.05.1397 based on decree No.1129 dated 10.05.1397 of the Office of the President, Afs 500,000 has been paid as postpaid expenditures for the expenses of the assigned delegates for audit of import of illegal and low-quality oil from the ports of the country.

8.4 In addition, according to 14 decrees of the Office of the President, a total of Afs 737,000,000 has been paid for operative funds of NDS in FY1397 as postpaid expenditure.

According to above, the said amounts should have been executed as advances and then considered for adjustment as per the valid expenditure documents. However, they are executed as postpaid expenditures, which do not involve any subsequent expenditure documents and adjustments.

### **9. Increase in the organizational structure contrary to the Budget Execution Rules/Guidelines**

Article 43 of Budget Execution Rules/Guidelines of FY1397 (Staffing) states that " Ministries and agencies are required to prepare their Tashkeel (organizational structure) differentiated by national and sub-national levels based on the budget ceiling assigned by the National Council to each ministry and strictly avoid any increase in Tashkeel in the course of the fiscal year. Approved Tashkeel levels which appear in the budget document are final".

Besides, Article 26 of the Budget Execution Rules/Guidelines states that "... Any law or regulation that includes a salary increment / or increase in any other allowances of civil servants and military staff which is not already included in the budget (including the forward estimates) unless stated in the law the allowances or new spending are applicable from the beginning of the next fiscal year".

The Directorate of Organizational Structure and Cadre Affairs of the Independent Administrative Reform and Civil Service Commission has provided the following information about the increase in organizational structure of the Ministries and Agencies in the year 1397 that have taken place

after approval of budget of the year on the basis of the suggestion of the related Entities and decree of the Office of the President.

<b>Table 5.8: Increment in organizational structure during the FY1397</b>						
No	Name of Ministry/Entity	Ceiling of National Budget for 1397	Increment During the Year	Decree		Remarks
				No	Date	
1	Ministry of Education	271785	114	1688	1397/8/20	
2	Ministry of Finance	9707	159	2880	1397/12/28	
3	IDLG	7624	18	1548	1397/8/6	For the Organizations structure of the newly established district, Spin Ghar District of Nangarhar, Coordinator for Peace Affairs, New Deputy Governor Offices for Nangarhar and Kabul Provinces
4	Attorney General Office	5837	435	1364	1397/7/10	
5	Central Statistic Organization	800	250	656	1396/10/6	The decree is taken directly
6	Supreme Audit Office	465	38	210	1397/2/9	
7	Supreme Court	7385	89	123 747	1397/1/28 1397/4/28	5 vacancies for the establishment of Primary Directorate of newly established District (Spin ghar) Nangarhar Province.
8	Gas and Oil Authority	-	264	1944	1397/9/15	Newly established Entity based on decree No 55 dated 22.5.1397 of Office of the president
9	TVETA	-	85	967	1397/5/24	Newly established Entity on the basis of decree No 11 dated 22.5.1397 of Office of the president
10	Population Record Directorate	-	733	533	1397/3/17	Considering 2270 transferred posts from the Ministry of Interior Affairs and approved ceiling of 3003 Entities shows an increment of 733 posts
11	Ministry of Justice	3064	1	703	1397/4/8	
12	State Ministry of Parliamentary Affairs	332	1	757	1396/11/2	
13	National Exam Authority	-	1	11	1397/2/1	

Besides, as per separate proposals of the agencies and Decrees of the Office of the President, increase in staff/employees have also taken place in the following cases:

1. Based on the proposal No. 339 dated 12.6.1397 of the Administrative Office of the President and Decree No 1530 dated 27.6.1397 of the Office of the President for creating office organizational structure / staffs for the Minister's Advisor Office on the Border and Tribal Affairs, creation of 5 posts and payment of their salaries of Afs 1,349,655 for the last five months of the fiscal year 1397 from code 900001 of policy.

2. Based on the proposal without No and date of the Administrative Office of the President and Decree No.1147 dated 13.05.1397 of the President's Office, creation of one grade 3 position as administrative staff in the organizational structure of social affairs advisor office and recruitment of Obaidullah, son of Abdul Malek on this positions with monthly remuneration of Afs 40,000 from code 900001.
3. On the basis of the proposal without No and date of the Chief of Staff of the Office of the President and Decree No 1407 dated 12.7.1397 of the Office of the President for creation of 23 Advisory Offices to the President on public and social affairs and payment of Afs 4,369,734 as their salaries and privileges from code 900001 of policy.

### ***Comments of MoF***

The General Directorate of the Budget stated that "increase in the organizational structure of some the agencies that required budgetary changes was considered in the mid-year review of FY1397. Its formal process has been carried out through the high-ranking authorities (the Cabinet and Parliament). It should be noted that the increase in organizational structure carried out prior to the review as per the Decrees of the President Office of the Islamic Republic of Afghanistan was not implemented by the Ministry of Finance until its formal process was completed."

However, audit did not find any indication of budget changes for the increases in the organizational structure for the current year in the mid-year review document . Moreover, the Budget Execution Rules/Guidelines prohibited any increase during the fiscal year regardless of its financial implication.

### **10. Approval and spending the operative funds of FY1397**

Article 15 of the Budget Execution Rules/Guidelines of FY 1397 states that "transfers from other codes to operative codes are not allowed. The operative expenditures are only executable for following ministries and budgetary units:

- a) Ministry of National Defense
- b) Ministry of Interior Affairs
- c) General Directorate of National Security
- d) National Security Council

The General Budget Directorate has provided the following information in regards to the approval of original budget and operative funds of the said agencies for the FY 1397.

1. NDS Afs 1,760,000,000
2. National Security Council Afs 408,000,000
3. Ministry of Defense Afs 300,000,000
4. Ministry of Interior Affairs 300,000,000

However, no document was received by the audit commission which undertook the audit of the Qatia Statement with regard to how the operative fund ceiling of the fiscal year 1397 was

determined and through what type of documents the relevant departments and the General Treasury Directorate was notified.

The General Budget Directorate stated that “Operative funds (secret) of FY1397 of the agencies have been determined during budget making in the budget committee discussions considering the financial resources based on the nature of their responsibilities. Further, as the operating funds are of special nature, the amounts are not considered on the basis of the supporting documents. Each Budgetary Unit presents the issue in the budget committee while defending the budget, and the Budget Committee register the figures and orders the National Budget Directorate and due to the special nature, the figures are not reflected in a separate document.”

From the explanation of the General Budget Directorate, it seems that the operative funds of the agencies are orally discussed in the Budget Committee and it confirms the operative budget of the agencies orally and then orders the General Budget Directorate orally and the General Budget Directorate orally inform the General Treasury Directorate and other related agencies regarding the approval of their operative funds. Accounting of the said expenditure in the absence of supporting documents may not be appreciated.

However, the General Treasury Directorate has shown the payment of operative funds of the agencies for FY1397 as follow:

1. NDS Afs 2,795,980,000
2. National Security Council Afs 408,000,000
3. PPS Afs 30,000,000
4. Ministry of Defense and related Corps Afs 247,350,000
5. Ministry of Interior Affairs Afs 300,000,000
6. Chief of Staff of the office of the President Afs 4,000,000.
7. Office of the Chief Executive Afs 10,000,000

Though the General Budget Directorate did not present any document in regards to the approval of the Operative Budget of the agencies, even if we accept the figures provided by the General Budget Directorate in regards to the approval of operative funds, however, the following amounts were applied contrary to Article 15 of the Budget Execution Rules/Guidelines:

1. Againsts the stipulation of the provision of Article 15 of the Budget Execution Rules/Guidelines that “transfers from other codes to operative codes are not allowed”, an extra expenditure of Afs 1,035,980,000 on account of the National Directorate of Security (NDS) transferred and spent from other codes in budget is contrary to the said provision.

2. As the agencies warranting operative funds are determined in the Budget Execution Rules/Guidelines, Afs 30,000,000 to the Presidential Protective Security Directorate, Afs 4,000,000 to the Chief of Staff of the President Office and Afs 10,000,000 to the Office of the Chief Executive, have been executed contrary to stipulations of Article 15 of Budget Execution Rules/Guidelines.

### ***Comments of MoF***

The General Treasury Directorate has stated the following reasons for the above-mentioned payments:

1. Based on Article 1 of Decree No. 40 dated 15.4.1394, the Presidential Protection Security Directorate is related to National Security Council in terms of organizational structure and the payments have been incurred in accordance with Article 1 of Chapter I of the operating procedure dated 30.10.1395.
2. The amount of Afs 4 million has been incurred on account of the Chief of Staff of President's Office based on decree No 3150, dated 11.11.1396 of the President's Office.
3. An amount of Afs 10 million operative fund has been incurred on account of the Office of the Executive Directorate based on decree No. 2553, dated 5.10.1396 of the Office of the Chief Executive Office.

We have reiterated that the Presidential Protective Security Directorate of the President did not submit the detailed documents and related procedures to the Directorate due to operational confidentiality.

Regarding Afs 1,035,980,000 operative fund incurred on account of the of the NDS, they have presented copies of 17 Decrees of Presidential office.

These documents were reviewed and based on 14 Decrees of the President's Office, a total of Afs 737,000,000 have been incurred for operative expenditures of NDS from code 900001 of policy as postpaid expenditures.

However, according to 4 separate decrees of the Presidential Office, a total of Afs 302,980,000 have been incurred, which has not been mentioned explicitly as operative fund in the decree of the President's Office.

However, though the Budget Execution Rules/Guidelines have identified the agencies warranting operative funds, transfers from other codes in the budget have not been allowed into operative codes. Therefore, the following amounts to the related entities have been executed contrary to the Budget Execution Rules/Guidelines: Afs 1,035,980,000 extra expenditure of operative expenses of the National Directorate of Security; Afs 30 million operative expenditures of the Presidential Protective Security Directorate; Afs 4,000,000 operative expenditure of the chief of staff of the President Office and Afs 10,000,000 operative funds of the Office of the Executive Directorate.

### ***11. Payment of salaries and expenditures for non-state/ non-budgetary agencies from the National Budget***

Audit found that during the FY1397, Afs 125,000,000 has been paid from the state budget for salaries and expenses of agencies outside the organizational structure of the government.

Based on the proposal no. 823 dated 2.11.1396 of the General Administrative Directorate of the National Security Council and decree no. 3399 dated 12.12.1396 of the President Office, Afs

110,000,000 has been added to codes 210 and 220 for the payment of salaries and expenses of the Commission for Disputes Settlement and Public Relations with the Government from code 900001 of Policy. The said funds have been executed according to forms B23 No 51 dated 16.12.1396, No 86 dated 18.1.1396 , No 135, dated 4.4.1397 and No. 227, dated 9.7.1397.

In addition, based on the proposal no. 1248 dated 18.11.1396 of the National Security Council and decree No 3554 dated 23.12.1396 of the President Office, as per Form B 23 No. 76 dated 5.1.1397 Afs 15,000,000 have been transferred from code 900001 of Policy to codes 210 and 220 for payment of salaries and expenses of the Commission of Disputes Settlement between Kuchis (Nomad) and Residents.

In the proposal given above, it is noted that:

1. Payment of salaries only by submitting the relevant tables.
2. Payment of the daily purchases and expenses by submitting/providing only purchasing bill and cash receipt.

It is also proposed that the National Security Council of the Islamic Republic of Afghanistan should only prepare the Accounting Form of the spent budget of the Commission in accordance with the submitted documents and officially submit it to the Ministry of Finance for further processing.

It seems from the text of the proposal of the National Security Council that there is a failure to comply with the accounting procedure/principles for the expenditure of the said funds. Payment and accounting documents of the mentioned amounts were requested from the General Treasury Directorate for auditing, however, the Directorate only presented a copy of the M-16 forms of the payments of the said funds and a table indicating the adjustment of the said amounts. However, no information has been presented for the audit as based on which documents the said funds have been incurred or accepted as paid funds.

Later on, in a meeting conducted in the Office of the Accounting Director of Ministry of Finance, the Finance Director of the National Security Council's office promised to send all the funds' expenditure documents for the purpose of audit. However, no document was provided to the Qatia Statement Audit Commission in this regard till the closure of the audit process.

### ***Comments of MoF***

The General Budget Directorate in response to the draft audit report stated that "the expenditures noted by the audit are not outside the Budgetary Units, but have been incurred by the National Security Council, which is one of the budgetary units. The detailed information have already been provided. These expenditures have been incurred based on the proposal of the National Security Council and decrees of the Presidential Office from code 900001. "

As per audit, the funds were executed based on a proposal of the National Security Council for the payment of salaries and expenses of the Commission for Disputes Settlement and Public Relations, and the Commission for Disputes Settlement between the Kuchis and Residents, which are not budgetary units. On the other hand, the proposal reflected the procedures against the principles and

standards of accounting for incurring the said funds, however, the Ministry of Finance did not have objections.

## **12. Budgetary transfers after the end of FY1397**

Article two of the Budget Execution Rules/Guidelines states:

"The fiscal year for 1397 starts from first of JADI of fiscal year 1396 and continues until the last day of QAWS 1397"

In addition, Article 44 of the PFEM Law states, "all appropriations for a fiscal year shall lapse after the end of that fiscal year, unless provided otherwise by the law".

However, the following transfers have been found by the audit to have taken place in the fiscal year 1398 after the end of fiscal year 1397.

- 12.1. According to a proposal, No. and date nil of the General Budget Directorate and decree no 1146 dated 15.12.1397, based on Form B23, No and date nil, Afs 20 million have been transferred from code 900004 of currency balance and Afs 6 Million from code 900009 of funds for PRR and Super Skill; total Afs 26 million, to code 900050 of operation and maintenance. The order of the Ministry of Finance for transfer of these funds was in the third month of fiscal year 1398.
- 2.12. In accordance with Form B23 No 494 dated 29.11.1397, based on a proposal, No and date nil of Chief of Staff of the Chief Executive Office and an unregistered decree in the Office, Afs 2,300,000 has been transferred from Code 220 to code 240 under the title of accounting balance. It should be noted that the above-mentioned form has a registration No 40807 dated 19.12.1397 of the Budget Execution Directorate.

It appears from the documents that the said agencies after having spent extra funds from aforementioned codes, resorted to the transfers for the purpose of balancing the accounts while preparing Qatia Statement.

## **13. Extra payment on account of expenditures on inauguration ceremony of Lazuli (Lajward) Railways.**

In accordance with Form B23 No 1446 dated 16.8.1397, based on decree No. 6624 dated 16.8.1397 of MoF, Afs 430,019 has been deducted from code 900050 of contingency funds for operation and maintenance and have been added to code 22 of MoF for the extra expenditure on the opening ceremony of the Lazuli (Lajward) Railways. According to the information of Finance and Accounting Directorate of the Ministry, the said funds have been transferred to the relevant account.

However, only an amount of Afs 230,029 as the total amount of extra expenditures have been reflected in the expenditure table of inauguration ceremony of Lazuli Railways, which shows a difference of Afs 200,000 with the transferred amount.

### *Comments of MoF*

The General Budget Directorate reasoned as follow, "on the basis of requisitioned Form B-23 No 023818 of Finance and Accounting pursuant to decree no. 6624 dated 16.8.1397 of the Minister, the General Budget Directorate ordered an allocation of Afs 430,019 to be executed for the expenditures of Lazuli Railways to the Finance and Accounting Directorate. Other Accounting documents are with the Finance, Accounting and Treasury Directorates ..."

#### ***14. Afs 60 million have been transferred from Code 22 to Code 21 exceeding 5%***

The agencies usually estimate their operating budgets based on their real needs under relevant codes. They will request the MoF for amendment from one code to another, when they face shortages of budget in budgetary codes during the fiscal year, in case of budget availability other budgetary codes (except code 21 and forbidden codes). If it is deemed necessary, then the Ministry of Finance will execute the requested funds based on Article 47 of the Public Finance and Expenditure Management Law or such amendments are considered in mid-year review.

In accordance with Form B23 No 28 dated 13.8.1397, based on the proposal No. 28 Dated 13.8.1397 of the Presidential Protective Security Directorate and decree No. 6572 dated 13.8.1397 of the MoF, Afs 60 million has been transferred from Code 22 to code 21 of the Directorate. It is stated in the proposal of the Directorate that it is "due to the urgent necessity of the agency for the expenditures of processed contracts and considering the shortage of funds, the agency has decided to deduct Afs 60,000,000 from operating budget in code 22 of goods and services and add to code 21 of salaries and wages. "

It is apparent in the proposal that there is an urgent need for fund for the expenditures of processed contracts. On the contrary, the amendment has been executed from code 22 which is for goods and services to code 21 (wages and salaries). Moreover, the existence of such a large surplus in code 22 (25% of the main approval of the said code) and the corresponding shortage in code 21 is not understandable and indicates need for careful budgeting.

In addition, according to decree No. 6572 dated 13.8.1397 of the Ministry of Finance, the transfer of the said funds was to be in accordance with the Budget Execution Rules/Guidelines. Article 14 of the Budget Rules/Guidelines explicitly states that "due to security situation, the Ministry of Defense, Ministry of Interior Affairs and the National Directorate of Security (NDS) are treated exceptions to the 5% adjustments between codes which has been stipulated in Article 47 of the PFM law."

As it is observed, the amended funds consisting of 25% of the main approval of the Presidential Protective Security Directorate is contrary to Article 47 of PFM law and the Budget Execution Rules/Guidelines that stipulates appropriation not exceeding 5%.

The General Budget Directorate has noted that "considering your document submitted to us, a copy of the amendment form No 28 dated 13.8.1397 of the Presidential Protective Security General Directorate with their attachments, which has amended from code 220 to code 210 are attached".

It is worth mentioning that all contracts of the subsistence of security agencies are executed under the code of 210 of Operating Budget. "

Considering the chart of accounts for fiscal year 1397, no code has been classified under the title of subsistence contracts of security entities in code 210 of Operating budget.

## Development Budget Qatia Statement

### Explanation of Development Budget of the fiscal year 1397

#### 1. The original Budget Document of the year (National Budget)

According to the original budget document for the fiscal year 1397, a total of Afs 111,056,868,000 equivalent to 1,625,064,000 USD of the development budget was budgeted and approved, of which:

Discretionary Projects with an amount of	Afs 52,085,391,000
Non-discretionary projects with an amount of	Afs 58,971,477,000
.....	
Total amount of	Afs 111,056,868,000

The total original development budget for the fiscal year 1397 of Afs 111,056,868,000, consisted of Afs 102,431,552,727 or 92% core budget and Afs 8,625,315,147,875 or 8% of contingency budget.

#### 2. Changes of the Mid-year Review

In the mid-year review document, the total budget of the beginning of the fiscal year 1397 including the supplements was Afs 119,716,571,864, of which Afs 52,085,390,724 was discretionary and Afs 67,631,181,140 was non-discretionary.

In the mid-year review, Afs 5,622,611,750 have been added to discretionary funds and Afs 2,394,551,907 have been reduced from the total amount of non-discretionary funds, which shows an overall increase of Afs 3,228,059,843 in the development budget for the beginning of fiscal year 1397. With this increase, the total development budget for 1397 covered Afs 122,944,631,707 in the mid-year review, of which Afs 57,708,002,474 or 47% was discretionary funds and Afs 65,236,629,233 or 53% non-discretionary funds.

#### *The Realization of development Budget considering Qatia Statement of FY1397*

According to the Qatia Statement, total approved core budget (budget without contingency codes provisions) under the development budget for the beginning of the fiscal year 1397 is recorded as Afs 102,431,552,727. After the changes in the mid-year review (increases and decreases), amendments of reserved codes (Contingency funds), increases and decreases in the budget supplements, the total development budget increased from Afs 111,056,868,000 included in the Decree of original budget of the year to Afs 135,750,424,502 or 22%. Of which, Afs 126,072,923,360 was spent in the year and Afs 9,677,501,142 remained unspent. It shows an implementation level of about 93% of the Development Budget in FY 1397.

It should be noted that in the Qatia Statement of Development Budget for the fiscal year 1397, as per the budget supplement, an addition of Afs 32,782,499,627 and reduction of Afs 10,215,537,899 has been recorded, the details of which are explained below:

1. In accordance with the Decision No. 20 dated 13.12.1396 of the Cabinet of the Islamic Republic of Afghanistan, an amount of Afs 1.5 billion has been approved as budget supplement to the following projects and the information has been conveyed vide Letter No GBDO-798 dated 29.12.1396 through the State Ministry in Parliamentary Affairs to the National Assembly/Wolesi Jirga:
  - 1.1. An amount of USD 5,845,003 equivalent to Afs 399,447,505 of the World Bank's Grants to the Customs Modernization Project (Part II), the construction of customs establishments and the construction of domestic customs offices/Stations with code No AFG / 200122 related to Ministry of Finance.
  - 1.2. An amount of USD 3,384,858 equivalent to Afs 231,321,196 of US, British and Korean contributions/aid through USAID for the project of the Secretariat of Financial Evaluation Committee of High Peace Council and Reintegration with code No AFG / 200227 related to the Ministry of Finance.
  - 1.3. An amount of USD 6,500,000 equivalent to Afs 444,210,000 of the World Bank's Grants to the new project, titled Expenditure Reform and Financial Performance with code No AFG / 200283 related to the Ministry of Finance.
  - 1.4. An amount of USD 1,042,843 equivalent to Afs 71,267,891 from the World Bank's Grants to Financial Affairs Reform project with code No AFG / 200121, Treasury System Advisors with code No AFG / 200054, Capacity Development for Financial Systems (Center and Provinces) with code No AFG / 200126, Development of the Professional Accounting Organization with code No AFG200262, Audit Training Program with code No AFG / 200055 and the Project of Reform and Revenue Coordination with code No AFG / 200270.
  - 1.5. An amount of USD 354,876, equivalent to Afs 24,252,200 of the World Bank's Grants to the Afghanistan Extractive Industries Transparency Initiative with code No AFG / 200230 related to the Ministry of Finance.
  - 1.6. An amount of USD 301,785 equivalent to Afs 20,623,987 of the SAARC Development Fund Grants to the Afghanistan Reinforcement Water, Sewerage and Health Services Project with code No AFG / 430471 related to the Ministry of Rural Rehabilitation and Development.
  - 1.7. An amount of USD 1,358,439 equivalent to Afs 92,835,721 UNESCO's Grants/Aids to the Literacy and Informal Education Project with code No AFG / 270390 related to Ministry of Education.
2. According to the Decision No. 1 dated 15.1.1397 of the Cabinet of the Islamic Republic of Afghanistan, an amount of Afs 7,143,731,175 was approved as the Development Budget Supplement for the following projects and the National Assembly (Wolesi Jirga) has been

informed vide Letter No GBDO-1076 dated 4.2.1397 through the State Ministry of Parliamentary Affairs.

- 2.1. Afs 23,577,300 as assistance from Afghanistan Reconstruction Trust Fund Grants to the National Judicial Program with Code No AFG / 140021 related to Supreme Court.
  - 2.2. Afs 629,628,234 as Italy's Aid/Grants to the project of the National Roads Program for Rural Areas with code No (AFG / 420106) related to Ministry of Public Works.
  - 2.3. Afs 341,700,000 of the World Bank's Grants for the project of Trans-Hindu Kush Road Connectivity Project (THRCP), Doshi Bamiyan with Code No AFG / 420377 related to Ministry of Public works.
  - 2.4. Afs 5,193,840,000 of the World Bank's Grants and Asian Development Bank Grants for the 500 KV transmission line from Central Asia to South Asia Casa 1000 with code No AFG / 830041, 500KV transmission project from Aqina to Andkhoy and Sheberghan, and distributive networks in Logar, Gardez, Khost provinces and Zadran Area, with Code No AFG / 830026, a 500 KV substation project, Dasht-e-Alwan of Pul-e-Khumri Town, and a transmission line of 500 KV to Arghandi and a 500 KV Substation in Arghandi with Code No AFG / 830032, and the electricity transmission project from Dushi to Bamiyan and its network for electricity supply to central areas with code No AFG / 830040 related to Da Brishna Shirkat.
  - 2.5. Afs 695,240,000 of the Telecommunication Development Fund for the project of the Realtime Telecommunications Information System with code No AFG / 340107 of the Ministry of Communications and IT.
  - 2.6. Afs 12,301,200 of (USAID) for the Afghanistan Information Technology Expansion Project (Electronic-Governance) with code No AFG / 340015 related to the Ministry of Communications and IT.
  - 2.7. Afs 49,537,684 of Japan's Aid for the project of basic repairing and equipping the Building of Central Stadium of Kabul with code No AFG / 630043 related to the Football Federation.
  - 2.8. Afs 68,340,000 of the ARTF for the AREDP project with code No (AFG / 430236) related to Ministry of Rural Rehabilitation and Development.
  - 2.9. Afs 6,834,000 (USAID) grants under the new project supporting the implementation of performance improvement plans and financial reform with code No AFG / 200285 related to Ministry of Finance.
  - 2.10 Afs 122,732,757 loans of Islamic Development Bank for the project of Extension and Transmission of 220 KV lines from the Border of Tajikistan to Kunduz and Pul-e-Khumri, including Kunduz and Baghlan substations with code No AFG / 410138 related to the Ministry of Energy and Water.
3. In accordance with the Decision No. 7 Dated 3.5.1397 of the Cabinet of the Islamic Republic of Afghanistan, the following amounts have been approved as Development Budget

supplement and the National Assembly (Wolesi Jirga) the relevant information was conveyed through Letter No GBDO-1838 dated 13.5.1397:

- 3.1. Afs 95,676,000 from Afghanistan Reconstruction Trust Fund (ARTF) for the Modernization Project of Governmental Banks with code No AFG / 200281 related to Ministry of Finance.
  - 3.2. Afs 10,000,000 of Islamic Development Bank loan for the project of design and construction of the Kabul Circular/Ring Road of the length of 117 square kilometers with code No AFG / 420167 related to the Ministry of Public Works.
  - 3.3. Afs USD 330,502,000 of the World Bank's Grants (ARTF) for the Project of Higher Education Development Program (HEDP) with code No AFG / 280271 and the Technical and Operating Support Program with code No AFG / 280277 related to Ministry of Higher Education.
  - 3.4. Afs 696,800,000 of Afghanistan Reconstruction Trust Fund grants for Kabul City Transportation System Development Project with code No AFG / 790005 related to Kabul Municipality.
  - 3.5. Afs 1,001,117,307 of the Afghanistan Reconstruction Trust Fund grants to the Capacity Development Project for Improvement of the performances of the Governmental Entities (CBR) with code No AFG / 620163 related to the Independent Administrative Reform and Civil Service Commission.
  - 3.6. Afs 9,000,000 for the project management of fruit harvesting and value adding project in SAARC countries with code No AFG / 390716 (on the basis of letter No 1276 dated 22.1.1397 of the Ministry of Agriculture, Irrigation and Livestock).
  - 3.7. Afs 2,050,200,000 of the ADB's Grants to eight projects of the Ministry of Public Works.
  - 3.8. Afs 3,663,024,000 of the World Bank 's Grants, Afghanistan Reconstruction Trust Fund and Global Financial Facilities to the Health Project of Ministry of Public Health with code No. AFG / 370879.
  - 3.9. Afs 160,000,000 of the commitment of donors (England, USA and Korea) through the UNDP to the Secretariat of Financial Evaluation Committee of High Peace Council and Reintegration Project with code No AFG / 200227 related to Ministry of Finance.
4. In accordance to the Decision No. 12 dated 11.7.1397 of the Cabinet of the Islamic Republic of Afghanistan, the following amounts have been added to the Development Budget as supplement of the budget for the fiscal year 1397 and the National Assembly (Wolesi Jirga) has been informed through Letter No GBDO-2283 dated 22.7.1397:
- 4.1. Afs 917,332,111 has been added to the following projects of the Ministry of Energy and Water:
    - 4.1.1 Afs 546,720,000 of Afghanistan Reconstruction Trust Fund Grants for the Rehabilitation and Development of Irrigation System in Afghanistan with code No AFG / 410074.

- 4.1.2 Afs 27,336,000 of the ADB Grants to the Investment Program of Water Resources Development Project with code No AFG / 410391.
  - 4.1.3 Afs 63,556,200 of ADB Grants to the Reconstruction Project of the Channels of Shahrawan and Archi of Kunduz and Takhar Provinces with code No AFG / 410654.
  - 4.1.4 Afs 54,672,000 of ADB Grants to the Amu Five Sea Project with code No (AFG / 410768).
  - 4.1.5 Afs 225,047,911 of Islamic Development Bank Grants to the Water Resources Management Project in the West Zone with code No AFG / 410038.
  - 4.1.6 Afs 7,313,128 of World Bank Grants to the (NATEJA) Project of the Ministry of Labour and Social Affairs with code No AFG / 470212.
  - 4.2. Afs 102,510,000 of the World Bank's Grants under the new project (National Program for the Economic Empowerment of Rural Women) with code No AFG / 430487 related to the Ministry of Rural Rehabilitation and Development. (The said amount has been executed as "Bridge / Retroactive Financing" from a Discretionary budget and then reimbursed through the World Bank).
  - 4.3. Afs 431,081,000 has been added to the following projects of the Ministry of Agriculture, Irrigation and Livestock:
    - 4.3.1 Afs 170,850,000 of International Agriculture Development Grants to the Agriculture and Livestock Program with the engagement of People code No AFG / 390711.
    - 4.3.2 Afs 150,348,000 of the ARTF Grants to the Water Arrangement Project in the Farms with code No (AFG / 390598).
    - 4.3.3 Afs 68,000,000 of ARTF Grants to Afghanistan Agricultural Production Inputs Project with code No (AFG / 390596).
    - 4.3.4 Afs 41,883,000 of Italy's Grants to the Support to Agriculture and Rural Development Project in the West Zone with code No AFG / 390659.
  - 4.4. Afs 382,704,000 of Afghanistan Reconstruction Trust Fund Grants to Kabul Municipality Development Program with code No (AFG / 790087) related to Kabul Municipality.
  - 4.5. Afs 165,558,590 of Italy's Grants to the National Rural Access Programme with code No (AFG / 420106) related to Ministry of Public Works.
  5. According to the Decision No. 13 Dated 2.8.1397 of the Cabinet of the Islamic Republic of Afghanistan, Afs 1,043,689,689, new grants have been approved for the following projects and the information was sent to the National Assembly (Wolesi Jirga) through Letter No GBDO-2522 dated 16.8.1397:
    - 5.1. Afs 447,248,900 of ADB's Grants to the Sheberghan Gas Well Development Project with code No AFG / 320022 related to the Ministry of Mines and Petroleum.
-

- 5.2. Afs 22,551,000 of the World Bank's Grants to Afghanistan Extractive Industries Transparency Initiative with code No (AFG / 200230) related to the Ministry of Finance.
- 5.3. Afs 205,020,000 of the World Bank Grants to development Contingency Code for Financial Sector Rapid Response Project of the Da Afghanistan Bank with code No 910056.
- 5.4. Afs 368,869,789 of the World Bank's Grants to the Expenditure Reform and Financial Sector Performance Project with code No AFG / 200283 related to Ministry of Finance.

In addition, according to the aforementioned Decision Number, an Afs 4,058,543,133 has been reduced from discretionary Development Budget of a number of agencies and have been added to the following Projects. The increase of the said funds has been prioritized for the short-term projects:

- Afs 1,000,000,000 for the Project AFG / 370879 of Ministry of Public Health for implementation of financial support program for female and male patients in the center and in provinces.
  - Afs 140,000,000 for the project AFG / 370135 of the Ministry of Public Health for the activation of Dasht Barchi Hospital and Kabul Province Hospital.
  - Afs 180,000,000 for the project AFG / 430063 of Ministry of Rural Rehabilitation and Development for implementation of water supply program.
  - Afs 2,000,000,000 for the project AFG / 130180 of the Operating and Supporting Unit of the Administrative Office of the President for the purpose of transfer to Banaiee company.
  - Afs 500,000,000 for the project AFG / 410257 of the Ministry of Energy and Water for the implementation of the gabion project.
  - Afs 238,500,000 for the project AFG / 420106 of the Ministry of Public Works for Completion of (NRAP) Project.
6. According to the Decision No. (14) dated 16.8.1397 of the Cabinet of the Islamic Republic of Afghanistan, a total of Afs 2,549,565,703 new grants have been approved for the Development Budget of FY 1397 and the information has been sent to the National Assembly (Wolesi Jirga) through Letter No GBDO-2608 dated 27/8/1397:
    - 6.1. Afs 1,495,867,189 New Grants of Asian Development Bank, World Bank and Afghanistan Reconstruction Trust Fund for the following projects of the Ministry of Public Works:
      - 6.1.1 Afs 13,668,000 of ADB Grants to the Project of Road Construction from Dra-e Souf to Yakawlang of the length of 180 km with code No AFN / 420064.
      - 6.1.2 Afs 341,700,000 of ADB Grants for the project of Road construction Qaisar - Bala Murghaab- Laman, in length 232 km with code No AFN / 240105.

- 6.1.3 Afs 329,054,913 of ADB Grants for the Design and Construction of Feyzabad - Eshkasham Road in length of 150 km with code No AFG / 420164.
- 6.1.4 Afs 59,524,140 of ADB Grants to the Jabal al-Saraji - Sarubi road construction project for 101 km with code No AFN / 420165.
- 6.1.5 Afs 41,004,000 of ADB Grants for the 33-km-long Road construction Project from Chah-Anjeer to Greshk with code No AFG / 420347.
- 6.1.6 Afs 375,230,953 of ADB Grants for the 50km Road Construction Project from Angor Ada to Sharana with code No AFG / 420348.
- 6.1.7 Afs 25,285,800 of ADB Grants for the Kabul-Jalal Abad Road Maintenance Project with code No AFG / 420445.
- 6.1.8 Afs 16,753,141 of ADB Grants for the Project of the Roads Management System Establishment with code No AFG / 420531.
- 6.1.9 Afs 225,646,242 of World Bank Grants for the Trans - Hindu Kush Road Connectivity Project with code No AFG / 420377.
- 6.1.10 Afs 68,000,000 of Afghanistan Reconstruction Trust Fund Grants for the National Rural Access Programme with code No AFG / 420106.
- 6.2. Afs 68,340,000 of World Bank's Grants for the Afghanistan Cities Development Project with code No AFG / 420106 related to Ministry of Urban Development and Housing.
- 6.3. Afs 881,960,298 has been added to the following projects of the Ministry of Public Health:
  - 6.3.1 Afs 27,710,298 of the International Section of Enforcement of the Counter Narcotics Law to the Project of Establishment of Rehabilitation Centers for Drug Addicts in Provinces with Code No AFG / 370233.
  - 6.3.2 Afs 854,250,000 of the Afghanistan Reconstruction Trust Fund Grants to Health Project with code No AFG / 370879.
- 6.4. Afs 41,004,000 received from the Peoples' Republic of China for the Project of Chinese Aid for the Ministry of Foreign Affairs with code No AFG / 230069.
- 6.5. Afs 12,394,216 of the World Bank Grants to a new project for facilitating going of Workers Abroad and for work opportunities in the Country (Placed + y) related to Ministry of Labor and Social Affairs.
- 6.6. Afs 50,000,000 of Grants of United States, England, and Korea for the Project of Secretariat of Financial Evaluation Committee of High Peace Council and Reintegration, with code No AFG / 200227 related the Ministry of Finance.
- 7. In accordance with the Decision No. 15 dated 1.9.1397 of the Cabinet of the Islamic Republic of Afghanistan, a total of Afs 5,369,600,024 new Grants of Donors have been added to the following projects as Budget Supplement:

- 7.1. Afs 5,327,932,648 of ADB Grants to the following projects of Da Brishna Shirkat:
- 7.1.1 Afs 1,719,441,166 to the 500kV Power transmission project from Aqina to Andkhoy and Sheberghan and distributive networks in Logar, Gardez, Khost, and Zadran Area with code No AFN / 830026.
- 7.1.2 Afs 3,280,320,000 to 500 KV substation project in Dasht-e-Alwan of Pul-e-Khumri Town and, 500 kV Power transmission Line to Arghandi and Substation of Arghandi with code No AFG / 830032.
- 7.1.3 Afs 328,171,482 for the project of extension of 500 kV transmission line from Sheberghan to Dasht-e-Alwan extension of the transmission line from Sheberghan to Pole-Khomri Dasht-e-Alwan and extension of 220 kv transmission line from Sheberghan to Andkhoy with code No AFG / 830036.
- 7.2. Afs 41,667,376 for the Extractive Preparedness Project for the Development of Afghanistan with code No AFG / 360281 related to the Ministry of Information and Culture.

Based on the above, a total of Afs 32,782,499,627 Development Budget in the Qatia Statement for FY 1397 was increase and Afs 10,215,537,899 as decrease of Budget supplement have been recorded that shows a net increase of Afs 22,566,961,728. This increase represents about 20% of the total original development budget of the fiscal year 1397.

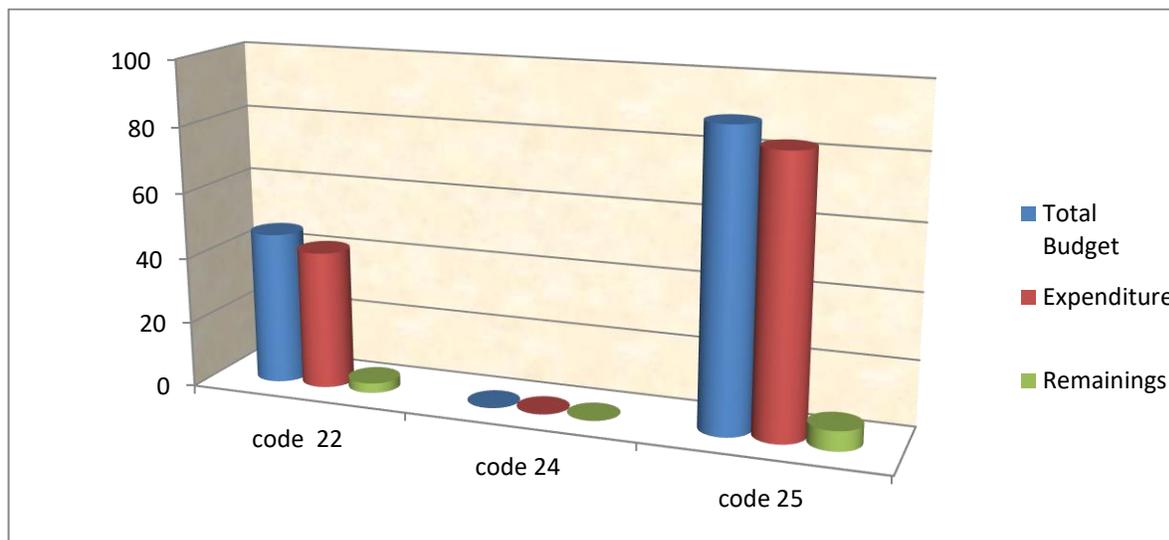
Afs 126,072,923,360 expenditure of Development Budget for FY 1397 has been spent in three codes, code No 22 (use of goods and services), Code No 24 (subsidies, grants and social benefits) and code No 25 (acquisition of assets). According to the Qatia Statement, the share of expenditures of Development Budget in the above mentioned codes is as follow:

Code	Total Budget after amendments	Percentage of quota of codes in total budget	Total Expenditures	Remaining	Realization Percentage	Percentage of quota of codes in total expenditures
22	46.339.848.163	34.13	42.859.127.434	3.480.720.728	92.50	34.00
24	100.560.970	0.07	100.560.970	-	100	0.08
25	89.310.015.379	65.80	83.113.234.956	6.196.780.423	93.06	65.92
<b>Total</b>	<b>135.750.424.512</b>	<b>100</b>	<b>126.072.923.360</b>	<b>9.677.501.151</b>	<b>92.87</b>	<b>100</b>

According to table above, from Afs 135,750,424,512 of the total Development Budget of FY 1397, an amount of Afs 46,339,848,163 or 34.13% has been allocated to code No 22, Afs 100,560,970 or 0.07% to code No 24 and Afs 89,310,015,379 or 65.8% to code No 25. From Afs

126,072,923,360 development expenditure of FY 1397, about 34% is related to code No 22 purchase, goods and services, 0.08% is related to code No 24 subsidies, grants and social benefits, and 65.92% is related to code No 25 acquisition of assets, construction affairs, repairs and equipment purchases.

Table5.2: Status of realization of Development Budget of FY 1397 in the codes 22, 24 and 25



The Development Budget expenditure details for FY 1397 in the relevant chapters of codes 22, 24 and 25 are explained in the table below:

Code	Chapters	Description	Expenditures of FY 1397	Total	Percentage of quota of codes in Total Expenditure	Percentage of quota of chapters in the related codes	Percentage of quota of chapters in Total Expenditures
22	221	Travel claim	548.335.489	42.859.127.434	34.00	1.28	
	222	Food	28.358.120			0.06	
	223	Contractor Services	34.005.225.922			79.34	
	224	Maintenance	540.883.710			1.26	
	225	Usage of resources	128.300.650			0.30	
	226	Lubrications	116.541.829			0.27	
	227	Tools and Equipment	3.671.674.347			8.567	
	228	Other Expenditures	499.917.454			1.16	
	229	Advances and return of expenditures	3.319.889.909			7.74	
24	245	Current Grants of other Governmental Entities	100.560.970	100.560.970	0.08	100	
	251	Buildings and Constructions	52.881.485.457			63.63	

25	252	Machinery and Equipment	22.975.753.191	83.113.234.956	65.92	27.64	
	257	Valuable Goods	496.000			0.001	
	258	Land	1.329.900			0.002	
	259	Advance payments, assets and returning	7.254.170.407			8.73	
Total			126.072.923.360	126.072.923.360	100		

According to the table above, out of Afs 42,859,127,434 of the Budget Expenditure in code 22 of goods and services, Afs 34,005,225,922 or about 79.34% and 27% the total development budget expenditures has been spent in code No 223 for the Contracted Services, which includes development budgets for consultancy firms, individual consultants, NGO services, project management and administrative fees, general expenses, food expenses, repairs and maintenance, consultant salaries, etc.

Afs 3,671,674,347 or about 8.567% of code No 22 and 3% of the total developmental budget expenditure has been spent in code No 227 of (tools and materials) including medical and laboratory supplies, Office equipment, Furniture, house and Kitchen equipment and appliances, books and agricultural supplies, etc.

Afs 3,319,889,909 or 7.74% of code No 22 and 2.6% of total development budget expenditures has been reflected in code No 229 of (Advances and Returning Expenditures) which includes advance payments for goods and services, Advances of Letter of Credit, currency difference and return on goods and expenditure services.

Similarly, in Code No 25 of (acquisition of assets) from the amount of Afs 83.113.234.956 of total expenditure of the said code, Afs 52.881.485.457 has been registered as the expenditure of Code No 251 of (buildings and structures), which covers about 63.63% of the code No 25 and 42% of total development budget expenditures, including acquisition, construction and repairing of houses, construction and repair of roads and the water supply system, etc.,

Afs 22,975,753,191 in code No 252 (Machinery and Equipment), which covers about 27.64% of code No 25 and 18% of total development Budget expenditure, including vehicles and construction equipment, communication equipment, energy equipment, collective intelligence Equipment, Extraction of Mines, office equipment, agriculture equipment, computer equipment, water supply and sanitation equipment and etc.

Similarly, Afs 7,254,170,407 which covers about 9% of Code No 25 and 6% of the total development budget Expenditures, spent in code No 259 of (Advance Payment / Returns), includes advance payment of asset, advances of Letter of credit of acquisition of asset, currency differences, and return of asset expenditures.

Since the recording of the transactions in the AFMIS occur in the codes and main chapters, the limits of Development Budget Expenditures were not clear for subordinate codes.

According to information provided by the General Treasury Directorate, Afs 126,072,923,360 of the total development expenditures for FY 1397 include, Afs 72,239,109,190 as discretionary grants, Afs 52,933,308,772 as non-discretionary grants and Afs 900,505,398 from the loans.

However, Afs 10 billion has been approved from the Treasury cash reserves for financing the Development Budget in the original Budget Document of the year and the mid-year review. No specific information was provided by the General Treasury Directorate about what percentage of the Development Budget has been covered by the treasury cash reserves.

According to the information provided by the Directorate, out of Afs 62,779,478,321 of the total discretionary fund, including Afs 10 billion treasury cash reserves and Afs 2,748,341,677 of Opening Balance of the year 1397, Afs 52,933,308,772 has been spent. However, what portion of the spending has been covered out of the Opening Balance and the Treasury Opening Cash Balance is not clear.

The Treasury General Directorate has noted that “according to the recoding in the AFMIS system and the existing documents, that it is not possible to trace payments separately from the different sources.

Comparison of the original approved Budget, expenditure and the remaining of the Development fund from 1388 until 1397 has been presented in below table: -

<b>Table 5.11.: Comparison of Development Budget Expenditures from 1388 to 1397 (Figures are in billion Afs)</b>					
Year	Total Budget after amendments	Expenditure	Remaining	Percentage of Expenditure	Percentage of No Expenditure
1388	119.388	43.991	75.397	36.84	63.16
1389	111.366	43.381	67.984	38.95	61.05
1390	100.698	49.796	50.901	49.45	50.55
1391	105.833	53.593	52.240	50.6	49.4
1392	140.194	80.152	60.041	57.17	42.83
1393	158.572	72.648	85.924	45.81	54.19
1394	152.079	82.908	69.171	54.52	45.48
1395	172.326	93.691	78.433	54.5	45.5
1396	152.750	102.861	49.889	67.34	32.66
1397	135.750	126.072	9.677	92.87	7.13

The above table shows that the implementation of the development budget from 1388-1392 was 36.84% to 57%, but again in 1393 decreased to 45.81%. In 1394 and 1395, it reached about 54.5% and in 1396, it reached 67.34%. However, it increased to 93% in FY 1397, which shows a significant leap in the development budget implementation compared to previous years. Meanwhile, the total development budget in absolute terms has decreased from Afs 172.326 billion in fiscal year 1395 to Afs 152.750 billion in fiscal year 1396 and to Afs 135.750 billion in fiscal 1397.

According to the National Budget of FY 1397 (fiscal year original budget document), the total number of the projects approved for 1397 were 705, of which 649 were transitional projects and 56 new projects (although 56 projects at the pages 39-42 of the budget document were known as new projects for the fiscal year 1397, they have been listed at the pages 110-178 of the budget document in the list of Development Budget projects of 1397, but starting date of the above mentioned projects has been mentioned 1396, as such the new projects and transitional projects are not specified in the budget document.)

With regard to the Qatia Statement of the development budget expenditures, the total projects listed in the Qatia Statement are 741, of which 8 projects related to the Chief of Staff of President's Office, have been transferred to the Administrative Office of the President on the basis of amendments. Excludign these, the number of projects included in the Qatia Statement was 733 projects.

In addition, 705 Projects have been recorded in the Qatia Statement from the from the original budget document of the FY 1397, and 28 new projects have been included to Budget and Qatia Statement during the fiscal year as a result of a mid-year review, amendments from codes and the supplement of the development budget. 73 projects have been excluded and removed from the Budget Document on the basis of the amendments, the changes of mid-year review and development budget supplement. After exclusion of these, the total eligible projects are 660 in Qatia Statement.

For the 660 projects, the budget (the total budget after amendment within a year) was as follow: for 69 projects Afs 10 to 100,000 and for 5 projects Afs 100,001 to 500,000, for 13 Projects Afs 500,001 to one million and for 573 projects more than one million Afs.

## Findings of the Audit results of FY1397 Development Budget Qatia Statement

### 1. The Projects with zero Expenditure within two consecutive years and the projects with consumption of less than 50% budget

It is stated in Article 20 of Budget Execution Rules / Manuals of FY 1397 that "the Projects which have not made any progress after two years will be removed from the list after being submitted to the Budget Committee unless the Entities can justify reasons for the lack of progress or limited progress. Alternatively, the remaining figures in the budget document are included to the payments of installments for project execution. "

According to the documents related to 23 projects, which are discretionary, they had no activity during two consecutive years and their consumption was reported zero. Of which, 16 projects have been carried forward in the budget of FY1398, the details of which are given in the table below.

No	Code	Description of Project	Project Code	Year	Main approval	Grand total	Total Expenditure	Budget of FY 1398
1	24	Repairing the central mosque in Urgoon district of Paktia	240089	1396	8,183,313.00	8,461,564.00	0	7.000.000
				1397	6,834,000.00	834,000.00	0	
2	26	Construction of Central Prison Hospital	260335	1396	33,500,000.00	76,648.00	0	-
				1397	13,668,000.00	13,668,000.00	0	
3	27	Literacy and Basic Education	270739	1396	1,447,494,197.00	1,447,440,597.00	0	15.887.334
				1397	1,163,280,000.00	1,700,000.00	0	
4	27	Construction of Teacher Training Center and Hostel in Herat Shindand District	270758	1396	44,286,732.00	21,506,732.00	0	30.000.000
				1397	10,000,000.00	13,944,412.00	0	
5	27	Printing Text books for Daruloloom, Madrasas and Darulhifaaaz	270882	1396	26,800,000.00	23,852,000.00	0	-
				1397	5,000,000.00	2,000,000.00	0	
6	27	Completion of the remaining projects of uncompleted Schools (EQUIP)	270896	1396	-	50,250,000.00	-	50.000.000
				1397	100,000,000.00	552,784.00	0	
7	28	Construction and purchasing of Equipment for Balkh University (North Zone)	280015	1396	812,308.00	18,224.00	0	1.000.000
				1397	2,000,000.00	50,000.00	0	
8	28	Purchasing of tools and Equipment for heart Operation (Angiography and Angioplasty) for Heart Research Center Kabul Medical University	280106	1396	187,478,998.00	20,170,350.00	0	100.000.000
				1397	150,000,000.00	100,000.00	0	
9	28	Construction of Establishment and	280244	1396	3,292,045.00	3,433,482.00	0	500.000

		purchasing of Equipment for Parwan University		1397	1,000,000.00	1,000,000.00	0	
10	37	Construction of 30 beds Hospital in Waras District of Bamyān Province	370406	1395	35,471,073.00	27,431,073.00	0	7.440.000
				1396	54,231,073.00	27,431,073.00	0	
				1397	34,170,000.00	1,336,000.00	0	
11	42	Construction of Taluqān-Aay knanum-rustaḡ Road with length of 187KM	420120	1395	1,584,215.00	1,584,215.00	0	100.571.839
				1396	21,684,215.00	244,215.00	0	
				1397	67,500,000.00	10,000.00	0	
12	42	Design and Construction of Kabul Circular Road with length of 117 KM	420167	1396	479,492,870.00	40,870.00	0	25.000.000
				1397	167,500,000.00	10,000,000.00	0	
13	42	To asphalt Roads in Taluqān City	420323	1396	14,070,000.00	1,383,952.00	0	8.446.480
				1397	81,740,000.00	43,943.00	0	
	42	Construction of 20 KM Roads in Kapisa Province (out of Ghacholan vally kalahoot )	420447	1396	26,800,000.00	335,000.00	0	-
				1397	13,400,000.00	100,000.00	0	
14	44	Construction of Ghazni regional Airport	440170	1396	7,722,353.00	7,666,341.00	0	-
				1397	12,550,000.00	1,585,010.00	0	
15	44	Construction of surrounding wall, design, and construction of new airport in the back of Ghazi Amanullah Khan town in Nangarhar	440215	1396	107,951,070.00	43,261,096.00	0	10.000.000
				1397	6,700,000.00	6,700,000.00	0	
16	44	Survey of technical design and construction of International Airport in Logar province	440222	1396	67,000,000.00	59,630,000.00	0	10.000.000
				1397	13,400,000.00	341,937.00	0	
17	44	Establishment of New Radar System	440223	1396	134,000,000.00	60,987,889.00	0	10.000.000
				1397	67,000,000.00	100,000.00	0	
18	44	Establish new runway in Oruzgan Province	440225	1396	33,500,000.00	29,815,000.00	0	-
				1397	19,250,000.00	4,224,250.00	0	
19	44	Construction of Tower, firefighting station near the runway in the Airport of Farah Province	440227	1396	-	6,700,000.00	0	-
				1397	6,700,000.00	1,470,790.00	0	
20	63	Construction of gymnasium for Disabled people	630029	1396	19,123,542.00	17,783,542.00	0	-
				1397	10,000,000.00	10,000,000.00	0	
21	79	Asphalting the road of protection and special operation Battalion of MoF	790093	1396	26,513,776.00	26,513,776.00	0	90.000.000
				1397	6,700,000.00	6,700,000.00	0	
22	82	Research of primary Survey of design and starting the Jalal Abad ,Mazar and Herat city sewerage system and review of sewerage system in Kabul city	820019	1396	33,500,000.00	29,815,000.00	0	14.000.000
				1397	6,800,000.00	800,000.00	0	

23	83	Transformation of power from Jablussaraj substation to Ghorband District of Parwan Province	830034	1396	33,500,000.00	29,815,000.00	0	
				1397	20,000,000.00	20,000,000.00	0	

According to the Development Budget Qatia Statement, expenditure in 29 other projects was reported less than 50%, details are given in the table below:

No	Code	Entity Name	Project description	Project Code	Grand total	Total expenditure	Percentage of Expenditure
1	12	National Assembly	Construction of surveillance and security Towers of in the New Parliament Building	120036	6,834,000	1,557,825	22.79
2	13	Administrative office of the President	Support from the strategic relationship of Presidential Palace	130175	2,400,000	603,000	25.12
3	16	RTA	Lightening the Dark areas of Pulecharkhi , Asmayee mountain, Yakatoot area and Ansari watt	160021	4,284,252	1,650,000	38.518
4	20	MoF	For private and public partnership (Project Development Fund)	200276	85,418,376	17,856,399	20.90
5	21	State Ministry in the Parliamentary	Improvement of Entity, Capacity building and public awareness	210011	20,000,000	7,545,596	37.72
6	26	Ministry of Interior Affairs	Construction of Oil Reservoirs in the Provinces	260338	8,633,555	2,502,486	28.98
7	27	Ministry of Education	Reconstruction and repairing the Teacher Training Center of Sayed Jamaluddin Afghan in Kabul	270773	4,869,156	310,726	6.38
8			Codification of Educational Curriculum Development , compilation and printing of Text Books	270875	8,804,416	2,926,150	33.23
9	28	Ministry of Higher Education	Construction of establishment and purchasing equipment for Kabul Poly technic University.	280132	7,193,164	1,593,164	22.15
10			Development Scientific Research Programs quality Development	280309	22,158,321	10,392,919	46.90
11	34	Ministry of Communication and Information Technology	Payment of salaries via Mobile phone	340115	27,645,385	11,405,286	41.25
12	37	Ministry of Public Health	Wazir Akbar khan Hospital Water supply and sewerage system and construction of Khwaja Jam clinic in Paghman District	370838	14,633,603	3,981,826	27.21

13			Construction of 11 BHC and 2 CHC in the Border Provinces	370319	6,880,970	2,479,521	36.03
14			Construction of Hospital in Rodaat District, deh bala district and shirzad hesarak District of Nangarhar Province	370840	48,336,000	21,747,451	44.99
15			Construction of injection solutions Factory	370769	31,336,000	15,193,191	48.48
16			Construction of Building of equipping the Janikhil District clinic	370801	4,731,400	2,327,220	49.18
17	39	Ministry of Irrigation , Agriculture and Livestock	Livestock development Project (Fish farming and artificial insemination )	390684	8,300,000	3,108,139	37.44
18			Construction and Rehabilitation of Strategic storages for Wheat.	390624	147,000,000	65,909,768	44.83
19	41	Ministry of Energy and Water	Design and construction of Water and Power Dam of Machalghoo in Paktia Province	410254	1,877,402	787,486	41.94
20			Design and Construction of water dam in Almar District of Faryab Province	410399	1,753,770	768,000	43.79
21	42	Ministry of Public Work	Construction of Bamyan-Kabul Road with length of 140KM	420022	16,000,000	6,957,342	43.48
22	44	Afghanistan Civil Aviation Authority	Construction of Local Airport in Nimroz Province	440140	34,897,450	8,750,000	25.07
23			Reconstruction, Development and repairing the terminal of Kandahar Airport	440164	20,193,525	7,209,023	35.69
24	46	Ministry of Borders and Tribal Affairs	Construction of Buildings for Administrative Affairs in the Provinces	460033	11,300,000	4,385,265	38.80
25			Construction of Educational Complex of Khushal khan High school	460048	40,560,000	20,187,955	49.77
26	49	Ministry of Urban Development and Housing	Training and Human Resources Center Project of Urban Development	490317	10,212,987	5,102,009	49.95
27	61	Academy of Sciences of Afghanistan	Completion of Medical Science Research Laboratory Equipment	610058	8,665,188	462,639	5.33
28	82	Water supply and Sewerage Company	Provide Drinking Water for City of Shebeghan, Jawzjan and Takhta pul of Mazaresharif	820011	1,053,212	347,880	33.03
29	84	Independent Entity of Capital Zone	Establishment of Closed Locations/Areas	840022	42,159,462	6,687,462	15.86

According to above, expenditure in 23 projects was zero for two consecutive years, of which 16 projects have been transferred to the coming year's budget and 29 projects had no desired activity and their expenditure has been reported less than fifty percent as well.

Since most of the development budget expenditure is funded through external sources (mostly Grants and a small portion from Loans), therefore, not using development Budget due to any reason, will lead to balances remaining unused in donors' accounts and the opportunities of using this fund be lost. It is possible that due to not spending of Development Budget in a specific time, the donors may withdraw the committed funds in the future. In addition, not spending development budget has resulted in projects not being implemented, especially infrastructure projects, or incomplete half-finished projects, preventing the government from achieving the set goals that will have adverse consequences for the government and the people of the country.

## **2. Non-adjustment of Advances**

Article 38 of the Budget Execution Regulation of FY 1397 about the adjustment of Advances requires that all budgetary units are required to adjust their advance payments by the end of the fiscal year.

In addition, it is stated in Article 51 of the Budget Regulation that, "The Budget Execution Guidelines approved by the Wolesi Jirga with the budget document, shall be regarded as law, and any controversial action against the Manual shall be considered violation of the law."

According to the Qatia Statement - Development Budget Expenditures of FY1397, the pending balances of M90 form and information provided by the General Treasury Directorate, a large amount of advances have not been returned or adjusted from the previous years to the end of FY1397, which can be described as follow:

### **1. Un-adjusted advances of FY1397**

According to the Qatia Statement of Development Budget Expenditures of FY 1397, a total of Afs 5,099,423,189 was paid as advances, of which Afs 899,984,665 has been accounted for till the preparation of the Qatia Statement and Afs 4,199,438,524 or about 82%, advances have remained un-adjusted with 28 budget units.

### **2. The previous unadjusted balances of 1381-1396**

- 2.1. The total un-adjusted advances of FY 1396 have been recorded as Afs 7,474,134,965 in the Qatia Statement audit report for year 1396, based on the documents and information provided by the General Treasury Directorate, in FY 1397, Afs 6,574,740,532 has been collected and Afs 899,394,433 has remained un-adjusted.
- 2.2. The total amount of un-adjusted balances of FY 1395 were Afs 1,240,690,487 in FY 1397. Of this, Afs 1,121,123,262 has been adjusted and Afs 119,567,225 remained un-adjusted.
- 2.3. The total advances remaining unadjusted for FY 1394 were Afs 116,834,384 in FY 1397, of which Afs 25,724,528 has been adjusted and Afs 91,109,856 remained un-adjusted.

2.4. The total advances remaining unadjusted for FY1393 were Afs 31,969,493 in FY1397, of which Afs 20,595,496 has been collected and Afs 11,373,997 remained un-adjusted.

2.5. The total advances under Development Budget remaining un-adjusted for the years 1381- 1392 were Afs 662,611,580 in 1397 as recorded in the Qatia Statement Report , of which Afs 336,515,019 has been collected and the amount of Afs 326,096,561 remained un-adjusted against certain agencies.

The details of unadjusted advances for the years 1381-1396 and total un-adjusted advances under the development budget are described in the table below:

No	Ministry/Entity	Years (Figures in Afs)					The total remaining of 1381-1396	Non-adjusted Advances of FY1397
		1396	1395	1394	1393	1381-1392		
1	Office of the President	-	-	-	-	7.767.860	7.767.860	-
2	Ministry of Foreign Affairs	345.762.211	29.351.641	-	1.000.000	31.316.015	407.429.867	829.438.540
3	General Administrative office of the President	5.290.232	-	-	-	-	5.290.232	5.145.429
4	MoF	250.764.850	56.109.233	5.418.605	2.012.112	190.182.412	504.487.212	18.734.535
5	Ministry of Education	93.501.492	906.422	820.688	7.999.793	3.475.000	106.703.395	2.316.844
6	Ministry of Rural Rehabilitation and Development	1.406	-	-	-	-	1.406	364046.520
7	Ministry of Culture and Information	2.350	160.355	-	33.143	1.923.571	2.119.419	8.450.000
8	Upper House /Meshrano Jirga	-	-	-	-	3.473.328	3.473.328	-
9	Ministry of Justice	-	-	-	3.265	-	3.265	-
10	Independent Directorate of Local Governance	-	118.080	4.254	-	-	122.334	14.665.723
11	Ministry of Economy	-	-	-	-	23.597	23.597	1.222.000
12	Ministry of Transportation	-	-	-	-	52.904	52.904	-
13	Ministry of Refugees and repatriations	8.880.227	-	-	-	488.811	9.369.038	2.388.700
14	Ministry of Interior Affairs	29.249.300	-	-	1.137	138.256	29.388.693	1.425.534
15	Ministry of National Defense	-	-	-	-	63.437.754	63.437.754	-
16	Ministry of Energy and Water	13.690.675	29.968.992	-	-	148.602	43.808.269	545.987.437
17	Ministry of Public Work	115.383.635	-	-	-	-	115.383.635	413.831
18	Ministry of Communication and Information Technology	19.457.790	-	-	-	-	19.457.790	494.600.679
19	Ministry of Irrigation, Agriculture and Livestock	6.742.312	-	-	-	1.513.854	8.256.166	2.465.725
20	Ministry of Public Health	-	-	-	-	3.873.845	3.873.845	52.758.225
21	Ministry of Borders and Tribes	-	-	-	-	4.760.372	4.760.372	-
22	Civil Aviation Authority	-	-	84.571.365	-	731.400	85.302.765	-
23	Ministry of Mines and Petroleum	8.948.230	2.950.731	294.944	324.544	12.788.950	25.307.399	2.615.189
24	DABS /Da Afghanistan Brishna Shirkat	1.719.723	1.770	-	-	-	1.721.493	400.000
25	Ministry of commerce and Industry	-	-	-	-	-	-	39.175.853
26	Ministry of Higher Education	-	-	-	-	-	-	29.955
27	Ministry of Labour and Social Affairs	-	-	-	-	-	-	36.225.679
28	Ministry of Counter Narcotics	-	-	-	-	-	-	278.594
29	Ministry of Urban Development and Housing	-	-	-	-	-	-	317.464

30	Afghanistan National Standard Authority	-	-	-	-	-	-	23,099.230
31	National Environmental Protection Agency	-	-	-	-	-	-	2,128.666
32	Central Statistical Office	-	-	-	-	-	-	1,300,048.187
33	Independent Directorate of Kuchis (Nomad)	-	-	-	-	-	-	3,044.700
34	facility for supporting micro financing resources Authority	-	-	-	-	-	-	222,674.766
35	Afghanistan Railway Authority	-	-	-	-	-	-	225,339.873
<b>Total Remaining</b>		899,394.433	119,567.225	91,109.856	11,373.997	326,096,561	1,447,542.038	4,199,438.524

The results of audit for the fiscal year 1397 show that the following pending amounts have been collected and adjusted - Afs 6,574,740,532 relating to the fiscal year 1396; Afs 1,121,123,262 relating to the fiscal year 1395; Afs 25,724,528 relating to the fiscal year 1394; Afs 20,595,496 relating to the fiscal year 1393 and Afs 336,515,019 relating to the fiscal years 1381-1392, a total of Afs 8,078,698,837.

However, as it is observed, the following amounts remained un-adjusted contrary to the Budget Execution Rules/Guidelines and related regulations / circular of the Ministry of Finance - Afs 4,199,438,524 of the fiscal year 1397; Afs 899,394,433 of the fiscal year 1396; Afs 119,567,225 of the fiscal year 1395; Afs 91,109,856 of the fiscal year 1394; Afs 11,373,997 of fiscal year 1393 and Afs 326,096,561 of the fiscal years 1381-1392, a total of Afs 5,646,980,562.

Lack of seriousness of the relevant agencies and the Ministry of Finance in fully complying with the Budget Execution Rules/Guidelines, lack of timely adjustment of advances and allowing successive advance payments without ensuring the adjustment of the previous pending advance payments have led to accumulation of un-adjusted advances with recipient of the officials that has the risk of loss of public assets especially long pendency period of up to 15 years.

### **3. Mis-match between the figures of Development Budget expenditure in Qatia Statement with the report of the Ministry of Economy.**

Based on the comparison of the Qatia Statement of Development Budget expenditures of the fiscal year 1397 with the report of the Ministry of Economy, a significant difference is observed in the percentage of development budget expenditure and the percentage of project progress. In most of the cases, there is a difference between the percentage of development budget expenditure stated in the report of Ministry of Economy and the percentage of the development budget expenditure stated in Qatia Statement of the development budget. The details are described in the following table.

**Table 5.15: Comparison of percentage of Development Budget Expenditure stated in Qatia Statement with the Report of Ministry of Economy.**

Org. Code	Ministry/Entity	Total Budget after amendments	Total Expenditure	Percentage of Expenditure based on Qatia Statement	Percentage of Expenditure based on the Report of Ministry of Economy	Percentage of work progress based on the Report of Ministry of Economy
13	Administrative office of the President	3,985,813,864.00	2,894,325,011.41	73	92	64
22	Ministry of Defense	41,021,820.00	36,841,673.00	90	97	95
23	Ministry of Foreign Affairs	1,298,799,644.79	1,192,630,350.85	92	92	88
24	Ministry of Hajj and Religious Affairs	407,877,650.00	355,667,530.00	87	89	88
25	Ministry of Commerce and Industry	278,918,798.59	254,430,403.84	91	96	40
26	Ministry of Interior Affairs	1,683,998,283.00	1,493,532,992.55	89	87	71
27	Ministry of Education	4,044,906,080.00	3,378,254,524.42	84	85	67
28	Ministry of Higher Education	2,102,049,558.05	1,893,621,901.17	90	92	52
32	Ministry of Mines and Petroleum	1,421,398,133.98	1,386,213,568.40	98	102	27
34	Ministry of Communication and Information Technology	1,315,867,508.05	1,162,538,539.63	88	92	70
35	Ministry of Economy	381,114,000.00	350,223,814.00	92	77	73
36	Ministry of Culture and Information	236,428,020.00	212,383,111.58	90	90	79
37	Ministry of Public Health	18,397,178,215.48	17,119,117,707.12	93	93	61
38	Ministry of Women Affairs	68,290,878.00	65,236,857.00	96	95	67
39	Ministry of Irrigation, Agriculture and Livestock	10,148,252,759.39	9,509,374,917.67	94	95	77
41	Ministry of Energy and Water	5,783,384,447.64	5,362,360,032.90	93	98	20
42	Ministry of Public Work	19,077,063,994.99	18,465,696,315.47	97	98	73
43	Ministry of Rural Rehabilitation and Development	19,134,146,913.03	17,946,389,369.44	94	95	89
44	Afghanistan Civil Aviation Authority	3,654,880,026.05	3,476,251,064.29	95	98	64
45	Ministry of Transportation	95,500,000.00	77,358,519.00	81	81	48
47	Ministry of Labor and Social Affairs	863,421,400.18	759,594,859.13	88	87	82
48	Ministry of Counter Narcotics	525,715,030.00	464,817,166.32	88	88	77
49	Ministry of Urban Development and Housing	4,481,907,408.23	4,207,719,260.57	94	95	71
50	Ministry of Justice	226,898,000.00	209,460,298.54	92	92	85

58	Afghanistan Independent Standard Authority	36,850,000.00	35,812,132.40	97	34	98
59	Independent Directorate of Local Governance	3,156,507,278.87	2,799,558,640.62	89	91	92
63	Directorate of Sport affairs	147,537,684.00	64,863,769.00	44	49	77
64	NDS	91,354,768.00	82,877,874.00	91	91	46
66	Supreme Audit Office	260,197,544.60	178,545,791.93	69	69	31
76	Independent General Directorate of Kuchi (Nomad)	115,433,106.00	98,752,906.00	86	89	70
79	Kabul Municipality	2,758,339,520.00	2,530,637,491.17	92	92	39
81	facility for supporting micro financing resources Authority	233,670,115.69	233,670,115.69	100	108	33
82	Urban Water supply and sewerage company	566,065,352.00	528,878,127.00	93	94	56
83	DABS Da Afghanistan Brishna Shirkat	17,512,444,832.27	16,815,793,486.07	96	99	26
84	Development Authority of Capital Zone	1,171,640,621.00	1,020,474,236.00	87	87	34
86	Human Rights Commission	27,336,000.00	27,221,111.00	100	100	98
87	Land Independent Authority	576,990,000.00	456,934,171.69	79	81	90
89	Railway Authority	482,780,045.00	412,147,520.85	85	85	27

As it is observed, in most cases not only that the development budget stated in the Qatia Statement does not match with the percentage of progress made in the report of Ministry of Economy, the percentage of development Budget realization also does not match between the Qatia Statement and report of Ministry of Economy.

The Budget Directorate sought the reasons for these differences from the General Treasury Directorate and based on the inputs from the General Treasury Directorate, stated that "percentage of the total expenditure for the year compared to the approved expenditure in the Qatia Statement of the fiscal year 1397 for the agencies has already been provided for the Audit Commission and the same are included in two sheets of the Audit Commission's query Tables. The basis for measuring the percentage and the progress provided by the Ministry of Economy and reflected in the Audit Commission's supplement to the query is not known and from which comparison the percentage has been derived. We did not have information to make available to the Audit Commission and it may like to discuss the matter with the Ministry of Economy to resolve it".

Information was requested by the audit separately from the Ministry of Economy, however, no information was received from the Ministry.

#### **4. Amendments in discretionary development funds under Budget supplement and amendment in development funds in excess of the limit specified in the Public Finance and Expenditure Management (PFEM) Law and Regulations.**

The Article No 32 of the Budget Execution Rules/Guidelines states that, "financing decision of the discretionary projects is the authority of the Afghan government and the donors have the authority to make decisions in respect to financing the non-discretionary projects is the authority of the donors. In case of removal/including of the Non-discretionary Projects. In case any non-discretionary projects is secured or discarded or in case of increase or decrease of its funds during the fiscal year, the Ministry of Finance is authorized to execute the budget annex after the approval of the Office of the President and send it to the National Assembly within 7 working days for their information " .

In addition, section one, Article 47 of the PFEM law states: "Where requested by a state administration, the Ministry of Finance, in consultation with the Budget Committee, may authorize the adjustments of the approved appropriations for that Ministry provided the adjustment does not exceed 5% of the registered funds."

Likewise, Article 25 of the PFEM Regulations under the title amendments in the appropriations states that:

1. In case of necessity, the primary budgetary unit can submit its request to the Ministry of Finance in regards to the amendments in appropriations on the basis of provisions of Articles 42 and 43 of the Public Finance and Expenditures Management Law (revisions and amendments in appropriations).

Adjustments to appropriations are made through the subsequent fiscal year budget or during the midyear review, unless amendments based on minor adjustments or changes to the budgetary appropriations of the primary budgetary units are impossible.

2. The Ministry of Finance can amend the appropriations of the first budgetary unit in accordance with Article 47 of PFEM law by up to five percent of the amounts specified in the appropriation, following the steps as below:
  1. Based on the Request of the Primary Budgetary Unit.
  2. Based on the official accounting documents of the Treasury General Directorate about the transferring of the appropriations for exchange of assets between budgetary Units or about repayment of the amounts including the public funds in which the Government does not have the right of profit.

According to the relevant documents, based on the proposal of the Ministry of Finance and Decision No.13 dated 02.8.1397 of the Cabinet of the Islamic Republic of Afghanistan, Afs 4,058,543,133, and Decision No, 15 dated 1.09.1397 Afs 1,040,424,973, total Afs 5,098,968,106 has been reduced from discretionary development funds and added to a the Budget of a number of agencies and also has been recorded in the Qatia Statement as the reduction and addition of budget supplement. However, as stipulated in the Budget Execution Guidelines, reduction and addition is permitted in the non-discretionary development funds and not in the discretionary funds. Section 1 of Article 47 of the PFEM Law and also Article 25 of PFEM Regulation also permit amendment in the appropriations up to five percent on the basis of a request from the agencies and Treasury

General Directorate's official accounting documents for transferring the appropriations of exchange of assets between budgetary units.

The General Budget Directorate stated that "the amount of As 4,058,543,133 has been deducted from Discretionary funds of the projects of a number of Budgetary Units based on the requirements of other Budgetary Units and has been added to other agency's projects which is based on Article 46 of the Public Finance and Expenditure Management Law. It should be noted that no change has been made to the budget ceiling."

In response to the Inquiry No 127 dated 25/2/1398 of the audit, the Budget General Directorate has also stated that, "For the better coordination in the implementation of governmental Projects which have priority to be implemented and utilized within specific time and date, amendments of development projects fund of some Entities have been identified that are not able to spend their fund during the year and these funds have been transferred to the Entities which have suitable condition for implementation of the projects and are able to spend the fund. This is according to Article 46 of the Public Finance and Expenditure Management Law, which is described as follow:

*In the event of urgent and unforeseen requirements, the Ministry of Finance may propose to the President to change the purpose of part of a contingent expenditure appropriation of a state administration to a purpose of a programme of the requesting state administration.*

As you know, the development budget of the Islamic Republic of Afghanistan is funded by the international communities and as such it is required to be as per the conditions and specific criteria and complying with them is a must for receiving more funds. After amendment is done, additional fund can be received from donors when the development budget is spent. In addition, economic theories also illustrates its significance, which says development budget expenditures will cause economic development, increasing employment indicating social welfare in the country. We have to keep it in mind that all these amendments are done under the light of law and legal process."

In addition, Directorate General budget responded that "amendments have been made in the light of law and regulations on the one hand and on the other, the continuation of grants and realization of Afghan government commitments to international partners have been made to make full and effective use of the funds allocated to implement the national priority programs."

However, audit feels that the amendments in the said funds have no connection with Article 46 of the public finance and expenditure management law. On the other hand, Form B-23 for amendment indicating the requirement of the requisitioning entity and need for transfer of funds was not available. Based on the information provided by the General Budget Directorate, the said amendments are according to Forms B3 (financial plan of development projects) but no Form B3 regarding amendments were provided.

Furthermore, the documents show that these amendments were carried out at the end of fiscal year. The MoF could have made these amendments at the mid-year review in consultation with the budgetary units and Respected Wolesi Jirga representatives in consideration of the accounting

principles for amendment of the funds for solving the budgetary problems of the entities in compliance with requirement.

In addition, as per the Qatia Statement of development budget and documents related to inter and intra agency amendments, it is found that funds related to 189 development projects, details of which are attached in a separate table, have been amended and transferred to other projects exceeding the limit set forth in section one of Article 47 of the public finance and expenditure management law and Article 25 of public finance and expenditure management regulation. Funds of some projects have been deducted 100% and the projects were removed from the budget document.

#### **5. Mis-match of figures recorded in reduction column of the budget supplement with their supporting documents**

As per Decision No.13 dated 02.08.1397, an amount of Afs 3,845,049,231 from non-discretionary development funds and Afs 4,058,543,133 from discretionary development funds of FY1397 and as per Decision No. 15 dated 01.09.1397, an amount of Afs 1,040,424,973 from discretionary development funds and Afs 1,272,646,438 from non-discretionary development funds, total of Afs 10,216,663,775 has been reduced and added to some other projects. However, as per review of the Qatia Statement of development budget expenditure, a total of Afs 10,215,537,900 was recorded in Qatia Statement as budget supplement reduction. Therefore, it shows a discrepancy of Afs 1,125,873 when compared with the reduced amount recorded in the said Decisions.

#### ***Comment of MoF***

It is worth mentioning that reduction in non-discretionary is applied on total budget but reduction in discretionary is applied on few projects and added to other projects, as a result of which, the budget ceiling has not changed.

It may be noted that the total of reductions are over Afs 10,216,663,775 and reductions recorded in Qatia Statements are Afs 10,215,537,900. The discrepancy between two above figures are Afs 1,125,873 including non-discretionary deductions of MORR (Ministry of Refugees and Repatriations), AFG/290232 project which have been approved through Decision No.13.

#### **6. Non-Adjustment of previous year's Letter of Credits which are expired already**

Since the letter of credits are time-bound and their opening and expiry dates are specified, for the purpose of preventing stagnancy of the funds in the accounts and for adjustment of LC's, it is needed to re-transfer the funds remaining in L/C to TSA. As well as, those entities, which opened the LC accounts, are required to inform the MOF the cases of closed LC's and clear their respective balances with MOF.

But according to the information made available, even though the date of some L/Cs opened in previous years have already expired, still they are not settled. The amounts remaining in the account of some L/C are not re-transferred to TSA. The amounts remained in L/C account of the agencies and are un-adjusted. The details are provided below:

<b>No</b>	<b>Number of L/C</b>	<b>Date of opening and expiring of L/C</b>	<b>Subject matter of L/C</b>	<b>Amount of L/C (Figure in USD)</b>	<b>Contractor Company</b>	<b>Related Bank</b>	<b>Paid Amount</b>	<b>Remaining</b>
1	19082-86	9/8/1386 31/6/2011	Facilitating timely payment related to MoICT	735403	Fixed line network	City bank new york	594207.94	141195.6
2	20121-88	29/7/1388 31/12/2017	Facilitating timely payment related to MoICT	6212757.24	CCN-2 (Aster)	City bank new york	5641543.55	571213.69
3	20149-89	10/12/1389 30/12/2015	Facilitating timely payment related to MoICT	8501430	OFC	Aryan Bank of Kabul	5037530.93	3463898.7
4	86-20001	1388/7/29 2017/12/31	Development and increasing of energy of Kabul related to MoEW	54293551.40	International LTD India	Citi bank new york	45485572.67	8807977.73
5	2016-90	31/12/2011 13/6/2014	Power Supply Project of Badghis Province from Turkmenistan related to MoEW	11649310.94	Afghan Cyber	Aryan Bank of Kabul	9415793.82	2233517.94
6	2016-90	1390/12/1 2018/5/24	Procuring of equipment to supply power in Badghes related to MoEW	11649310.94	Afghan Cyber	Aryan Bank	10793922.12	855388.82
7	20256-94	1394/9/30 2019/1/23	Power Project of Jalalabad Network related to MoEW	1806729.99	M/S afghan German R JV montchem	ACB	1451712.79	855388.82
8	20256-94	1394/9/30 2019/1/23	Power Project of Laghman Network related to MoEW	1825597.9	M/S afghan German R JV montchem	ACB	1772231.59	53366.31
9	20273-95	1395/9/24 2017/3/21	Procuring of water Flow Rate Measuring Equipment	220148	OTT HydromentGmbH	Deutsche Bank AG Ge	0	220148

**Table: 5.17 L/C of FY1396**

No	Number of L/C	Date of opening and expiring of L/C	Subject matter of L/C	Amount of L/C	Contractor Company	Related Bank	Paid Amount	Remaining
1	20293-96	23/7/1396 26/12/2018	Procuring of 17 cameras for Customs Directorate of MoF	USD1274057.22	Neuzen Technology Service	Azizi Bank	USD 939788	USD 334269.22
2	96-20286	1396/5/11 2019/1/28	Project of Technology and connecting Mostawfiats and Customs with MoF	USD 3378982.95	CisnetGlobe solution	Azizi Bank	USD 2622769	USD 756213.95
3	96-20291	1396/7/23 2019/3/4	Project of Smart Cameras of Custom Directorate related to MoF	USD 500944.50	Exicom Tele System Ltd	Punjab National Bank of India	USD 433321	USD 67623.50
4	96-20290	23/7/1396 4/3/2019	Project of Smart Cameras of Custom Directorate related to MoF	USD 1743402.18	Prima sonic Spectrum Private Ltd	India bank	0	USD 1743402.18
5	96-20287	5/6/1396 30/9/2017	Printing of 2.6 million textbooks of MoE	USD1174398	Hanoi printing Joint stock co	Lien Viet Post Joint Stock Commercial Bank	0	USD 1174498
6	96-20301	29/9/1396 13/4/2018	Central project of making MoICT's Library Electronic	USD 13846890	Prologix LLC	Ghazanfar Bank	0	USD 13846890
7	96-20302	29/9/1396- 18/4/2018	NIXA Installing and equipping of national internet exchange	USD 510499.27	I.N.TNetNetlink Technology LLC	Rak Bank Bur Dubai UAE	USD 408399.27	USD 102100
8	96-20296	21/9/1396 1/7/2019	Project of Electronic System for Identification of National Identity related to MoICT	USD 15182854.99	Grand Technology Resource SDN BHD	Bakhtar Bank	USD 8959626.35	USD 6223228.64
9	96-20300	29/9/1396 30/10/2018	Project of Translation from Dari & Pahto related to MoICT	Afs 5221743	ABN-e-Sins university	Bakhtar Bank	0	Afs 5221743

10	96-20303	29/9/1396 22/12/2018	Equipping of MoICT's Tele Communication Internet	Afs 459739	I.N.TNetNetlink Technology LLC	Rak Bank Bur Dubai UAE	USD 413850	USD 45889
11	96-20289	1396/7/22 2019/12/31	Additional Equipment for waze Cable System related to MoEW	EUR 459739	Seba HydrometrieGm Bh co KG	KREIS-UND Stadtsoarkasse	0	EUR459739
12	96-20295	1396/9/13 2018/8/22	Developing, supporting and installing of Cloud Platform in Data Center of MoEW	EUR 888000	I.N.TNetNetlink Technology LLC	Rak Bank Bur Dubai	EUR 502708	Afs 358291.98

The Treasury General Directorate stated that: *Treasury General Directorate through a circular has informed all the entities regarding adjustment of L/Cs and that non-adjustment and reason thereof and non-transfer of the remaining amount are the responsibility of the budgetary units. They have to be inquired to clarify the issue. 2 Circulars are attached.*”

A review of the circulars revealed that they are actually sent for adjustments to entities, which inter lia stated that: “...also the authorities of the related entities are required to adjust the advances they have collected and adjust the L/Cs and transfer the remaining funds to related accounts”.

As seen, the MoF has only sent several copies of letters to the related entities as circular regarding adjustment of L/Cs but has not taken any practical action. This has resulted in the locking up of public funds in those accounts (no withdrawal).

Meanwhile, four L/C cases related to MoF, despite their expiry, have still not been adjusted and substantial amount has remained locked up in those accounts. As per the response of the General Treasury Directorate, the aforementioned L/Cs are still usable. However, there is no evidence or document to show that why the L/Cs are still active though they have expired.

## **7. Letter of Credits opened in FY1397**

Based on the information made available, certain L/Cs opened in FY1397 still have no payment. As a result, public funds are kept with the accounts without any transaction and the transferred funds to L/C are treated as advance payment and the entity shows them as expenditure of the project. The details are provided in the following table.

**Table 5.18: L/Cs in FY1397**

No	Number of L/C	Date of opening and expiring of L/C	Subject matter of L/C	Amount of L/C	Contractor Company	Related Bank	Paid Amount	Remaining
1	2031-97	2018/10/13 2019/3/8	Equipment Installation in internal network of MoICT	323640	I.N.TNetNetlink Technology LLC	Rak Bank Bur Dubai	0	323640
2	20305-97	2018/5/2-30/10/2018	Online Passport related to MoICT	176412	I.N.TNetNetlink Technology LLC	Rak Bank Bur Dubai	0	176412
3	20325-97	1395/9/24 2017/3/21	Project of improving strategy for settling Tuberculosis challenge and strengthening of health system related to MoPH	394170.70	UNOPS Global drug Facility	Rak Bank Bur Dubai	0	394170.70
4	97-20326	20/12/2018 - 4/3/2019	Procuring of anti-tetanus vaccine and amino globin serum for 34 province related to MoPH	287100	Times Pharma	ICIC Bank	0	287100
5	97-20319	27/11/2018 -17/9/2019	Providing energy(electricity) for Manogi district of Kunar Province related to MoEW	1022084.79	Supreme and company Ptv Lid	Azizi Bank	0	1022084.79
6	20322-97	2018/12/12 2019/6/11	Providing 5.5 MW energy for Daikondi Province related to MoEW	3420560	Shuwangdng Group Co Lid	Azizi Bank	0	3420560
7	20318-97	2018/12/12 2019/6/11	Project for suppling power for 21 villages of Badghis province related to MoEW	1042832	Supreme and company Ptv Lid	Azizi Bank	0	1042832
8	20320-97	2018/11/28 2019/9/17	Project for installation of energy distribution network in sorkhrood district of Nangarhar Province related to MoEW	654725	Gulf Extreme innovation Engineering and construction	Azizi Bank	0	654725

9	20328-97	2018/12/21 2019/9/18	Procuring of technical equipment related to MoEW	196807	I.N.TNetNet ink Technology LLC	Rak Bank Bur Dubai	0	196807
10	20327-97	2018/12/18 2019/4/30	Procuring of technical equipment related to MoEW	235420	I.N.TNetNet ink Technology LLC	Rak Bank Bur Dubai	0	235420

As seen, many of the L/Cs opened at the end of FY1397 are not used for the purpose they were opened for and the public funds have been locked up in related accounts. Opening L/Cs at the end of FY1397 and transferring funds to a specific account from which no payment has been made yet for any transaction, suggest that the agencies have attempted to show a high level of expenditure in development budget through opening L/C at the end of FY1397.

#### **8. Amendment of contingency funds in contradiction with determined goal in Budget Document**

Considering that contingency funds in budget document are estimated and approved under a specific title and for specific purpose, it should be amended and utilized as per the goal in the budget document.

As per the review of Qatia statements, Afs 210 million have been added to a project for designing, construction and illumination of streets related to Kabul Municipality under budget supplement with Code Number AFG/790007.

This fund from contingency code 910049 is amended and added to the aforementioned project according to information provided by the General Budget Directorate in response to inquiry No. 56 dated 21.01.1397. However, as per the original budget document and document of mid-year review of FY1397, the contingency code 910049 is estimated and approved under the title of “development funds for provinces (1 Million for each province)”. Therefore, adding Afs 210 million to the project of AFG/790007 related to Kabul Municipality is in contradiction with the originally stated purpose in budget document.

The General Budget Directorate has stated that “on the one side, the amendment has been made for the reason that the remaining funds due to closing of the fiscal year was to be carried forward, and on the other, the requisitioning entity was faced with lack of budget for supporting and financing of the project. Therefore, the Ministry has approved the addition of funds to the said project for better integration of development budget expenditures through order No.7461.”

It is observed that the aforementioned funds are recorded in the budget supplement column instead of reserved codes of Qatia Statements, which distorts the balance of accounts. The Treasury General Directorate has stated that “Afs 210 million AFG/79007 is recorded in the budget

*supplement column of Qatia Statement of Municipality and based on this, the figure is transferred to Consolidated Qatia Statement. Recording this figure in the budget supplement column has been corrected and it has no effect on the result of accounts (grand total).”*

## Revenues Qatia Statement

### Revenues Qatia Statement of Operating Budget

#### 1.1 Evaluation of Revenues Plan of operating budget for FY1397 and its realization and collection

Based on letter No (MFPO-11) dated 03.09.1397 of Fiscal Policy and Macro Economy Directorate of MoF sent to Revenues and Customs Deputy Minister Office, the revenue plan for FY1397 from domestic sources was estimated at Afs 173,526,406,663, as follow:

- Share of Customs Afs (79,812,933,503)
- Share of Mustofiats Afs (18,694,584,451)
- Share of STO Afs (3,441,957,669)
- Share of MTO Afs (15,207,618,034)
- Share of LTO Afs (22,822,397,944)
- Share of Ministries and Entities Afs (33,546,915,062)

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Total of planned revenues Afs 173,526,406,663

But based on mid-year review documents of FY1397, the target for collecting revenues from domestic sources was fixed at a total of Afs 173,500,000,000. The details are as follows:

Table 5.19: Details related to Revenue Plan of FY1397 from domestic sources as per mid-year review document					
No	Financing Resources		Descriptions	Total	
1	Domestic Revenues	Tax Revenues	Fixed Taxes	13.835.372.453	
			Income Tax	27.468.539.432	
			Properties Tax	467.543.299	
			Sales Tax	36.064.605.729	
			Tax Fines	2.923.604.092	
			Custom Duties and imports	39.160.013.682	
		Total of Tax Revenue			119.919.678.687
		Non-Tax Revenues	Revenues from properties	2.019.554.386	
			Sales of Goods and services	8.847.289.464	
			Administrative Fees	28.479.179.514	
			Royalties	451.528.536	
			Non-tax fines	934.150.259	
			Extractive industries	2.219.443.236	
			Miscellaneous Revenues	5.296.404.744	
sales of land and buildings	98.629.876				

			Income from Court Cases	392.409
			Social Contributions	5.233.748.891
			<b>Total of non-Tax Revenues</b>	<b>53.580.321.315</b>
<b>Total of Domestic Revenues( Tax and Non-Tax)</b>				<b>173.500.000.000</b>

Based on above explanation, the total of revenues plan form domestic resources mentioned in the budget document of the mid-year review was Afs 173,500,000,000. But based on the letter No.(MFPO-11) dated 03.09.1397 of the Fiscal Policy and Macro Economy Directorate of the MoF attached with revenues plan sent to entities responsible for collecting revenues, the total of revenues plan was shown at Afs 173,526,406,663. In the other hand, as it is seen, the mentioned revenue plan is sent to related entities on 03.09.1397(at the end of FY1397).

**Table 5.20: the manner of realization and collection of(Central Offices, Mustofiats and Customs) revenues in FY1397**

CODE	Major titles	Revenue Plan	Realized	Collected	Remaining
11	Tax Revenues	78.818.725.605	89.069.115.001	86.579.530.087	2.489.584.914
12	Custom Duties and Fees	38.879.782.529	34.907.810.358	34.907.810.358	0
13	Non-Tax Revenues	43.938.743.421	47.179.047.849	45.981.685.070	1.197.362.779
14	Miscellaneous Revenues	4.865.441.987	14.167.486.708	14.163.009.794	4.476.914
15	Sales of State Properties	1.730.434.849	2.640.601.524	2.640.178.524	423.000
17	Social Contributions	5.293.278.274	5.635.572.956	5.635.506.669	66.287
19	Grants	0	0	127.910.347.494	0
<b>Grand Total without title 19</b>		<b>173.526.406.664</b>	<b>193.599.634.396</b>	<b>189.907.720.502</b>	<b>3.691.913.894</b>
<b>Grand Total including major title 19</b>		<b>173.526.406.664</b>	<b>193.599.634.396</b>	<b>317.818.067.995</b>	<b>3.691.913.894</b>

According to the above description, the realized or assessed revenues of FY1397 from the domestic resources are shown at Afs 193,599,634,396, of which Afs 189,907,720,502 were collected and Afs 3,691,913,894 remained. The collected revenues in comparison with the plan was more by Afs 16,381,313,838 or 9.5%. The collected revenue of Afs 189,907,720,504 for the FY1397 constitutes 12.8% of the estimated GDP in 1397.

The collected revenues of FY1397 in comparison with Afs 169,057,437,121 as collected revenues of FY1396 shows an increase of 20,850,283,381 or 12% and with comparison to amount of Afs 153,496,004,586 of the collected revenue for FY1395 an increase of Afs 36,411,715,916 or 24%.

The Revenues General Directorate attributed increase in revenue collection to the reforms in revenue systems and recruitment of authorities, extension of SIGTAS system, equipping of income tax authorities, increase in the salary scale of staff in provinces and central offices, 95% tax penalty exemption mentioned in budget document, spreading awareness amongst taxpayers in the central offices and provinces and obedience of taxpayers.

### **The Manner of Realization and Collection of Revenue in Revenue Generating Entities**

Based on plan/ goals, the revenue of Mustofiat in FY1397 has a (2.26%) and central offices (33.82%) increase, medium taxpayer office (4.89%) and small taxpayers' office (2.62%) increase. Unlike, there is a decrease of (4.17%) in the realization and collection of customs revenues as against the targets. Details are as follows:

**Table 5.21: Total Revenues of Revenues Entities**

No	Entities	Plan/goals	Realized	Collected	Remained	Decrease/increase as per plan	
						Realized percentage	Collected percentage
1	Customs	79,812,933,502	76,485,167,082	76,486,577,964	-	95.83	95.83
2	Mustofiat s	18,694,584,451	21,620,281,056	19,184,992,953	2,435,288,103	115.65	102.62
3	Central offices	33,546,915,062	45,281,255,923	44,210,961,410	1,070,294,513	134.98	131.79
4	Large taxpayer office	22,822,397,944	30,540,990,901	30,540,990,901	-	133.82	133.82
5	Medium taxpayer office	15,207,618,034	15,951,970,137	15,951,970,137	-	104.89	104.89
6	Small taxpayer office	3,441,957,669	3,719,969,293	3,532,227,134	187,742,159	108.08	102.62
<b>Total</b>		173,526,406,662	193,599,634,392	189,907,720,499	3,691,913,893	111.57	109.44

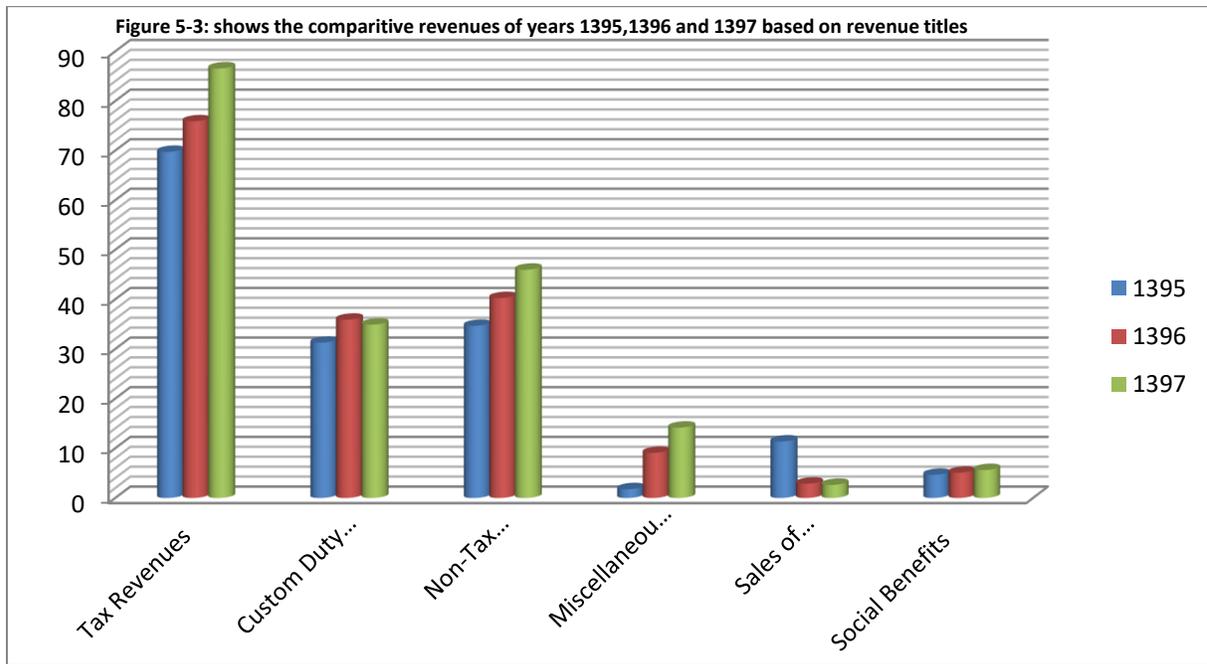
According to the table above, the highest collected revenue of FY1397 of Afs 76,486 billion related to customs which constitute 40% of the total revenue. Followed by Afs 44.21 billion or 23% from central entities, Afs 30.54 billion or 16% from large taxpayers, Afs 19.18 billion 10% from Mustofiats, Afs 15.95 billion or 8% from medium taxpayers and Afs 3.53 billion or 2% from small taxpayers, respectively.

An amount of Afs 3,691,913,893 has remained uncollected from the total of the realized/assessed revenues, which are receivable in subsequent year.

**Table 5.22: increment and decrement of FY1397 revenues in comparison with FY1396 by differentiation of revenue Codes**

Code s	Entities	Collected revenues		increment	decrement	Percentage of increment/decrement	
		1396	1397			increment	Decrement
11	Tax Revenues	75.919.937.666	86.579.530.086	10.659.592.420	-	14	-
12	Custom duties and	35.897.096.556	34.907.810.357	-	989.268.199	-	3
13	Non-tax revenues	40.273.425.129	45.981.685.070	5.708.259.941	-	14	-
14	Miscellaneous Revenues	9.092.844.129	14.163.009.793	9.070.165.664	-	56	-
15	Sale of state properties	2.778.537.242	2.640.178.524	-	138.358.900	-	5
17	Social contributions	5.095.596.398	5.635.506.669	539.910.271	-	10	-
Total		169.057.437.121	189.907.720.499	25.977.928.292	1.127.627.099		

Based on information provided in table above, the revenues of codes (11, 13, 14 and 17) have shown an increase of Afs 25,977,928,292 in comparison with revenues of FY1396 and collected revenue in codes (12 and 15) shows a decline of Afs 1,127,627,099.



The above figure shows that revenues of codes (11, 13, 14 and 17) have increased over the years 1395-1397. The revenues of code (12) has decreased in FY1397 in comparison with FY1396. But the revenue in code 15 (sales of state properties) has descending trend from FY1395 to 1397.

**Table 5.22: The comparison of revenue codes of FY1397 with FY1396 which earn more than Afs 1 billion revenue**

No	Code	Title of Code	Collected Revenues		Increment and decrement		Percentage of increment/decrement	
			1396	1397	Increment	decrement	Increment	Decrement
1	11106	Fixed Taxes of firms holding license	9,948,477,970	11,106,273,916	1,157,795,946.00		10.42	
2	11107	Municipality tax	1,313,193,909	1,525,676,365	212,482,456.00		13.93	
3	11200	Staff salary Tax	12,082,141,748	12,994,803,116	912,661,368.00		7.02	
4	11201	Natural persons annual tax	1,307,303,859	1,632,890,275	325,586,416.00		19.94	
5	11202	Legal persons annual income tax law	3,555,596,292	9,020,123,552	5,464,527,260.00		60.58	
6	11203	Rent withhold tax	1,150,792,543	1,204,739,696	53,947,153.00		4.48	
7	11207	Contractor withhold tax	7,321,346,857	9,531,766,978	2,210,420,121.00		23.19	
8	11401	Business Receipt Tax	4,723,678,283	3,748,558,017		975,120,266.00		26.01
9	11403	4% BRT on imported goods	20,870,142,505	21,945,974,889	1,075,832,384.00		4.90	
10	11404	2% BRT	1,167,858,686	1,439,722,566	271,863,880.00		18.88	
11	11702	Delayed penalty on presenting tax declaration	2,265,809,917	1,868,606,660		397,203,257.00		21.26

12	12000	<b>Custom Duty of Imports</b>	34,653,023,696	32,038,430,345	-	2,614,593,351.00		8.16
13	12002	<b>Custom Duty of Exports</b>	147,940,521	1,278,964,913	1,131,024,392.00		88.43	
13	13104	<b>Aircrafts Fees</b>	821,588,922	1,012,614,099	191,025,177.00		18.86	
14	13105	<b>rent of state buildings</b>	54,406,343	1,891,218,352	1,836,812,009.00		97.12	
15	13216	<b>Transport Services</b>	1,145,623,887	1,395,096,437	249,462,550.00		17.88	
16	13223	<b>Railway services</b>	2,622,633,483	2,616,686,750	-	5,946,733.00		0.23
17	13302	<b>Visa issue services</b>	1,358,113,437	1,415,984,520	57,871,083.00		4.09	
18	13303	<b>Passport issue services</b>	7,316,362,540	8,253,240,510	936,877,970.00		11.35	
19	13312	<b>Air flight fee revenues</b>	3,236,274,100	5,140,759,288	1,904,485,188.00		37.05	
20	13315	<b>airport flights fees</b>	1,758,658,895	1,851,257,037	92,598,142.00		5.00	
21	13316	<b>Transportation Tax(air / land)</b>	1,420,512,820	2,029,648,735	609,135,915.00		30.01	
22	13327	<b>Oil fees for roads</b>	2,026,110,447	3,400,770,019	1,374,659,572.00		40.42	
23	13329	<b>Gas fees for roads</b>	1,264,327,810	1,222,533,144	-	41,794,666.00		3.42
24	13330	<b>10% tax on telecommunication</b>	4,270,593,058	3,898,844,099	-	372,748,959.00		9.56
25	13601	<b>Extraction royalty</b>	2,000,963,263	2,118,434,947	117,471,684.00		5.55	
26	14001	<b>Share on state-own enterprises</b>	1,815,097,852	7,947,594,630	6,132,496,778.00		77.16	
27	14003	<b>Miscellaneous Revenues</b>	7,014,640,202	5,976,116,830	-	1,038,523,372.00		17.38
28	17100	<b>Deduction of staff salaries for pension</b>	2,986,135,235	3,544,753,533	558,618,298.00		15.76	
29	17102	<b>Revenues from pension funds</b>	1,698,234,473	1,486,346,499	-	211,887,974.00		14.26
<b>Grand total</b>			143,317,583,555	164,538,430,717	26,877,655,742	5,657,818,578		

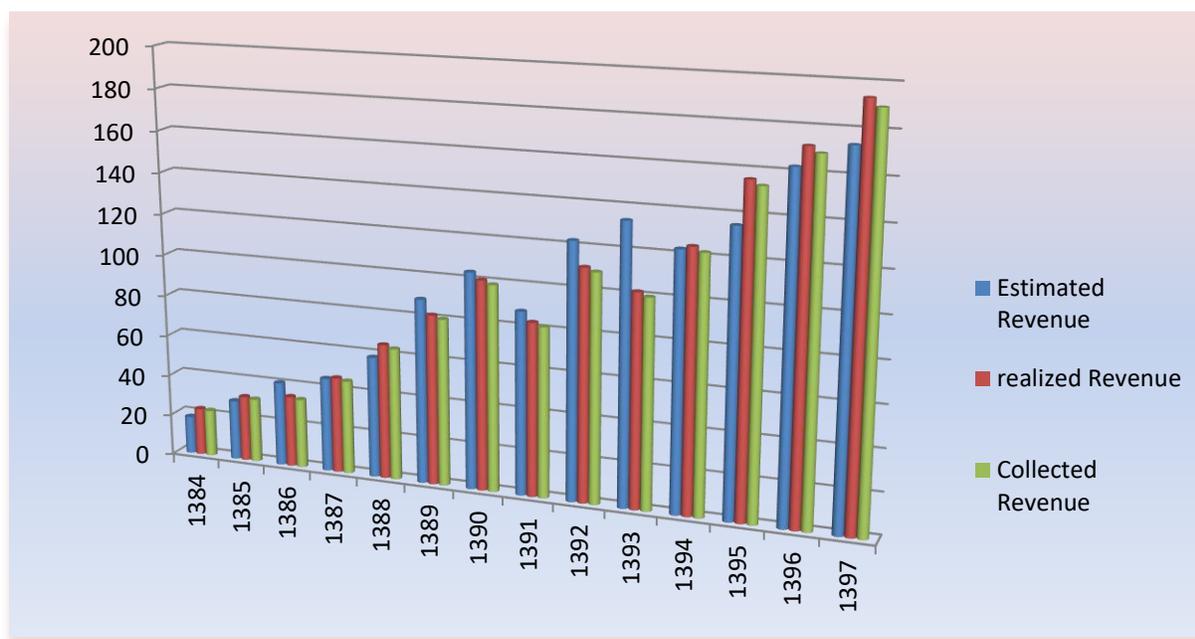
Considering the table above, (29) revenue resources have more than Afs (1) billion revenue during the years 1396 and 1397. A comparison of FY1397 revenues in aforementioned codes with those of FY1396 shows that the collected revenues of (21) codes in comparison with FY1396 has a total increase of Afs 26,877,655,742 but it has a decrease of Afs 5,657,818,578 in (8) codes. The highest level of revenue was earned from code 14001 (share on SOEs) which is Afs 6,132,496,778 or (77%). Following that Afs 5,464,527,260 or (60%) in code (11202) (annual tax on legal person), Afs 2,210,420,121 in code (11207), and the rest in other codes, respectively. But the highest decrease was recorded in code 12000 (Custom Duty of imports) which is Afs 2,614,593,351 and Afs 1,038,523,372 in code 14003 (Miscellaneous Revenues).

A comparison of estimated, realized and collected revenues from domestic resources over the years 1384-1397 are described in the following table:

**Table 5.23: The manner of revenue realization and collection from domestic resources over the years 1384-1397**

year	Planned Revenues	Realized Revenues	Collected Revenues	Percentage of Realization	Percentage of deficit/surplus of collected revenues in comparison with plan	
					Surplus	Deficit
1384	18.318	22.930	22.646	125.17	23.6	-
1385	29.078	31.799	31.079	109.35	6.88	-
1386	40.840	34.534	33.662	84.55	-	17.57
1387	45.649	46.509	45.485	101.88	-	0.36
1388	58.635	65.236	63.830	111.25	8.86	-
1389	89.041	81.967	80.477	92.05	-	9.62
1390	104.054	100.785	99.396	96.85	-	4.47
1391	87.967	83.271	81.705	94.66	-	7.12
1392	122.814	111.060	109.332	90.42	-	11
1393	133.837	101.997	100.049	76.21	-	25.25
1394	123.010	124.636	122.349	101.32	1.32	-
1395	133.473	155.946	153.496	116.84	15.33	-
1396	162.700	171.946	169.057	105.682	3.90	-
1397	173.526	193.599	189.907	111.56		

**Figure 5.4: related to estimated plan and the manner of revenues realization and collection from domestic resources over the years 1384-1396**



Except in the years 1384, 1385 and 1388 when there was minor increase in the collection of revenues, in the other years, up to 1394 there had been deficit in collection of revenues. But the highest deficit was (25.25%) in 1393, followed by (17.57%) in 1386 and (11%) in 1392. In comparison with the revenue plan, the collected revenues witnessed increase in FY1395 (15%), in FY1396 (4%) and FY1397 (9%).

The collection of revenues from domestic resources had ascending trend from year 1384 to 1390 but it has fluctuated in the years 1390 to 1393. Afterward, it gained ascending trend since 1394.

The collection of revenues from the domestic sources in FY1397 shows increase in comparison with plan and revenues of previous years. But the audit finding indicates that the revenues of customs are faced with deficit over the two years in comparison with the plan. Details are provided in the following table:

Custom	FY1396		FY1397		Percentage of realization and collection of FY1397 revenues comparing to plan
	Planned	Collected	Planned	Collected	
Nangrahar	15,600,791,215	13,920,370,579	15,087,380,595.30	16,445,477,544.00	109
Paktika	189,260,000	224,574,893	243,627,130.00	348,617,081.00	143
Paktia	750,800,000	381,247,213	412,836,053.00	749,324,986.00	181
Khost	254,640,000	15,862,117	17,079,574.80	526,842,820.00	3084
Konar	20,229,527	360,000	372,053.00	7,846,690.00	2109
badakhshan	3,800,000	6,086,369	6,489,996.00	5,467,295.00	84
Takhar	14,090,000	10,350,852	11,813,330.60	20,143,821.00	170
Kunduz	401,565,999	888,292,265	958,626,644.60	942,899,515.00	98
Balkh	11,561,130,766	11,871,146,334	12,958,453,764.00	11,967,986,850.00	92
Kandahar	5,866,206,433	3,717,442,087	6,239,171,934.00	7,081,999,760.00	113
Faryab	1,202,134,101	3,018,331,309	3,262,258,888.00	3,669,407,830.00	112
Herat	19,200,010,000	20,119,322,504	21,828,980,560.70	20,788,154,736.00	95
Farah	4,930,060,000	4,601,400,323	5,117,803,833.70	3,591,395,465.00	70
Nimrooz	13,273,860,000	9,950,977,584	10,787,475,739.10	6,880,385,573.00	63
Airport	1,999,215,207	1,852,751,625	2,013,088,900	2,102,255,644	104
Posts and parsals	7,980,000	8,177,164	8,792,945	6,144,104	69
Kabul	867,826,745	794,158,643	858,681,559	1,352,228,250	157
Total	76,143,599,993	71,380,851,861	79,812,933,502	76,486,577,964	96

As per the Table above, revenues in FY1396 in customs was less by Afs 4,762,748,132 or (7%) in comparison with the plan and was less by Afs 3,326,355,536 or (4%) in comparison to the FY1397 plan.

In comparison with the plan, highest gap in collection of FY1397 is Afs 3,907,090,166 in Nimrooz customs, Afs 1,526,408,368 in Farah customs and Afs 1,040,825,824 in Balkh customs. In addition, a comparison of FY1397 revenues of customs with FY1396 shows that highest gap of Afs 3,070,592,011 or (31%) was in Nimrooz customs and Afs 1,010,004,858 or (21.5%) in Farah customs.

As per the revenue Qatia documents, revenue plan of Mustofiyats was Afs 18,694,584,451 in FY1397, against which Afs 21,620,281,056 was realized or assessed and, Afs 19,184,992,953 was collected and Afs 2,435,358,103 remained. So in comparison with the plan, there was a gap of Afs 490,408,502 or (2.62%) in collected revenues.

The details of realized and collected revenues of Mostofiyats are described in the following table:

No	Provinces	Plan	Realization	Collection	Remaining	Percentage of realized	Percentage of collected
1	Kapisa	199,140,367.08	254,985,206.00	224,391,655.00	30,593,551	128.04	112.68
2	Parwan	388,130,749.70	720,194,639.34	487,552,467.34	232,642,172	185.55	125.62
3	Wardak	241,642,393.30	269,491,274.00	266,657,452.00	2,833,822	111.52	110.35
4	Logar	194,011,219.00	204,811,214.00	191,963,431.00	12,847,783	105.57	98.94
5	Nangarhar	2,404,684,156.96	3,059,765,618.79	2,388,492,275.79	671,273,343	127.24	99.33
6	Laghman	256,212,962.30	325,278,402.80	280,642,932.80	44,645,470	126.96	109.54
7	Panjsher	108,751,135.00	136,114,044.00	134,952,579.00	1,161,465	125.16	124.09
8	Baghlan	455,553,546.90	779,231,365.00	475,430,231.00	303,801,134	171.05	104.36
9	Bamyan	212,490,120.00	247,646,636.00	224,185,681.00	23,460,995	116.55	105.50
10	Ghazni	446,472,099.50	709,402,390.00	489,895,399.00	219,506,991	158.89	109.73
11	Paktika	164,866,704.30	152,041,343.11	152,041,343.11	-	92.22	92.22
12	Paktia	688,434,110.40	733,270,316.00	712,103,930.00	21,166,386	106.51	103.44
13	Khost	396,367,683.60	542,627,290.20	505,667,672.20	36,959,618	136.90	127.58
14	Kunar	283,965,825.10	320,924,382.00	304,416,465.00	16,502,917	113.02	107.20
15	Noristan	65,479,696.50	72,717,014.00	72,717,014.00	-	111.05	111.05
16	Badakhshan	374,925,513.60	443,263,985.39	388,061,561.39	55,202,424	118.23	103.50

17	<b>Takhar</b>	433,624,451.00	597,313,327.00	478,290,889.00	119,022.438	137.75	110.30
18	<b>Kunduz</b>	526,070,084.00	678,646,885.00	553,969,700.00	124,677.185	129.00	105.30
19	<b>Samangan</b>	195,779,748.00	230,032,741.00	224,298,655.00	5,734.086	117.50	114.57
20	<b>Balkh</b>	2,301,416,133.70	2,571,021,117.00	2,511,956,731.00	59,064.386	111.71	109.15
21	<b>Sar-e-pol</b>	185,183,971.30	205,476,042.00	196,582,611.00	8,893.431	110.96	106.16
22	<b>Ghor</b>	157,566,700.30	270,365,531.00	188,750,958.00	81,614.573	171.59	119.79
23	<b>Daykundi</b>	146,332,058.00	160,663,906.00	158,948,219.00	1,715.687	109.79	108.62
24	<b>Urozgan</b>	69,746,224.90	81,796,877.00	79,236,758.00	2,560.119	117.28	113.61
25	<b>Zabul</b>	108,143,278.00	142,102,668.00	124,204,563.00	17,898.105	131.40	114.85
26	<b>Kandahar</b>	1,596,164,958.70	1,431,455,454.00	1,421,261,385.00	10,198.069	89.68	89.04
27	<b>Jowzjan</b>	355,618,431.90	454,799,456.00	407,400,794.00	47,398.662	127.89	114.56
28	<b>Faryab</b>	529,832,083.00	595,611,310.00	501,987,035.00	93,624.275	112.42	94.74
29	<b>Helman</b>	756,368,358.20	823,821,836.00	784,435,626.00	39,386.210	108.92	103.71
30	<b>Badghis</b>	155,002,429.00	190,955,424.00	169,485,768.00	21,469.656	123.20	109.34
31	<b>Herat</b>	3,335,720,459.70	3,406,495,138.00	3,289,810,424.00	116,684.714	102.12	98.62
32	<b>Farah</b>	398,009,507.80	387,282,331.00	383,145,927.00	4,136.404	97.30	96.27
33	<b>Nimruz</b>	562,877,290.40	420,675,893.00	412,054,821.00	8,621.072	74.74	73.21
<b>Total</b>		<b>18,694,584,451.14</b>	<b>21,620,281,056.63</b>	<b>19,184,992,953.63</b>	<b>2,435,358.103</b>	<b>115.65</b>	<b>102.62</b>

Based on table above, a total of Afs 2,435,358,103 from realized revenues of Mustofiat are not collected. Of which, the highest of Afs 671,273,343 related to Nangarhar Mustofiat, followed by Afs 303,801,134 in Baghlan Mustofiat, Afs 232,642,172 in Parwan Mustofiat, Afs 219,506,991 in Ghazni Mustofiat, Afs 124,677,185 in Kunduz Mustofiat, Afs 119,022,438 in Takhar Mustofiat, Afs 116,684,714 in Herat Mustofiat, respectively. The rest are related to other Mustofiat. This indicates lack of seriousness in collection of realized revenues.

### **The manner of revenue realization and collection from foreign resources**

As per the FY1397 mid-year review documents, a total of Afs 118,714,000,000 of foreign grants for financing operational budget was estimated and approved. However, as per the audit of revenue Qatia Statement, Afs 127,910,347,494 was received from foreign grants showing an increase of Afs 9,196,347,494 or (8%).

In addition, there is Afs (9) billion or (8%) increase in the revenues collected from foreign grants in FY1397 in comparison with Afs 118,392,864,072 revenue in FY1396.

## **Audit findings of Revenue Qatia Statement for FY1397**

The following issues are found during audit of Revenue Qatia Statement which are noteworthy:

### **1. Reflecting revenues of codes (13105), (13106), (13107) and (13108) in both Qatia Statement of MoF and some other Central Entities.**

Decision No.39 dated 21.10.1388 of the Cabinet regarding transferring of government properties to MoF state that:

- a) The ministries and independent directorates, except state owned enterprises, are required to officially transfer their documents of properties exceeding their need, under the supervision of joint board.
- b) All the transferred properties and other business properties shall be leased and rented by MoF.
- c) Those properties related to ministries and independent directorates included in their development plan and are leased or rented hereafter shall be leased and rented by MoF in coordination with related entities.
- d) The MoF and the IARCSC (Independent Administrative Reform and Civil Service Commission) shall make the required adjustment in organizational structure of Property Directorate of the MoF.

Considering the Revenue Qatia Statement of FY1397, Afs 8,907,442 in code 13105 (payment of rent for governmental buildings and constructions), Afs 123,527,915 in code 13106 (payment of rent for governmental shops), Afs 6,250,223 in code 13107 (payment of lease for governmental lands), Afs 4,270,687 in code 13108 (payment of rent for governmental lands), a total of Afs 142,956,267, has been recorded in the Revenue Qatia Statement of the following entities - Administrative Office of the President, Supreme Court, Ministry of Defense, Ministry of Industry and Commerce, Ministry of Higher Education, Ministry of Information, Communication & Technology, Ministry of Information Culture, Ministry of Women Affairs, Ministry of Agriculture, Irrigation and Livestock, Ministry of Energy and Water, Ministry of Urban Development and Housing, Afghanistan Land Authority, Civil Aviation Authority and National Directorate of Security.

However, as per the Revenue Qatia Statement of MoF, a total of Afs 459,071,589 collected from the aforementioned entities has been recorded in MoF's Qatia based on M27 forms of the Property Directorate.

Since the Property General Directorate is responsible for collection of revenues under the aforesaid codes and signing of governmental property contracts with tenants and for receiving payments thereagainst in Kabul and Provinces based on Decision No. 39 dated 21.10.1388, it is possible that Afs 142,956,267 revenue included in the Revenue

Qatia Statement of aforementioned entities may be reflected in Revenue Qatia Statement of government repeatedly, hence overstated.

### ***Comment of MoF***

The Finance & Accounting Directorate of MoF stated that “revenue collecting department of finance and accounting directorate has collected and transferred Afs **1,502,052** in code 13505 (payment of rent for state buildings) and Afs **457,569,537** in code 13106 (payment of rent for state shops), a total of Afs **459,071,589** to the government revenue account. But no report in code 13107 (payment of lease for state lands) has been sent by General Property Directorate to this department.”

The Revenue General Directorate stated that: “other central entities such as Administrative Office of the President, Ministry of Finance, Ministry of Defense, Ministry of Industry and Commerce, Ministry of Higher Education, Ministry of Information, Communication & Technology, Ministry of Information Culture, Ministry of Women Affairs, Ministry of Information and Culture, Ministry of Energy and Water, Ministry of Urban Development and Housing, Afghanistan Land Authority, Civil Aviation Authority and National Directorate of Security, Ministry of Agriculture, irrigation and Livestock, Ministry of Transport collect their revenue in aforementioned codes and record in their own accounts, which is considered their revenue. Therefore, the mentioned revenue is not reflected in General Qatia of Revenue.”

The reasons provided by the Revenue General Directorate and Revenue Collecting Department of the Finance and Accounting Directorate of the MoF are not logical, as all state properties shall be rented and leased through Property General Directorate and the office is responsible for collection of the revenues. Accordingly, other entities are not responsible for collecting revenues and the revenue should not be included in their own Qatia.

If the properties exceeding the needs of aforementioned entities are not transferred to the Property General Directorate for renting and collection of the revenues thereof and the revenues are collected by relevant entity, there is a risk of double accounting of the revenues and the properties should be transferred to the Property General Directorate to avoid the risk.

## **2. Remainings of Revenue**

Paragraph 4 of Article (42) of the Constitution states: “Every kind of tax, duty as well as paid incomes shall be deposited to a single state account”. In addition, section 4 of Article (60) of the public finance and expenditure manual stipulates: “Collecting state revenue when becomes obligatory and its immediate deposit to bank” Further, there should be serious pursuing with debtors for immediate collection of receivable amounts and their deposit to bank.

Afs 3,786,190,956 was recorded as estimated plan in code 13330 (fees collected from 10% tax on telecommunication services), of which Afs 4,604,065,850 was realized/assessed, and Afs 3,898,844,099 was collected and Afs 705,221,751 remained pending for collection against the Roshan Telecommunication Company.

The Accounting Department of the MoCIT stated that: “the Roshan Telecommunication Company informed about not paying its 10% tax on telecommunication services. Bank account of this company has been blocked from 04.08.1395 to 21.12.1395. Also, they have stated that this company has suffered enormous financial losses due to explosion occurred on 10 Jawza, 1396. The Roshan Company owe Afs **705,221,751** in FY1397 of which Afs **308,849,369** has been collected during FY1398 and Afs **396,372,382** is still pending.”

According to the information provided by the MoCIT, Afs 396,372,382 of fees against communication services for FY1397 remained pending with Roshan Company. It is worth mentioning that no documents have been received by the Qatia Statement Audit Commission from the related office with regard to the collection of Afs 308,849,369 (remaining fee of FY1397) which is said to have been collected in FY1398

### **3. Mis-match between balances of Revenues of FY1396 with the Figures recorded in FY3197 Revenue Qatia Statement**

The figures of receivable recorded in Qatia of the previous year shall match with the figures recorded in the subsequent year’s Qatia

As per the audit of FY1397 Qatia Statement and reconciliation with FY1396 Qatia Statement, it is found that revenue pending for collection recorded (closing balance) in FY1396 Qatia Statement and was transferable to (opening balance) FY1397 does not match; Details are given below:

1. Total of Afs 2,443,881,560 in code 11 was considered as transferable of FY1396 to FY1397 but only Afs 2,438,396,738 has been transferred, which shows a difference of Afs 5,484,822.
2. Total of Afs 424,347,006 in code 13 transferable of FY1396 to FY1397 but Afs 429,643,875 has been shown transferred, which shows a difference of Afs 5,296,857

Total of Afs 20,756,718 in code 14 was transferable of FY1396 to FY1397 but only Afs 8,015,321 has been transferred, which shows a difference of Afs 12,741,397.

<b>Table 5.26: difference of transferable remaining of FY1396 to FY1397</b>					
<b>Codes</b>	<b>Explanation</b>	<b>Non-collected revenue of FY1396 which is transferable to FY1397</b>	<b>Transferred figures</b>	<b>Remaining amount</b>	<b>Remarks</b>
11	Tax Revenue	2.443.886.560	2.041.454.483	402.432.077	
13	Non-Tax Revenue	424.347.006	78.544.670	345.802.336	
14	Miscellaneous Revenue	2.970.015	2.014.134	955.881	
15	Sales of State Propertis	438.600	432.000	6.600	
17	Social Contribution	66.287	66.267	0	
<b>Total</b>		<b>2.871.708.468</b>	<b>2.122.511.574</b>	<b>749.196.894</b>	

### ***Comment of MoF***

Strategy, Plan & Policy Directorate of Revenue General Directorate stated as follows:

“The reason for the difference between transferable balance of Qatia Statement of FY1396 and FY1397 is due to addition of Afs **31,213,710** in this year (1397) which were not recorded by the several Mustofiats and Central entities in the past years. And Afs **18,923,364** recorded by some entities in the past years were corrected. According to (95%) tax penalty exemption mentioned in budget document, Afs **25,219,714** was exempted which resulted in exclusion of Afs **441,430,078** from the total amount. Afterward, Afs **31,213,710** was added with the total balances of FY1396.

Therefore, there is a difference of Afs **12,929,368** between the transferable amount of FY1396 and opening balance of FY1397 Qatia Statements.”

The response of respected directorate clarifies that pending revenues were not recorded in the Qatia of the previous years correctly. All the amounts collected by the entities during the year shall be recorded in receivable column of the subsequent year’s Qatia to differentiate between the total of pending amount, collected amount and remaining amount.

### **Development Revenues Qatia Statement**

According to the Revenues Qatia Statement, the collected funds from foreign resources for development budget is described in the following table:

<b>Table 5.27: condition of foreign grants collection for development budget</b>					
No	Donor	Code14 (Miscellaneous Revenues)	Code 18 (loans)	Code 19(foreign aids)	Total
1	<b>ARTF</b>	0	0	50.819.594.747	50.819.594.747
2	<b>World Bank</b>	0	0	11.198.468.927	11.198.468.927
3	<b>Asian Development Bank</b>	0	0	22.572.659.315	22.572.659.315
4	<b>Other donors</b>	0	900.505.397	10.174386.340	11.074.891.738
5	<b>Development discretionary funds</b>	113.492.260	0	0	113.492.260
<b>Total</b>		113.492.260	900.505.397	94.765.109.330	95.779.106.988

According to the table above, a total of Afs 95,779,106,988 was recorded in the Qatia Statement as receipts from foreign grants for the development budget of FY1397. There is Afs 27,528,768,820 or 40% increase in comparison with Afs 68,250,338,168 collected revenues of the year 1396 and Afs 30,615,039,560 or 47% increase in comparison with Afs 65,184,067,428 collected revenues of FY1395.

In addition, a comparison of the development section of the revenues Qatia Statement for FY1397 and FY1396 shows that revenues under code 14 (miscellaneous revenues) of Afs 113,492,260 in FY 1397 compared with Afs 308,149,461,96 in FY1396 has gap of 63%. Under code 18 (loans), Afs 900,505,397 has an increase of 28% compared with Afs 704,820,160,81 and revenues of code 19 (grants) with Afs 94,765,109,330 has 41% increase compared with Afs 67,237,368,542.

The amount of Afs 95,779,106,988 received funds from the foreign grants for development budget showed gaps of Afs 30,293,816,372 or 31.6% compared with Afs 126,072,923,360 total development budget expenditure. The total of foreign grants (discretionary and non-discretionary) for financing the national budget (development and operational) for FY1397 was estimated at Afs 225,534,629,233 according to the mid-year review documents. However, a total of Afs 11,964,280,635 was added in the budget as new commitments of donors after mid-year evaluation. As a result, Afs 237,498,909,860 is recorded as the total of estimated budget from grants for financing the national budget of FY1397.

But as per Revenue Qatia Statement, the amount of Afs 127,910,347,494 for financing the operational budget and Afs 95,779,106,988 for development budget have been collected as foreign grants, a total of Afs 223,689,454,482. The received funds shows a decrease of Afs 13,809,455,198 compared to the estimated funds.

## Chapter 6

### Loans

Foreign loans / financing agreement is entered into based on international practices between the GoIRA and the lender country. The agreement stipulates the areas and the projects for which the loans shall be utilized. The repayment of the loans in terms of installments are as per the agreement. Generally, GoIRA loans are for development projects and are of two types.

#### 1. Loans without interest -

loans without interest in which only the principal amount of the loan is repayable such as those from the Saudi Funds for Development (SDF)

#### 2. Loans with administrative cost and Interest in case not utilized -

loans with administrative cost are repayable in installments as per agreement twice in a year or each six months such as given by ADB, IDB and WB. In case the loan cannot be utilized because of project challenges or any other reasons then, a specific percentage of funds is charged as commitment fee by the donor. All WB loans are paid through this condition. The fee is same all over the world.

### **New and Previous Loans Received by the Islamic Republic of Afghanistan.**

#### ***A. Loans of Previous Years (before FY1381)***

Based on information provided by the General Directorate of Treasury, loans belonging to years before 1381, which GoIRA is required to pay or ask for exemption, are USD 896.78 million related to Russia and USD 10.13 million related to Islamic Republic of Iran.

#### ***B. Loans During FY1380 and till the end of FY1397***

The Treasury General Directorate provided the following details of loans related to FY1381 till the end of FY1396:

No	Lender	Loan Purpose	Type of Currency	Committed Amount	Omitted Amount	Utilized Loan	Repayment of loan(loans installment)	Repayment of Interest
1	World Bank	Transport project	XDR	80,000,000	475,750	79,524,250	134,944.13	6,623,557.12
2		Rural Employment	XDR	14,800,000	61,006.72	14,738,993.28	41,575.53	928,273.08
3		Telecommunication Project	XDR	15,700,000	148,951.82	15,551,048.18	495,729.78	1,340,220.71
4		Emergency project of customs and trade reconstruction	XDR	21,600,000	10,541.33	21,589,458.67	797,858.25	1,869,489.26
5		Reconstruction of Emergency project of irrigation rehabilitation	XDR	27,900,000	2,653,753	25,246,247	1,332,917.47	369,203.38

6		Reconstruction of Breshna emergency project	XDR	72,400,000	357,950	72,042,050.44	4,946,185.32	4,693,642.43
7		Planned assistance to strengthen institutions	XDR	54,700,000	0.00	54,700,000.00	0	5,502,350.56
8		Reconstruction of highway rehabilitation project	XDR	17,100,000	2,057,000	15,042,999.99	999,112.76	959,852.46
9		Project of providing facilities for investment in Afghanistan	XDR	3,500,000	218,116.14	3,281,883.86	167,385.28	213,540.38
<b>Total</b>				<b>307,700,000</b>	<b>5,983,069.01</b>	<b>301,716.931</b>	<b>8,915,708.52</b>	<b>22,500,129.38</b>
1	IMF	Reduction of poverty and development of facilities	XDR	160,350,000	0.00	108,350,000	72,645,000	720,556
<b>Total</b>				<b>160,350,000</b>	<b>0.00</b>	<b>108,350,000</b>	<b>72,645,000</b>	<b>720,556</b>
1	Islamic Development Bank	Polikhomri-Doshi Road	ISD	13,800,000	472,325.83	13,327,674.17	1,851,065.75	1,359,024.12
2		Aqeena-Andkhoy Road	ISD	13,000,000	219,845.00	12,780,154	3,740,369.96	920,124.51
3		Project for transmission and connection of energy in villages	ISD	11,000,000	0.00	9,419,407.62	275,000	662,858.08
4		Rehabilitation and improvement of water resources and irrigation	ISD	6,614,000	0.00	1,062,092.25	0	230,760.43
<b>Total</b>				<b>44,414,000</b>	<b>692,170.83</b>	<b>36,589,328.04</b>	<b>5,866,435.71</b>	<b>3,172,767.14</b>
1	Saudi Fund	Kandahar-Kabul highway	SAR	195,000,000	0.00	176,786,962.62	26,001,292	0
2		Qala-e-Naw –Armalak Sabzak road	SAR	187,500,000	0.00	113,233,481.69	0	0
<b>Total</b>				<b>382,500,000</b>	<b>0.00</b>	<b>290,020,444.31</b>	<b>26,001,292</b>	<b>0</b>
1	Asian Development Bank	ADB1954 AFG PMPL Loan	XDR	125,219,418.84	1,510,295	123,709,122.96	2,741,932.65	11,741,434.96
2		ADB 1997 AFG EmergInfrasRahReco	XDR	110,018,000	15,342,777.33	94,596,920.06	6,970,754.71	8,715,368.23
3		ADB 2083 AFG Agric Sect Prog	XDR	37,581,000	594,237	36,986,762.05	1,049,502.20	3,557,893.95
4		ADB 2091 AFGA Invest Guar Facility	XDR	3,430,000	1,802,002.37	1,627,997.63	116,869.45	139,003.16
5		ADB 2105 AFGReg Airport Rehab-PH I	XDR	20,370,000	2,880,622	17,489,378	1,016,575.09	1,166,138.25
6		ADB #2140 Andkhoy-Qaisar Road Proj	XDR	53,087,000	9,742,374.88	43,344,625.11	2,599,879.08	4,084,950.15
7		ADB #2165Power Trans and DistribProj	XDR	17,298,000	409,638.09	16,888,361.10	852,006.26	805,190.79
8		ADB #2215(SF)Public Administration R.P	XDR	33,676,000	546,293.15	33,129,706.85	1,325,188	3,178,764.53
9		ADB #2227(SF)Western Basins Water Resources M.P	XDR	42,446,000	8,873,233.76	31,070,395.67	1,342,800	1,542,107.26
10		ADB #2205 North- South Corridor	XDR	52,567,000	368,157.79	52,197,879.70	1,045,044.64	3,582,445.89
11		ADB #2304 Reg Power Trans intconnect	XDR	23,563,000	694,285.25	22,868,714.75	2,858,592	1,712,666.46
<b>Total</b>				<b>519,255,418.84</b>	<b>42,763,916.62</b>	<b>473,909,863.88</b>	<b>21,919,144.08</b>	<b>40,225,963.63</b>
1	Bulgaria	Government of Bulgaria post HIPC Reschataued Arrears	USA	50,626,257	42,424,803	8,201,454	1,750,000	0
<b>Total</b>				<b>50,626,257</b>	<b>42,424,803</b>	<b>8,201,454</b>	<b>1,750,000</b>	<b>0</b>
1	Italy	Rehabilitation of the West Corridor From Herat to Chasht e	EUR	29,300,000	0.00	12,999,258	0	0

<b>Total</b>				<b>29,300,000</b>	<b>0.00</b>	<b>12,999,258</b>	<b>0</b>	<b>0</b>
1	Kuwait Fund		KWD	6,885,963.88	0.00	6,885,963.88	0	51,644.73
<b>Total</b>				<b>6,885,963.88</b>	<b>0.00</b>	<b>6,885,963.88</b>	<b>0</b>	<b>51,644.73</b>
1	OPEC Fund		USD	1,781,250	0.00	1,781,250	98,940	179,609.39
<b>Total</b>				<b>1,781,250</b>	<b>0.00</b>	<b>1,781,250</b>	<b>98,940</b>	<b>179,609.39</b>

Based on above table:

1. Total of the committed loans for 9 projects by the World Bank were XDR 307,700,000; of which omitted loans XDR 5,983,069.01 and utilized loans XDR 301,716,931.42. XDR 8,915,708.52 was repaid (installment of loans) and interest paid XDR 22,500,129.38.
2. Total of the committed loans by the IMF was XDR 160,350,000; of which utilized loans XDR 108,350,000, repaid loans (installment of loans) XDR 72,645,000 and interest paid XDR 720,556.

It is worth mentioning that there was no loans reporting system regarding IMF loans. The loans department stated that: “due to technical problem in loans system of IMF, the loans are not recorded in the system. The Treasury General Directorate is trying to solve this problem. The reports will be sent soon to respected audit commission after resolving the problem and recording the aforementioned loans.”

It is noteworthy that the same problem existed in previous year also and the loans system report was not received by the audit for the same reason.

3. Total committed loans by Islamic Bank was ISD 44,414,000, utilized loans ISD 36,589,328.04, repaid funds (installment of loans) ISD 5,866,435.71 and paid interest ISD 3,172,767.14.
4. Total Saudi Fund loan was SAR 382,500,000, utilized loans SAR 290,020,444.31, paid funds (installment of loans) SAR 26,001,292 and interest is not paid.
5. Total committed loans by Asian Development Bank for 11 project was XDR 519,255,418.84, utilized loans XDR 473,909,863.88, repaid funds (installment of loans) XDR 21,919,144.08 and paid interest XDR 40,225,963.63. Deadline for payment 10 years and for repayment terms 25 to 30 years.
6. Total committed loans by Italy for Rehabilitation of the west corridor from Herat to chashte project was Euro 29,300,000 of which Euro 12,999.258 has been utilized yet.
7. Total committed loans by Bulgaria was Euro 29,300,000, utilized loans Euro 12,999,258 and no repayment has been done.
8. Total committed loans by Kuwait Fund was KWD 6,885,963.88, utilized loans KWD 6,885,963.88, Paid interest KWD 51,644.73 but no repayment has been done.
9. Total committed loans by OPEC Fund was USD 1,781,250, utilized loans USD 1,781,250, repaid fund (installment of loans) USD 98,940 and paid interest USD 179,609.39.

## Project expenditures from loans in the FY1397

Treasury General Directorate provided the project financed by loans as follows:

No	Project code	Project name	Donor	Total of expenditure
1	420109	Armalek-sabzak qala naw road project	Saudi Fund	585.927.316
2	410038	Water resource management in west region	Islamic Development Bank	289.939.565
3	420167	Design and construction of Kabul ring road length 117 km		30.625.907
Total			<b>906.492.788</b>	

Based on above table, total expenditures financed through loans in three projects was Afs 906,492,788. However, the total received loans recorded in the Revenue Qatia Statement is Afs 900,505,397 which shows a difference of Afs 5,987,391.

It is worth mentioning that the projects under reference have been financed through loans since last several years, but they are not complete yet; Armalak-Laman project started in 1384, water resource management project in west region started in 1382 and design and construction of Kabul ring road project started in 1387.

### Payment of previous year's loans installment and interest in FY1397

Considering FY1397 Qatia Statement, a total of Afs 2,002,475,994 was repaid and recorded under Code 23 (Loan repayment and payment of interest). Loans Department of the Treasury General Directorate informed that Afs 1,430,740,730 was paid against loans installment and Afs 571,735,268 as interest. The details are given bellow:

1. Asian Development Bank loan Afs 738,440,649 and interest Afs 334,825,881.
2. World Bank loan Afs 252,783,985 and interest Afs 188,314,593.
3. Islamic Development Bank Loan Afs 193,018,504 interest Afs 36,312,989.
4. Afs 187,850,648 as loan installment of Saudi Fund
5. Afs 12,281,805 as interest of Kuwait fund
6. Afs 4,656,044 as loans installment of OPEC fund loan
7. Afs 53,990,900 as loans installment of Bulgaria loan

As per the above, out of the total of Afs 2,002,475,994 recorded as payment under Code 23, Afs 1,430,740,730 was towards loans installment and Afs 571,735,268 towards interest.

However, in the AFMIS, an amount of Afs 1,213,813,841 only has been recorded towards loans installment and Afs 788,662,152 towards interest, which does not match with the figures provided by Loans General Department.

## Chapter 7

### Bank Statements

The Central Bank provided the statement of income and expenditure of TSA 600100 (reporting currency) and 600102 (USD accounts) of FY1397 operational budget of MoF's Treasury General Directorate as follows:

#### ***A: Account (600100)***

According to the bank statements provided by the Central Bank and the statement of income and expenditure of the bank statement in treasury general directorate of MoF, the Closing balance of FY1396 (opening balance of FY1397) was Afs 24,071,201,897.92 in 600100 account, Credit during the year including the opening balance is 290,277,685,218.87 and debit of the year is Afs 275,992,145.306 and closing balance of FY1397 (opening balance of FY1398) is Afs 14,285,539,912

#### ***B: Account (600102)***

Similarly, the closing balance of FY1396 (opening balance of FY1397) in 600102 USD account of the Treasury General Directorate was USD 493,882,994.34, total of credit during the year including opening balance was USD 1,409,742,155.8, total of Debit during the year was USD 600,895,829.19 and the closing balance of FY1397 (opening balance of FY1398) was USD 493,882,994.34

As per reconciliation of the said accounts with the Treasury General Directorate's bank statement and supporting documents, and also reconciliation of the said accounts with the revenue and expenditure Qatia statement, no difference has been noticed.

But considering the bank statement of 600100 account prepared by the cash planning revenue department of Treasury General Directorate, an amount of Afs 36,992,914 was recorded against Red Crescent Society (sarah myasht) in the statement's credit section, Kabul and Airport customs. However, based on the information provided by the Statistics Department of the Customs General Directorate, an amount of Afs 42,603,525 was presented as sarah myasht revenue against the two entities during FY1397. This shows a difference of Afs 5,610,611 between the figures provided by the two entities.

Further, according to the information provided by the Customs General Directorate, as per 2% of the custom duties towards Red Crescent; it comes to a total of Afs 666,676,219 in the fiscal year 1397. Of which, only 2% for Red Crescent (on account of Kabul and Airport customs) were transferred to 600100 account and the remaining are transferred to Afghan Red Crescent Society account.

The Treasury General Directorate stated that: "the amount of Afs **36,992,914** as Red Crescent revenue during FY1397 is correct and all its related documents are delivered to the respected audit

commission. You are kindly requested to inquire with the Customs General Directorate regarding the issue, because details of the said figure are not available in this department.”

## Chapter 8

### 1. Miscellaneous Total Foreign grants during (2018)

According to information provided by the Foreign Grants Coordination Directorate of the MoF, total foreign aids paid by donors to GoIRA in the year 2018 were a total of USD 4,406,851,219. From this amount, USD 2,906,212,377 has been paid through state budget and USD 1,500,638,842 has been spent through relevant donors without processing them on budget. Details are provided in the following table.

No	Donor	Funds expended through state budget		Off Budget of state		Total of committed and paid	
		Committed	Paid	Committed	Paid	Committed	Paid
1	America (USA)	441.000.000	435.000.00	637.000.000	464.000.000	1.078.000.000	899.000.000
2	World Bank(ARTF+IDI)	1.765.530.000	1.277.690.000	-	-	1.765.530.000	1.277.690.000
3	Germany	142.724.890	142.724.890	333.400.830	333.400.830	476.125.720	476.125.720
4	Japan	-	-	370.000.000	-	370.000.000	-
5	European union	225.060.000	279.690.000	47.420.000	99.270.000	272.480.000	378.960.000
6	England	130.300.000	100.000.000	156.940.000	115.000.000	287.240.000	215.000.000
7	Asian Development Bank	683.200.000	308.900.000	-	-	683.200.000	308.900.000
8	Italy	20.200.000	68.000.000	7.100.000	4.400.000	27.300.000	72.400.000
9	Sweden	54.300.000	54.300.000	69.300.000	69.300.000	123.600.000	123.600.000
10	Canada	34.700.000	34.700.000	34.700.000	34.700.000	69.400.000	69.400.000
11	Norway	41.975.309	50.617.284	44.444.444	47.518.519	86.419.753	98.135.802
12	Denmark	57.612.840	57.612.840	19.897.598	198.975.976	77.510.438	256.588.817
13	Netherland	47.200.000	31.800.000	23.600.000	16.200.000	70.800.000	48.000.000
14	Australia	30.000.000	40.950.000	20.250.000	9.525.000	50.250.000	50.475.000
15	Fenland	14.441.728	14.441.728	9.803.733	7.998.517	24.245.461	22.440.245
16	Korea	5.000.000	5.000.000	70.000.000	74.800.000	75.000.000	79.800.000
17	Switzerland	3.300.000	4.700.000	21.700.000	25.550.000	25.000.000	30.250.000
18	India	-	-	80.000.000	-	80.000.000	-
19	Islamic Development Bank	-	85.635	-	-	-	85.635
<b>Total</b>		<b>3.696.544.767</b>	<b>2.906.212.377</b>	<b>1.945.556.605</b>	<b>1.500.638.842</b>	<b>5.642.101.372</b>	<b>4.406.851.219</b>

Based on table above, the total of committed grants by the donors to GoIRA during 2018 (FY1397) was USD 5,642,101,372 and as per the information provided by the foreign grants cooperation Directorate of the MoF, an amount of USD 4,406,851,219 was paid to and spent by the GoIRA.

From the above amount, USD 2,906,212,377 was utilised through state budget and USD 1,500,638,842 have been spent directly by donors without processing them through budgetary process (off-budget spendings by donors).

Since the expenditure of USD 1,500,638,842 is the direct expenditure through donors and its not included in the state budget, it is called external budget. The expenditure is not included in AFMIS or Qatia Statement.

According to the information provided by the foreign grants cooperation directorate of the MoF, a total of USD (86460) million has been granted over the years 2002-2015 to GoIRA. From this amount, USD (21047) million has been spent through state budget and USD (65413) million has been spent directly by donors. Likewise, total of USD 2,064,357,785 has been received as grants during FY1395 (2016) of which USD 1,479,787,854 has been spent through state budget and USD 584,569,931 off budget or external budget. An amount of USD 764,451,614 was spent during FY1396 (2017) as off-budget. As per the Revenue Qatia Statement in 1397 (2018), a total of USD 2,785,719,436 was included in government budget.

## **2. Transfer of funds titled “Central Bank Recapitalization”**

The MoF committed to pay Afs 37,620,000,000 in annual installment according to a Memorandum of Understanding signed by the MoF and the Central Bank on 20.01.1390. Based on this agreement, an amount of Afs 2,458,710,000 in 1390, Afs 3,108,595,600 in 1391 and Afs 1,750,000,000 in 1392 have been transferred to the central bank account but no amount was transferred in 1393 despite approval of Afs 3,800,000,000 in the budget document. Due to absence of estimate and approval in budget document, no amount was paid in 1394. Central bank has assured of transferring Afs (7,317,305,600) to (9999001519200) and (9999001029201) accounts over the years 1390-1392 as Kabul Bank loans and stated that this amount was accounted as loans and the annual loan interest of Kabul bank, related to MoF.

Based on the previous information provided by the central bank that “central bank has granted loan to Kabul Bank under the terms and condition of 2% compound interest with repayment installment for eight years according to Article 86 of central bank for liquidity and preventing harmful impacts on banking and financial system.”

Central bank claims that it has received no amount as “reduction of central bank compensation” from MoF but received its loan installment only. As such, central bank received Afs 1,039,060,000 from sold properties of Kabul Bank on 1390, Afs 2,458,710,000 from MoF; total Afs 3,497,770,000 of which Afs 732,243,450 presented as interest. Likewise, central bank has received Afs 3,108,595,600 from MoF and Afs 2 billion from Kabul bank receivership commission in 1391; total 5,108,595,600 of which Afs 680,288,260 as interest.

An amount of Afs 774,222,852 was estimated and approved in 1395 under the title of recapitalization for diminution of central bank capital in original budget document under (900029) code. After mid-year review, Afs 5,100,000,000 was added which covered Afs 5,874,222, in 852

total. From this amount, Afs 3,976,887,252 was transferred to the central bank and the bank also assured that funds were received and noted that: "...from the total amount, Afs 568,939,003 accounted as interest of 1395 and the rest are received as a principle of loan of this year.

Likewise, an amount of Afs 8,633,333,310 was estimated and approved in FY 1396 under the title of recapitalization for diminution of central bank capital in the original budget document of FY1396 in (900029) code. But Afs 1,883,333,000 was deducted in mid-year evaluation. From this amount, Afs 6,750,000,310 remained and Afs 4,506,126,368 was transferred to the central bank account No (99990011). But central bank in the same year has assured of receiving Afs 4,506,126,368 through Cheque No ( 9658933-96) dated 28.10.2017 and Afs 3,422,500,000 through Cheque No ( 9645757-96) dated 28.03.2017; total Afs 7,928,626,368 from Kabul bank loan. As per the information provided, Afs 3,422,500,000 has been transferred to Kabul bank account and then through this account transferred to central bank account.

As such, during FY1397 through three payment cheques; total of Afs 7,900,000,000 have been transferred to the central bank account and the bank assured that funds were received and noted that from the said amount, Afs 7,650,965,602 was accounted as loan and the rest, Afs 249,034,398 as interest.

A total of Afs 37,608,750,000 was paid as Kabul Bank loan and as of now Afs 7,171,010,763 remains which relate to the MoF as per the information provided by central bank and considering (9999001136500) account.

<b>Year</b>	<b>Funds paid by MoF</b>	<b>Funds paid by Kabul receivership commission</b>	<b>Remarks</b>
1390	2.458.710.000	1.039.060.000	
1391	3.108.595.600	2.000.000.000	
1392	1.750.000.000	-	
1393	-	1.981.350.000	Despite of having Afs 3.8 billion budget, no payment has been made in FY1393
1394	-	-	NO FUNDS was estimated and approved in budget document of FY1394 for this purpose
1395	3.976.887.252	2.030.856.692	
1396	4.506.126.368	3.558.756.600	
1397	7.900.000.000	356.246.800	
<b>Total</b>	<b>23.700.319.220</b>	<b>10.966.270.092</b>	

According to above explanation, total of Afs 23,700,319,220 from MoF account and Afs (10,966,270,092) from Kabul Bank receivership commission account have been transferred to central bank account as Kabul bank loan which is a total of Afs 34,666,589,312.

MoF is committed to pay the Kabul bank loan to central bank as per aforementioned information, but it is not clear why Kabul bank loan funds are estimated as “recapitalization for diminution of Kabul bank capital”.

In addition, MoF transferred USD 30,847,347.14 dated 26.03.1395 from (9999001529201) account of Kabul receivership commission to (600102) account through transfer document No. (BHD 514386) without informing and written approval of Kabul bank management. This amount was converted to Afs 2,141,114,365 considering current exchange rate after the receivership commission demanded. MoF also approved this conversion through letter No. (TSI 13257) dated 27.04.1395. But after a while, Afghan Central Bank converted USD 30,847,347.14 to Afs 2,030,856,692 based on letter No. (TSI-17616) dated 10.07.1395 and accounted as Kabul bank loan. As a result, a difference of Afs 110,257,673 occurred between conversion done on 06.04.1395 and on 10.07.1395 (transfer day exchange rate and refund day exchange rate); this led to dispute between the MoF and the Kabul Bank Receivership Commission

### **3. Not Considering NTA Implementation Guideline in Recruitment of Contractor Staff**

3.1. Second paragraph of supervision section in NTA guidelines states: “budget general directorate of MoF is required to create a database for reporting of issues related to NTA. Contract copies of those NTA staff financed by national budget and information related to NTA staff financed by donors shall be recorded in this database. This mechanism would lead to better accountability and transparency.”

The NTA implementation guideline obliged budget general directorate to create a database for NTA staff for recording and reporting and to provide better accountability and transparency. But as per information received from the budget general directorate, complete database has not been developed for NTA staff or those recruited as per NTA guideline.

The number and qualification of NTA staff who are working at state level and receiving salary based on NTA mechanism are not clear in the MoF.

3.2 Paragraph 7 section supervision of NTA implementation guideline states that to implement this guideline, a committee led by the MoF and consisting of IARCSC (Independent Administrative Reform and Civil Service Commission) and the World Bank representative (ARTF representative) and a rotational representative of large donors shall be established. But this committee has not been established and no action has been taken in this regard.

3.3 Paragraph 2 of NTA guideline under the title of purpose states “this guideline is developed based on decree No.852 of office of the president for balancing salary of internal staff working in different governmental entities who are out of the state official organizational structure including those who receive salary out of the budget.

Considering the NTA lists of MoF provided by HR directorate on 26.3.1398 to the audit, it was found that 10 civil servant staff (Organizational structure staff) of MoF are paid NTA salary and Privileges, which are listed in the following table.

No	Position title	Grade/step
1	Administrative staff	F1
2	audit teams coordinator	D2
3	advisor for financial and accounting directorate	E5
4	Financial expert	C5
6	general manager of administrative office	D3
7	assistant for policy deputy minister office	F9
8	Budget execution specialist	C9
9	Health sector manager	B9
10	Budget execution specialist	B3

(10) Organizational structure staff of MoF are paid from NTA salary according to above table.

- 3.4 20141 NTA staff were presented in organizational structure of FY1396 budget document but as per national budget document of FY1398, it was found that 19160 NTA staff were working in different entities which represents a decrease of approximately 5%.

10 budgetary units are with more NTA staff in FY1397 according to information provided in budget document of FY1398.

No	Budgetary unit	Number of NTA staff on 1397
1	Ministry of Public Health	4,021
2	Ministry of Rural Rehabilitation and development	2,963
3	Ministry of Urban Development and Land	1,845
4	Ministry of Agriculture, Irrigation and Livestock	1,563
5	Population Registration Office	1,429
6	Ministry of Public Work	1,049
7	Ministry of Energy and Water	980
8	Ministry of Finance	882
9	Ministry of Labor and Social Affairs.	818
10	Ministry of Education	800

## Analysis of Condition of NTA Recruited Staff

As per the information provided by the Budget General Directorate, NTA staff increased in the following entities in FY1397 compared with to the previous year.

**Table 8.5: Increase in NTA staffs in 1397 over 1396 in 10 agencies.**

No	Budgetary unit	Number of NTA staff recruited in FY1396	Number of NTA staff recruited in FY1397	Increment with respect to FY1396
1	Ministry of interior	213	503	290
2	Population registration office	957	1402	445
3	Civil aviation authority	8	9	1
4	Attorney general office	6	17	11
5	Ministry of culture and information	11	28	17
6	Independent administrative reform and civil servant commission	24	40	16
7	State ministry for parliamentary affairs	0	6	6
8	Ministry of communication and information technology	30	60	30
9	Ministry of transport	0	8	8
10	Ministry of finance	480	755	275
Total		1729	2828	1099

It is worth mentioning that HR Directorate of the MoF informed that they had 755 NTA staff in FY 1397 in their ministry, while the record of 882 NTA staffs have been presented in budget document of FY1398 (number of NTA staff in 1397).

## Unusual increase in the Organizational structure of some the Budgetary Units in in FY1397 compared to the previous year

It has been found that the organizational structure of some of the entities have increased significantly in 1397, compared to budget document of FY1396. Details are provided in the following table:

**Table 8.6: Increase in the organizational structure of ministries and governmental entities in FY1397 compared to FY1396 based on national budget document.**

No	Ministry/Entity	Number of staff in organizational structure		Increment in organizational structure
		1396	1397	
1	Supreme Court	6796	7385	589
2	PPS Directorate	2100	2280	180
3	Ministry of Finance	8120	9707	1587
4	State Ministry in Parliamentary Affairs	240	332	92
5	Ministry of Defense	204449	208113	3664
6	Ministry of Foreign Affairs	1451	1470	19
7	Ministry of Education	263961	271785	7824
8	Ministry of Higher Education	13444	13844	400
9	Ministry of Information and Culture	2231	2244	13
12	Ministry of Border and Tribal Affairs	1294	1398	104
13	Ministry of RUrban Development and Land	1072	1399	327
14	Attorney General Office	5318	5837	519
15	Independent Directorate of Local Governance	7514	7624	110
16	Independent Administrative Reform and Civil Service Commission	833	965	132
17	National Directorate of Security	40741	42941	2200

18	<b>Anti-Corruption High Office</b>	390	441	51
19	<b>Electoral Complaints Commission</b>	342	410	68
20	<b>Independent General Directorate of Kuchi</b>	311	380	69
21	<b>Afghanistan Land Authority</b>	2793	3393	669
Total		564796	583345	18617

According to the table above, a total of 18,617 positions were added in 21 entities, while the object of the government is to restrict or maintain the current positions in governmental organizational structure. A circular also has been sent by IARCSC to all the governmental entities to avoid creating positions and increment in their organizational structure.

The IARCSC is requested of the reason for increase in in the organization chart of FY1397 through Inquiry No.(119) date 24.02.1398. But no information was provided in this regard despite of sending a follow up letter No (117) dated 19.03.1398.

## Chapter 9

### Conclusion and Recommendations

A series of defects and deficiencies have been found in budget executions during audit of FY1397 Qatia Statements. A summary of these defects along with related audit recommendations are discussed as follows:

#### 1. *Deficiencies in the budget document*

Budget document of FY1397 prepared for the first time in a standardized manner in accordance with budget general directorate statement and has the following defects and deficiencies:

- In the budget document, Afs 22,941,850,000 was recorded under the title of contingency code of MoF but the mentioned codes are not specified.
- An amount of Afs 15,500,000,000 related to pension for martyred and disabled, Afs 6,170,000,000 related to pension of civil and military personel and Afs 199,000,000 under the title of contingency funds for pension not paid in the previous years are accounted either in (900006), (900007) and (900031) contingency codes and in code 24 of Ministry of Labor, Social Affairs, Martyred and Disabled. Likewise, Afs 1,400,000,000 ws accounted under the title of contingency code for maintenance of railways from Hairatan to Mazar e sharif both in contingency code 9000027 and code 22 of Railway Authority.
- Afs 2,292,120,000 is included as approved fund under code 22 of the Ministry of Public Work, while from this amount, Afs 92,120,000 is related to core budget and Afs 2,200,000,000 related to contingency, core and contingency budget are not distinguished in budget document.
- Operating and development codes are recorded in a mixed and disordered manner at the pages (108) and (109) of the budget document which includes Afs 57,036,961,148. The total of the development and operating contingency figures are not accounted separately.
- Development budget supplement document (transferred differences of the first estimate and transfer of the second actual round) was not prepared in FY1397. The reason is not clear for the remaining funds of 1396 projects (transfer projects) which shall be progressed in the subsequent year that how they (transferred projects) were transferred to the budget document of FY1397.
- Projects carried forward from previous years are not clear in budget document of FY1397.
- It is not specified in the budget document of FY1397 that how many projects in the previous year are completed or omitted due to any reason.

#### **Recommendation**

It is recommended to consider the following issues while preparing the national budget document:

- Contingency funds shall be recorded under related codes in the budget document. Double recording, contingency code and entities budget code should be prohibited.
- It is better to include funds related to martyred and disabled pension, military and civil servants pension, funds related to maintenance of railway from Hairatan to Mazar e sharif and salangs only in budgetary codes of the respective ministries and entities. May set a series of limitations for better use of the aforementioned funds.
- Contingency codes related to development and operating budget should be recorded in relevant sections separately.
- Budget document should indicate that how many projects of previous year are completed or omitted from budget document due to any reason.
- Budget document should indicate transferred and new projects.
- Since the budget document is estimation of revenues and expenditure of the government, funds with no expenditure status shall not be included in budget document.

## 2. *Changes in approved ceiling of contingency budget*

The result of audit shows that across the FY1397 and previous years, considerable changes happen against budget document, due to amendment inside the miscellaneous and contingency codes in the approved ceiling of mentioned codes. On the one hand, these changes divert expenditure of contingency codes from the main route (determined objectives in budget document), on the other hand, it result in entities being careless in preparation of budgetary plans. Because they have the flexibility of compensating their additional budget by demanding from contingency funds when needed.

### **Recommendation**

Since the contingency and miscellaneous codes are approved by the national assembly and endorsed by the President of the Islamic Republic of Afghanistan to achieve determined goal, they should be utilised for the goals and objectives/purpose determined in budget document. Making any amendment in contingency and miscellaneous codes which leads to change in the respective codes' ceiling are contrary to budget document and should be approved by the Wolosi Jirga in mid-year evaluation.

## 3. *Amending and using contingency funds for goals other than determined in the budget document*

The audit result shows that a sizable portion of contingency codes approved by the National Assembly and endorsed by the President of GoIRA for goals estimated in the budget document, has not been consumed, but has been amended and utilized for other areas / purposes. This indicates a kind of budgetary violation.

### **Recommendation**

Whereas the provisioning for and the purpose of contingency codes in the budget document are primarily to prevent unnecessary expenditure and consuming of funds intended for the purposes

specified, it is therefore recommended to add the contingency and miscellaneous codes in the budget document with respect to their real requirement and utilize them for the determined goals. They are required to seriously avoid amending contingency and miscellaneous codes in cases other than determined in the budget document. It would be better to set restriction in budget execution manual to prevent such amendments.

**4. *Amendment of budgetary authority in contradiction to Article (47) of the Public Finance and Expenditure Management Law***

Article (47) of the public finance and expenditure management law and budget execution manual stipulate a maximum of 5% for the amendment level in budgetary authorities based on proposal of the governmental entity and in consultation of the budget commission. But audit result shows that budget of some projects have been completely deducted (100%) and added to other projects due to intra and inter – agency amendments, particularly, in the development budget which is against Article 47 of the public finance and expenditure management law. In most cases, there was no demand for amendment of funds.

**Recommendation**

It is recommended to consider the provisions of Article (47) of public finance and expenditure management law seriously in intra- and inter-agency funds amendments. The amendments above the regulated level as per the public finance and expenditure management law shall be executed in mid-year evaluation.

**5. *Lack of specific controlling system for preventing amendment in prohibited chapters***

Article (12) of the budget execution rules/guidelines states: “the following codes/subcodes are not transferrable into other codes/subcodes in FY1397 budget: Salaries and wages (except ministry of defense, interior and national directorate of security), payment for electricity, water, cleaning, telecommunication, maintenance of vehicles and buildings”

But on the basis of review of amendment and funds transfer, only main codes are reflected in all amendment funds forms (B23) of FY1397 operating budget. And it is not clear that from which code intended funds are deducted and added to other codes. And there is no controlling system for preventing amendment from prohibited codes.

**Recommendation**

It is recommended that MoF shall create a control system for preventing amendment from prohibited codes.

**6. *Lack of procedure for payment of top up salaries***

The audit result shows that Afs 1,004,463,477 from policy code (900001) and Afs 123,933,870 from code (900005) grading and salaries of civil servants and teachers over the year FY1397, a total of Afs 1,128,397,347 has been paid as top up salary for staff of specific entities. This is not based on any procedure, guideline or specific norm. Such top up payments not only lead to imbalance in salaries of governmental employees, but also reflects unfair practices in the entities toward using governmental salaries and wages.

**Recommendation**

It is recommended that a specific manual or procedure shall be developed and executed for payment of top up salaries such as other salaries to prevent unfair attitude on the one hand and to ensure justice on utilizing these privileges on the other.

**7. *Lack of sufficient information and documents on payment of funds to DABs and Kabul Municipality***

In the FY1397, a total of Afs 2 billion have been deducted from available allocations of entities and added to code (22) of MoF towards making payments that governmental entities owed to Kabul municipality and DABs. From this amount, Afs 1.5 billion has been deposited to DABs and Afs 500 million transferred to Kabul Municipality. But it is not clear that aforementioned funds are paid for payables / pending user charges of which entities and how much is debt share of each entity.

**Recommendation**

It is recommended that sufficient information and documents shall be available on payment of entities loans and the amount of paid loans by any governmental entities to ensure transparency and prevent possible misuses. Also, assurance letter should be available for entities indicate that their loans are paid.

**8. *Dual execution in transferring 2% donation of Red Crescent Society from custom duty***

The audit result reveals that funds related to (2%) Red Crescent Society from Kabul custom duty and airport custom has been transferred to account (600100) and then to afghan Red Crescent society account. However, funds of other customs have been transferred to Red Crescent society directly. This indicates dual execution of MoF regarding aforementioned funds to afghan Red Crescent society. In addition, funds of (2%) recorded in account (600100) does not match with documents of customs general directorate.

## **Recommendation**

It is recommended that funds related to (2%) of Red Crescent Society of all customs shall be transferred to relevant account through one route.

### **9. *Increase in organizational structure after approval of the national budget***

Article (43) of budget execution rules/ guidelines of FY1397 states: “Ministries and agencies are required to prepare their Tashkeel (organizational structure) differentiated by national and sub national levels based on the budget ceiling assigned by the National Council to each ministry and strictly avoid any increase in Tashkeel in the course of the fiscal year. Approved Tashkeel levels which appear in the budget document are final”.

The audit result shows that like previous years, organizational structure of some of the budgetary units has increased beyond the ceiling determined in the budget document during FY1397. This increase is in contrary to to the provision of Article 43 of the budget execution rules/guidelines.

## **Recommendation**

It is recommended that all of the budgetary units shall set their organizational structure in accordance with ceiling approved in the budget document and considering budget execution guidelines. They shall avoid any increase in organizational structure having financial burden during the fiscal year. And in case of urgency, it is necessary that such increases shall be made during mid-year evaluation with the approval of the Wolesi Jirga.

### **10. *Utilizing operative funds in contradiction with article (15) of budget execution guidelines***

Article (15) of budget execution rules/guidelines states: “Transfers from other codes to the operative codes are not allowed. The operative expenditures are only executable for following ministries and budgetary units:

- a) Ministry of Defense,
- b) Ministry of Interior,
- c) General Directorate of National Security,
- d) National Security Council.

Article (15) of budget execution rules/guidelines indicates that operative funds shall be estimated and approved in the main budget of entities. Otherwise, the entities are not allowed to demand for the amendment from other codes and Budget codes and expend it. Also, the entities are not allowed to utilize operative funds, except those set forth in the budget document.

But the audit results shows that some entities have been granted operative funds which is against budget execution rules/guidelines. Details are reflected in audit finding section.

## **Recommendation**

It is recommended that budget execution rules/guidelines shall be considered seriously while seeking budget approval and executing operative funds. Executing operative funds for entities which are not included in the budget document or not having approved funds in the budget document shall be avoided.

### ***11. Accumulation of advances pending for adjustments due to non- adjustment of advances on a timely manner***

Article (25) of FY1396 budget execution manual states: “All budgetary units are required to clear their advance balances before the end of fiscal year. ...otherwise they are not entitled for advances in the operating budget of subsequent year”

But audit of FY1397 Qatia Statement indicates that huge amount of advance payments of operating and development budget of several entities from year 1381 onward are not adjusted. Huge amounts of these advances, particularly related to previous years, have turned now into uncollectible figures. In addition. Some entities were paid advances without considering FY1398 budget execution rules/guidelines, despite they have not adjusted their advances of FY1397 or previous years budget.

## **Recommendation**

It is recommended that all the ministries and entities shall adjust their advances of fiscal year before the end of the year with respect to budget execution rules/guidelines and shall be serious on adjustment of previous year’s pending advances in order to prevent losing public properties. Entities that do not adjust their advances of the budget by the end of fiscal year should not be paid advances in subsequent year.

### ***12. Non Adjustment of Petty Cash on a Timely Manner***

Section (6.1) of article (6) of cash accounting manual states: “*petty cash is the amount dedicated for small expenditure. This amount is paid to budgetary units for unprecedented small expenditure.*”

*Petty cash shall not exceeded Afs 250,000 as per common practice. This advance amount shall be accounted during the year or repaid to the treasury by the end of the year. “*

In addition, cash accounting manual states that “petty cash for the next year will not be executed unless paid petty cash of previous year is adjusted.”

Based on audit result, some government entities were paid petty cash exceeding the amount specified in the cash accounting manual in FY1397. The said entities have not adjusted part of their payment till audit of Qatia statement, though the cash accounting manual stipulates that the entities should have repaid or accounted for the petty cash before the end of the fiscal year.

## **Recommendation**

It is recommended that all entities shall consider the stipulation of cash accounting manual and petty cash shall not remain un-adjusted beyond the fiscal year. Granting petty cash exceeding the amount specified in the cash accounting manual or when previous petty cash remaining unadjusted shall be avoided.

Since the limit specified in the cash accounting manual is relatively low in the current situation, it may be considered for upward revision to a prudent level.

### ***13. Carelessness in adjustment of expired Letter of Credits of previous years***

Audit result shows that certain entities which opened L/C in the previous years, even though the validity time has already expired, the funds in L/C account are still not deposited back to the state account and / or remained unadjusted. This caused certain amount to be kept without any transaction. In addition, several L/Cs related to previous years pertained to closed accounts where certain amounts remained in these accounts.

## **Recommendation**

It is recommended that funds remaining in the aforementioned accounts shall be deposited to treasury single account and their account should be adjusted in a timely manner in order to prevent locking up of public funds.

Also, it is required that MoF shall create and execute a specific system of management and controlling of L/C.

### ***14. Payment of Post Paid expenditure in the absence of expenditure document***

Since the such payments carried no subsequent expenditure document, such payment prior to procuring goods and providing services has the risk of misuse and embezzlement of public asset.

## **Recommendation**

It is recommended to avoid incurring expenditure which is in contradiction with public finance and expenditure management law and accounting manual in order to prevent possible embezzlement of public asset and ensuring transparency in financial performances.

### ***15. Ambiguous information on total amount of committed, paid and exempted loans***

Information provided by treasury general directorate on committed, paid and exempted loans of year before 1381 and committed, received and utilized loans after 1381 are in conflict in some cases with the information provided by this directorate in the previous years.

## **Recommendation**

It is recommended that Treasury General Directorate shall review all documents related to previous years till now and specify and record all the figures of committed, received and utilized loans in the relevant database lender-wise, loan purpose and date of commitment or payment of loan, exemption received, utilized loans, repayments and interest paid. Also, a complete information in coordination with Treasury General Directorate in this regard should be provided clearly in the budget document of subsequent year.

In addition, the amount of loan and grants of projects supposed to be partially financed by loan and grants shall be added to budget document.

### **16. *Internal control weakness in CS-DRMS are as follows***

- Using admin account by loan officer
- No automatic password works for the first log-in into system

#### **Recommendation**

- It is recommended to protect admin password and create another account for user.
- The system shall be set up in a way so that user could change the password of the loan system when logging-in.

### **17. *Mis-match of revenues figures in chapter 12000 and 12002 between information of Customs General Directorate and Revenue Qatia Statement***

The audit results show that the figures recorded in Revenues Qatia Statement in chapter 12000 of imports custom duties and chapter 12002 of exports custom duties do not match with the information provided by customs general directorate. The difference between figures indicates that customs general directorate has no accurate and authentic information on collected funds from custom duties and relevant customs or figures in the Qatia statements are wanting.

#### **Recommendation**

It is recommended that all customs shall send their M29 forms to ARD (Afghanistan Revenues Directorate) through ACD (Afghanistan Customs Department). Also, ACD is responsible to conduct monthly, quarterly and annual reconciliation with relevant customs collecting revenues. It is also required that ARD and ACD shall coordinate between themselves to for accurate revenues figures in customs.

**18. *Lack of Specific Code In chart of account for the L/C***

The audit results show that despite previous recommendations, L/Cs are still recorded in Advances Codes Row of chart of Accounts in AFMIS which cannot be differentiated from other advances..

**Recommendation**

It is recommended to create a specific code for L/Cs in chart of accounts and shall be recorded in the same code in the AFMIS.

**19. *Non transparency on recruitment of NTA staff and lack of completed information of them***

Budget general directorate should have created complete database of NTA staff and recruited them through a competition process according to NTA Guideline Implementation, but during the audit it is found that MoF has not created any complete database of NTA staff and certain staff are recruited based on the order of the minister without processing competition process.

**Recommendation**

It is recommended that MoF shall create a complete database of NTA staff based on guideline for better management and recruit NTA staff through open competition process.

**20. *Challenges in Audit Process***

In some cases, the related departments, particularly Customs General Directorates, State-Owned Enterprises General Directorate, HR and Management Directorate delayed providing information and document or presented incomplete, non-documented and irrelevant information on questionnaire of audit commission which posed challenges in audit process.

**Recommendation**

It is recommended to carefully review the contents of questionnaire of audit commission on the next audit and provide timely, documented, completed and relevant information in accordance with questionnaire; considering time limitation in auditing and reporting of Qatia Statements. Because providing non-documented, incorrect and irrelevant information not only causes challenges in audit process but diverts the audit process and conclusion of audited subject matters which have adverse effects in the future.

Based on above mentioned information, the Qatia Statement Audit Report for FY1397 is prepared and presented to Auditor General for approval and sending it to concerned agencies.

Sincerely,

Qatia Statement Audit Commission, Supreme Audit Office Afghanistan

