

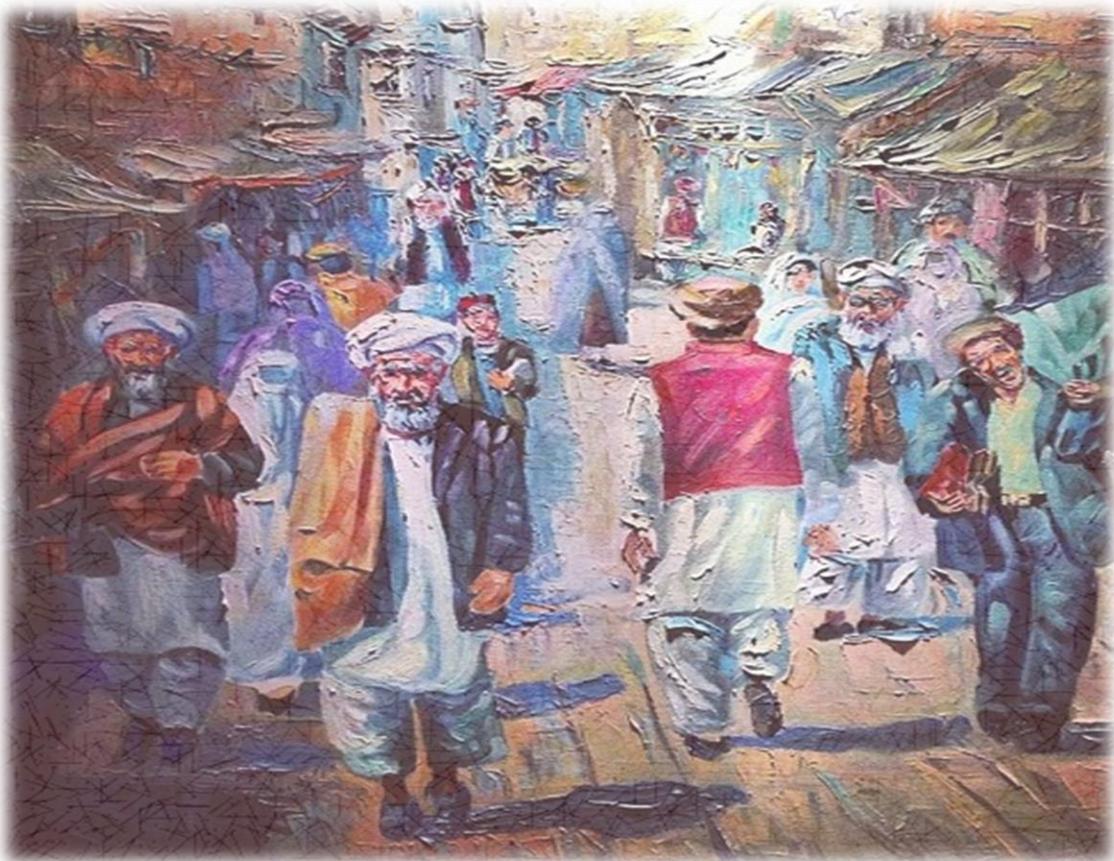


Islamic Republic of Afghanistan
Supreme Audit Office



Citizens' Audit Report

Qatia Audit Report 1398 / 2019



You know!

There is the Supreme Audit Office of Afghanistan headed by the Auditor General with a separate Audit Law to audit the Government and its agencies.

What is Qatia & What does Qatia Audit Report say?

Qatia is the Government's Annual Statements Of Revenue & Spending in a financial year Compared with the approved National Budget.

It tells us:

- ✓ The budget approved by the National Assembly and President assent for the year.
- ✓ Expenditure by the government & its agencies and for which purpose, which projects.
- ✓ Revenue government received as public money from domestic sources and international partners in aid and as loan for funding operating and development budget



What does the Auditor General's audit do & report?

- ✓ Checks how the government and its agencies spent the public money approved in the budget, did they spend for the purpose the National Assembly gave it for and spent transparently & accountably.
- ✓ Checks whether the government received the revenue it budgeted & how did it meet the gaps in revenue and expenditure.

To do this, Supreme Audit Office (SAO) audits the government's Qatia accounts annually and submits the audit report to the President and the Wolesi Jirga of National Assembly.

The National Assembly, especially Budget, Finance, Public Accounts and Banking Commission (BFPBC) of Wolesi Jirga discusses the audit report and takes actions on the audit findings

Why is the Qatia Audit & Audit Report Important?



By preparing Qatia Statements by Ministry of Finance (MoF), it is clarified for the President, the National Assembly and other relevant stakeholders, how the budget has been implemented, what changes have been unveiled in the budget for the previous fiscal year, which areas Lags and in which areas the performance has been realized more than expected.

Therefore, in order to have a clear picture of the realization and collection of revenues and the actual expenditures for the financial year, the preparation and Audit of the Qatia Statements is considered mandatory. For this reason, the laws delegates the responsibility of preparation to Ministry of Finance, Audit by SAO and submitting its report to the President and the National Assembly during the first six months of the following year.

The SAO Law & the PFEM Law requires the Auditor General to audit the Qatia Accounts and submit Audit Report to the President & the Wolesi Jirga of National Assembly.

Qatia Audit & submission of the Audit Report is a statutory obligation for the Auditor General.

The Wolesi Jirga of National Assembly, as the peoples' representative & the people at large, should know from an independent auditor how the government and its agencies managed the public money.



Auditor General's Report helps the Budget, Finance, Public Accounts and Banking Commission and the Wolesi Jirga scrutinize the report and make recommendations in making public financial management accountable and transparent and bringing good governance in the country that serves the people.

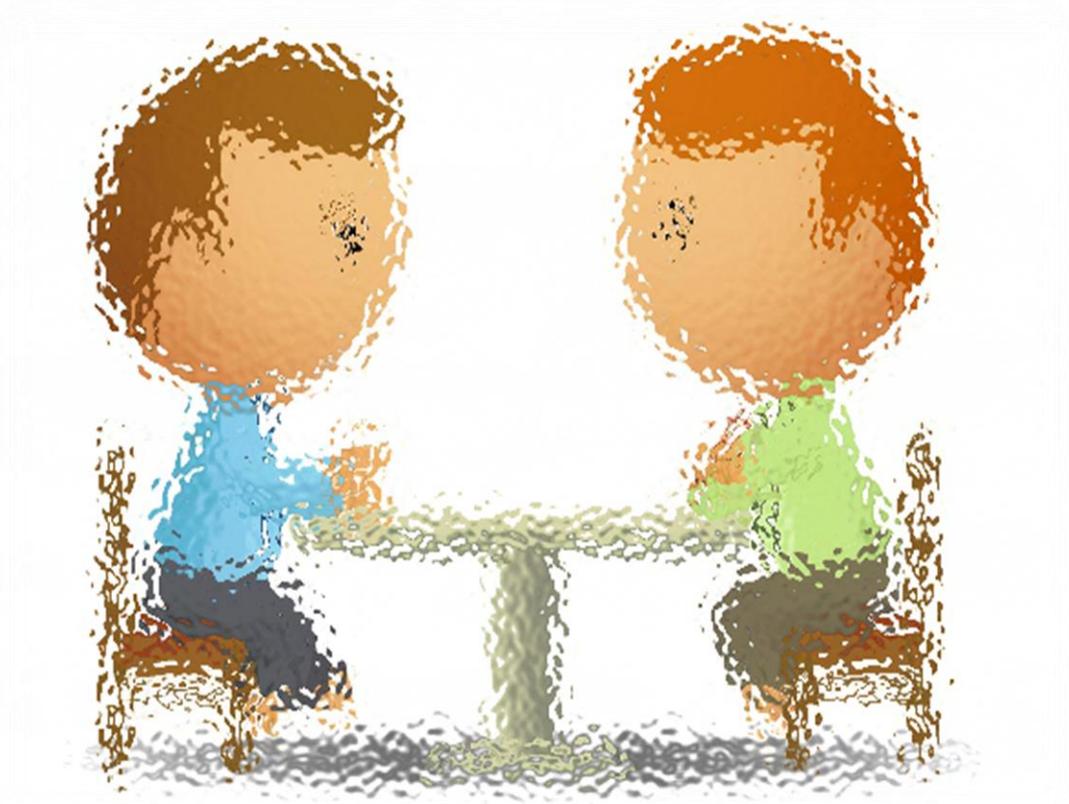
It also provides for the international stakeholders' information on the public financial management by the government & its agencies.

Audit of the Qatia Statement of 1398/2019

The Government and its agencies, the people of Afghanistan as well as the Supreme Audit Office is faced with the COVID-19 situations in 2020.

Notwithstanding, the Ministry of Finance and the Supreme Audit Office managed to meet the constitutional requirements of preparation and audit of the Qatia Statements.

This could be possible because we talked to each other, completed the constitutional and statutory requirements, and value the interest of the people.

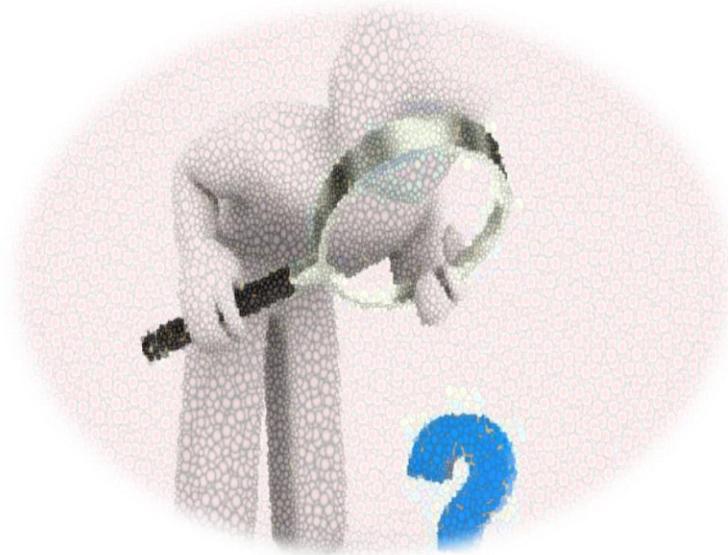


The audit of the Qatia Statements for the financial year 1398/2019 was conducted by the Supreme Audit Office during second quarter of 1399/2020).

The Qatia Audit Report with the findings and recommendations were presented to the President and the Wolesi Jirga of National Assembly.

What did we do in our audit of the Qatia Statements of 1398/2019?

- ✓ Spending of the government and its agencies in 1398/2019 compared with the approved original and final National Budget for the financial year.
- ✓ Revenue was collected in 1398/2019 compared with the government's planned and estimated revenue for the financial year 1398/2019.
- ✓ Individual Qatia Statements of the respective ministries/departments/agencies, provincial expenditure reports, Qatia reports of Mustofiats and agencies in the provinces & central and provincial revenue reports.



- ✓ Bank statements of DAB.
- ✓ Information and Treasury General Ledger (TGL) statements from AFMIS.
- ✓ Documents supporting the decisions of the MoF for transfers and virements (adjustments), the Budget Committee, the Cabinet, the Presidential Decree, etc.
- ✓ Test-based check of controls and adjustments in compliance concerning Budget Execution Rules & PFEM Law.
- ✓ Provided audit opinion, the link is attached below:

<https://sao.gov.af/sites/default/files/2020-09/Audit%20Opinion%20on%201398-2019%20Qatia%20Statements.pdf>

What we did not do?

We didn't audit documents of contractors, cash transfer papers, and expenditure related documents at the transaction level of agencies and ministries.

However, these are covered by the SAO through other audits, compliance and performance audits.

What does the Qatia 1398/2019 tells about Government Finances?

The Big Picture

(Figures based on Qatia Statement, Combination of Operating and Development Budget)

#	Descriptions	Figure (Afs)
1.	Total Budget after adjustments	451,577,600,526
2.	Total Operating Budget	302,205,944,710
3.	Total Development Budget	149,371,655,816
4.	Total Expenditure	420,245,713,274
5.	Total Operating Expenditure	281,164,193,241
6.	Total Development Expenditure	139,081,520,033



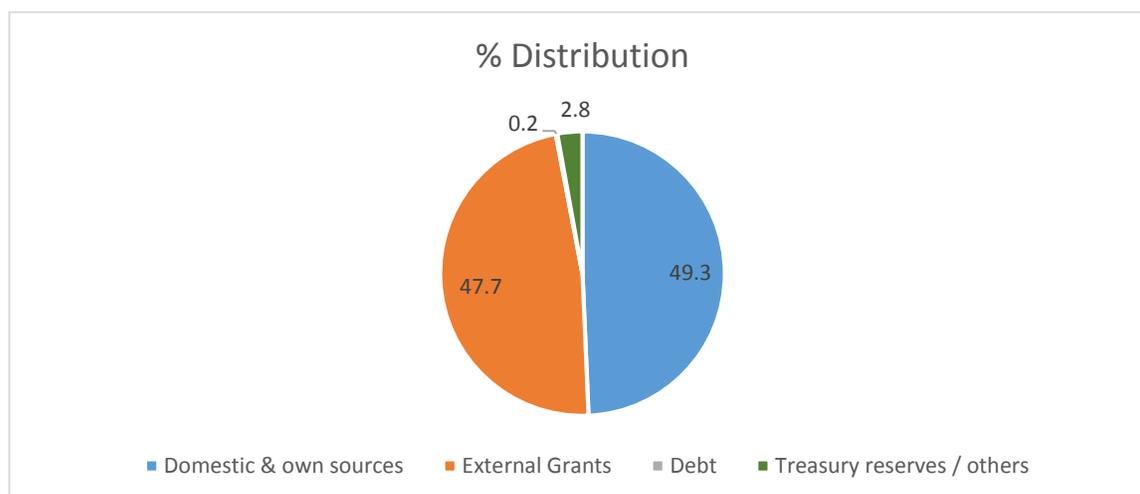
Where the money went?

Codes	Economic Expenditure Codes	Afs (%)
21	Wages & Salaries	197,467,191,014 (47.0%)
22	Goods & Services	83,556,579,458 (19.9%)
23	Repayment of Loans & payment of Interest	2,203,399,998 (0.5%)
24	Subsidies, Grants & Social Benefits	36,156,526,729 (8.6%)
25	Acquisition of Assets	100,799,016,084 (24.0%)
Total National Budget		420,182,713,274 (100%)

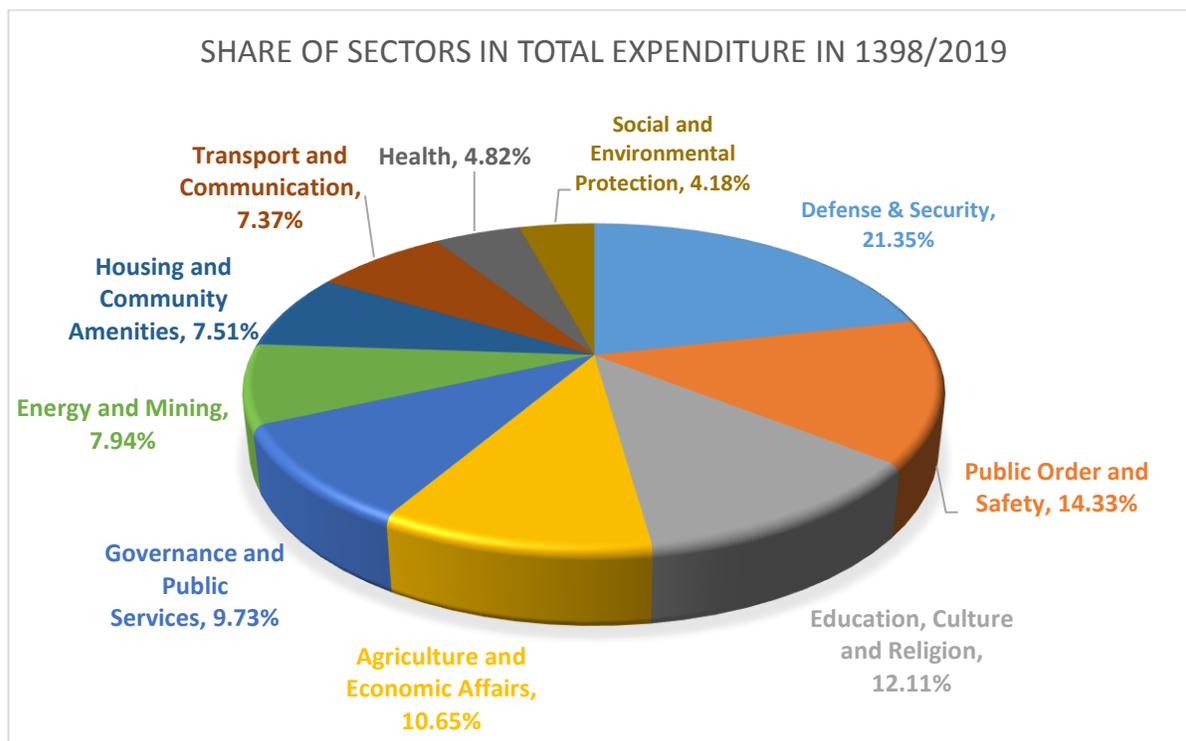
Where it came from?

#	Revenue Codes	Afs (%)
1.	Taxes & Customs	123,400,750,231 (29.4%)
2.	Non-Tax, Sale of Asset & Misc.	77,962,445,471 (18.6%)
3.	Social Contribution	5,886,900,202 (1.4%)
4.	External Grants (Operating budget)	101,669,439,288 (24.2%)
5.	External Grants (Development budget)	98,599,554,217 (23.5%)
6.	Loans	758,383,203 (0.2%)
7.	Other sources/treasury reserve	11,905,240,662 (2.8%)
Total Financing Sources		420,182,713,274 (100%)

How was the total budget financed in 1398/2019?



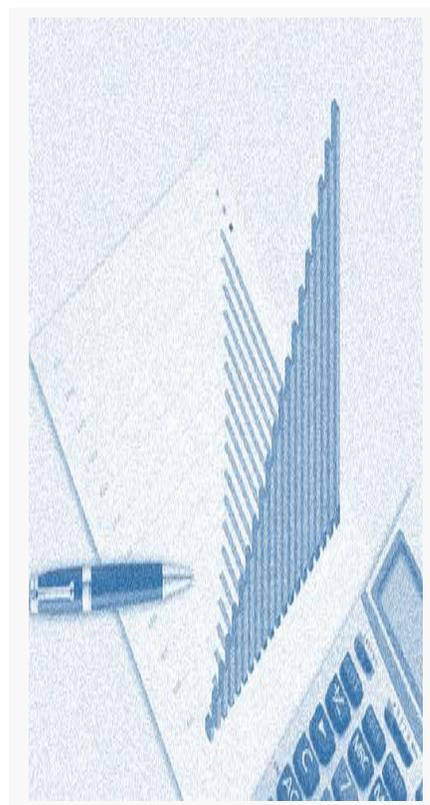
Which Sector used how much resources?



#	Sectors	Expenditure (Afs)	Percentage of Total
1.	Defense & Security	89,711,482,741	21.35%
2.	Public Order and Safety	60,223,052,387	14.33%
3.	Education, Culture and Religion	50,896,237,912	12.11%
4.	Agriculture and Economic Affairs	44,746,756,619	10.65%
5.	Governance and Public Services	40,889,247,297	9.73%
6.	Energy and Mining	33,368,253,882	7.94%
7.	Housing and Community Amenities	31,571,415,811	7.51%
8.	Transport and Communication	30,951,593,885	7.37%
9.	Health	20,261,164,486	4.82%
10.	Social and Environmental Protection	17,563,508,255	4.18%
	Total	420,182,713,274	100%

Largest spenders who used 82 % of the total National Budget in 1398/2019

#	Budgetary Agencies	Figure (%)
1.	Ministry of Defense	66,910,541,642 (15.9%)
2.	Ministry of Interior Affairs	51,543,367,814 (12.3%)
3.	Ministry of Education	39,245,357,702 (9.3%)
4.	Ministry of Finance	33,349,751,457 (7.9%)
5.	Breshna Sherkat	21,691,029,919 (5.2%)
6.	Ministry of Public Works	21,331,347,706 (5.1%)
7.	Ministry of Rural Rehabilitation & Development	21,161,154,301 (5.0%)
8.	Ministry of Public Health	20,261,164,486 (4.8%)
9.	General Directorate of National Security	19,484,612,549 (4.6%)
10.	Ministry of Martyrs, Disables & Social Affairs	15,296,461,088 (3.6%)
11.	Office of Administrative Affairs	13,564,591,005 (3.2%)
12.	Ministry of Water & Energy	10,351,825,944 (2.5%)
13.	Ministry of Agriculture, Irrigation & Livestock	8,670,189,013 (2.1%)
		342,861,394,626 (81.5%)

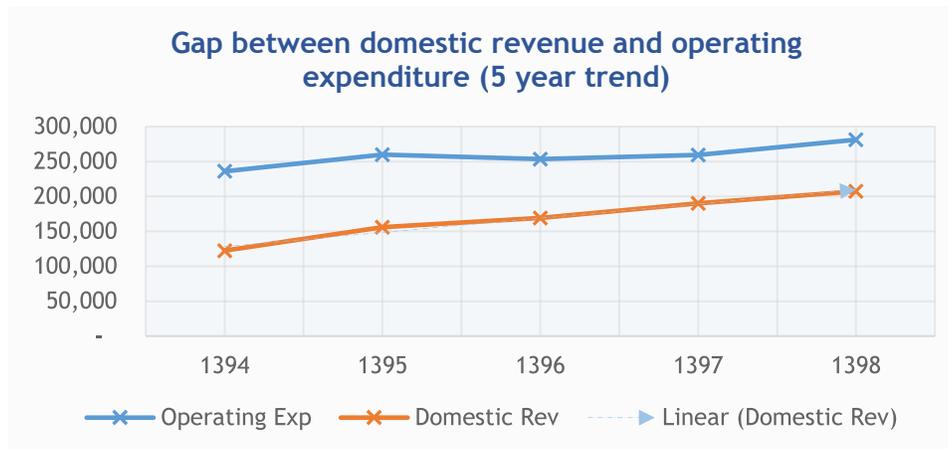


Domestic Revenue & Fiscal Sustainability



What is fiscal sustainability?

For GoIRA, it is fully financing the operating expenditure from domestic revenue alone in short to medium term. However, the gap remained about 28% in 1398/2019.



What did we find in our audit?

In brief

	- Crossed limit in Adjustment/expenditure of approved operative funds	714,108,000
	- Fund Inclusion in budget without the donor's commitment	5,347,241,149
	Crossed Limit of adjustment	9,831,771,663
	Adjustment against its approved objectives	7,868,155,496 USD 2,161,539
	Irregular/non-compliant adjustment & expenditure	2,396,290,946
	Unsettled advance payments	8,389,810,226
	Unsettled Petty cash	28,956,833
	Pending / expired Letter of Credits	81,828,754
		USD 40,268,911 Euro 45,889
	Arrears of revenues not collected	4,315,877,348
	Revenue Collected for funding Budget without the approval of Cabinet and Parliament	15,091,226,000
	Revenue Collected in advance	3,200,000,000
	Ineligible Expenditure incurred on Govt	201,751,775
	Non-cooperation of AFMIS Report generating Options	3,797,171,628

Summary of Main Findings

Crossed limit in Adjustment/expenditure of approved figures

As per the Budget Execution Rules treated as Law -

- Budget provisions under certain codes, called ring-fenced codes, are not allowed to be transferred to any codes outside the ring-fenced codes under the state budget.
- Transfer from donor financed operating budget to other codes in the Ministry of Interior and the Ministry of Defense allowed only on donor's agreement.
- Transfer from other codes to operative code is not allowed.

It was observed that the following virements/transfers were made against the provision in the Law & Budget Execution Rule

-
- i) Afs 679,108,000 were transferred from other codes to operative codes, & executed under operative codes, exceeding approved amount.
 - ii) Afs 35,000,000 were transferred from other codes to operative codes, & executed under operative codes to a budgetary unit which are not allowed to execute funds under operative code.
 - iii) Afs 5,347,241,149 were included in operating budget of the Ministry of Defense without the agreement of the donor, and adjusted (reduced) it during the year.
-

Limit of up to 5% virements (amendments/adjustments) in the approved funds

The PFEM Law requires that the MoF can make virements in the approved budget up to 5%.

It was observed that the following virements were made, which were over 5% limit and hence, non-compliant with the provision -

- i) Amendments/adjustments (Reduction) of Afs 9,831,771,663 made in respect of the 249 development projects (out of which 6 projects have mixed discretionary and non-discretionary funds & 7 Projects has non-discretionary fund) exceeded the limit of 5%, in some cases were as high as 100 %.
-

Adjustments in reserve codes against its intended objectives approved in the budget documents

The total fund for each reserve code approved in budget documents has its intended objectives to be adjusted for

It was observed that the following were against the provision -

- i. Total Afs 2,606,480,000 were adjusted inside reserve codes of operating budget (from one reserve code to other reserve codes) against its intended objectives without legislative approval, hence unauthorized and changed approved figure of reserve codes.
 - ii. Afs 2,453,557,038 were adjusted from reserve codes to other regular codes of operating budget and Afs 2,808,118,458 & USD 2,161,539 were adjusted from reserve codes to other regular codes of development budget against its intended objectives without legislative approval.
-

Irregular/non-compliant adjustments

Execution of approved budget requires that in spending, all laws and authorities such as the approved budget (the amount approved and for the purpose approved), the Budget Execution Law, the PFEM Law, etc., shall be complied with.

It was observed that -

- i) Afs 2,696,400 were over adjusted in operating budget as against individual part of total expenditure and Afs 50,504,970 adjusted by direct propose of a unit against President Decree. Afs 166,144,864 were paid as Post Paid payment from operating budget (To Chabahr & Hairatan Port expense, the Afghan embassy in the USA, Mobi Group, Afghan Red Crescent Society and a Foundation combating against cancer) which was against the provisions of Cash Accounting Manual, out of which Afs 24,406,666 to Govt Agency and Afs 141,738,198 to Non-Govt Agencies without any accounting mechanism.
 - ii) Afs 1,458,313,441 were misclassified by ministries/agencies in the financial plan of development budget against the total figure approved in the economic codes (22,24 & 25) of budget documents, (e.g The amount transferred from code 25 to code 22 & 24 against the total figure approved for the codes, that has different figures in each budgetary unit).
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- iii) Afs 2,198,145,081 were made as adjustment through appendix to the development budget at the month of Qaws to show up reduction to the budget of projects and increase in percentage of expenditure, out of which Afs 301,427,932 were adjusted at 30/9/1398, 2 days after the financial year ends.
 - iv) Afs 2,135,920,591 were made as external adjustment in development budget without using standard B23, out of which Afs 417,203,339 adjustment proposal approved by President at 1/10/1398, beginning of next financial year.
-

Unsettled advance payments

The Budget Execution Rules stipulated that all budgetary units are required to clear their advance balances before the end of the 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.

Also, as per the provisions of the GolRA Cash Accounting Manual, all payments made in advance of receipt of goods and services shall be adjusted in a timely manner within the year with required evidence against the goods and services.

It was observed that -

- i) Afs 5,770,794,245 of advance payments made in 1398/2019 remained unadjusted at the end of 1398/2019; it included Afs 1,497,407,442 under operating expenditure and Afs 4,273,386,803 under development expenditure.
- ii) **Afs 2,619,015,981 of advance payments made in the years 1381/2002 to 1397/2018 also remained unadjusted until 2nd quarter of FY1399; it included Afs 552,403,363 under operating expenditure and Afs 2,066,612,618 under development expenditure.**
- iii) Notwithstanding the provision of making agencies with unadjusted advances ineligible for further advances of operating budget in next year (i.e. 1399/2020), it was found that advances were made in 1399/2020 also to those agencies which had unadjusted advances from operating budget at the end of 1398/2019 and they remained unadjusted at the time audit was completed.

A 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, though they have already been treated spent in the Government Account.

Unsettled petty cash

Petty cash is also held as advances and needs to be adjusted against corresponding goods and services and with relevant documents as evidence.

It was observed that Afs 28,956,833 of petty cash advance relating to 10 ministries/agencies remained unadjusted or unrequited.

Pending/expired Letter of Credits (LCs)

A letter of credit (LC) is used as financial instruments by the government agencies by committing funds to collateralize future delivery of goods and services. Since, the supply or delivery may take more than a year in certain cases, they may not be subject to adjustment in the same year.

It was observed that -

- i) A total number of 7 LCs with a value of Afs 14,256,000 & USD 25,714,637 opened in 1398/2019 against which goods and services were to be received in 1398/2019 itself, remained unutilized and pending at the end of the year.
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- ii) A total number of 5 LCs with a value of USD 7,104,282 opened in 1397/2018 against which goods and services were to be received in 1397-1398 itself, remained unutilized and pending at the end of the year 1398.
 - iii) A total number of 7 LCs with a value of Afs 4,135,000, USD 2,093,039 & Euro 45,889 opened in 1396/2016 against which goods and services were to be received in 1396-1397-1398 itself, remained unutilized and pending at the end of the year 1398.
 - iv) A total number of 7 LCs with a value of Afs 63,437,754 & USD 5,356,953 opened in 1395/2016 & before against which goods and services were to be received in 1395-1396-1397-1398 itself, remained unutilized and pending at the end of the year 1398.
-

Revenue Qatia, Differences & Arrears of revenues not collected

In imposition, collection and accounting of public money, all relevant laws and regulatory framework should be followed including budget authority, PFEM Law, Cash Accounting Manual, related Tax and Customs Laws and provisions relating to non-tax revenues in respective agreements, regulations, licenses, etc.

It was observed that -

- i) Afs 1,652,172,899 the difference as per the total realizable revenue and the total collected in 1398/2019, remained arrears of revenue and became collectable in 1399/2020.
- ii) Afs 2,663,704,449 the difference as per the total realizable revenue and the total collected up to the previous year i.e., 1397/2018, remained arrears of revenue at the end of 1398/2019 and became collectible in 1399/2020.
- iii) There was a difference of Afs 66,560,940 between ASYCUDA & Revenue Department records due to P Number in recording custom revenue.

Revenues collected during the year without inclusion in the budget document and lack of approval by the cabinet and parliament

- iv) Afs 15,091,226,000 were received from Da Afghanistan Bank for funding 1398 budget without approval of Cabinet and Parliament.
 - v) Afs 3,200,000,000 was received as an advance from different sources for funding 1398 budget without approval of Cabinet and Parliament.
-

Payment to World Bank for the ineligible expenditure of Ministries

The Ministries/Agencies must follow world bank regulations and guidelines in the funded projects.

It was observed that:

- i) Afs 172,724,982 was paid to WB against the ineligible expenditure of EQUIP project of the Ministry of Education.
 - ii) Afs 29,026,793 was paid to WB against the ineligible expenditure of GFA Contract of WB project of Ministry of Energy & Water.
-

Difference of figures between report generating option of AFMIS

- i) Afs 1,717,098,713 were Difference in the actual expenditure of operating budget, between Account Analysis Detail Report & Account Analysis Summary Report of AFMIS
 - ii) Afs 2,080,072,915 were Difference in the actual expenditure of Development budget, between Account Analysis Detail Report & Account Analysis Summary Report of AFMIS
-

Our recommendations

Avoid violation of Budget Execution Rule by controlling transfer from prohibited/ring-fenced codes to other codes

- ✓ Each proposal for virements/transfers through B-23 form may either clearly reflect the object of expenditure from where transfers are proposed or the proposing ministry may certify against each B-23 proposal that it does not include virements from prohibited codes.
- ✓ At present, there is no such specific control, for the above mentioned areas, hence the violations of laws & regulations occurs, the controls needed to be established.

Avoid violation of the PFEM law by controlling & regularizing adjustments above 5% of the budget.

- ✓ All adjustments up to 5% may be done by the MoF in consultation with the Budget Committee.
- ✓ Any adjustment above 5% may be included in the mid-year budget review.

Avoid excessive or wholesale virements/transfers/adjustments within contingency codes or outside them that defeat their respective ceilings and/or purpose for which approved

- ✓ Excessive virements from one contingency code to another defeats both, their approved ceiling and purpose for which approved, and may be avoided. All such cases may be included in the mid-year budget review.
- ✓ Budget forecast for reserve codes should be realistic and virements in contingency codes must not be against rules and regulations, if it deemed necessary, may be included in the mid-year budget review.

Restrict usage of operative fund only to entities approved in the Budget and the Budget Execution Rule

- ✓ No budget provisions may be made for entities not allowed to make use of operative funds.
- ✓ Budget execution controls/virements controls may be strengthened to disallow any transfer/amendment for such use.

Avoid post-paid payment in contravention of applicable Manuals and procedures.

- ✓ Amounts should have been executed as advances and then considered for adjustment as per the valid expenditure documents to Government agencies
- ✓ Payments to Non-Govt agencies should have been executed when there is a clear mechanism of accounting for expenditure to support the payments.

Avoid Preparation of financial plan as against approved and code-wise figure of Budget documents

- ✓ All annual financial plans must be prepared based on the approved code wise (expenditure codes) figures of budget documents.

Adopt a mission/task force mode to ensure settlement of pending advances by all ministries/agencies

- ✓ Consider adopting a mission/task force mode with specific time limit to ensure settlement of the pending advances.
- ✓ Enforce the requirements of the Budget Execution Law and the Cash Accounting Manual for settlement of advances within the year itself by not allowing more than one subsequent advance unless the previous advances are settled. This should apply to petty cash advance as well.

Strengthen mechanism for monitoring, tracking and review of Letter of Credits and their settlements

- ✓ Put in place/strengthen mechanism for monitoring, tracking and review of LCs against which services and goods have not been received in the year or pending through previous years.
- ✓ All LCs which have expired without services and goods having not been received and against which public fund is locked, maybe expeditiously settled and fund accounted to government account.

Strengthen revenue budgeting and reconciliation to achieve budget credibility and reliability

- ✓ For budget credibility and reliability in revenue budgeting, a substantial gap between revenue forecast and actual revenue collected may be avoided.
- ✓ Unreconciled figures in the consolidated Revenue Qatia as compared with ASYCUDA records also cast doubt on revenue figures.

Strengthen revenue administration and revenue collection mechanism to ensure collection of revenue arrears

- ✓ Review revenue administration and revenue collection mechanisms and gaps resulting in revenue arrears.
- ✓ Adopt taskforce mode to expedite collection of revenue arrears in specific time frame.
- ✓ Review revenue arrears as per pendency profile and identify whether specific decisions are required to deal with them including penal actions/confiscation against the defaulters.

Recognizing budget funding sources to be approved by the Cabinet and Parliament based on laws and regulations.

- ✓ In case there is no sufficient fund for expenditure, collecting fund from different domestic sources to be avoided without approval of authorities.

Cooperation between report generating option of AFMIS is a must

- ✓ Technical problem of report generating option of AFMIS to be solved with Free Balance Company, so all figures of AFMIS to be matched with records.

Our value addition

Qualitative



- Compliance assurance on government expenditure and revenues against budgetary authorities.
- Assurance on whether the money the legislature gave was applied and utilised as per the legislative authority and for the purpose it was approved for.
- Insights into control weakness and recommendations for systemic improvements in public financial management.
- Providing insight into and analysis of government finances.
- Presenting Qatia Audit Report for legislative scrutiny and follow up by Government and making the report and Citizens' Audit Report public available for all stakeholders.

Monetary or Quantitative



- Amounts found irregular/not in compliance requiring authorisation/recovery.
- Amounts pending adjustments including possible recovery.
- Locked up funds in expired LCs requiring reversal in government account
- Revenue arrears pending for collection
- Amounts paid by Government of Afghanistan against ineligible expenditure/ possible recovery from offenders

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