



# **North Coal Enterprise**

**Audited Financial Statements  
1395 - 1396**



**Supreme Audit Office**

**Government of Islamic Republic of Afghanistan**

**Auditor's Report**

23 November 2019

**To:**  
**HE**  
**Minister of Mines and Petroleum**  
**Government of Islamic Republic of Afghanistan**  
**Kabul**

**Independent Auditor's Report on Financial Statements**

**Adverse Opinion**

We have audited the accompanying financial statements of North Coal Enterprise, which comprise of statement of financial position as at 30 Qaws 1395 and 1396, the statement of profit or loss and other comprehensive income, and Statement of cash flow for the years then ended.

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion of our report, the accompanying financial statements do not present fairly in all material respects, in accordance with International Financial Reporting Standards.

**Basis for Adverse Opinion**

- 1) North Coal Enterprise applies two different rates for sales of coal which is AFS 2,100 and AFS 1,500 per ton. 99.2% and 99.4% of revenue comes from AFS 1,500 per ton for 1395 and 1396 respectively. The management's assertion is that AFS 1,500 per ton is applied to those customers who extract the coal themselves. We were unable to obtain sufficient and appropriate audit evidence to confirm the completeness and accuracy of revenue recognized for the years then ended.

the valuation of these receivables and therefore we were unable to satisfy ourselves regarding the status of recovery of such receivables.

- 6) For the year ended 1395 the cashbook shows a balance of AFS 1,657,092,190. However, when we reviewed the bank statements of all the banks it totaled to AFS 1,693,289,561.02. This means the cashbook balance is out by AFS 36,197,371.02. We could not verify the difference because we were not provided all the cashbooks of the Enterprise and any bank reconciliations. We are, therefore, unable to confirm the accuracy and completeness of cash balance.
- 7) The royalty expense of AFS 331,271,654, which relates to 4<sup>th</sup> quarter of 1395, has been charged as an expense in 1396. Which overstates expenses of 1396 and understates expenses of 1395 by the mentioned amount. IFRS 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting.
- 8) The financial statements presented do not include statement of changes in equity and notes to the financial statements, making the financial statements incomplete as per IFRS 1. In addition, the statement of cash flow is not presented in accordance with requirements of IAS 7.18, which requires entities to prepare cash flow statements using the direct method and indirect method. Furthermore, the amounts in the cash flow statement do not have authentic sources; therefore, we could not verify the amounts and sources of the amounts presented.
- 9) We did not observe the counting of the physical inventory as at the year ended 30 Qaws 1396 and 1395. Since the date was prior to our start of audit date we tried to perform alternative procedures to verify existence and valuation of stocks but we were unable to verify due to non-availability of values and quantity registers of inventory amounting to AFS 388,190,415 in 1395 and 353,792,339 in 1396 as at the year end.
- 10) Payables amounting to AFS 40,749,738 in 1395 and AFS 47,228,580 in 1396, are recognized in the financial statements. However, we were not provided details of the payable amounts; therefore, we were unable to perform any audit procedures to satisfy ourselves on the obligation of these payables as stated in the statement of financial position.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI 1000-2999 corresponding with ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Enterprise in accordance with the INTOSAI Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management for the Financial Statements**

The Management is responsible for preparation and fair presentation of the Financial Statements. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements which are

free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, management is responsible for assessing the Enterprise's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Enterprise or to cease operations, or has no realistic alternative but to do so.

Management is responsible for overseeing the Enterprise's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our responsibility is to express an opinion on these Financial Statements based on our audit. We have conducted audit of the financial statements and related internal controls in accordance with International Standards of Supreme Audit Institutions ("ISSAIs"). Those Standards require us to comply with ethical regulations and plan and perform the audit to obtain reasonable assurance of the financial statements being free from material misstatement. Those standards require that SAIs express its opinion on whether the financial statements present fairly, in all material respects.

Board Letter attached with this Audit Report, highlights the areas of improvement in financial management along with auditor's recommendations.



**Mohammad Naiem Haqmal (FCCA)**  
**Auditor General**  
**Supreme Audit Office**  
**Afghanistan**





**Islamic Republic of Afghanistan**

**Ministry of Mines and Petroleum**

Directorate of North Coal Enterprise

**Balance Sheet**

**Active Column**

A: Current Assets (Cash)	FY1396	FY1395
a Assets		
1 Cash in hand	98637.83	70403.83
2 Bank Accounts	1814444244.50	1657092189.50
Total Cash Assets (As per Opening Bal of cash account)	1814542882.33	1657162593.33
b. Reserves		
1 Saleable Goods (56569.741 tons)	103407736.38	104402503.66
2 Material and components	13201260.89	11944990.73
3 Inventories(Spare parts and Fuel)	102291041.23	116628896.70
4 Non –Finished goods at the end of year		
5 Consumable Goods and surplus	656834.40	2611209.68
6 Less Valuable and less lasting goods in store	13.077178.35	3540933.53
7 Other inventories	121158279.68	149443878.54
Total Inventories Assets	353792339.93	388190412.84
c Receivables		
1 Short term Receivables		46577.42
2 Advances	755171	748337
3 Receivables from contractors	259732667.17	264252612.69
4 Receivables from clients		
5 Other receivable	147335.91	147335.91
Total receivables	265194863.02	265194863.02
d Other current assets		
1 Compensation	2301320.13	2301320.13
2 Other Assets		
Total Other current Assets	2301320.13	2301320.13
Total Current Assets(a+b+c+d)	2312849189.32	2312849189.32
B Non-Current assets		
Fixed Assets Initial Value	822380203.96	768457874.72
Accumulated Depreciation up end of reporting year	510093519	491583388
Cost after deducting depreciation	312286684.96	276874486.72
Properties on Lease	498816014.82	498816014.82
Statement of changes in Properties and Fixed Assets	3359409.58	53922329.24
Net value of fixed asset'	819020794.38	822380203.96
C. miscellaneous		
Services done but not paid		
Investment for interest purposes		
Tax and liabilities already paid	299834768.19	267160746.59
Total miscellaneous Assets	299834768.19	267160746.59
Total Assets: A+B+C	3402390139.87	3402390139.87

**Passive Column**

Capital Sources			
A:Current liabilities		FY1396	FY13945
1	Advances from buyers	32924676.40	32950136.46
2	Advances from Contractors	14303903.87	7799601.10
3	Short Loans/Payables	11234863.87	11234863.87
4	Retained Earnings	0	0
5	Tax payable	Cleared	31503527.40
6	Other current liabilities	71303052.04	87661776.74
Total Current Capital		87661776.74	86735801
B: Fixed Capital			
1	Grants	200000	0
2	Government Share and shareholders capital	827270525	827270525
3	Circular Capital	256272588	256272588
4	Long term loans		
5	Rehabilitation reserves	78300728	67171642
5	Basic Repairing	47105404	39724539
6	Development funds	391188211	353614345
7	Incentive funds	1359857244	1288088486
8	Cultural funds	284120450.45	284120450.45
9	Reserved Funds	198465967.47	198465967.47
Total fixed Capital		3478824254	3314728363.13
Total Capital A+B		3550127279.04	3402390139.87

**Profit and loss account**

Revenue	1396	1395
1- Statement of finished goods and services (coal sales)	3076520892	2471106812
2- 4% BRT tax	123060836	98844272
A- Revenue from Fundamental activities after tax	2953460056	372262540
Non-fundamental Revenue	0	0
1- Revenue from rent of fixed asset and properties(Land)	38500	83100140
2- interest revenue (Bank account profit)	0	0
3- Revenue from purchasing of shares	0	0
4- Revenue of exchange rate of currency	0	61588
5- Unpredicted Revenue (overload)	9132795	4060088
6- rising price of finished and in progress goods	0	0
7- othermiscellaneous Revenue	653403	962016460
Total non-fundamental revenue	9824698	14572842
Taking 5% tax from non-fundamental revenue	532370	728642
B- Non-fundamental Revenue after taking tax	9292328	13844200
1- All Total Revenue A+B	2962752384	2386106740
C- General Expenditures	0	0
1- Cost of raw material and Compositions (Wood)	10130490	462983520
2- Reserve cost (spare parts and fuel)	5100874	3081433098
3- payment for contractors' services (lubrications and Fuel)	11816643	3446923034
4- Productive tools and Equipment costs of an Organization(royalty money)	1763987729	0
5- Salaries	203447909	168487374
6- Costs of paying Contractors' fine for Cash Damage and Reducing Rates	0	0
7- Consumptions of tools of reporting year	18510131	15621827
8- Costs of reducing the price of Equipment being made or completed.	0	0
9- All of Expenditures	10411941	85244704174
C- - Total General Expenditures	2023405717	104771443526
The results of the enterprise's activity from the basic income (Fundamental Revenue- Expenditures)	930054339	1324548105
General Result A+B-C- Profit and loss (Total Revenue- Expenditures= Result)	939346667	1338392305

SoEs Accounting Head

Head of SoEs

Approved by MoMP





د کانونو او پترولیم وزارت

وزارت معادن و پترولیم  
ریاست تصدی ذغالسنگ شمال  
بیلاس نفع و ضرر

Islamic Republic of Afghanistan  
Ministry of Mines & Petroleum  
North Coal Department  
Benefits and losses



د افغانستان اسلامي  
جمهوریت

۱۳۹۵	۱۳۹۶	عواید
۲۴۷۱۱۰۶۸۱۲	۳۰۷۶۵۲۰۸۹۲	۱- صورت حساب اجناس تکمیل شده و با خدمات انجام یافته (فروش ذغالسنگ)
۸۸۴۴۲۷۲	۱۲۳۰۶۰۸۳۶	۲- وضع ۴٪ مالیات بر عایدات
۷۲۲۶۲۵۴۰	۲۹۵۳۴۶۰۰۵۶	A - عواید فعالیت های اساسی بعد از وضع مالیات
		عواید غیر اساسی
۸۳۱۰۰۱۰۴۰	۳۸۵۰۰	۱- عواید کرایه و اجاره دارائی های ثابت (اجاره زمین)
		۲- عواید بهره (مفاد حسابات بانکی)
		۳- عواید بهره از مدرک خریداری سهام
۶۱۵۸۸		۴- عواید تغییر نرخ تبادل اسعار
۴۰۶۰۰۸۸	۹۱۳۲۷۹۵	۵- عواید پیشبینی نشده (اضافه بار)
		۶- افزایش نرخ کالا ها در حال ساخت و با تکمیل شده
۹۶۲۰۱۶۴۶۰	۶۵۳۴۰۳	۷- سایر عواید متفرقه
۱۴۵۷۳۸۴۲	۹۸۳۴۶۹۸	مجموع عواید غیر اساسی
۷۲۸۶۴۲	۵۳۲۳۷۰	وضع ۵٪ مالیات بر عواید غیر اساسی
۱۳۸۴۴۳۰۰	۹۲۹۲۳۲۸	B - عواید غیر اساسی بعد از وضع مالیات
۲۳۸۶۱۰۶۷۴۰	۲۹۶۲۷۵۲۳۸۲	A + B - مجموع کل عواید
		C - مصارف عمومی
۴۶۲۹۸۳۵۰۲۰	۱۰۱۳۰۴۹۰	۱- مصارف مواد خام و برکیبات (چوب تحکیماتی)
۳۰۸۱۴۳۳۰۹۸	۵۱۰۰۸۷۴	۲- مصارف ذخایر (پروژه جات و مواد محرکه)
۳۴۴۶۹۲۳۰۲۴	۱۱۸۱۶۶۴۳	۳- پرداخت به قراردادیان خدمات (روغنیات و محروقات)
	۱۷۶۳۹۸۷۷۲۹	۴- مصارف اجناس و لوازم تولیدی موسسه (پول ریالتی)
۱۶۲۸۷۲۷۴	۲۰۳۴۴۷۹۰۹	۵- معاشات
		۶- مصارف پرداخت جریمه های قراردادیان خساره نقدی و پائین آمدن نرخ ها
۱۵۶۲۱۸۲۷	۱۸۵۱۰۱۳۱	۷- استهلاکات جنسی سال راپور دهی
		۸- مصارف کاهش قیمت کالا ها در حال ساخت و با تکمیل شده
۸۵۲۴۴۷۰۴۱۰۷۴	۱۰۴۱۱۹۴۱	۹- سایر مصارف
۱۰۴۷۷۱۴۶۳۵۰۲۶	۲۰۲۳۴۰۵۷۱۷	C - مجموع مصارف عمومی
۱۲۲۴۵۴۸۱۰۵	۹۳۰۰۵۴۳۳۹	نتایج فعالیت تصدی از مدرک عواید اساسی (عواید اساسی - مصارف)
۱۳۳۸۳۹۲۳۰۵	۹۳۹۳۶۶۶۷	نتیجه عمومی - A + B - C مفاد یا ضرر (عواید مجموعی - مصارف = نتیجه)

ملاحظه شد مقام وزارت معادن و پترولیم

رئیس تصدی

سر محاسب تصدی

۹۶ نو ۹۶







د کانونو او پترولیم وزارت

دولت جمهوری اسلامی افغانستان  
وزارت معادن و پترولیم  
ریاست تصدی ذغالسنگ شمال  
ستون بسف  
Islamic Republic of Afghanistan  
Ministry of Mines & petroleum  
North Coal Department  
Pseudo Column



د افغانستان اسلامی  
جمهوریت

منابع سرمایه		سال ۱۳۹۶	سال ۱۳۹۵
الف: سرمایه جاری (دیون)			
۱	دیون ن از مدرک پیشکی خریداری	۲۲۹۲۴۶۷۶.۴۰	۲۲۹۵۰۱۳۶.۴۴
۲	دیون ن از مدرک پیشکی قراردادیان	۱۴۲۰۳۹۰۳۶۰	۷۷۹۹۶۰۱۱۰
۳	دیون ن که زودتر قابل پرداخت باشد	۱۹۲۷۹۵۲۲.۷۸	۱۱۲۳۴۸۶۳.۷۸
۴	مفاد پرداخت نشده یا سهم تقسیم نشده		
۵	مالیات و وجایب مالیاتی تادیه نشده	مجرا شده	۳۱۵۰۳۵۲۷.۴۰
۶	سایر دیون	۴۶۹۴۹۲۲.۲۶	۴۱۷۳۴۴۸
مجموع سرمایه جاری		۷۱۳۰۳۰۲۵۰.۴	۸۷۶۶۱۷۷۶.۷۴
ب: سرمایه ثابت			
۱	کمک بالعوض	۲۰۰۰۰۰	
۲	سرمایه دولت یا سهم سرمایه داران	۸۲۷۲۷۰۵۲۵	۸۲۷۲۷۰۵۲۵
۳	سرمایه دورانی	۲۵۶۲۲۲۵۸۸	۲۵۶۲۲۲۵۸۸
۴	قروض طویل المدت		
۵	ذخیره فند احیای مجدد	۷۸۳۰۰۷۲۸	۶۷۱۷۱۴۶۲
۶	ذخیره فند ترمیم اساسی	۴۷۱۰۵۴۰۴	۳۹۷۲۴۵۳۹
۷	ذخیره فند توسعه وی	۳۹۱۱۸۸۲۱۱	۳۵۳۶۱۴۳۴۵
۸	ذخیره فند تحقیقی	۱۳۵۹۸۵۷۲۴۴	۱۲۸۸۰۸۸۴۸۶
۹	ذخیره فند فرهنگی	۳۰۵۲۳۴۰۴۰	۲۸۴۱۲۰۴۵۰۴۵
۱۰	ذخیره فند احتیاطی	۲۱۳۳۹۵۵۱۴	۱۹۸۴۶۵۹۶۷.۲۷
مجموع سرمایه ثابت		۲۴۷۸۸۲۲۵۴	۲۳۱۴۷۷۸۳۶۳.۱۳
مجموع کل سرمایه الف + ب		۲۵۵۰۱۲۲۲۹۰.۴	۲۴۰۲۳۹۰۱۳۹۸

ملاحظه شد مقام وزارت معادن و پترولیم

رئیس تصدی

سرمحاسب تصدی





د کانونو او پترولیم وزارت

دولت جمهوری اسلامی افغانستان  
وزارت معادن و پترولیم  
ریاست تصدی ذغالسنگ شمال  
بیلاس شیت ستون اکتیف  
Islamic Republic of Afghanistan  
Ministry of Mines & petroleum  
North Coal Department  
Balance Sheet Column Active



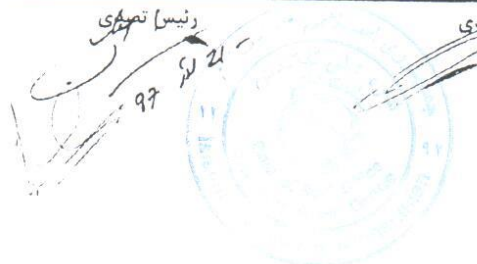
د افغانستان اسلامي  
جمهوريت

الف داراي	جاري	<< نقدی >>
A داراي		
۱	کيسه مستمدين	۹۸۶۳۷.۸۳
۲	حسابات	۱۸۱۴۴۴۲۴۴.۵۰
	مجموع دارايي هاي نقدي ( مطابق بيلانس افتتاحيه دوران وجوه نقدي )	۱۸۱۴۴۴۲۴۴.۵۰
B ذخاير		
۱	امتنعه قابيل فروش ( مقدار ۵۶۵۶۹.۷۴۱ تن به قيمت مختلف )	۱۰۴۰۲۰۵۰.۳۶۶
۲	مواد خام و تركيبات	۱۱۹۴۴۹۹۰.۷۳
۳	مواد ذخيره ( برزه جات و محرکه )	۱۰۲۲۹۱۰۴۱.۲۳
۴	امتنعه نيمه کاره در اخير سال	۲۶۱۱۲۰۹۶۸
۵	مواد مصرفي و مازاد	۳۵۰۹۲۳.۵۳
۶	اجناس و اموال کم قيمت و کم دوام داخل تحويلخانه	۱۲۱۱۵۸۲۷۹.۶۸
۷	ساير ذخاير	۳۵۳۷۹۲۳۹.۹۳
	مجموع دارايي در ذخاير	۳۵۳۷۹۲۳۹.۹۳
C طلبات		
۱	طلبات کم زودتر قابيل حصول است	۴۶۵۷۷.۴۲
۲	پيشگي ها	۷۴۸۲۳۷
۳	طلبات با سلامي قراردادبان	۲۶۴۲۵۲۶۱۲.۶۹
۴	طلبات با سلامي مشتريان	۱۴۷۳۳۵.۹۱
۵	ساير طلبات	۲۶۰۶۳۵۱۷۴.۰۸
	مجموع طلبات	۲۶۰۶۳۵۱۷۴.۰۸
D ساير دارايي هاي جاري		
۱	جبران خساره	۲۳۰۱۳۲۰.۱۳
۲	ساير دارايي هاي جاري	۲۳۰۱۳۲۰.۱۳
	مجموع ساير دارايي هاي جاري	۲۳۰۱۳۲۰.۱۳
	مجموع دارايي جاري A + B + C + D	۲۴۳۱۲۷۱۷۱۶.۴۷
ب: دارائي ثابت		
۱	قيمت ايتحائي دارائي ثابت	۸۲۲۳۸۰۲۰۳.۹۶
۲	ذخير ه استهلاكات الي سال راپور دهی	۵۱۰۰۹۳۵۱۹
۳	قيمت بعد از وضع استهلاكات	۳۱۲۲۸۶۶۸۴.۹۶
۴	دارائي به اجاره داده شده	۴۹۸۸۱۶۰۱۴.۸۲
۵	صورت تغيرات و تبادلات در دارائي ثابت	۳۳۵۹۴۰۹.۵۸
	قيمت خالص دارائي هاي ثابت	۸۱۹۰۲۰۷۹۴.۳۸
ج: دارائي هاي متفرقه		
۱	خدمات انجام شده که پول آن پرداخت نشده	۲۶۷۱۶۰۷۴۶.۵۹
۲	سرمایه غذاي پول به خاطر بدست آوردن معاد ( بخاطر سرمايه گذاري به بانک شده باشد )	۲۶۷۱۶۰۷۴۶.۵۹
۳	مالیات و وجايب تادياتي بحسابات مربوطه قبلا انتقال شده باشد	۲۶۷۱۶۰۷۴۶.۵۹
	مجموع دارائي متفرقه	۲۶۷۱۶۰۷۴۶.۵۹
	مجموع کل دارائي هاي الف + ب + ج	۳۵۵۰۱۲۷۲۷۹.۰۶

ملاحظه شد: مقام وزارت معادن و پترولیم

رئيس تصدی

سر محاسب تصدی





**Supreme Audit Office  
Government of Islamic Republic of Afghanistan**

**Board Letter**

23 November 2019

**To  
HE**

**Minister of Mines and Petroleum,  
Government of Islamic Republic of Afghanistan  
Kabul**



**Dear Sir/Madam,**

We have conducted an audit of the financial statements and related internal controls of North Coal Enterprise in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance on the financial statements being free from material misstatements.

This management letter summarizes the significant issues relating to the financial reporting, disclosure process and conclusions together with our comments on relevant issues found during the course of our audit. It also discusses the result of the review of internal controls and other significant matters which came to our attention during our audit.

**Responsibilities of Management for the Financial Statements:**

The Management is responsible for preparation and fair presentation of the Financial Statements. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements which are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, management is responsible for assessing the Enterprise's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Enterprise or to cease operations, or has no realistic alternative but to do so.



Management is responsible for overseeing the Enterprise's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements:**

Our responsibility is to express an opinion on the accompanying Financial Statements based on our audit. We have conducted audit of the financial statements in accordance with International Standards of Supreme Audit Institutions ("ISSAIs"). Those Standards require us to comply with ethical regulations and plan and perform the audit to obtain reasonable assurance of the financial statements being free from material misstatement. Those standards also require us to express opinion on whether the financial statements present fairly, in all material respects.

This work is not primarily directed towards the discovery of weaknesses (other than those, which influence us in forming that opinion) or the detection of fraud, and should not, therefore, be relied upon to show that no other weaknesses exist. Accordingly, the comments, which follow, refer to only those matters, which have come to our attention during the course of our normal audit work and do not attempt to include all possible improvements that a more exhaustive system review might develop.

**Matters for the Board's attention**

We have described in the ensuing paragraphs our significant observations and findings resulting from audit of the financial statements that we believe require your attention on priority basis:

**1. Issue: Revenue Recognition**

North Coal Enterprise applies two different rates for sales of coal which is AFS 2,100 and AFS 1,500 per ton. 99.2% and 99.4% of revenue comes from AFS 1,500 per ton for 1395 and 1396 respectively. The management's assertion is that AFS 1,500 per ton is applied to those customers who extract the coal themselves.

We were unable to confirm how much coal was actually extracted during those years and we have not been provided with any evidence to confirm the completeness and accuracy of the coal extracted during 1395 and 1396. We, therefore, are unable to confirm the accuracy and completeness of revenue recognized for the years then ended.

**Consequences/Risks:**

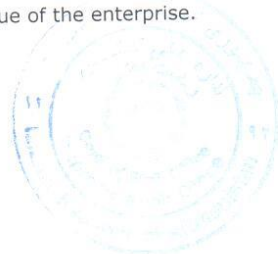
There is an increased risk that the revenue might be materially understated due to application of different sales rates and unavailability of records.

**Recommendation:**

We recommend that the enterprise should keep sufficient and appropriate records to avoid any risk of material misstatements. We also recommend that competitive selling price system should be established to increase the revenue of the enterprise.

**Management Response:**

Management did not provide response





**2. Issue: Selling price of 1500 and 2100 per ton**

The selling prices that have remained the same for over a decade and have not been determined through a competitive process and don't seem to be profitable to the Enterprise.

As per MoMP SOE Directorate's confirmation the then business plan of North Coal Enterprise was approved by Council of Ministers on 31/02/1386 and authority was given to North Coal Enterprise to apply selling rates as per market demand.

**Consequences/Risk:**

There is a risk that due to management override and weak controls the Enterprise has not charged competitive rates to generate more revenue.

**Recommendation:**

We recommend that the management should establish a transparent and competitive pricing mechanism which may lead to an increase in the revenue of the Enterprise.

**Management Response:**

Management did not provide response



**3. Issue: Coal Extraction**

We have inquired MoMP SOE Directorate if MoMP and/or North Coal Enterprise had any oversight mechanism in place regarding the extraction of coal. MoMP replied that North Coal Enterprise presents its financial plan every year to SOEs Council Meeting and the extraction is approved.

**Consequences/Risk:**

In the absence of a mechanism in place, there is a risk that more coal might be extracted but not paid for and the revenue might be understated. Due to lack of controls there is a risk of fraud as well. We are, therefore, unable to verify the exact extraction of coal during the years to confirm the accuracy of revenue and thus profit recognized.

**Recommendation:**

We recommend that MoMP should establish a proper oversight and control mechanism to avoid any misuse and misappropriation of coal being extracted.

**Management Response:**

Management did not provide response

**4. Issue: Misclassification of Royalty Expense**

According to accrual basis of accounting all expenses should be recorded when they occur and revenues should be recorded when it is earned.

The royalty expense of AFS 331,271,654, which relates to 4<sup>th</sup> quarter of 1395, has been charged as expense in 1396. This is a non-compliance with matching concept of accounting.

**Consequences/Risk:**

This has resulted in understatement of profit in 1396 and overstatement of profit in 1395 by **AFS 331,271,654** consequently it misleads the users of financial statements.

**Recommendation:**

Management should adjust the financial statements of 1395 and 1396 accordingly. We further recommend that North Coal Enterprise follow the matching concept and record revenue and expenses in the respective financial years.

**Management Response:**

Management did not provide response



**5. Issue: Inconsistent classification of expenses:**

Each material class of similar items must be presented separately in the financial statements. Dissimilar items may be aggregated only if they are individually immaterial. [IFRS1]

The management has not shown the royalty expense of AFS 817,081,824 as separate line of expense in the statement of profit and loss of 1395; which is a material amount to the overall financial statement.

**Consequences/Risk:**

This does not present the financial statement fairly in accordance with IFRS1 therefore the financial statements may be misleading to the intended users.

**Recommendation:**

Expenses should be classified and presented in accordance with IFRS1.

**Management response**

Management did not provide response

**6. Issue: Ledger and Trail Balance figures not matching**

While reconciling and tracing the expenses from trail balance to ledger accounts we noticed that the figures in the ledger accounts do not match with the figures presented in the trail balance. Details are provided below;

No.	Account Name	Amount as per Ledger	Amount as per Trail Balance	Difference
1	Salaries	193,326,669	193,326,669	-
2	Salaries of Security Guard of Tala and Barfak	2,040,000	2,040,000	-
3	Overtime	3,562,449	3,562,449	-
4	Travel Expenses	4,518,741	4,518,741	-
5	Tea, sugar and chocolate	198,520	17,065	(181,455)
6	Bank Commission	30,154	26,504	(3,650)
7	Telephone	800,000	818,218	18,218
8	Advertisements	15,940	15,940	-
9	Medicine	1,000,000	463,506	(536,494)
10	Repairs	4,927,600	1,270,521	(3,657,079)
11	Rent of equipment	78,900	78,900	-
12	Clothes	131,410	131,410	-
13	Rent of Buildings	1,660,511	344,750	(1,315,761)
14	Royalty	1,763,987,729	1,763,987,729	-
15	Cleaning	492,327	492,327	-
16	Electricity	1,500,000	23,821,833	22,321,833
17	Diesel expenses	6,788,298	4,887,797	(1,900,501)
18	Petrol expenses	2,263,617	1,963,617	(300,000)
19	Other oils	968,249	482,049	(486,200)
20	Equipment	4,969,463	3,616,579	(1,352,884)
21	Flammables	296,477	98,396	(198,081)
22	Stationery	723,450	723,450	-
23	Binding wood	10,130,490	6,069,907	(4,060,583)
24	Depreciation	18,510,131	-	(18,510,131)
25	Miscellaneous	484,539	8,295,583	7,811,044
<b>Total</b>		<b>2,023,405,664</b>	<b>2,021,053,940</b>	<b>(2,351,724)</b>

**Consequences/Risks:**

The financial statements do not present fairly and it appears that the trail balance has been force tallied.

**Recommendation:**

Management should treat items of expense consistently and record them correctly.

**Management Response:**

Management did not provide response





**7. Issue: Understatement of income from lease of land**

The entity has leased 67 acres of land. We were not provided the contract; however, a management representation letter has stated that the lessee should pay AFS 251,651 to the entity during 1396. However, the management has only recognized AFS 38,500 revenue regarding this contract during 1396.

**Consequences/Risk:**

The income has been understated by AFS 213,151.

**Recommendation:**

Management should recognize the full amount of contract as revenue for the year.

**Management Response:**

Management did not provide response

**8. Issue: Inappropriate utilization of incentive fund in breach SOE Law:**

During the audit, based on our samples, we observed that the incentive fund was used to pay the individuals who were not employees of the entity.

Specific examples are listed below:

Number	Details	Amount (AFN)
1	Payment to 9 employees of woman developing institute of Baghlan	27,000
2	payment to suraya employee of ministry of mines and petroleum	5,000
3	payment to Ahmad jawed employee of mines and petroleum	5,000
4	Payment to Hakeema employee of General Directorate of Geological survey	5,000
5	Payment to driver of Minister of Mines and petroleum	10,000
6	Payment to employee of Governor of Baghlan	3,000
Total		55,000

**Consequences/Risk:**

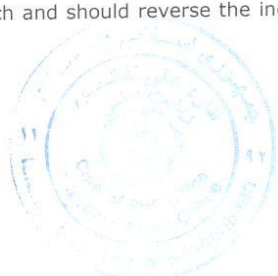
As a result of this breach the incentive fund expense has been overstated.

**Recommendation:**

North Coal Enterprise should avoid any breach and should reverse the incentives paid to non-employees of the Enterprise.

**Management Response:**

Management did not provide response





**9. Issue: Loss of revenue due to charging of Business Receipts Tax (BRT) of 4%**

The Enterprise has accounted for and paid BRT of 4% amounting to AFS 123,060,836, in 1396 and 98,844,272 in 1395 from revenue generated from their main source of income. However according to chapter 12 article 80 of Income Tax Law of Afghanistan the North Coal Enterprise is exempt from paying BRT.

**Consequences/Risks:**

Noncompliance with Income Tax Law and Material Misstatement of gross operation revenue

**Recommendation:**

We recommend to the Board to discuss and resolve this issue with Ministry of Finance. After resolving the issue North Coal Enterprise shall treat all BRT payment as advance tax and off set their advance tax with their current and future tax liabilities

**Management Response:**

Management did not provide response

**10. Issue: Cash at Bank**

For the year ended 1395 the cashbook shows a balance of AFS 1,657,092,190. However, when we reviewed the bank statements of all the banks it totaled to AFS 1,693,289,561.02. This means the cashbook balance is out by AFS 36,197,371.02. We could not verify the difference because we were not provided all the cashbooks of the Enterprise and any bank reconciliations. We are, therefore, unable to confirm the accuracy and completeness of cash balance.

**Consequences/Risks:**

Cash balance is understated by AFS 36,197,371.02 resulting in material misstatement of financial statements.

**Recommendation:**

Regular bank reconciliation should be performed to establish the cause of the difference and update the accounting records.

**Management Response:**

Management did not provide response



**11. Issue: Bank Account at Da Afghanistan Bank**

The cash and cash equivalent of **AFS 1,693,289,561.02** included **AFS 471,740,647.00** in Da Afghanistan Bank which is not appearing in 1396 books and we have not received any confirmation of the above mentioned figure from Da Afghanistan Bank.

**Consequences/Risks:**

There is an increased risk that the balance at Da Afghanistan Bank Account might be materially misstated.

**Recommendation:**

North Coal Enterprise should keep complete records of its bank accounts and conduct bank reconciliations. North Coal Enterprise should provide original stamped Bank Statements to confirm the existence of the balance.

**Management Response:**

Management did not provide response

**12. Issue: Incorrect presentation of accumulated depreciation and valuation of fixed assets**

According to IAS 16 all fixed assets should be recorded at netbook value, which is cost less the accumulated depreciation.

During our audit, we found that the Enterprise is showing the fixed assets in the statement of financial position at cost and is not deducting the accumulated depreciation from the cost of the asset. In addition, the entity is adding the accumulated depreciation with equity under the heading "Revitalization fund reserve and fundamental reconstruction fund reserve".

**Consequences/Risks:**

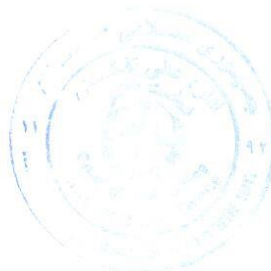
There is a material misstatement in the financial statements arising from overstatement of fixed assets and liabilities by **AFS 144,381,276** as per fixed asset register.

**Recommendation:**

We recommend that the Enterprise should treat its assets as per IAS 16.

**Management Response:**

Management did not provide response



### 13. Issue: Incorrect recognition of leased assets of AFS 498,816,015

The Enterprise has recognized leased assets amounting to AFS 498,816,015 to Afghan Investment Company (AIC) for forty-nine years in its financial statements, which does not meet the criteria for definition of an asset as per the IASB conceptual framework. This states that an asset is a present economic resource controlled by an entity as a result of past events. An economic resource is a right that has the potential to produce economic benefit.

The lease agreement was signed between Ministry of Mines and Petroleum and AIC, and not with North Coal Enterprise. In addition, the amount of rent receivable in the lease agreement is \$300,000, which is directly paid to the Ministry of Mines and Petroleum. Since North Coal Enterprise has no control over the said assets and it does not receive any future benefit from the assets it does meet the criteria to be recognized as a leased asset.

We have inquired management regarding the rental income from this contract. However, it was confirmed that Cadaster Directorate of MoMP has signed the contract with AIC. If this extraction mine belongs to North Coal Enterprise, the income should have been transferred to North Coal Enterprise and should have been recognized as rental income.

#### Consequences/Risks:

As a result of incorrect accounting treatment assets are overstated by **AFS 498,816,015** therefore financial statements are materially misstated. Furthermore, we are unable to trace where \$300,000 annual rent is going.

#### Recommendation:

We recommend that the Enterprise should treat leases as per the International Standard on Leases (IFRS 16). We also require the management to provide us the evidence of \$300,000 annual rental income to confirm it is going to the right account.

#### Management Response:

Management did not provide response



### 14. Issue: External Confirmations on receivables balances not provided

The following receivable confirmations were sent to the relevant customers however, we have not received back the confirmations:

No.	Particulars	Receivables 1395	Confirmation 1395	Receivables 1396	Confirmation 1396
1	Jabal Saraj Cement	111,752,153	No confirmation	107,981,222	No confirmation
2	Cod-e-Barq Enterprise	22,000,000	No confirmation	22,000,000	No confirmation
3	Ano Investment	4,449,721	No confirmation	4,449,721	No confirmation
4	Hashimi Group	27,630	No confirmation	0	No confirmation
5	Baghlan Provincial Office	364,099	No confirmation	364,099	No confirmation
6	AIC Company	15,821,942	No confirmation	15,821,942	No confirmation
7	Ghori Cement	61,249,358	No confirmation	61,249,358	No confirmation
	<b>Total</b>	<b>215,664,903</b>		<b>211,866,342</b>	



**Consequences/Risks:**

Long outstanding balance in accounts receivable represents weak internal control of management over the recovery of advances and receivables. This may lead to increased bad debts which will affect Enterprise's profit and it will also have adverse effect on Enterprise's receivable turnover ratio. **AFS 82,017,441** from the above receivables are outstanding for more than five years.

**Recommendation:**

We recommend to the management to take appropriate measures regarding the recovery of their receivables to increase the recovery ratio of receivables because if the situation remains the same North Coal Enterprise might face cash flow problems in future. This would include receivables aging analysis, assigning specific unit for debt collection with specific collection targets for the staff in this unit. An appropriate policy needs to be developed for bad and doubtful debts and the accounting treatments in compliance with International Standards.

**Management Response:**

Management did not provide response

**15. Issue: Inventory**

We requested management for the details of inventory; however, we were not provided any data regarding inventory valuation, costing methods, quantity registers. So we were not able to perform any type of audit procedure for verifying the total amount of inventory of **AFS 388,190,415** in 1395 and **AFS 353,792,339** in 1396 figures in the Statement of financial position.

**Consequences/Risks:**

Non-availability of complete supporting documents and record in books of accounts of the enterprise regarding Inventory creates doubt about valuation, existence, completeness, concreteness and reliability on the inventory of the enterprise. We are, therefore, unable to confirm the amount of inventory held.

**Recommendation:**

We recommend that enterprise must have complete record of its inventories in its books of accounts along with all the supporting documents to confirm the completeness of the inventories.

**Management Response:**

Management did not provide response





**16. Issue: Wasted inventory wrongly classified as indemnity cost**

The Statement of financial position in the asset section contains **AFS 2,301,320** by name of indemnity cost. Which were coal and other inventories however, since these items were burned or destroyed they are no longer available for use of the business.

**Consequences/Risks:**

The assets of North Coal enterprise are overstated by AFS 2,301,320.

**Recommendation:**

Management should write off the above figure and charge it as an expense in the statement of profit and loss as per IAS 2 – Inventory.

**Management Response:**

Management did not provide response

**17. Issue: Payable Verification**

Management did not provide the details of the payables to us. Therefore, we could not verify and perform audit procedures on payables account which amounts to AFS 87,661,776 in 1395 and AFS 71,303,205 in 1396.

**Consequences/Risks:**

Non- availability of complete supporting documents and record in books of accounts of the enterprise regarding payables creates doubt about completeness, concreteness and reliability on the payables of the enterprise.

**Recommendation:**

We recommend that enterprise must keep complete record of its payables in its books of accounts along with all the supporting documents to confirm the completeness of the revenues.

**Management Response:**

Management did not provide response



**18. Issue: Misclassification of Fixed asset as inventory**

During the periods, assets amounting to AFS 4,041,000 in 1396 and AFS 6,231,600 in 1395, which were sent to extraction fields, were removed from fixed asset ledgers and classified as inventory. Some assets were moved back from the extraction-sites to the head office, and were again classified as fixed asset amounting to AFS 550,318 in 1396 and AFS 582,685 in 1395.

**Consequences/Risks:**

As a result of this inconsistency and misclassification of assets the assets are understated, depreciation expense is understated and inventory is overstated.

**Recommendation:**

All the items of fixed asset and inventory should be classified according to nature of use and definition of fixed asset and inventory. Not just because of movement of asset from one area to another.

**Management Response:**

Management did not provide response

**19. Issue: Omission of primary statements from the North Coal Financial Statements**

The financial statements are incomplete and have not been prepared in accordance with IFRS1.

As required by IFRS1 statement of changes in equity and notes to the financial statements have not been prepared.

Furthermore, the cash flow statement was prepared but we could not verify and trace the amounts presented in the cash flow statements since the data sources used to prepare the cash flow statements were not provided.

**Consequences/Risks:**

The incomplete set of financial statements presented do not give users all the information needed.

**Recommendation:**

North Coal Enterprise should prepare and present a complete set of financial statements in accordance with requirements of IFRS1.

**Management Response:**

Management did not provide response

**20. Issue: Fixed Asset Register:**

We were not provided with the fixed asset register of AFS 55,963,569 in 1396 and AFS 82,665,968 in 1395. Therefore, we were unable to satisfy ourselves on the values and existence of these assets. In addition, the fixed asset which was provided to us did not have assets codes, rates of depreciation, location of the asset.

**Consequences/Risks:**

Fixed assets are important economic resources of the Enterprise. In the absence of proper record there is chance of misuse, theft and misplacement of fixed assets.

**Recommendation:**

We recommend that fixed assets register mentioning code, description of each item, original cost of the item, date of acquisition, classification of the item, location and custodian of the item, rate of depreciation, accumulated depreciation and depreciation for the year and any other information should be maintained to exercise itemized controls on fixed assets. We further recommend that; all fixed assets should be given unique identification codes for identification purposes so that they can be easily tracked and controlled.

**Management Response:**

Management did not provide response

**21. Issue: Manual Accounting System**

We observed that North Coal Enterprise operates manual accounting system which makes keeping and tracing records difficult and unreliable. In addition we also noted the enterprise does not have a competent accounting team with the skills and knowledge to prepare financial statements as per IFRS.

**Consequences/Risks:**

There is an increased risk of fraud, errors and inefficiency in operations due to lack of computerized system.

**Recommendation:**

We recommend a computerized accounting system should be acquired which can help in improving the accounting system and compliance generally accepted accounting principles. We also recommend that North Coal Enterprise should train its existing staff or recruit professional staff that have the knowledge and competence of keeping proper accounting records and prepare financial statements as per IFRS.

**Management Response:**

Management did not provide response

We wish to take this opportunity to express our appreciation for the cooperation and courtesy extended to us by the management and staff of North Coal Enterprise during the course of audit.

Yours truly,



**Mohammad Naiem Haqmal (FCCA)**  
**Auditor General**  
**Supreme Audit Office**  
**Afghanistan**

