Report of Auditor General

Audit Report on Qatia Accounts
for the fiscal year ended 1392

بسم الله الرحمن الرحيم

(By The Name of Allah, the Most Compassionate and the Most Merciful)

Islamic Republic of Afghanistan
Supreme Audit Office

Independent Audit Report of the Auditor General on Qatia Accounts of the Government of Islamic Republic of Afghanistan for the fiscal period 1st of Jadi 1391 to 30th of Qaws 1392 (21st Dec. 2012 to 21st Dec. 2013).

Address:

Excellency,
The President of the Islamic Republic of Afghanistan
The National Assembly

Report of Audit of the Qatia Accounts for the Fiscal Year Ended 1392

We have audited the Qatia Accounts for the fiscal year ended 1392 comprising Qatia statements for the Operating Expenditure, Development Expenditure and Revenue and the statement of debit and credit of Da Afghanistan Bank (DAB) and the position of payments by the Treasury Department of MoF.

Management's Responsibility for the statements of Qatia Accounts

According to the provisions contained in Article 55, Para 1 of the Public Finance and Expenditure Management (PFEM) Law, the Ministry of Finance of Islamic Republic of Afghanistan is responsible to publish the following information after submitting 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 in current year (the second quarter of the year); [As the fiscal year has been changed now; therefore, end of Sonbola month has been amended into end of Jawza month in the current year].

2. A set of financial statements prepared according to the international accounting principles that have been audited as required by Article 59 of the PFEM law.

Auditor's Responsibility

In accordance with paragraph (1) Article 12 of the Supreme Audit Office Audit Law (1392), the Auditor General shall report on Government financial statement of Qatia Accounst within six months after completion of every fiscal year to the State President and the National Assembly.

Audit Scope and Methodology

We conducted our audit in accordance with INTOSAI (International Organization of Supreme Audit Institutions)'s International Auditing Standards and Principles (ISSAIs) and the requirements of the Supreme Audit Office's Audit Law. These principles and guidelines require that audit is planned and performed to obtain reasonable assurance whether the Qatia statements of accounts are free from material misstatements and whether the financial transactions and information reflected in the Qatia statements of accounts are in compliance with accounting rules, standards and principles, in all material respects.

Our audit included examining, on test basis, revenue and expenditure documents and supporting papers including budget authorities and its disclosures in the statements of Qatia accounts. Moreover, accounting rules and policies which have been used in preparation of Qatia Statements have also been taken into account and audited.

I believe that the results of audit provide a reasonable basis for our opinion.

Basis for exception

The assessment of the Qatia statement includes Qatia statements for Operating Expenditure, Qatia statements for Development Expenditure and Revenue Qatia. It is noted that an amount of Afs 28,781,112,026 external grant received in the fiscal year 1391 was reflected in the Revenue Qatia Statement of 1392. On the other hand, an amount of US$ 51,19,726 (Afs 2,923,902,.132), which was deposited in Government revenue account through bill no (4533) dated 17/7/1392 for revenue of D.P.G (Development Policy Grant), has not been reflected in the Revenue Qatia statement of 1392 under major code 19 (Grants Revenue). In view of the

aforesaid, we are unable to give any opinion regarding revenue assessed and collected from grants for operating budget revenue.

Audit opinion

In accordance with paragraph (1), Article (12) of the SAO Law and paragraph (1) Article (59) of PFEM law, except-for the effects of the matter given in the basis for exception paragraph above and considering the results reached at the end of the audit, in my opinion, the Qatia Statements present fairly, in all material respect, the operating and development budget expenditure; in comparison with approved budget, actual expenditure and collection of revenue from domestic sources at the end of fiscal year 1392 (Jadi 1st 1391 to end of Qaws 1392).

Sd/-

Dr. Mohammad Sharif Sharifi
Auditor General
Supreme Audit Office

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Audit Report on Qatia Accounts Statements (FY 1392)

Main points

What we audited

Qatia Accounts Statements present the budget realization and financial position in a fiscal year (FY), usually, one year. Qatia Accounts Statements prepared and reported by the Ministry of Finance (MoF) for the FY 1392 have been audited by us taking into account the actual approved budget, the Qatia Accounts Statements of budgetary units, B-23 & B-27 Forms (budget adjustments/amendments and allocations), Qatia expenditure reports of budgetary units, M-22 Forms (Provincial Expenditure Reports), M-27 & M-29 Forms (Provincial and Central Revenue Reports), T-8 Forms (Payment Reports of Mustofiats and Da Afghanistan Bank, DAB's agencies in provinces), Statements of Debit and Credit of General Directorate of Treasury and Bank Statements of the Central Bank, Afghanistan Financial Management Information System (AFMIS) and other relevant documents, which support the figures contained in Qatia Accounts Statements and required for audit.

We also covered under our audit the performances of General Directorates of Treasury, Budget and Revenue of the Ministry of Finance vis-à-vis revenue planning, assessment and collection. In addition, on sample basis, a number of M-16 payment forms related to the expenditure of budgetary units were also covered under the audit.

The audit of Qatia Accounts Statements was completed on 31st Jowza, 1393 and the audit report thereon has been submitted to the concerned stakeholders on the aforesaid date.

Importance of Qatia Accounts Statements

By preparing the Qatia Accounts Statements, MoF and concerned authorties provide information regarding budgetary performance; in which areas and sectors performances are in accordance with available budget or in excess of budgetary estimates during the last fiscal year. It helps the authorities responsible for preparation and approval of budget for the subsequent year in evaluation of shortfalls and excess. In the absence of such information, the budgetary agencies will face a lot of challenges in prerparation of budget and in their performance.

To have a clear picture of the country's public financial affairs and to avoid any likely risks of non-realization and non-implementation of budget, reporting of Qatia accounts statements and their audit is required. Accordingly, the laws of the country have provided for the preparation, reporting and audit of the Qatia Accounts Statements.

What we found

The following are the summary of the audit findings included in this report on audit Qatia Accounts Statements:

- Audit revealed that a large portion of the contingency fund, approved by National Assembly and authorized by His Excellency, the President of the Islamic Republic of Afghanistan, was not utilized for the purpose for which it was appropriated in budget. Details of which have been reflected in the related audit findings.

- As per the Qatia Accounts Statements, a total of Afs 1,051,280,268 operating budget unadjusted advances for the FY1392 has been reported against 35 budgetary units. Out of which, an amount of Afs 560,018,819 or 53.27% related to the MoF alone, Afs 166,836,063 or 15.78% to the Office of Administrative Affairs and Council of Ministries' Secretariat, Afs 115,978,482 or 11% to the Ministry of Education and Afs 75,718,648 or 7.2% to the Ministry of Foreign Affairs. The remaining amount of Afs 132,728,256 or 12.62% of the operating budget unadjusted advances related to the other 31 budgetary units.

- Out of Afs 560,018,819 operating budget unadjusted advances against the MoF, Afs 500 million was reported as transfer to the account of M/s Ghazanfar Gas and Petroleum for opening letter of credit for supply contract of fuel needed for Da Breshna Sherkat. The balance amount of Afs 60,018,819 or 5.7% of the unadjusted advances are on account of the MoF itself.

- An amount of Afs 1,821,763,561 on account of advances not adjusted from FY1381 – FY1389 has been found against 30 budgetary units. Out of which, Afs 1,182,993,127 or 65% related to the MoF. Similarly, Afs 102,691,787 on account of advances not adjusted of FY 1390 against 18 budgetary units and Afs 672,315,536 of FY 1391 against 23 budgetary units were found. Out of which, Afs 594,666,665 or 88.45% related to MoF alone. In fact, most portions of advances not adjusted related to the FY 1381 – 1392 related to the MoF.

- Under the Code 21 – wages and salaries, Afs 36,114,846 has been reported as operating budget unadjusted advances while in the AFMIS, Afs 36,047,345 has been recorded for the FY 1392. The gap between the figures of the Qatia statements and AFMIS of Afs 67,519 is unexplained and not reconciled.

- Under the Code 22 – goods and services, Afs 912,248,349 has been reported as operating budget unadjusted advances while in the AFMIS, Afs 729,620,232 has been recorded for the

FY 1392. The gap between the figures of the Qatia statements and AFMIS of Afs 182,628,117 is unexplained and not reconciled.

- Under the Code 25 – acquisition of assets, Afs 7,976,923 has been reported as operating budget unadjusted advances while in the AFMIS, Afs 7,276,973 has been recorded for the FY 1392. The gap between the figures of the Qatia statements and AFMIS of Afs 699,950 is unexplained and not reconciled.

- In the FY 1392, Afs 116,501,200 was reported as "petty cash" disbursement against 43 budgetary units under the operating budget. Out of which, Afs 114,665,071 was adjusted during the FY 1392 and Afs 1,836,129 remained unadjusted.

- During FY 1392, an amount of Afs 500 million has been transferred to the account of M/s Ghazanfar Gas and Petroleum Company towards letter of credit (LC) for supply contract of fuel needed for Da Breshna Sherkat. As per document scrutinized, the end date of LC was 27/2/1393. The aforesaid amount remained unadjusted. Also, a sum of Afs 456,237,096 against LC relating to previous year had remained unadjusted. The total accumulated balances (1392 and previous year) of Afs 956,237,096 on account of the Da Breshna Sherkat due to opening of LC to the account of M/s Ghazanfar Gas and Petroleum Company remained unadjusted.

- In the operating budget expenditure Qatia accounts, an amount of Afs 6,354,394,566 has been recorded under budget supplement against 6 budgetary units.

- As per an agreement between the MoF and the Da Afghanistan Bank (DAB) dated 20/1/1390, MoF committed to pay Afs 41,352,520,200 during a period of 8 years as compensation against Kabul Bank to DAB. As per records, total amount of Afs 5,567,305,600 was paid by the MoF to the DAB during FY1390 & FY1391 and a further sum of Afs 1,750,000,000 during FY1392; a total of Afs 7,317,305,600 during 1390-1392. The DAB maintains that the amount paid by the MoF is not under the head 'compensation', but only as loan installments from MoF.

- According to International best practices and the PEFM law, all transactions in the Qatia Accounts Statements should be identified and classified under specific objects of expenditure and should follow the same chart of account followed for budget (no budget approval is taken for unclaissifed expenditurs). But scrutiny of Qatia Accounts Statements and the transactions in the AFMIS showed that like previous years, in FY 1392 also, a sum of Afs 1,745,033,892 has been recorded as expenditure under "not elsewhere classified" under operating budget expenditure.

- During FY 1392, 10 budgetary units recorded expenditure under operative expenditure code (secret funds - for the first time, the chart of accounts included object code 21130 – operative and hidden expenditure in 1392). A comparison of the budget appropriation and actual expenditure under the code reveals an excess payment of Afs 80,000,000 by the General Directorate of National Security and Afs 7,000,000 by Ministry of Frontier and Tribal Affairs.

- During FY 1392, under the operating budget, the following amounts have been transferred from restricted codes to other codes and or from one restricted code to another restricted code against the guidelines 8 of the budget execution principles (prohibiting any transfer from one restricted codes to another or to any other codes and vice versa – i.e., costs of electricity, water, cleaning, communications, vehicle maintenance and building maintenance costs).
    - As per B – 23 no 3163 dated 4/9/1392 related to the President's Protective Service Department, Afs 8 million has been deducted from code 210 – wages and salaries and added to code 220 - use of goods and services of President's Protective Services Department.
    - As per form B – 23 no 1503 dated 19/3/1392 related to the Supreme Court, Afs 7.5 million has been deducted from code 224 - repairs and maintenance and added to code 210 – wages and salaries of the Department.
    - As per form B – 23 no 414 dated 18/3/1392 related to Ministry of Martyrs, Disabled and Social Affairs, Afs 18,500,000 has been deducted from code 210-wages and salaries, out of which Afs 11,971,475 was added to code 220 - use of goods and services, Afs 5,200,900 to code 224 - repairs and maintenance and Afs 1,327,625 to code 225 - utilities of the ministry. As per form B-23 no 387 dated 29/2/1392 related to Ministry of Martyrs, Disables and Social Affairs, Afs 70 million has been deducted from code 222 -Food and added to code 220- use of goods and services. As per form B-23 no 759 dated 12/8/1392 related to Ministry of Martyrs, Disables and Social Affairs, Afs 18.5 million has been deducted from code 210 - wages and salaries, out of which Afs 17,172,375 was added to code 224 - repairs and maintenance and Afs 1,327,625 to code 225 – utilities. As per form B-23 no 409 dated 11/3/1392 related to Ministry of Martyrs, Disables and Social Affairs, Afs 10 million has been deducted from code 222 - Food and added to code 224 - repairs and maintenance.
    - As per proposal of Office of Administrative Affairs & Council of Ministers' Secretariat and decree no 3659 of the State President Office dated 13/6/1392, it was proposed to deduct Afs 15 million from code 225 - utilities (restricted code) and to add to code 224 - repairs and maintenance (restricted code). However, it is observed that a total of Afs 25 million, Afs 20 million from code 227 - equipment and tools and Afs 5 million from code 225 - utilities has been deducted. Out of which, Afs 15 million was added to code 222 - food and Afs 1 million to code 224 - repairs and maintenance. On the one hand, the aforesaid adjustments have been made from one restricted code to another restricted code, on the other hand, the amendments intended to be added to code 224 - repairs and maintenance resulted in addition of Afs 1 million only to code 224. The rest of the amounts have been added to code 222 - food against the decree of State President Office.

- An amount of Afs 514,128,699 was recorded as payment under code 23 – repayments of loans and payment of interests during FY 1392. Out of which, Afs 246,048,359 or 48 % was towards repayment of loans and Afs 268,080,340 or 52% towards payment of interest. As it can be seen, payment of interest in FY 1392 is more by about Afs 22 million than repayment of loans (meaning burden of borrowing costs of past loans is increasing).

- As per the budget document, at the beginning of the FY 1392, the final celling of approved Tashkeel structure of governmental ministries and agencies during FY 1392 was shown as 837,253 personnel. However, as per the Directorate of Taskeelat (Organizational Structure), Office of the Administrative Affairs & Council of Ministers' Secretariat, the final celling structure of FY 1392 was shown as 838,213 personnel, an excess of 960 positions. This indicates upward changes made in Taskeel position against the guidelines 11 & 12 of the budget execution principles relating to observing budget celling with regard to official position in FY 1392.

- Article 47, para 1 of the Public Finance and Expenditure Managment (PFEM) Law with regard to amendment in approved budget stipulates as follow: "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". However, as per expenditure Qatia of operating and development budget for the FY 1392, Afs 5,604,352,691 has been transferred from the development budget of Ministry of Defense to operating budget not only without the approval of the budget committee, the amendment is 33% of total development budget and 8.89% of the total operating budget of the Ministry.

- During FY 1392, Afs 1,042,198,421 under code 900001 – policy reserve fund and Afs 947,974,542 under code 900002 - disaster contingency fund have been transferred for use. Against the provision of Article 32, para 9 of the PFEM law requiring that an appropriation not exceeding 3% of total programme expenditures shall be used for contingencies, some budgetary units have utilized more than 3% of their actual budget.

- During FY 1392, as per four M- 16 forms, a total sum of Afs 226 million has been transferred to Account 50055 - Contingency Committee for managing disasters related matters. Out of which, up to the preparation of Qatia Accounts, a sum of Afs 131,059 million was adjusted. The remaining amount of Afs 94,940,132 of bill no 254 dated 7/2/1392 on the account of Committee remained unadjusted.

- During FY 1392 (after mid-year amendment), a reduction of Afs 6,004,352,676 was made in the overall celling of the development budget with corresponding increase in the celling of the operating budget. However, approval of the National Assembly has not been taken for this amendment.

- In the operating budget, out of the total budget appropriations, Afs 20,994,513,674 remained unutilized in FY 1392; of which, Afs 20,047,508,957 or 95.49% related to 9 budgetary units. Min of Defence's share in the unutilized appropriations was Afs 14,758,673,533 and Min of Interior's share was Afs 3,696,882,268; total for two ministires being 86.90% of total unutilized appropriations. In FY 1391 also, the share of these two ministries in the unutilized appropriations was about 90.6%.

- For financing the development budget of FY 1392, 7.39% of fund was from domestic sources and 77.2% was from gratuitous external grants, 15.4% being the deficit. Compared with the

budget at the beginning of the FY 1392, after the amendments in the development budget, there was a reduction of Afs 16,091,087,452 in the development budget. But in contrast, deficit in the development budget has increased from Afs 12,697,509,278 to Afs 21,827,878,742 or 72%.

- As per the development budget supplement and revised budget (after mid-year amendment) for FY 1392, the total fund for transferred projects (first round estimate) was recorded as US$ 846,129,038 and the budget for new projects at the beginning of the year for a sum of US$ 2,093,119,625; a total of US$ 2,939,248,663 (equal to a sum of Afs 152,840,930,476). In the Development Budget Qatia Accounts, Afs 152,931,798,604 has been recorded as budget appropriation (first round estimate and budget for new projects at the beginning of the year), leaving a gap of Afs 90,868,128.

- As per the development budget supplement and revised budget (after mid-year amendment) for FY 1392, the total fund for transferred projects (second round estimate) was recorded as US$ 26,315,678, equal to Afs 1,368,415,256. Whereas, in Qatia Accounts, under the head "difference between estimated transfer and actual transfer", an increase of Afs 3,032,573,856 and decrease of Afs 1,755,026,632 has been shown, net figure of Afs 1,277,547,233. However, there is a gap of Afs 90,868,023 between the figures contained in document of development budget supplement and the Qatia Accounts.

- As per the development budget supplement and revised budget (after mid-year amendment) for FY 1392, the total development budget of FY 1391 has been shown as Afs 111,646,305,264. However, as per the budget of 1391 taking into account budget supplement, the total amended budget of FY 1391 was Afs 107,350,130,760. This shows a difference of Afs 4,296,174,504. Further, as per the Qatia Accounts FY 1391, total development expenditure was recorded was Afs 53,593,076,357, but in the development budget supplement for FY 1392, the amount is recorded as Afs 53,986,490,489. This shows a difference of Afs 393,414,131 compared with the actual expenditure recorded in the development Qatia Accounts of FY 1391.

- Though 29 projects were started in FY 1391, however, the same are not recorded as part of approved budget at the beginning of FY 1392 or after midyear amendment or budget supplement.

- As per development budget supplement and budget after midyear amendment, a total of 616 projects were included in budget document FY 1392. Out of which, there was reduction in funds with respect to 7 projects in budget documents and one project has been shown twice in budget document. Thus, the total number of implementable projects was 608. However, as per the Development Budget Qatia Accounts for FY 1392, 698 projects were included in the Qatia Statements, an excess of 90 projects against actual budget document. Out of these, 39 projects had no original or contingency funds budget and budget in case of 51 projects were provided through contingency fund transfers. Out of the 51 projects also, only 6 projects has expenses and the remaining 45 projects had no expenses.

- As per the Qatia Accounts FY 1392, 187 projects had recorded no expense and no activities. An appropriation of Afs 9,370,952,827 related to these projects remained unspent.

- In case of the following development projects, despite budget appropriation after adjustements and allocation, there were no expenses or activities:
    - Under the project Afg/270332 – Equipping schools for general education, related to the Min of Education (MoE), the total budget after amendment in FY 1392 was Afs 3,348,696, appropriation of Afs 2,311,875 but no expenditure;
    - Under project of Afg/270758 - Construction of teacher's training centre and hostel / dormitory in the Shendand District of Herat province related to MoE, the total budget after amendment was Afs 36,400,000, appropriation of Afs 13,943,411 but no expenditure;
    - Under the project of Afs/270804 - construction of multi profession technical institute building for girls in the provinces of Takhar, Dikundi, Panjshir, Ghor and Badghis related to MoE, the total budget after mid-year amendment was Afs 91,000,000, appropriation for Afs 4,647,024 but no expenditure;
    - Under the project no Afg/360024 - rehabilitation of national printing press related to MoIC, the total budget after mid-year amendment was Afs 3,780,920, appropriation of Afs 419,550 but no expenditure;
    - Under the project no Afg/3900677 - Construction and extension of Cold storages (Chiller House) related to Ministry of Agriculture, Irrigation and Livestock, the total budget after mid-year amendment was Afs 416,000,000, appropriation of Afs 416,000,000 but no expenditure;
    - Under the project no Afg/410130 - Design and Construction of Gambiri Irrigation Project in Farah Province related to MoPW, the total budget after mid-year amendment was Afs 211.412.864, appropriation of Afs 32,240,000 but no expenditure;
    - Under the project no Afg/450181 - Construction of land transportation office in Farah Province related to MoPW, the total budget after mid-year amendment was Afs 5,200,000, appropriation of Afs 5,188,121 but no expenditure;
    - Under the project no Afg/600006 - Construction of NEPA Central Building related to National Environmental Protection Agency, the total budget after midyear amendment was of Afs 69,310,852, appropriation of Afs 37.000.000 but no expenditure.

- Though no funding provisions were made in the budget documents against 28 projects, expenditure have been recorded in the Qatia statement against them.

- As per development budget supplement and budget after midyear amendment, project AFG/420350 - "Survey and Design for Salang Highway Alternate Road" related to Ministry of Public Work involving an amount of US$ 1,000,000 has been recorded in duplicate in budget document.

- A scrutiny of B – 27 forms (allocations) of development budget, revealed that 18 number of B-27 forms, processed by the General Department of Budget in FY 1392

were sent to the General Department of Treasury in FY 1393. Execution of allotments related to budget of FY 1392 in fiscal year of 1393 and their reflection in Qatia account of FY1392 has been made against the PEFM law and instruction of Article (32) of budget execution manuals.

- Forms B – 27 (allocation of budget appropriations) and Forms B – 23 (amendments in the budget) after verification by the General Directorate of Budget are sent to the General Directorate of Treasury for further processing and recording in AFMIS for budget and payment control. General Directorate of Treasury confirms their receipts and puts a stamp, which shows the date of receipt of the forms by the General Directorate of Treasury. Audit revealed that in case of a number of B – 27 forms which related to FY 1392 (details of which are pages 66 & 67 of the report), the stamped dates by General Directorate of Treasury fell in FY 1393.

- As per the AFMIS reports of transactions relating to FY 1392 for development expenditure, Afs 1,199,211,900 has been recorded under code 22809 – "Not Elsewhere Classified against 18 budgetary units. Out of which Afs 1,123,831,323 or 93.71% related to Ministry of Agriculture, Irrigation and Livestock and Afs 54,940,613 or 4.58% to Water Supply and Canalization Company and the remaining, Afs 20,439,954 or 1.70% to other 16 budgetary units.

- The details of unadjusted advances under the development budget related to FY 1381 – 1392 are as follow:
    - Out of the total accumulated unadjusted advances of Afs 892,063,547 under the development budget related to FY 1381 – 1389 against 17 budgetary units, Afs 554,762,110 or 62.188% relate to the MRRD and Afs 286,406,830 or 32% to the MoF.
    - Out of the unadjusted advances of Afs 1,967,570,101 related to FY 1390 against 13 budgetary units, Afs 1,847,193,163 or 94% related to the MRRD, Afs 61,462,451 or 3.12% to the MoF.
    - Similarly, out of the unadjusted advances of Afs 3.305.536.991 under the development budget for FY 1391 against 16 budgetary units, Afs 2,373,287,562 or 71.79% related to the MRRD, Afs 732,220,214 or 22.15% to the MoF and Afs 122.680.195 or 3.71% to the Ministry of Foreign Affairs.
    - Out of the unadjusted advances of Afs 5,278,608,039 under the development budget for FY 1392 against 30 budgetary units, Afs 2,735,836,859 or 51.82% related to the M/o Defence, Afs 741,651,373 or 14.05% to the MoRRD, Afs 612,733,049 or 11.6% to the MoF and Afs 495,961,792 or 9.39% to the M/o Communication & IT and remaining to others.

- A comparison of development budget Qatia Accounts figures of the unadjusted advances in FY 1392 with that of the AFMIS figures revealed that total unadjusted advances under code 22-goods and services reflected in Qatia Accounts was Afs 3,673,027,838 but as per the AFMIS was Afs 930,153,302; a gap of Afs 2,742,874,536. Similarly, the total unadjusted advances in code 25-acquisition of

assets reflected in the Qatia Accounts was Afs 1,605,580,201, while the corresponding figure in the AFMIS was Afs 980,423,337; a gap of Afs 625,156,864.

- An amount of Afs 1,500,000,000 has been transferred by the Afghan Telecom Regulaory Authority (ATRA) in 1392 to the revenue account of MoF, which is an advance / prepaid revenue related to FY 1393 into account (TDF). Furthermore, an amount of US$ 12,000,000 equal to Afs 624,000,000 has been transferred as an advance payment to the account of 1203044 of MoF by AISA. Such advance revenues related to future received in 1392 show inlated increase in revenue realization and collection.

- An amount of Afs 28,781,112,026 of revenue related to the fiscal year 1391 was included in the Revenue Qatia of FY 1392, instead of that having been reflected in Revenue Qatia of FY 1391.

- In FY 1392, an amount of US$ 51,197,726, equal to Afs 2,923,902,132 has been included in Government account as revenue against Development Grant Policy (DPG). However, the same was not reflected in Revenue Qatia under code 19 - Grants.

- An amount of Afs 450,314,426 kept in three accounts: Account no 27232-discretionary funds, Account no 27495 - CSTCA related to MoD and Account no 27482 - CSTCA related to MoI, has not been included in the government income account.

- As per proposal of General Directorate of Budget and decree no 4521 of MoF dated 24/9/1392, an amount of US$ 45 million from domestic revenue (operating budget) has been transferred to development budget account against Article 24 of the budget execution manual.

- As per the Revenue Qatia of FY 1391, an amount of Afs 1,566,100,864 remaining balances at the end of the FY 1391 was transferable to FY 1392. However, as per the Revenue Qatia of FY 1392, the remaining balance of previous year has been recorded as Afs 1,640,403,578, overstated revenue of Afs 74,302,714.

- The figure in the Custom Revenue Plan shows a gap of Afs 4,219,090,000 on account of valuation.

- There was a deficit of Afs 9,213,800.000 or 15.96% in realization and collection of custom revenue compared with approved cstom revenue plan.

- A comparion of revenue figures contained in the Revenue Qatia 1392 and that of AFMIS revealed that revenue in Qatia Accounts is overstaed by Afs 295,828,546

under codes 11-tax revenue & 13-non tax revenue while under code 14-Misc Revenue, Revenue Qatia was understaed by an amount of Afs 295,888,546 compared with the figures in the AFMIS. Overall, however, Revenue Qatia was undersated by Afs 60,000, compared with the figures of the AFMIS.

|Respons of Ministry of Finance on the audit findings

Qatia Accounts Audit Commission, despite limitation of short time of audit completed the audit of the Qatia Accounts Statements within the stipulated period. The report on the results of audit was officially sent for the comments of the Ministry of Finance (addressed to the General Directorates of Treasury, Budget and Revenue & Custom).

Comments received from the General Directorate of Treasury have been duly reflected in the report. No comments were received from other Directorates of the Ministry of Finance.

Audit Report on the Qatia Accounts Statements 1392

Chapter One: General

The Qatia Accounts Statements for the 1392 has been audited based on the Presidential decree No. 965 dated 26/12/1392 and audit plan of Supreme Audit Office of Afghanistan for 1392.

Definition of Qatia Statements

Qatia Accounts Statements are the complete records of annual expenditure of the government budgetary ministries / departments in comparison to their approved budget. They reflect payments against services already rendered and goods already received (cash payments) as well as advance payments against future services and goods. It also contains a complete record of government assessed as well as collected revenues, as compared to the annual estimated revenue in the budget. In other words, the Qatia Accounts show how the realization of the budget and the financial position has been achieved in the fiscal year. The Qatia statement is the mirror of the Government's finances.

Importance of Qatia statements preparation and audit

Qatia Accounts Statements provide information regarding the budgetary performance, shortages and excesses, during the fiscal year. It helps the MoF, government and the National Assembly in preparation and approval of budget for the subsequent year. In the absence of such information, the budget will be prepared inappropriately and the budgetary offices will face a lot of challenges in budgetary performance.

The Government of the Islamic Republic of Afghanistan prepares its budget and Qatia in terms of Operating and Development expenditure and Revenue receipts. Operating expenditures relate to current years' expenditure on operations, which include wages and salaries, use of goods and service, interest payments, repayment of loans, subsidies, grants, social benefits and acquisition of assets. Development Expenditures are mainly expenditures included in code 22 (use of goods and services) and code 25 (acquisition of assets).

Government manages the expenditure of the budgetary units through a centralized treasury, called "Treasury Single Account" (TSA). Under this arrangement, individual ministries and departments and Mustofiats as well as other entities do not control their own bank accounts and have no independent cash balances. All government money is managed through the TSA for Operating budget and expenditure. All receipts, including foreign aid, and payments for operating budget are routed and managed through the TSA. Payments are processed as per the specified Form M-16 along with relevant supporting documents. MoF, on the basis of Form M-16, makes entry in the Afghanistan Financial Management Information System (AFMIS) with regard to expenditure.

Under the development budget, which is implemented on the basis of donor's grants and commitments and partly from internal revenue and loan, projects has specific funding and are carried forward along with their respective balances till their completion, if they donot end in the fiscal year conserved.

All Bank accounts through which budget is implemented are under the treasury. These accounts contain TSA for the operating budget and the specific accounts related to development projects financed through donors' funds. Reconciliation is to be on a daily basis for the treasury/TSA and based on provincial reports, on monthly basis.

Government meets a large part of its operating budget from domestic revenues and part from donor's funds/grants. However, majority of the development budget is being funded from donor's grants and a small part from domestic revenue and loans. Though a large part of the donor's funds are directly included and spent through the core national budget, still a substantial expenditure of the donor's financial assistance to the country is not channeled through the government account and is external to budget (direct expenditure by donors outside budget/off budget), hence they do not form part of AFMIS and the Qatia accounts.

To have a clear picture of estimated and 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; hence audit of Qatia accounts. MoF is responsible for preparation of the Qatia accounts Statements of the government at the end of each fiscal year including for revenue collected by government and expenditure made from government budget and submit it to the National Assembly accompanied by the audit report thereon.

Responsibilities of Budgetary Units

As per PFEM law and accounting manual, all budgetary units (Ministries, Independent Departments and agencies of the government) are required to prepare their operating and development Qatia accounts statements in the designatd M-91 Form that shows their orinial annual budget, adjustments/amendments during the year, allocation received, actual expenditure (cash and advances paid) and remaining balance as well as position of revenue (based on central and provincial revenue reports - M-29 and M-27 Forms respectively) in terms of the revenue estimated, revenue assessed and revenue collected as well as revenue remaining for collection and sumbit the same to the MoF.

The Qatia statements of the budgetary units are prepared according to the related documents, registers, provincial expenditures and revenue reports. Government's general Qatia statements are consolidated and finalized after reconciliation with the signed Qatia of the budgetary units sent to the MoF.

SAO's responsibility is to seek assurance on the integrity of figures contained in Qatia statements as per documentary evidences and prepare audit report and provide independent opinion on Qatia Statements to the State President and the National Assembly.

Therefore, the responsibility of the budgetary units is to prepare their Qatia accounts as per documents and after reconciliation with its related subunit(s) and MoF, ensure the accuracy of the figures, send

them to MoF for integration into the general Qatia statements. After the preparation of the Government's general Qatia Statements, the concerned accounting authorities and officers bear responsibility of any mistakes or inaccuracies of figures contained in the Qatia Statements. The SAO doesn't bear any responsibility regarding the figures contained in Qatia statements prepared by the budgetary units and Government general Qatia statement prepared by MoF.

Responsibilities of Ministry of Finance

As per Article 59 of the PFEM law, MoF is responsible to prepare Qatia financial statements based on Qatia statements of budgetary units and submit it to the Supreme Audit Office for audit. With reference to the Constitution, the SAO Audit Law and the PFEM law, audit report of the SAO is to be submitted to the President and the National Assembly, as specified, within the first six months of the next year.

The MoF is responsible to prepare the development and operating budget expenditure Qatia statements and government revenue Qatia statements during the first three months of the next year and submit it to SAO by the beginning of the 2nd quarter for audit.

Responsibilities of Supreme Audit Office (SAO)

As per Article 98 of the Constitution, Article 11, Para 2 and Article 12, Para 2 of the Audit Law (1392) and Article 59 of the PFEM Law, the SAO is required to audit the Annual Qatia statements prepared and finalized by MoF and submit the report theron to the State President of the Islamic Republic of Afghanistan and the National Assembly.

Scope of Audit

The scope of audit includes audit and reconciliation of operating and development budgets expenditure contained in Qatia accounts of budgetary units with government general accounts against the approved budget at the beginning of the year, budget supplements and amendments in the budget during the year, expenses and balances, reconciliation of central and local revenue reports with revenue Qatia accounts against the advance estimates of domestic revenue and external grants in core budget and budget supplements and reconciliation of transactions of Treasury general department during the year with regard to the opening and closing balances with bank statements, AFMIS and other supporting documents in accordance with PFEM law and regulations, budget documents and execution principles and other rules and regulations and related guidelines and procedures .

As required under the PFEM law, all funds, including donor's assistance for operating budget and development activities, are to be channeled through the core budget and are managed through the government's budget and accounting system. However, external budget, which constitutes a substantial share of the donor's financial assistance, is not channeled through the TSA. There is no standard framework for allocation of the external budget resources between the sectors and the ministries, as they are not controlled by the government. In the absence of any accounts for the external budget, it is not possible for the SAO to give any audit opinion on external budget. No details /disclosures regarding external budget are available as notes to the Qatia financial statements.

Supporting Documents

All the relevant documents and records on the basis of which the Qatia statements 1392 were prepared were reviewed and audited during the audit of Qatia statements. The documents which support the audit findings and observations are treated as supporting documents.

These documents include the approved National Budget 1392 and its supplementary papers and annexes, reports relating to the Provincial and Central Revenues under M-27 and M-29 Forms respectively, reports relating to Provincial Expenditure under M-22 Forms, reports relating to Payment by Mustofiats and Agencies of DAB in provinces under T-8 Forms, Payments Reports of General Dept of Treasury and Bank Statements of DAB, Forms B-23 and B-27 relating to amendments in budget for general expenditure and budget allocations respectively, Expenditure Qatia of the budgetary units, transactions entered in the AFMIS system, documents related to budget committee decisions and other relevant documents, which backs and supports figures contained in Qatia accounts. The documents, which back up and support audit comments, audit findings and opinion given in this report, called audit supporting documents, are included in Qatia accounts audit commission's working papers files.

Transparency

Transparency is the main principle in accounting and reporting of transactions. Transparency requires maintain records of transactions in systematic, regular, accurate and timely bases, submission of accounting reports on timely bases to the relevant departments and ministries, inclusion of all accounting transactions in the reports and the statements, free from misstatements, efficient and effective working of internal control systems, appropriate arrangement and existence of accounting records and files and records of inventory matching with their physical existence, etc. Wrong accounting entries, irreconciled figures (words and numbers), mismatch between reporting currency (Afghani) and foreign currency in accounting forms and AFMIS system and Qatia financial statements, improper arrangements of documents, lack of documents or placing copies of documents rather than original copies in records, deletions and omissions, using of whitener for changes and recording calculation and numbers with pencils, etc., adversely affect transparency of Qatia financial statements, which should be avoided.

Audit Methodology

SAO conducts audit of the Qatia statements in pursuance to the auditing principles and auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI), called International Standards of the Supreme Audit Institutions (ISSAIs). Those standards require that audit is planned and performed to obtain reasonable assurance whether the accounts are free from material misstatements and to obtain reasonable assurance that the statements 'fairly present' the financial affairs of the Government and the agencies. The audit includes examining on a test basis, evidence supporting the amounts and disclosures in the accounts and assessing the accounting principles used and significant estimates made, as well as evaluating the overall presentation of accounts to provide to audit a reasonable basis for audit opinion. The audit also includes an assessment of the compliance to

the policies and budgetary principles and other authorities related to preparation and presentation of the Qatia statements.

We believe that audit provides reasonable basis for giving opinion on Qatia accounts.

Comments of Ministry of Finance on the draft of the audit report on Qatia statements

In pursuance to the INTOSAI's ISSAIs that requires audit findings to be shared with the concerned audit entities for seeking comments before finalization, comments and replies of the MoF are to be sought and a joint meeting should be held to discuss on audit findings, if needed. The finalized and agreed comments should be reflected in the audit report of Qatia statements.

Unfortunately, due to delay in preparation and submission of Qatia statement by the MoF for audit, Qatia audit commission had constraints and limitation of time in completing audit of Qatia accounts. However, as the per documents and information made available to the Qatia audit commission and considering that the the audit report needed to be submitted to the State President and the National Assembly by the end of Jawza month, the commission could conduct audit within the the time specified focusing on areas which required scrutiny and reconciliation due their importance and risk. Due to limitation of time in auditing Qatia statements and the time bound audit reporting requirement, the audit commission prepared a draft report of audit findings and submitted the same to the relevant authorities of the MoF (Directorates of Treasury, Budget and Revenue & Custom) vide letters no 2, 3 & 4 dated 27/3/1393. They were requested to provide their comments and replies to the audit observations by Jawza 28th, 1393. However, reply of only the Directorate of Treasury, MoF vide letter no 147916 dated 28/3/1393 could be received by the audit. No comments or replies from the other Directorates of the MoF were received by the audit commission before submission of the audit report.

Chapter 2: An Overview of Government Finances and Budget Implementation in FY 1392

The Qatia Statements for the financial year 1392, which have been audited by the Supreme Audit Office (SAO) in second quarter of Financial Year (FY) 1393/2014 in accordance with SAO law and decree no.(6084) of State President of the Islamic Republic of Afghanistan dated on 3/10/1391, presented 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) in FY1392. Unlike the FY1391, which comprised 9 months, FY1392 comprised 12 months, Jadi 1st, 1391 – Qaws 30th, 1392 (21st December 2012 to 21st, December 2013).

Government of the Islamic Republic of Afghanistan financed its operating and development expenditures from domestic tax, non-tax and miscellaneous revenues and donor's assistance (Discretionary Development Funds and Development Budget Grants) as well as a small portion from Development Loans.

This chapter presents an overview of the government's fiscal scenario, sources and usages of money, relating to FY1392 in comparison with previous years.

Summary of Expenditure and Receipts

Trends in Operating and Development Expenditures

In FY1392, Government's total expenditure through operating and development budgets was Afs 278,144,662,094, as against Afs 189,383,812,905 in FY1391 and Afs 199,181,991,505 in FY1390 (12 months), showing substantial increase over previous years. In FY1392, the operating budget expenditure was Afs 197,991,707,432 and development expenditure was Afs 80,152,954,662.

As per the estimates available, the GDP in 2013 was Afs 1,197,168,000,000 (in nominal terms). Government's total expenditure in the FY1392/2013 was about 23.2% of the GDP, comprising 16.5% operating expenditure and 6.7% development expenditure of the GDP. Total core budget expenditure by the government in FY1390 was 23% of the GDP and in FY1388 (12 months) and FY1389 (12 months) as percentage of the GDP was 21%.

The following table and graph provide details and trends of operating and development expenditure for the last five years.

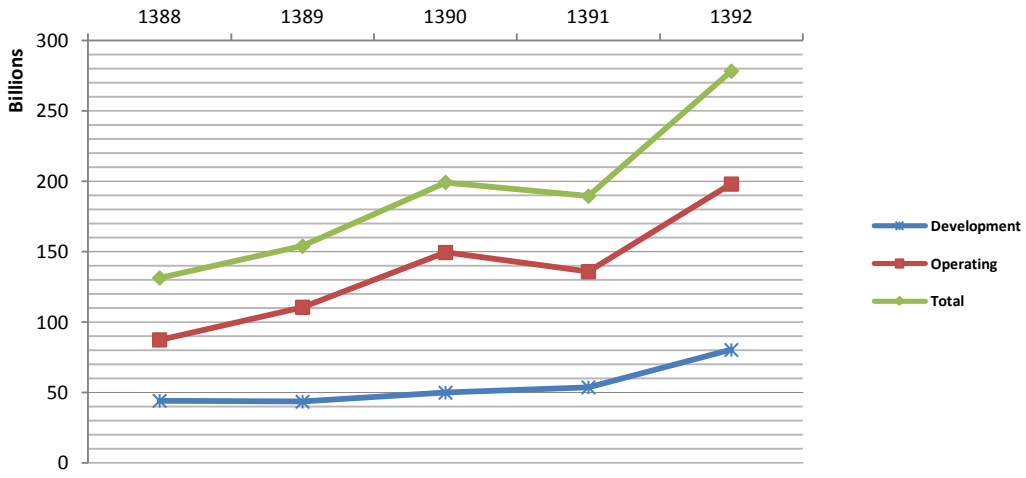
Table 2.1: The Government total operating and development expenditure in last 4 years

Table 2.1: Total expenditure by the Government for last 5 years (Afs)					
Description	**FY1388**	**FY1389**	**FY1390**	**FY1391**	**FY1392**
Operating	87,313,084,854	110,485,630,266	149,385,421,841	135,790,736,547	197,991,707,432
Development	43,996,040,138	43,381,864,945	49,796,569,664	53,593,076,358	80,152,954,662
Total	**131,309,124,992**	**153,867,495,211**	**199,181,991,505**	**189,383,812,905**	**278,144,662,094**

% growth in total expenditure in 1392	**-**	**17%**	**29%**	**5%**	**46.9%(over 1391) 39.6% (over 1390)**

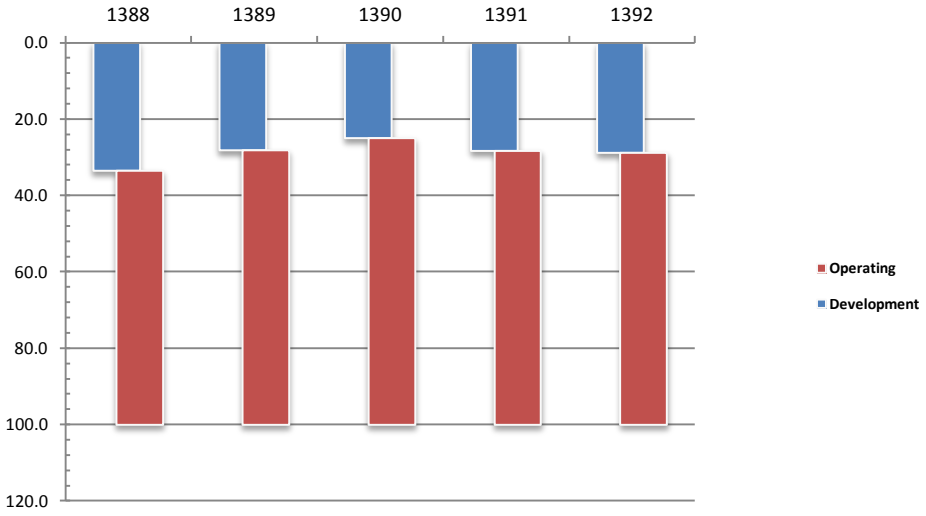
Compared with the last year's core budget expenditure (FY1391, 9 months), core budget expenditure in FY1392 (12 months) is up by 46.9% and compared with FY1390 (12 months), it increased by 39.6%. Operating budget expenditure in FY1392 (12 months) increased by 45.8% compared with FY1391 (9 months) and 32.5% compared with FY1390 (12 months). Development budget expenditure in FY1392 increased by 49.6% compared with FY1391 and 61% compared with FY1390. As such, core budget expenditure as whole, and the operating and development budget expenditures separately have shown increase.

Figure 2.1: Trend of Core Budget Expenditures (Afs)



As can be seen from the Figure 2.1 above, core budget expenditure suggests increasing trend; more in the operating expenditure and relatively less in development expenditure in absolute terms. However, unlike the previous few years, when the share of the development expenditure vis-à-vis, the operating expenditure was declining, for last 2 years, FY1391 and FY1392, there is an increase in the share of development expenditure in the total expenditure. The share of development expenditure in the total expenditure came down from 33.5% in 1388 to 25% in FY1390, but it went up to 28.3% in 1391 and 28.8% in FY1392, as depicted in the chart below.

Figure 2.2: % Share of operating and development expenditures in total expenditure



Domestic Revenue and External Assistance

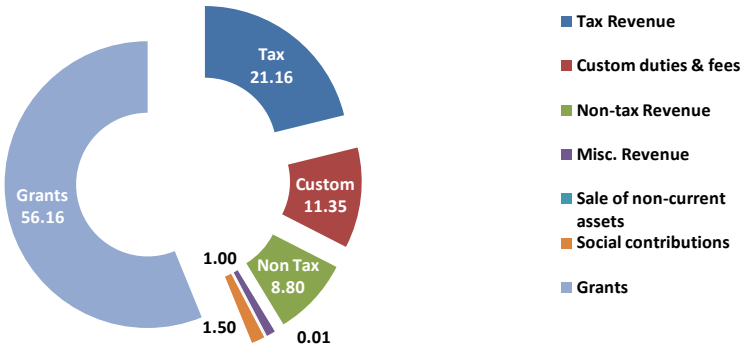
Financing the Operating Budget Expenditure in FY1392

The total revenue from domestic sources in FY1392 was Afs 109,332,995,372, which is about 9.13-% of the GDP in 1392. Share of different sources in domestic revenue was: 48.3% tax revenue, 25.9% custom duties and fees, 20.1% non-tax revenue, 2.3% miscellaneous revenue and sale of non-current assets and 3.4 % social contributions. The external assistance receipt of Afs 140,082,069,955 in FY1392 was 11.7% of the GDP. Total receipts for financing the operating budget from domestic and external sources were Afs 249,415,065,327 in FY1392, which is 20.8% of the GDP.

In FY1392, the contribution of Tax Revenue is 4.4% of the GDP, Customs duties and Fees 2.36%, Non-Tax Revenue 1.8% and others 0.5% of the GDP. Compared with FY1391 (9 months), the domestic revenue in FY1392 (12 months) increased by 33.8% and compared with FY1390 (12 months), it increased by 10%.

Government financed the operating budget expenditure of Afs 197,991,707,432 in FY1392 from Afs 109,332,995,372 or about 55.2% from domestic revenue and balance, 44.8% from external assistance routed through the Afghanistan Reconstruction Trust Fund (ARTF), Law and Order Trust Fund of Afghanistan (LOTFA) and Combined Security Transition Command of Afghanistan (CSTC-A) mainly meant for Ministry of Defense and Ministry of Interior and other donor's assistance. Figure 2.3 depicts the share of different sources for financing operating budget expenditure in FY1392.

Figure 2.3: % Share of receipts from different sources for financing operating budget expenditure FY1392



A comparison of receipts of last five years for financing 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, which was 34% in FY1388, went up to 40% in FY1389 and having marginally declined in FY1390 to 38%, again went up to 44.6% in FY1391 and 56.1% in FY1392. The following table gives details of operating revenue for the last 5 years.

Table 2.2: Revenue for 5 years for Financing the Operating Budget (Afs Million)

FY	Tax Revenue	Custom duties & fees	Non-Tax Revenue	Misc. Revenue	Sale of non-current assets	Social contributions	Grants	Total
1392	52,788	28,306	21,955	2,501	36	3,747	140,082	249,415
1391	38,965	21,406	18,285	254	178	2,618	65,715	147,421
1390	45,227	30,546	20,258	321	59	2,985	60,409	159,805
1389	38,925	27,705	11,495	437	108	1,808	54,466	134,944
1388	30,105	21,797	10,091	535	215	1,088	32,768	96,599

Share of the domestic sources of revenue and grants for meeting the operating budget indicates that the share of Tax Revenue as well as Customs Duties & Fees in the overall operating revenue has progressively declined over the last 5 years. For example, share of tax revenue in the total revenue declined from 31.16% in FY1389 to 26.43% in FY1391 and further to 21.16% in FY1392. Similarly, the share of Customs Duties & Fees declined from 22.56% in FY1389 to 14.52% in FY1391 and further to 11.35% in FY1392. However, the share of donor's grants has increased. This trend has adverse implication in meeting the target of fiscal sustainability. A noteworthy feature about the miscellaneous receipt in FY1392 is substantial increase, almost 10 times of last year, from Afs 254 million to Afs 2,501 million.

Financing the Development Budget Expenditure in FY1392

Government's financing of the development budget expenditure was from grants (63.5%), carry forward from the retained treasury balances (34.2%), development loans (2.1%), and the balance (0.2%), from contribution through the operating budget and miscellaneous receipts, the latter being revenue from Aynak copper mines, forest revenue of Kunar, railway revenue, etc.

Table 2.3: Sources of funding the Development Budget FY1392 (Afs)

Sources	Afs	%

Donor's Grants for Development Budget	51,139,411,869	63.44
Loans	1,737,478,908	2.16
Miscellaneous Receipts	159,371,266	0.20
Transfer from Treasury Balance	27,560,867,718	34.19
Transfer from Operating Revenue (Govt. A/c)	4,326,539	0.01
Total Development Fund in 1392	80,601,456,300	
Total Development Expenditure in 1392	80,152,954,662	

Domestic Revenue and Fiscal Sustainability

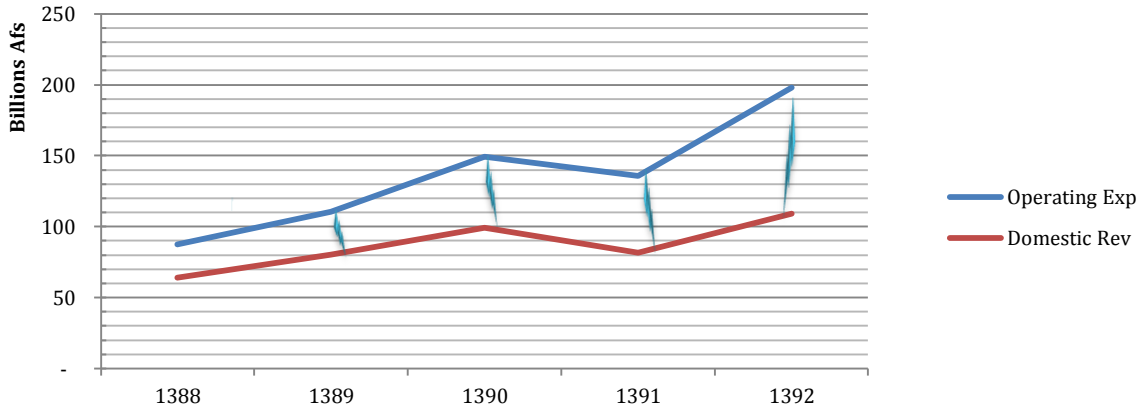
For financing its operating expenditure, Government uses revenues from both domestic sources and foreign aid/grants from donors. Development budget is implemented mainly on the basis of donor's grants and a very small portion from retained contributions and development loans.

In FY1392, for financing the operating budget expenditure, the Government's total revenue receipt was Afs 249,416,065,327; Afs 109,332,995,372 from domestic sources and Afs 140,082,069,372 as donor's fund. The domestic revenue of Afs 109,332,995,372, as a percentage of the operating expenditure of Afs 197,991,707,432 in FY1392, was about 55.2%, which represents a decline compared to the last years. In FY1391, domestic revenue was 60.2% of the operating expenditure and in FY1390 domestic revenue was 66.5% of the operating expenditure. The declining trend of domestic revenue as percentage of the operating expenditure is given in Table 2.4 below; from about 73.11% in FY1388, 72.84% in FY1389, 66.54% in FY 1390 to 60% in FY1391 and further to 55.2% in FY1392.

Table 2.4: Domestic revenue & Grants as percentage of operating expenditure (Afs)

Description	FY1388	FY1389	FY1390	FY1391	FY1392
Operating Expenditure	87,313,084,854	110,485,630,266	149,385,421,841	135,790,736,547	197,991,707,432
Domestic Revenue	63,830,465,000	80,477,019,089	99,396,358,344	81,705,321,202	109,332,995,372
Domestic Revenue as % of Operating Expenditure	73.11%	72.84%	66.54%	60.17%	55.2%

Figure 2.4: Growing gap between operating expenditure and domestic revenue



The growing gap between the domestic revenue and the operating expenditure has implication for not only fiscal management by the government every year but more so for fiscal sustainability in the medium terms.

Fiscal sustainability objective of the government includes fully financing the operating budget from domestic revenues and excluding any dependence on donor's fund in the short to medium term. However, increase in operating expenditure over the years (especially last 5 years) seems to have countered the effort of the Government in this direction and revenue from domestic sources could fund only 55.5% of the operating expenditure in FY1392, lower than in FY1388 to FY1391. The increase in operating expenditure along with growing gap against domestic revenue poses challenge to the possibility of fiscal self-sufficient and sustainable operating budget in the near future.

Implementation of Operating and Development Budgets, FY1392

The utilization of the appropriations and the implementation of budgetary approvals and the projects while adhering to budgetary authorities and other applicable rules and regulations is a measure of Government's effort to implement the budget given by the National Assembly for the financial year. In FY1392, total utilization of the operating budget was 90.41% of the appropriations, 3.86% up from 86.55% of the appropriations in 1391.

Table 2.5: Operating budget utilization

FY	% Budget utilization
1386	96.60
1387	92.35
1388	93.26
1389	95.61
1390	95.54
1391	86.55
1392	**90.41**

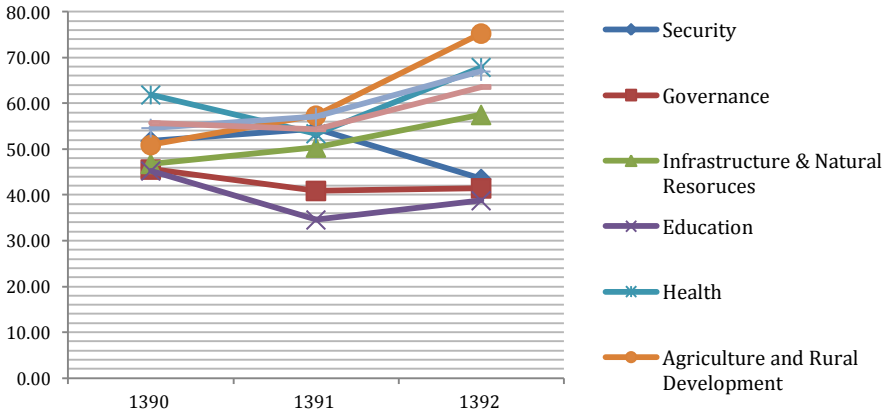
Development budget utilization, though not optimal, increased from 50.64% in 1391 to 57.2% in FY1392.

Table 2.6: Development budget utilization

FY	% Budget utilization
1386	54.88
1387	44.12
1388	36.85
1389	38.95
1390	49.45
1391	50.64
1392	**57.17**

The marginal increase in the implementation of the development budget in FY1392 compared with that in FY1391 is attributed to relatively enhanced implementation in the sectors of Infrastructure and Natural Resources, Health, Agriculture & Rural Development, Social Security and Economic Governance. However, the other three sectors, namely, the Security, Governance and Education, have shown decline in development budget utilization. Figure 2.5 below shows the trends in development budget implementation in different sectors for last three years.

Figure 2.5: Development budget implementation (as %)



The overall development budget implementation in FY1392, though up compared to the previous years, remained only at about 57%. The top 14 ministries shared about 84.6% of total development budget appropriations and 91.5% of total development expenditure in FY1392.

Table 2.7: Top 14 Ministries - Development Budget FY1392 Implementation

Ministries /Budgetary Units	Appropriation	Expenditure	% Implementation	% Unutilized
20. Ministry of Finance	3,659,037,636	2,456,768,472	67.14	32.86
22. Ministry of Defense	11,409,803,481	8,305,467,567	72.79	27.21
27. Ministry of Education	14,918,192,321	5,729,837,474	38.41	61.59

28. Ministry of Higher Education	3,563,423,369	1,524,293,808	42.78	57.22
32. Ministry of Mines & Industry	1,769,112,605	1,257,312,860	71.07	28.93
34. Min of Communication & IT	2,543,586,737	1,316,209,926	51.75	48.25
37. Ministry of Public Health	10,558,553,260	7,169,485,138	67.90	32.10
39. Min. of Agri., Irrig.& Livestock (MAIL)	7,515,020,062	5,016,216,307	66.75	33.25
41. Ministry of Energy and Water	10,755,657,311	5,718,101,804	53.16	46.84
42. Ministry of Public Works/ Misc.	24,052,482,150	13,984,288,145	58.14	41.86
43. Min. of Rural Rehab. & Dev (MRRD)	20,967,057,338	16,456,831,692	78.49	21.51
45. Min of Transport & Civ. Aviation	2,076,886,924	1,196,456,291	57.61	42.39
49. Min of Urban Dev	1,526,447,429	1,089,053,953	71.35	28.65
83. Brishna Industry	3,267,416,973	2,082,586,038	63.74	36.26
% of 14 ministries of the total	**84.58**	**91.45**	**61.82**	**38.18**

In addition to the sub-optimal budget utilization by the top 14 ministries, the lack of any utilization (zero percent) of their respective development budget appropriations by the Afghanistan Private Investment Support Agency (AISA), the Microfinance Investment Support Facility for Afghanistan (MFISFA) and the Environment Authority; only 3.6% utilization by the Ministry of Interior, about 30% utilization by IDLG, Ministry of Foreign Affairs, Ministry of Culture and Information and the Olympic Committee, also contributed to lack of optimal implementation of the development budget in FY1392.

In the Development budget FY1392, against the total appropriation of Afs 140,196,319,583, Afs 91,717,827,871 or about 65% was reported as the total allotment to the budgetary units. Remaining amount of Afs 48,476,491,713, or about 35% of the development budget appropriations, could not be allotted to the budgetary units. Out of the total allotted budget appropriations, Afs 80,152,954,662 was total expenditure and Afs 11,564,873,209 or 12.6% of the allotted appropriations remained unspent.

One significant trend in development expenditure, which has been witnessed in previous years also, including FY1391 and FY1392, was absence of any expenditure in large number of project activities despite appropriations, and in many cases, allotments. In FY1392 development budget, out of the total of 698 project activities contained in Qatia, for about 48 projects there were no budgets. Against 650 projects for which appropriations were taken, in 187 project activities, no appropriation and no expenditure was reported i.e., no activity was undertaken. This was in addition to several projects having very low implementation.

Further, there were a large number of development project activities, especially in the sectors of Infrastructure and Natural Resources, Education, Public Health and Agriculture and Rural Development and Economic Development and private sector development, which continued through last several years to FY1392 without substantial budget utilization, even in FY1392. The following examples give an illustrative picture of the same.

Education Sector

- In Ministry of Education (MoE), projects relating to *Construction of Schools in Frontier Provinces, Education Infrastructure Development, Islamic Education and Supplying Services in Districts Levels (MOE), Female Youth Employment Initiative, etc.* are continuing at least since FY1389 with budget utilization of less than 40% and as low as 5% in certain cases.
- In the Ministry of Higher Education (MoHE), projects relating to *Construction of Building and Purchase of Equipment for Institutes/Universities of Higher Education* in many provinces, *Construction of Building and Purchase of Equipment for Kabul Polytechnic*, *Construction of Building and Purchase of Equipment for Kabul University, Professional Hospital, Aliabad Hospital, Laboratories, and other universities*, are continuing at least since FY1390 with budget utilization of less than 40%.

Health Sector

- In the Ministry of Public Health (MoPH), projects relating to *Construction & Rehabilitation of Blood Transfusion & Central Laboratory*, *100 Beds Hospital in Kapisa and Saripol Provinces*, *Surveillance & Response to Avian & Pandemic Influenza by Afghan Health Institute (API)/MoPH*, *Construction of Hospitals and health facilities in Kandahar, Hilmand and Urzgan provinces*, *Construction of 11 Basic and 2 Comprehensive Health Centers at the boarder provinces*, *Construction of Health Facilities (BHCs & CHCs) in Nooristan Province*, *Construction of 30 bed Hospital in Bamyan*, *Intensive Care Unit (ICU)* are continuing for last 3-4 years with development budget implementation below 30% and in many cases nil utilization. For example, *Construction & Rehabilitation of Blood Transfusion & Central Laboratory* project has budget utilization between 23-33% for last 3 years; the *Expansion of Malaria Control and Supporting Health Care Services* project could implement only 4-13% of development budget in FY1389 to FY1391 and only in FY1392, it has implementation of 78% and *ICU project* had nil implementation in FY1390, 34% in FY1391 and 27% in FY1392.

Agricultural & Rural and Local Development Sector

- In the Ministry of Agriculture, Irrigation and Livestock (MAIL), projects relating to *Agricultural Statistics and Surveys to Establish Database*, *Rehabilitation & Equipping Agriculture' offices in center, provinces & district*, *National Horticulture & Livestock Program (NHLP)*, *Establishing Quality Control and Diagnostic Laboratories and Quarantine of animal and plant*, *Horticulture Cooperative Development Projects (HCDP)*, *Rehabilitation of Ningarhar Canals Irrigation Infrastructure (NVDA)*, *Apiculture Development Project*, *Support to Agriculture and Rural Development (SARD)*, *Irrigation and Water Reservoir project*, *Developing Livestock Project (Fishing & Artificial Insemination)* have shown marginal to moderate implementation, mostly below 40% and in some case 0-10%.
- In the Ministry of Rural Rehabilitation & Development (MRRD), projects relating to *National Rural Water Supply, Hygiene education and Sanitation Programme*, *Construction of two RCC bridges on Kunar river in Bar Kunar district of Kunar province (border project)*, *Policy and Action Group (PAG) MRRD*, *Small Development Projects (SDP) in border provinces*, *Afghanistan Rural*

Enterprise Development Program (AREDP), *Development projects for Vulnerable Provinces (VPP)* in Nooristan, Zabul, Daikundi, Kapisa and Ghor, *National Area Base Development Program (NABDP)*, projects related to *construction of roads in Farah and Badgish provinces* have shown implementation of only 20-40% for last 3-4 years. The project to set up the *Afghan Institute of Rural Development (AIRD)* had expenditure of 2.5% of the appropriation in 1389 and thereafter for last three years the implementation is below 2%.

- In the Independent Directorate of Local Governance (IDLG), projects relating to *Afghanistan Stabilization Programme (ASP)*, *Construction of Residential Buildings for Governors* and *Strengthening Provincial Administration and Delivery (SPAD)* have recorded implementation below 50% for last 3 years.

Infrastructure and Natural Resources Sector

- In the Ministry of Mines & Industry (MoM), projects relating to *Rehabilitation of Sheberghan Gas wells* could utilize only 1 to 16% of the appropriation in FY1389 – FY1391; utilization in FY1392 is 62%. In addition, in FY1392, Government started *Sheberghan Gus Implementation project* with appropriation of Afs 26 million. However, there is nil implementation of the project in FY1392. In FY1391, Government started the *Rehabilitation and modernization of Mazar-e-Sharif fertilizer company* project with an expenditure of Afs 97.5 million in FY1391. There was an appropriation of Afs 110.9 million for the project in FY1392 also, against which, however, there is nil implementation in FY1392.Since FY1389, Government is implementing the project on *Discovery and development of Ghoryan Iron Mine.* Starting with about 62% development budget utilization in FY1389 for the project, utilization in next two years was very low; 19.4% in FY1390 and only 3.4% in FY1391. In FY1392, the project has shown about 99% utilization.
- In the Ministry of Communication & IT (MoCIT), an important project, *Expansion of Fiber Optic Network,* which had development budget utilization of 85% in FY1389, however went without any implementation in FY1390 and FY1391 despite appropriation of Afs 293.5 million in FY1390 and 810 million in FY1391. In FY1392, against a budget appropriation of about Afs 1288 million, implementation was 39%. For last several years, government is implementing the project for *Development of Communication & IT sector.* Development budget implementation under the project for FY1389 to FY1391 has been less than 18%. In FY1392, implementation was 71%.
- In the Ministry of Energy and Water (MoEW), for last 3-4 years, implementation is very low in several projects relating to *Power Transmission and Distribution project (from Shirkhan Bandar to Himam Sahaib, at Taliqan and Saripol, from Naghlu to East Jalalabad, Mihtherlam & Jalalabad) (implementation of 8-40%)*, *Design and Construction of Gambiri Irrigation Project (implementation 0-12%),Extension of 220 KV transmission line from Tajikistan boarder to Kunduz and Pulikhumri including Baghlan and Kunduz Substations (implementation 38% for last 2 years), Kabul and Mazar-e-Sharif Distribution Network and Construction of Aybak Substation (Implementation below 20% for 3 years, 76% in 1392), Construction of 650 Km 500KV Transmission line from Tajikistan to Pakistan (CASA 1000)and Construction of 300MVA*

Substation (implementation less than 20% for 3 years, 62% in FY1389,), Design and Construction of Almar Water Dam in Faryab Province 1391 (implementation 55% in FY1390, 60% in FY1391 and 19% in FY1392), Construction of Dahla Dam in Kandahar project (no implementation for last 2 years).

- In the Ministry of Public Works (MoPW), various roads and highways construction and rehabilitation projects such as the *Rehabilitation & Asphalt of Doshi to Puli-khumri Road*, *Super Corridor: Asphalt of Andkhoy - Aquina Road*, *National Highway: Rehabilitation of Herat - Torgundi Road*, *Construction of Armalak - Laman Road*, *Construction road of Sayeed Abad, Chak, Daimeer daad and Bahsood*, *Design and Construction of Sari Khuja to Charikar road second line*, *Construction of security check posts for Hairatan-Mazar Railway Project, etc.* have mostly implementation less than 40% for last 3-4 years.
- In the Ministry of Transport & Civil Aviation (MoTCA), *Construction and rehabilitation of Airports at Khost, Bamiyan, Farah,* etc, and *Rehabilitation and Extension of Terminal at Airports at Kandahar, Kunduz*, etc. have shown implementation below 40% for last three years.
- In the Water Supply and Canalization Corporation, project related to *Urban Water Sector Project* has implementation of 21% in FY1390, 18% in FY1391 and 61% in FY1392. *Supply of Drinking water for Farah Province project* has nil implementation for last 3 years.
- In the Breshna Shirkat, a number of projects related to power have no implementation (nil expenditure) for last 3 years. These projects are *NEPS 220 KV Transmission system spares and emergency equipments*, *220 KV Kabul new south-West Substation*, *Rehabilitation of Sheberghan city Distribution network*, *Extension of transmission line from Kabul to Logar, Khost, Paktika and Gardiz including of its network and substations*, *Sub-Station Extension of hydro power in South part of Kabul*, *Power Transmission and supply from South to North and Transmission and Extension of Power*. Two other projects namely, *220 KV Transmission line, Chimtala Substation to new South West Substation* and *Power Transition & Distribution network in Ozbin and Badpakht and construction of the distribution network in Khake Jabar and Sarobi Districts* have shown less than 30% implementation in FY1392.

Economic Development

- In the Ministry of Commerce and Industry (MoCI), the project, *Carpet process project in Andkhoy & Jalalabad* for last 3 years has implementation of 9-41% and *Afghanistan new Market Development Project 2.1% in FY1390 and about 59-69 % in last two years.*

- Afghanistan Investment Support Agency (AISA) has been taking budget appropriation for few years for implementation of *Afghanistan Industrial Parks Development Program (AIPDP).* However, in FY1390, it has implementation of 2.5% and in FY1391 and FY1392 nil implementation.

- Similarly, the Micro Finance Investment Support Facility for Afghanistan (MISFA) after recording an implementation of 53% in FY1390 has shown implementation of 2% in FY1391 and 0% in FY1392. This is despite MISFA had Afs 227 million and Afs 42.5 million budget appropriations in FY1391 and FY1392 respectively.

Lack of optimal utilization of the development budget by critical ministries / agencies, most importantly in the areas of infrastructure and natural resources, agriculture and rural development, education, health and economic development, results in less growth in all the sectors and lack of achievement of the set physical targets and inadequate performance in the priority areas.

Government may need to enhance pace of implementation of projects and programmes without cost and time overrun by optimal utilization of budget appropriations and proper monitoring. Government may put in place a mid-term review and appraisal mechanism for critical projects and enhance pace of implementation of these projects and programmes.

Implementation of Revenue Budget, FY1392

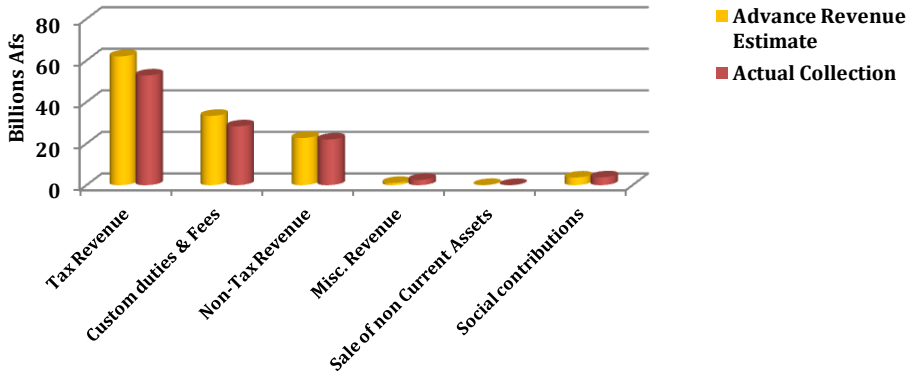
One of the important, rather a pressing requirement, of the government is to augment the sources and the volume of domestic revenue for fiscal self-reliance. Bringing buoyancy in tax revenue, i.e., efficient and increased tax collection linked to increase in national income and gross domestic product (GDP) combined with the useful and appropriate policy towards utilization 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 should 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 AISA and ATRA and also the surplus proceed of DAB's investment of government money.

Against the advance revenue estimates of Afs 122.8 billion by the government agencies and the budget estimate of Afs 123 billion of the domestic revenue in 1392 by the Ministry of Finance, actual collection of revenue in 1392 from domestic sources was Afs 109.3 billion as reported in the Revenue Qatia 1392. Details are shown at table 2.8 below.

Table 2.8: Revenue from Domestic Sources 1392

Sources of Domestic Revenue	Advance Revenue Estimate	Revenue Assessed	Actual Collection	Collected Revenue as % of Advance Estimate	Collected revenue as % of Assessed Revenue
Tax Revenue	62,009,214,374	53,958,936,695	52,788,074,648	85	98
Custom duties & Fees	33,337,303,614	28,305,412,929	28,305,412,929	85	100
Non-Tax Revenue	22,696,700,875	22,511,705,566	21,955,377,896	97	98
Misc. Revenue	1,058,014,566	2,501,650,935	2,501,348,390	236	100
Sale of non Current Assets	67,256,248	36,563,627	36,125,027	54	99
Social contributions	3,646,197,325	3,746,722,769	3,746,656,482	103	100
Total Domestic	**122,814,687,002**	**111,060,992,521**	**109,332,995,372**	89	98
Grants	**87,228,778,500**	**140,082,069,955**	**140,082,069,955**	161	100
Grand total	**210,043,465,502**	**251,143,062,476**	**249,415,065,327**	119	99

Figure 2.6: Revenue collection compared with Advance Estimates in 1392



Borrowings / Loans and their usage in 1392

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 Equipment and Building and Structures in a few ministries, such as the Ministries of Agriculture, Irrigation & Livestock, Public Works and Energy & Water, etc.

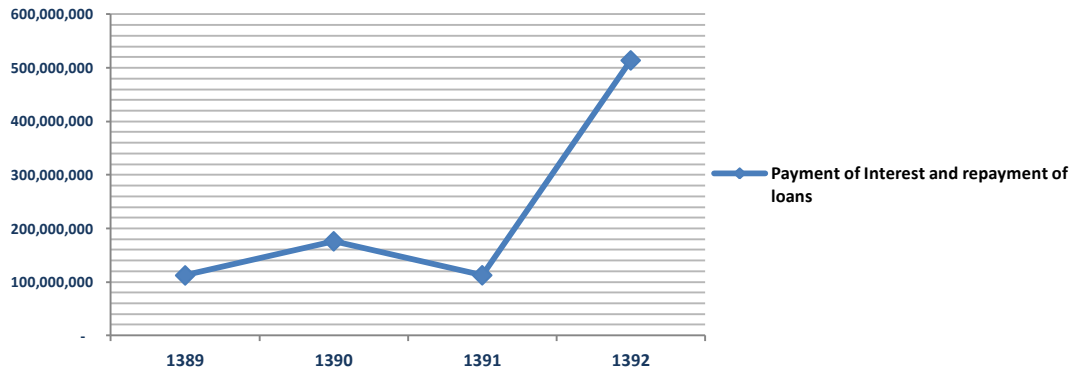
As per the Revenue Qatia 1392, a total loan of Afs 1,737,478,908 from the World Bank (Afs 55,315,932), the Asian Development Bank (Afs 892,829,031) and other donors (Afs 789,331,945) were received by the government. The loans constitute about 2.16% of the total development budget financing in FY1392. Of the total loan received, Afs 1,737,476,908 has been utilized for the following purposes.

Table 2.9: Usage of Loans for Development Expenditure in FY1392

Description	Amount (Afs)	% Use
Total Loans as per Revenue Qatia in 1392	1,737,478,908	
Total Use of Loans as per AFMIS in 1391	1,737,476,908	
Remaining / not applied	2,000	
Details of Use of Loans		
22. Goods & Services	**85,320,422**	**4.9%**
221 - Travel	14,145,560	0.8
223 – Contracted Services	68,587,321	3.9
225 – Utilities	1,604,800	0.1
226 – Fuels	62,000	0.004
227 – Tools & Materials	866,700	0.05
228 – Other Expenditure	54,041	0.003
25. Acquisition of Assets	**1,652,156,486**	**95.1%**
251 – Buildings & Structures	1,486,215,957	85.54
252 – Machinery &Equipment	165,940,529	9.55

In FY1392, through its operating budget expenditure, the Government paid Afs 246,048,359 towards repayment of loans and Afs 268,080,340 towards interest payment, a total of Afs 514,128, 699. Total interest payment and repayment of loans in FY1391 was Afs 112,590,981; Afs 22,198,727 towards repayment of loans and Afs 90,392,254 towards interest payment. Total interest payments and repayment of loans in FY1390 and FY1389 were Afs 176,101,159 and Afs 112,351,075 respectively. The trend of payment towards interests and repayment of loans is depicted below:

Figure 2.7: Trend of payment towards interests and repayment of loans (Afs)



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) subsides, grants and social benefits, and e) acquisition of assets.

Distribution of the expenditure from operating and development budgets suggests that in FY1392, the Government spent 50% of the total core budget expenditure on salaries and wages (decrease compared to 52% in FY1391 and 56% in FY1390), 28% on use of goods and services (increase compared to 25% in FY1391 and 23.5% in FY1390), about 17.6% for acquiring assets (against 19% in FY1391 and 15.9% in FY1390) and about 4.3% on subsidies, grants, social benefits and repayment of loans and payment of interests (against 4% in FY1391 and 4.6% in FY1390). Development expenditures are mainly in the categories of use of goods and services and acquisition of assets.

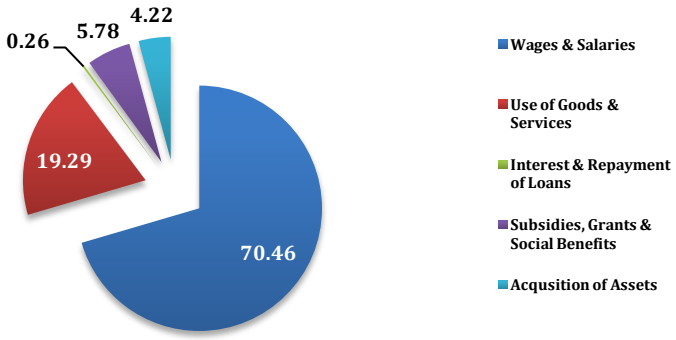
Table 2.10: Operating and Development Expenditure by Economic Categories FY1392

Codes	Objects of Expenditure	Operating	Development	Total	% share
21	Wages & Salaries	139,498,839,496	-	139,498,839,496	50.15
22	Use of Goods & Services	38,189,336,029	39,453,806,546	77,643,142,575	27.91
23	Interest & Repayment of Loans	514,128,699	-	514,128,699	0.18
24	Subsidies, Grants & Social Benefits	11,435,932,075	-	11,435,932,075	4.11
25	Acquisition of Assets	8,353,471,133	40,699,148,116	49,052,619,249	17.64
	TOTAL	**197,991,707,432**	**80,152,954,662**	**278,144,662,094**	**100.00**

Distribution of Operating Expenditure by economic categories

Out of the total operating expenditure of Afs 197,991,707,432 in 1392, share of wages and salaries was 70% (lower than 72.5% in FY1391 and 75% in FY1390); goods and services was 19.3% (up from 18.5% in FY1391 and 17% in FY1390); interest payment and repayment of loan 0.25% (up from 0.1% in FY1391 and FY1390); subsidies, grants and social benefits was 5.8% (marginally lower than 6.1% in FY1391 and 6% in FY1390) and asset acquisition 4.2% (up from 2.8% in FY1391 and 1.8% in FY1390). The following graph provides percentage distribution of operating expenditure in FY1392 as per economic categories.

Figure 2.8: % Share of Economic Categories in Operating Expenditure in FY1392



Wages and salaries, the largest component in operating budget expenditure, is mainly shared by 4 agencies only. Ministries of Defense, Interior, Education and General Directorate of National Security shared about 84% of the total operating expenditure for wages and salaries in FY1392. The share of these four agencies in FY1391 was 85% of the operating expenditure for wages and salaries.

It is noted that the total domestic revenue of Afs 109,332,995,372 in FY1392 could constitute only 78.4% of the total operating expenditure on wages and salaries of Afs 139,498,839,496 in FY1392. This implies that the current level of domestic revenue may not even be sufficient to meet the entire requirements of wages and salaries of the government employees and staff. In FY1391 also, the domestic revenue could constitute only 83% of the expenditure on wages and salaries in FY1391 (operating expenditure).

Repayment of loans and Payment of interest thereon is a committed expenditure of the government. Taking into account the amount of Afs 514,128,699 of loan repaid and interest paid by the government in FY1392, share of domestic revenue against these two components, i.e., wages and salaries and loan repaid and interest paid goes down further.

Furthermore, operating expenditure spent especially on social benefits is also of critical significance, as the social security benefits and social assistance in cash are also in nature of committed expenditure. In FY1392, government spent Afs, 10,307,496,209 on social security benefits and social assistance in cash (minor code 247 and 248).

In FY1392, the domestic revenue could finance only 72.7% of the combined expenditure of wages and salaries, loan repayment and interest payments and spending on social security and assistance. As such,

government's financing of these three segments, let alone acquisition of goods and services and assets, remains a challenge, if the same level of expenditure continues in future, as has been the case in the previous years.

Distribution of Development Expenditure by economic categories

The development expenditure of Afs 80,152,954,662 in FY1392 was shared by two economic categories, namely "use of goods and services", 49.2% or Afs 39,453,806,546 (against 41% in FY1391 and 42% in FY1390) and "acquisition of assets", 50.8% or Afs 40,699,148,116 (against 59% in FY1391 and 58% in FY1390). Over the last few years, share of use of goods and services have shown an increasing expenditure trend as compared to the acquisition of assets under the development budget. The following graph provides percentage distribution of development expenditure for the two categories in FY1392 as per economic categories.

Figure 2.9: % Share of Economic Categories in Development Expenditure FY1392

Out of the total development expenditure of Afs 80,152,954,662 made through discretionary development fund, development budget grants and development loan in FY1392, 40.6% or Afs 32,574,066,615 was spent on "building and structures" (acquisition of assets) followed by 29.7% or Afs 23,782,237,976 on "contracted services" (use of goods and services). The remaining items shared 29.7% of the expenditures.

Out of the total expenditure of Afs 39,453,806,546 for "use of goods and services", about 60.3% was spent on contracted services (contracted services constituted 29.7% of the entire development expenditure). Contracted services, amongst others but predominantly, include expenditure for individual consultants, consulting firms and NGOs. The share of these three items in the contracted services was 81% and in the total development expenditure about 24% in FY1392.

Certain ministries transfer part of their development appropriations to Non-Government Organization (NGOs) / Non-Government Implementing Agencies (NGIAs), who undertake mandated activities on behalf of the Government. In FY1392, about 7.5% or Afs 6,030,045,763 of the development expenditure was transferred to NGOs by different ministries. Interestingly, about 66% of the total development budget expenditure of the Ministry of Public Health in FY1392 was transfer to NGOs. Similarly, 12% of the total development budget expenditure of the Ministry of Education, 10.6% of the Ministry of

Agriculture, Irrigation and Livestock, 10% of Ministry of Justice and 8% of the Ministry of Mines were expenditures on account of transfer to NGOs in FY1392. The details are summarized as follows:

Table 2.11: Transfer to NGOs as % of Development Expenditure in FY1392

Ministries	Discretionary Development Fund	Development Budget Grants	Total to NGOs	Total Dev. Exp. of Ministry	% to NGOs
27. Min of Education	-	682,288,222	682,288,222	5,729,837,474	**11.91**
32. Min of Mines	100,880,000	-	100,880,000	1,257,312,860	8.02
37. Min of Public Health	15,602,926	4,684,508,844	4,700,111,770	7,169,485,138	**65.56**
39. Ministry of Agriculture	-	531,025,929	531,025,929	5,016,216,307	**10.59**
50. Min of Justice	-	10,113,842	10,113,842	102,878,976	9.83
47. Min of Lab. & Social Affairs	-	5,626,000	5,626,000	526,571,458	1.07
Total to NGOs	116,482,926	5,913,562,837	**6,030,045,763**	**19,275,730,754**	**31.28**
Transfer to NGOs as % of Total Development Expenditure			**7.52**		

The top items which shared about 78% of the development expenditure in 1392 are given below.

Table 2.12: Share of top items in the Development Expenditure in FY1392

Description	Expenditure	% of Dev Exp
251 - Buildings & Structures	32,574,066,615	40.64
227 - Tools & Materials	6,365,815,125	7.94
252 - Machinery &Equipment	4,578,396,645	5.71
223-Contracted Services, of which		
22307-Dev Consulting Firms	6,795,202,463	8.48
22308- Dev Ind. Consultants	6,434,037,042	8.03
22309- Development NGOs	6,030,045,763	7.52
Total for the above	**62,777,563,653**	**78.32**

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

Government through the operating and development budgets seeks to achieve various sectorial targets as per the Afghanistan National Development Strategy (ANDS) and the National Priority Programmes (NPPs). The core national budget (Operating and Development) expenditures of Afs 278,144,662,094 (Operating, Afs 197,991,707,432 and Development, Afs 80,152,954,662) in FY1392 was spread to the eight sectors, namely: i) Security, ii) Governance and Rule of Law, iii) Infrastructure and Natural Resources, iv) Education, v) Health, vi) Agriculture and Rural Development, vii) Social Protection, and viii) Economic Governance.

Under the operating budget expenditure in FY1392, Security sector has the highest share of 61.8% followed by Education sector 17% and Social Protection 6.3%, as the three sectors predominantly disburse salaries, wages and social benefits. The share of Governance and Rule of Law was 6%, Infrastructure and Natural Resources 2.5%, Public Health 1.6%, Agriculture and Rural Development 1.2%, and Economic Governance 3.3%.

Under the development budget expenditure in FY 1392, Infrastructure and Natural Resources shared 35%, followed by Agriculture and Rural Development 27.9%, Education 9.4%, and Public Health 8.9%, as these sectors are critical for the development of infrastructure, natural resources, agriculture and rural development as well as the critical sectors of education and health. The share of Security sector was about 11.3%, Economic Governance 4.2%, Governance and Rule of Law 2.3%, and Social Protection was 0.9%.

A noticeable feature of development expenditure in terms of security sector was substantial expenditure recorded by the Ministry of Defense in FY1392 compared with FY1391 and also previous years. Ministry of Interior's development expenditure in FY1392 compared with FY1391 has also shown the same trend, though to a relatively lower extent. Development expenditure of the Ministry of Defense (MoD) in FY1392 galloped from Afs 22,445,057 to Afs 8,305,467,567, about 370 times more compared with FY1391. The development expenditure of Ministry of Interior (MoI) in FY1392 increased from Afs 130,577,862 to Afs 295,720,601, about 2.25 times more compared with FY1391. The development expenditure of Genl. Directorate of National Security also increased from Afs 7,544,376 in FY1391 to Afs 88,650,820 in FY1392, about 11.75 times more than in FY1391.

Table 2.13: Substantial increase in development budget in security sector in FY1392

(Fig in Afs)	FY1389	FY1390	FY1391	FY1392
Ministry of Defense	48,925,091	7,218,838	22,445,057	8,305,467,567
Ministry of Interior	235,379,057	129,290,223	130,577,862	295,720,601
GD of National Security	45,284,983	69,071,647	7,544,376	88,650,820

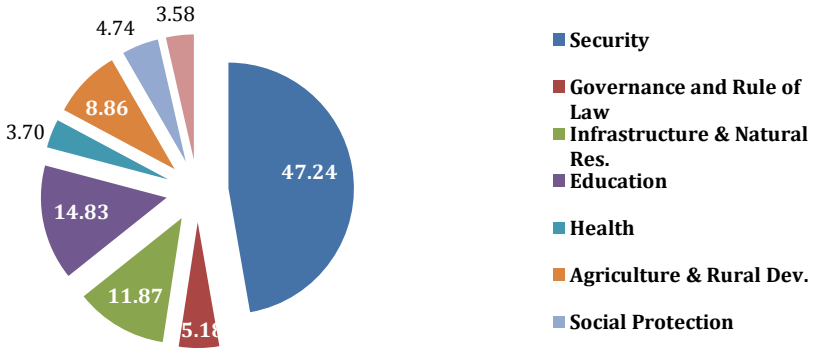
The substantial shift in development expenditure in security sector in FY1392 vis-à-vis earlier years is due to shift of certain operating expenditure items to development expenditure and due to bringing hitherto off-budget expenditure of donors to on-budget.

Details of operating and development expenditure as per sectorial distribution are given below.

Table 2.14: Operating and Development Expenditure FY1392: Sectorial Distribution (Afs mill)

Sectors	Operating	Development	Total	% share
Security	122,328,495,477	9,077,027,924	131,405,523,401	47.24
Governance and Rule of Law	12,564,067,328	1,839,086,909	14,403,154,237	5.18
Infrastructure & Natural Res.	4,956,124,631	28,051,613,318	33,007,737,949	11.87
Education	33,701,266,931	7,551,381,464	41,252,648,395	14.83
Health	3,115,367,323	7,169,485,138	10,284,852,461	3.70
Agriculture & Rural Dev.	2,303,348,841	22,345,651,246	24,649,000,087	8.86
Social Protection	12,418,853,311	751,850,401	13,170,703,712	4.74
Economic Governance	6,604,183,590	3,366,858,262	9,971,041,852	3.58
Total	**197,991,707,432**	**80,152,954,662**	**278,144,662,094**	**100.00**

Figure 2.10: % distribution of core budget expenditure, sector wise FY 1392



Chapter 3: Audit Process

Introduction

As per the provisions of the Article 98 of the Constitution, Article 12 of the SAO Audit Law and Article 55 and 59 of the PFEM Law, preparation of the Qatia accounts statements and their audit are to be completed within the first six months of the year following the fiscal year. MoF is responsible for preparation of the the Qatia accounts stamements during the first 3 months, Jadi, Dalwa and Hoot and submit them for audit to SAO at the beginning of second quarter, i.e., beginning of the Hamal month. SAO is responsible for presenting the report on the audit findings and opinion on the Qatia accounts statements before the end of the second quarter, i.e., before the end of the Jawza to the State President and the National Assembly.

For dealing with the legal responsibility of the Budgetary units, the MoF and and the SAO, as recommnded by the SAO and based on the decree no. 6084 of the State President Office dated 3/10/1391, all budgetary units are obliged to prepare their Qatia accounts in the month of Jadi and after reconciliation with MoF, submit their final Qatia statements at the beginning of Dalwa for consolidation in Government General Qatia accounts by the MoF.

The MoF is responsible to prepare Government General Qatia accounts during the months of Dalwa and Hoot and submit the final Qatia accounts to the SAO by the beginning of Hamal month for audit. The SAO is responsible for auditing operating and development expenditure Qatia accounts and revenue Qatia during next 3 months and after discussion on audit findings with MoF (as required by INTOSAI auditing standards), submit the final audit report and audit opinion on Qatia accounts within the time specified by law to the State President and the National Assembly.

Considering the responsibility and limitation of time in undertaking audit of Qatia accounts and to avoid any delay in submitting audit report thereon, vide official letter no 8455 – 56, dated 21/12/1392, SAO asked the MoF for preparedness and vide letter no 8534 dated 26/12/1392, assigned an audit Commission for conducting Qatia audit.

Trends of Presenting Qatia Statement of FY1392 for Audit

The audit commission presented its audit authorization letter to the MoF on 4th Hamal 1393 and held a meeting the relevant authorities (of the MoF). During the meeting, it was pointed out that no prior arrangements had been made by the authorities for audit of Qatia accounts; Qatia accounts statements were not prepared and logictic arrangements including space for conducting Qatia audit were not made till then. Office accommodation was provided on 17th Hamal and the Operating budget Qatia accounts was made available audit on 24th Hamal and the audit work could start on 25th Hamal.

Trend of submission dates of Qatia statements for previous years, FY 1386 – 1390 and FY 1391 and 1392 (due to change in fiscal year) by the MoF to the Qatia audit commission is shown in the table below:

Table 3.1 - Dates of submitting Qatia Accounts of 1386 – 1390 by Ministry of Finance

Years	Dates of Submitting Qatia Account			
	Operating budget Qatia	**Development budget Qatia**	**Revenue Qatia**	**Remarks**
1386	1387/4/11	1387/4/11	1387/4/27	Delay in submission of operating and development budget Qatia (11 days), and revenue Qatia (27days)
1387	1388/4/10	1388/4/15	1388/5/19	Delay in submission of operating Qatia(10 days), dev.Qatia(15days) and revenue Qatia (49 days)
1388	1389/4/6	1389/4/26	1389/5/31	Delay in submission of operating Qatia(6 days), dev.Qatia(26days) and revenue Qatia (2months)
1389	1390/4/6	1390/4/29	1390/4/26	Delay in submission of operating Qatia(6 days), dev.Qatia(29days) and revenue Qatia (26 days)
1390	1391/4/10	1391/5/11	1391/5/16	Delay in submission of operating Qatia(10 days), dev.Qatia(41days) and revenue Qatia (46 days)

It is notworthy that with the changes in fiscal year period, Hamal – Hoot to Jadi – Qaws w.e.f, 1391, there is also some changes in time frame of preparation and auditing of the Qatia accounts; i.e., the first three months of the year (Jadi 1st to end of Hoot) for preparation of Qatia accounts and the second three months (Hamal 1st to end of Jawza) for audit and reporting. Accordingly, MoF was to prepare Qatia accounts during the first 3 months of the FY 1393 and made them available to SAO for the audit. Unfortunately, a considerable delay was made by some budgetary units and the MoF in praration and submission of Qatia accounts 1392. The delay is shown in table below:

Table 3.2 - Dates of submitting Qatia Accounts of 1391 – 1392 by Ministry of Finance

Year	Date of Qatia Submission			Remarks
	Operating budget	**Development budget Qatia**	**Revenue Qatia**	

	Qatia			
1391	1392/1/12	1391/1/18	1391/1/14	Delay in submission of operating Qatia (12days), dev.Qatia(18 days) and revenue Qatia (14 days)
1392	1392/1/24	1392/1/27	1392/1/27	Delay in submission of operating Qatia (24days), dev.Qatia (27days) and revenue Qatia (27 days)

As per decree no 6084 of the State President Office and previous recommendation of SAO it seemed to be that all budgetary units prepare their operating, development and revenue Qatia accounts during Jadi months and submit it for reconciliation and consolidation to MoF at the beginning of Dalwa month. Ministry of Finance was responsible to submit operating and development expenditure Qatia accounts and revenue Qatia account to SAO for audit in Hamal (Hamal 3rd). However, as it can be seen in table above, even compared with the submission of Qatia accounts of 1391, the submission of Qatia accounts of 1392 by MoF was delayed 12 days in case of operating budget expenditure Qatia account, 9 days for development expenditure Qatia and 13days for revenue Qatia accounts. The delay in submission of Qatia accounts by certain budgetary units and ultimately by the MoF, on the one hand, goes against the set rules and the decree of the State President Office and on the other, further limits the timeframe of audit. Ministry of Finance attributed the delay in preparation of the Government's consolidated Qatia accounts to the delays in submission of Qatia accounts by certain budgetary units. As per the information provide, except the General Directorate of National Security, which submitted its Qatia account on 7th Jadi to MoF, there was delay by all other agencies in submitting their report to the MoF. Delays in submitting operating expenditure Qatia accounts was made by Lower House (Meshrano Jirga), which submitted its Qatia on 19th Hamal 1393, Ministry of Refugees and Repatriation, Independent General Directorate of Kochis and Independent Commission of Oversight on Implementing Constitution Law (submitted on 13th Hamal 1393), Office of Administrative Affairs and Council of Ministers' Secretariat on 12th Hamal 1393, Upper House (Wolesi Jirga), MoPH and National Committee of Olympic on 11th Hamal 1393. Similarly, with regard to the development budget Qatia accounts, no budgetary unit could submit their Qatia accounts to MoF in time specified in the decree of the State President. MRRD submitted its development budget Qatia with large delay, on 27th Hamal 1393, Protection Directorate of State President Office on 26th Hamal, Meshrano Jirga and Ministry of Power and Water on 19th Hamal, MoPH on 17th Hamal and Independent Election Commission on 15th Hamal 1393.

National Budget (Operating and Development) of FY1392 and sources of financing

A. National Budget at the Beginning of the Year

I. National Budget (Operating and Development) FY1392:

As per the budget document and the sanction no 83 of the Wolesi Jirga (of National Assembly) dated 1/11/1391 and the decree no. 115 of the State President dated 8/11/1391, the total national budget (operating and development) for the FY1392 (at the beginning of FY1392) was Afs 354,077,081,840 or equal to US$ 6,809,174,650. This consisted of Afs 196,327,011,020 Operating budget and Afs 157,750,070,820 development budget.

Composition of the original budget along with contingency fund in the core national budget for operating and development budgets at the beginning of the FY 1392 is given in the table below:

Table 3.3 – Composition of original budget (Figures in (Afs))

S/No	Type of Budget	Description	Amount	Total	% of original budget and contingency in national budget
1.	Operating budget	Original or operating budget	172,021,605,000	196,327,011,000	87.62
		Contingency budget	24,305,406,000		12.38
2.	Development budget	Original or operating budget	152,931,798,708	157,750,070,608	96.94
		Contingency budget	4,818,271,900		3.06
Total National Budget of FY1392				**354,077,081,608**	

Table 3.4 - Distribution of original Budget (Operating and Development) FY 1392 into Sectors

S/No	Sectors	Figures in Afs (000)			% of operating budget	% of development budget	%of total budget
		Operating	Development	Total			
1.	Security	113,091,108	39,245.128	152.336.236	**58**	**25**	**43.0**
2.	Infrastructure and Natural Resources	3,232,684	46,893,340	50,126,024	**2**	**30**	**14.2**
3.	Education	34,049,756	19,435,520	53,485,328	**17**	**12**	**15.1**
4.	Agriculture & Rural Development	2,036,476	26,245,596	28,282,072	**1**	**17**	**8.0**
5.	Governance & Rule of Law	11,102,520	3,927,352	15,029,924	**6**	**2**	**4.2**
6.	Health	3,395,860	9,745,944	13,141,804	**2**	**6**	**3.7**
7.	Economic Governance & Private Sector Development	2,787,668	6,328,972	9,116,604	**1**	**4**	**2.6**
8.	Social Protection	2,325,440	1,109,836	3,435,432	**1**	**1**	**1.0**
9.	Misc Codes including Contingency	24,305,424	4,818,268	29,123,692	**12**	**3**	**8.2**
Total		196.326.988	157.750.060	354.077.100	**100**	**100**	**100**

II. Sources of Financing the National Budget FY 1392:

Summary of Sources of Financing the National Budget (operating and development) of FY 1392 as per budget document at the beginning of the year has been shown in the table below (Table 3.5):

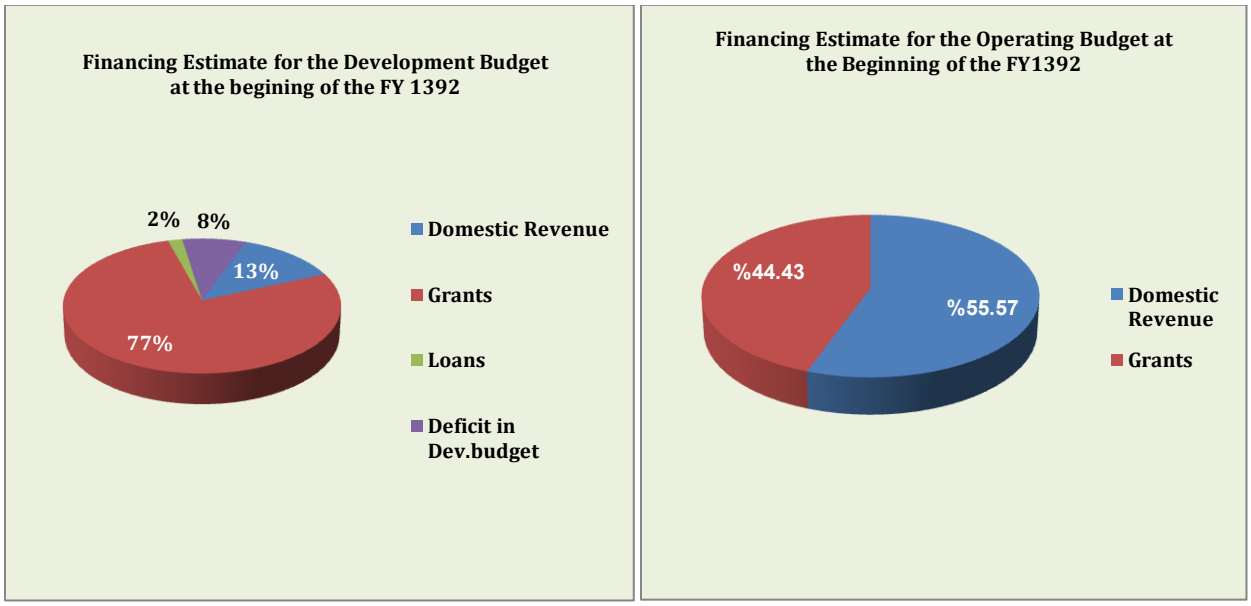
Figures in (Afs)

SNo	Type of Budget	Original approved Budget	Financing Sources			Total	Balance
			Domestic Revenue	Donors' Grants	Loans		
1.	**Operating**	196,327,011,000	109,098,232,520	87,228,778,500	-	196,327,011,020	-
2.	**Development**	157,750,070,608	20,293,911,680	121,921,636,720	2,837,012,930	145,052,561,330	(12,697,509,278)
Total		354,077,081,608	129,392,144,200	209,150,415,220	2,837,012,930	341,379,572,350	(12,697,509,278)

For financing the operating budget (FY 1392) of Afs 196,327,011,000 (original at the beginning of the year), Afs 109,098,323,520 from domestic sources and Afs 87,228,778,500 from external grants was taken into account; no budget surplus or deficit was estimated.

However, for financing the development budget (FY 1392) of Afs 157,750,070,608 taking into consideration the relevant financing sources, a budgetary deficit of Afs 12,697,509,278 or 8% of the total development budget was estimated.

It is noteworthy that the share of the domestic revenue for financing the combined operating and development budget was estimated at Afs 129,392,144,200 or 36.54% of the total operating and development budget; Afs 109,098,323,520 or 55.57% for operating and Afs 20,293,911,680 or 12.86% for development budget. Compared with FY 1391, the financing estimates from domestic revenue in FY 1392 showed a reduction of 1.6% for the operating budget and 3.8% for development budget (Figure 3.1).



III. Summary of Organizational Structure of FY1392

As per national budget document, at the beginning of the year, the total number of officials /staff as per the organizational structure of agencies (tashkeel) during FY 1392 was put as 837,253, while it was 809,786 in FY1391, an increase of 27.467 or 3.3% in FY 1392.

The increase in the organizational structure in FY 1392 was exceptionally high in a few budgetary units, mostly in MoE, MoHE and General Department of National Security, contributing to increase in the operating budget of FY 1392 compared with previous year.

Table 3.6 - Budgetary Units with Maximum Shares in Organizational Structure in FY1392

S/No	Agencies	Organizational Structure in 1391		Organizational Structure in 1392	
		Actual Staff	**Share in %**	**Actual Staff**	**Share in %**
1	Ministry of Education	247.996	30.6	258.996	30.9
2	Ministry of Interior	202.696	25.0	205.854	24.6
3	Ministry of Defense	204.152	25.2	202.886	24.2
4	Gen. Department of National Security	29.131	3.6	40.741	4.9
5	Ministry of Public Health	18.395	2.3	18.395	2.2
6	Ministry of Higher Education	9.527	1.2	10.827	1.3
7	Ministry of Agriculture	9.281	1.1	9.281	1.1
8	Ministry of Finance	8.550	1.1	8.565	1.0
9	Ministry of Martyrs, Disables and Social Affairs	7.233	0.9	7.223	7.9
10	Local Governance Directorate	7.214	0.9	7.241	0.9
Total		**744.177**	**91.9**	**770.009**	**92.0**
Other Agencies		65.609	8.1	67.244	8.0
Grand Total		**809.786**	**100**	**837.253**	**100**

Development and growth of the education sector was set as an important priority in the budget documents FY 1392. It was noted that recruitment and deployment of school teachers and administrative staffs would help the cause of growth and improvement in education sector. In FY 1392, an increase in the organizational structure of the MoE due to recruitment of 10,000 teachers and 1,000 administrative personnel, a total 11,000 positions was shown.

Similarly, around 1,300 positions were shown as additions in the MoHE structure as a whole; including about 700 on account of teachers in universities and higher education institute. An addition of about 11,610 positions in the structure of the General Department of National Security and a decrease of 1,268 positions in structure of the MoD were also shown. In fact, the number of personnel shown as reduction against the MoD was due to them not joining the military and kept either as reserve or under training. They were only counted as part of the organizational structure in 1391 and not included in budget of FY 1391. The same number has been removed from the structure of FY 1392.

The excess observed in the structure of the MoI in FY 1392 was due to increase in the structure of the Office of the Deputy of Security of Government's dignitaries, which is financed by CSTC-A.

B. Development Budget Supplement and Revised Budget (Operating and Development) Budget of 1392 after mid-year amendment

Based on the sanction no. 0060-20 of the Wolesi Jirga (of National Assembly) dated 31/4/1392 and decree no. 50 of the President Office dated 23/5/1392, the approved revised budget after supplementary development and operating budgets (due to mid-year revisions) were as following:

- Operating budget, Afs 206,585,041,061.
- Development budget, Afs 141,658,983,365.

- The total revised national budget after mid-year revisions for FY1392, Afs 348,244,024,426.

Table 3.7 Summary of Revised Operating and Development Budgetof Midyear Scrutiny

Budget Type	Description	Figures in(Afs)	Difference compared with budget at the beginning of the year		% of Changes	
			Increase	Decrease	Increase	Decrease
Operating	Budget at the beginning of the year	196.327.011.021	**10.258.030.040**	-	5.2	-
	Decrease	(5.506.643.645)				
	Transfer from dev. budget into operating budget (increase)	15.764.673.685				
	The total revised operating budget during midyear scrutiny	**206.585.041.061**				
Development	Budget at the beginning of the year	157.750.070.817		**(16.091.087.452)**	-	10.2
	Decrease	(22.732.433.613)				
	Increase	6.641.346.161				
	The total revised development budget during midyear scrutiny	**141.658.983.365**				
The total revised operating and development budgets during midyear scrutiny		**348.244.024.426**				

As shown in the table above, as compared with the original approved budget, there was an increase of Afs 10,258,030,040 or 5.2% in the operating budget and a decrease of Afs 16,091,087,452 or 10.2% after the revisions/amendments. Reason given for the decrease of Afs 5,506,643,645 from the original operating budget was deficit in the discretionary funds. The reason given for increase of Afs 15,764,673,685 in the operating budget was transfer of the aforesaid amount from Afs 37,935,025,180 assistance under CSTC-A related to MoD and MoI which wasoriginally under the development budget of the Ministries at the beginning of the year. As agreed by relevant donor(s) and as per the proposals of the ministries and based on decree no. 5 of the council of the minister dated 2/2/1392, an amount of Afs 15,764,673,685 was transferred from the development budget to the operating budget after midyear amendment. Out of the total transferred amount, Afs 7,083,006,491 was transferred to code 22 of the operating budget of the MoD and an amount of Afs 7,187,712,971 to code 22 and an amount of Afs 1,493,954,223 to code 25 of the operating budget of the MoI.

However, the fact that why the aforesaid amount was originally included in the development budget and lateron transferred from the development budget to the operating budget was not clarified in document. MoF has also not provided any convincing explanation in this regard.

Table 3.8 - Sources of financing development budget and national budget supplement revised after midyear amendment

Figures in (Afs)

S/No	Budget Type	Actual budget after midyear amendment	Sourcing of Financing		Total budget financing after midyear amendment	Balance
			Domestic revenue	**Donors' grants including loans**		
1	**Operating**	206.585.041.061	103.791.588.873	102.793.425.188	206.585.041.061	-
2	**Development**	141.658.983.365	10.468.411.127	109.362.693.496	119.831.104.623	(21.827.878.742)
Total		**348.244.024.426**	**114.260.000.000**	**212.156.118.648**	**326.416.118.684**	**(21.827.878.742)**

After the mid-year amendments / revisions, the sources for financing the operating budget comprised of 50.24% from domestic sources and 49.76% from external grants. For financing the development budget, it was 7.39% from domestic sources and 77.20% from external grants (discretionary and nondiscretionary); leaving a budget deficit of 15.4%. While there was a reduction of Afs 16,091,087,452 in the development budget after the mid-year amendment (compared with budget at the beginning of the year), the development budget deficit increased from Afs 12,697,509,278 (original) to Afs 21,827,878,742 or 72% (revised). Decrease in domestic revenue and changes in donors' grants were attributed for reasons in the increase of development budget deficit.

Share of the domestic revenue in financing the core budget after the mid-year amendments showed decrease by 5.33% and 5.47% for the operating and the development budgets respectively compared with budget at the beginning of the year.

Chapter 4: Results of Audit of the Qatia Accounts: FY 1392

I. Operating Budget Qatia Statement 1392

A. Description of the Approved Budget at the beginning of FY1392

Details	Amount (AFS)	Percentage	Remarks
Original Operating budget	172,021,605,000	87.62%	
Contingency Budget	24,305,406,000	12.38%	
Total Approved Operating Budget at the beginning of FY1392	196,327,011,000	100%	

As per the aforesaid table, Operating Budget for the Fiscal Year 1392 was Afs 196.327 billion, of which Afs 172,021 billion or 87.62% pertains to Operating Budget and Afs 24,305 billion or 12.22% Contingency budget. The total Operating Budget at the beginning of the FY1392 constitutes 16.9% of the GDP for the same year. The Operating Budget in the year 1392 has increased by 47% in comparison to the budget in the year 1391 which, was Afs 133,690,511,000 for 9 months. If an amount equal to one fourth is added to the Operating Budget of the year 1391, the Operating Budget in 1392 is higher by 17.48% as compared to that of FY 1391. The reasons for the increment is attributed to the payment of retirement benefits to the retired Afghan National Army personnel whoch was unknot paid in the preceding year; increase in the salary bill of the Ministry of Education for the newly created 11000 posts; increase in payments towards 1300 posts created in the Ministry of Higher Education (MoHE); increase in expenditures for over 11610 posts newly created in the General Directorate of National Security; maintenance expenditures of schools and central hospitals included in the year 1392; the continuation of implementation of the Salary and Grading System; expenditures for the administrative support at the provincial and district levels; increase in salaries of government personnel at the Embassies; increase in allowance at kindergartens; increase in food allowance at dormitories, prisons and military personnel; and increase in interests on foreign loans due to nonpayment of the installments which was added to the principle.

It is notwworthy that a comparison of the operating budget at the beginning of the FY 1392 with that of the busget after mid-year adjustments in 1392 shows significant changes, the details for which is presented in the following table.

Revised Operating Budget after midyear adjustements for the FY 1392					
Descriptions		Amount (Afs)	Difference from the Primary Budget		Percentage Increase/decrease
			Increase	Decrease	
Budget at the beginning of the year (Original Operating Budget including contingency funds)		196,327,011,021	10,258,030,042	-	5.23
Reductions	From the Core Budget	4,016,643,643			
	From the Contingency Budget	1,490,000,000			
Transfer from Development Budget to Operating Budget (increase)		15,764,673,685			
Total Revised Operating Budget in the Mid-Year Assessments		206,585,041,063			

As per the descriptions in the table above, due to transfer of Afs 15,764,673,685 from the Development Budget to the Operating Budget, the Operating Budget after mid-year adjustments increased from Afs 196,327,011,021 at the beginning of the year to Afs 206,585,041,063, i.e., an increase of 5.23%.

Government Agencies with the Highest Operating Budget: Fiscal Year 1392			
SN	Name of the Agency	Total Budget after amendments in Mid-Year Assessments (Afs)	Percentage Share in Core Budget
1	Ministry of Defense	63,048,394,318	34.31
2	Ministry of Interior Affairs	50,495,994,476	27.48
3	Ministry of Education	28,704,213,623	15.62
4	General Directorate of National Security	9,596,871,480	5.22
5	Ministry of Public Health	3,293,976,065	1.79
6	Ministry of Higher Education (MoHE)	3,095,063,064	1.68
7	Ministry of Foreign Affairs (MoFA)	2,570,500,000	1.40
8	Independent Agency for Local Governance	2,394,300,470	1.30
9	Ministry of Finance	1,780,910,000	0.97
10	Office of the President	1,665,749,960	0.90
11	Ministry of Labor, Social Affairs, Martyrs, and Disabled	1,344,210,507	0.73
12	The Supreme Court	1,319,787,000	0.72
13	Ministry of Agriculture, Irrigation and Livestock	1,252,792,830	0.68
14	National Assembly (wolosi girga)	1,185,905,510	0.64
Total		171,748,679,303	93.46
Other Agencies		12,020,955,963	6.54
Total Operating Budget		183,769,635,266	100.00
Contingency Fund		22,815,405,795	
Total Operating Budget Revised in the middle of the year		206,585,041,061	

The data presented in the table above shows that 14 budgeatry units accounted for a sum of Afs 171,748,679,303 or 93.46% of the total operating budget (revised budget excluding the contingency fund) and the other 35 budgeatry units accounted for the remaining operating budget (revised budget excluding the contingency fund)) of Afs 12,020,955,963 or 6.54% of the total. Out of the total operating budget (revised budget excluding the contingency fund), the largest share was accounted by the Ministry of Defence 34.30% followed by Ministry of Interior 27.48%, Min of Education15.62%, and the General Directorate of National Defense 5.22%.

B. Implementation of the operating budget for the FY 1392 in light of the operating expenditure Qatia accounts

Details		Amount (Afs)
Original approved operating budget		172,021,606,000
Increase due to midyear amendments		15,764,673,685
Transfer from Development Budget	From Dev. Budget exclusing contingency budget	5,604,352,676
	From Contingency Budget	400,000,000
Total Budget after amendments		193,790,632,361
Reduction after mid-year adjustments		4,016,643,643

Amount after Amendments	189,773,988,718
Amendments from Contingency Codes (Reserves)	22,857,837,822
Increase on account of "Budget Supplement"	6,354,394,566
Total Budget (after amendments during the year)	218,986,221,106
Total expenditure	197,991,707,432
Remaining budget not spent	20,994,513,674

The operating budget Qatia accounts shows that in addition to the increase / decrease in the operating budget due to mid year amendments, there are a few additional amendments/adjustments during the fiscal year as well. For instance, an amount Afs 5,604,352,676 was transferred from the Development Budget of the Ministry of Defense to Code 22 of its Operating Budget. Similarly, an amount of Afs 400,000,000 was transferred from Contingency Code of the Development Budget of the Security Affairs Enterprise of the Ministry of Interior to code 24 of its budget.

The budget supplement and the revised budget after mid year amendments show a total decrease of Afs 5,506,643,645 in the Operating Budget. Out of which, Afs 4,016,643,643 is included as part of the Budget of agencies (2% for security sector and 3% for other sectors) and is shown in Qatia Statement. However, remaining decreased amount of Afs 1,490,000,000 which relates to contingency fund has not been shown in Qatia Statement, as amendments from Contingency Funds (Reserve codes) are recorded in the Qatia statements only for those cases during the year when based on the requirements of the agencies such amendments are made.

Furthermore, in the Oatia Statement of Operating expenditure, Afs 6,354,394,566 has been entered as "Budget Supplement", out of which Afs 4,206,546,503 and Afs 1,976,305,549 have been added from the CSTC-A to the budget of the Ministry of Defense and the Ministry of Interior respectively. Likewise, Afs 52 million grants from DFID, United Kingdom has been added to the Operating Budget of the Ministry of Energy and Water and an amount Afs 54,236,000 to the Operating Budget of the Ministry of Public Work. Afs 6,333,812 of the UNDP grant has been added to the Operating Budget of the Ministry of Justice for rents of its office building located in Shash Darak. An amount Afs 58,972,702 of the IBB grant has been added to budget of the Ministry of Information, Culture & Youth Affairs for the payment of Incentive salaries to some of its employees, electricity bills and expenses for the production of programs at National TV.

In view of the above, the total Operating Budget for the Fiscal Year 1392 after amendments during the year and addition of the budget supplement, Afs 218,986,221,106 has been recorded as the total budget in Qatia Statement. Out of which, an amount Afs 197,991,707,432 has been recorded as the total expenditure for the year with Afs 20,994,513,674 as unspent balance. Accordingly, the 90.41% of the operating budget has been utilized in 1392.

As per the documents, the distribution of the Operating expenditure of Afs 197,991,707,432 in FY 1392 was: Afs 139,498,839,496 or 70.46% under code 21, Afs 38,189,336,029 or 19.29% under code 22, Afs 514,128,699 or 0.26% under code 23, Afs 11,435,932,075 or 5.77% under code 24 and Afs 8,353,471,133 or 4.22% under code 25. The details of expenditure (major and minor codes wise) for the aforementioned codes are presented in the following table.

Major Codes	Minor Group	Descriptions	Expenditure	Total	% share of the major codes	Percentage Share in Total Expenses
21	211	Wages and Salaries	138,194,180,682	139,498,839,496	99.06%	69.80%

	214	Social Benefits cash	1,304,658,814		0.94%	0.66%
22	221	Travel Allowances	1,804,597,541	38,189,336,049	4.72%	0.91
	222	Food	3,885,779,179		10.17%	1.96%
	223	Contract Services	1,531,479,707		4.01%	0.77%
	224	Repair & Maintenance	9,501,344,739		24.87%	4.80%
	225	Utilities	3,024,817,376		7.92%	1.15%
	226	Fuels	5,639,955,200		14.76%	2.85%
	227	Tools & Materials	6,306,532,593		16.51%	3.19%
	228	Other Expenditures	5,925,148,939		15.50%	2.96%
	229	Advances and Refunds	569,680,775		1.49%	0.29%
23	230	Interest Payment	268,080,340	514,128,699	52.14%	0.14%
	232	Loan Repayments	246,048,359		47.86%	0.12%
24	242	Subsidies	900,000,000	11,435,932,075	7.86%	0.45%
	244	Current Foreign Grants	215,399,470		1.88%	0.11%
	245	Current Grants	19,900,000		0.17%	0.01%
	247	Scoail Security Benefits, cash	10,299,246,20		90.06%	5.20%
	248	Social Assistance cash	8,250,000		0.07%	0.004%
	249	Subsidies, Grants SB adv.	(6,863,406)		-	-
25	251	Building and Constructions	4,400,022,821	8,353,471,133	52.67%	2.22%
	252	Machinary & Equipments	3,379,335,811		40.45%	1.71%
	257	Valuables	1.408,819		0.02%	0.001%
	258	Land	565,426,709		6.77%	0.29%
	259	Adv Payments & Returns	7,276,973		0.09%	0.003%
Total Expenses, Codes 21-25				**197,991,707,432**		**100**

Details of budgetary units with the highest percentage share of unspent balance of the Operating Budget for the year 1392 as percentage of the total unspent balance in the Qatia accounts are as follows:

SNO	Agencies	Total Budget after Amendments	Total Expenditure	Balance	Percentage of Balance	Percentage O/B Balance with respect to Total Qatia Balance
1	M/o Defense	72,834,629,498	58,075,955,965	14,758,673,533	20.26	70.30
2	M/o Interior Affairs	53,966,658,758	50,269,776,490	3,696,882,268	6.85	17.61
3	M/o Public Health	3,475,283,578	3,115,367,323	359,916,255	10.35	1.71
4	M/o Education	29,553,438,137	29,195,124,537	358,313,600	1.21	1.70
5	Independent Agency of Local Governance	2,785,481,963	2,537,408,838	248,073,125	8.90	1.18
6	M/o Finance	5,898,061,452	5,702,459,843	195,601,609	3.31	0.93
7	M/o Labor, Social Affairs, Martyrs and Disables	11,625,355,559	11,469,994,006	155,361,553	1.33	0.74
8	M/o Energy and Water	709,817,240	559,216,927	150,600,,313	21.21	0.71

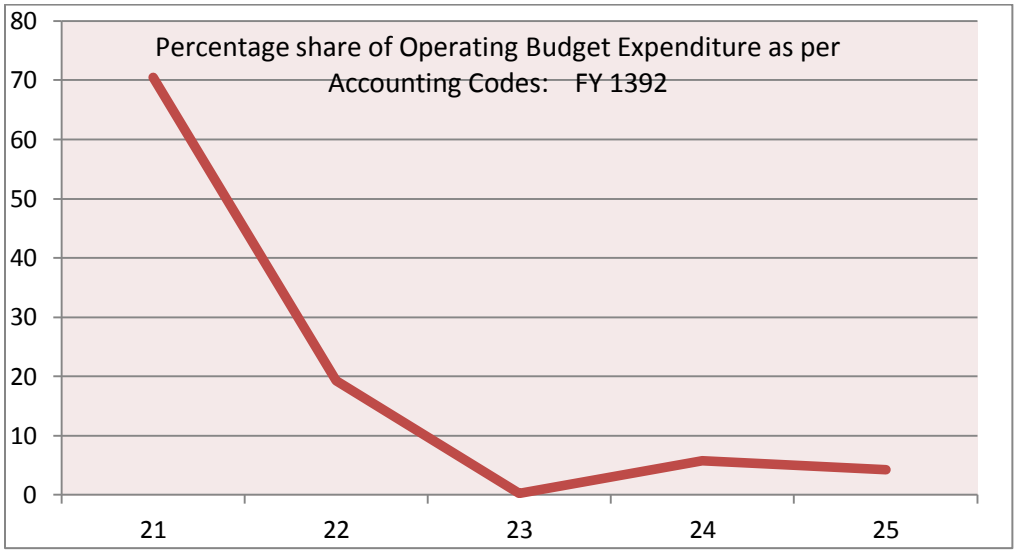
9	M/0 Agri., Irrig & Livestock	1,611,718,488	1,487,595,787	124,122,701	7.70	0.59
Total		182,460,444,673	162,412,935,716	20,047,508,957	10.98	95.49
Other Agencies		36,525,776,433	35,578,771,716	947,004,717	2.59	4.51
Aggregate Total		218,986,221,106	197,991,707,432	20,994,513,674	9.58	100

The data presented in the table above shows that out of the total unspent balance amount of Afs 20,994,513,674, an amount Afs 20,047,508,957 (95.49%) belongs to nine Budgetary Units and remaining amount of Afs 947,004,717 (4.51%) belongs to other agencies. A significant amount of Afs 14,758,673,533 of the unspent balance belongs to the Ministry of Defense and Afs 3,696,882,268 to the Ministry of Interior Affairs. The following table presents major code wise budget and expenditure for the operating budget, FY1392:

Budget Spending based on Accounting Codes: Fiscal Year 1392

Code No	Total Budget as per Qatia Statement	Total expenditure	Unspent Balance	Percentage of Spending	Percentage Share of each Code in total spending
21	145,042,191,661	139,498,839,496	5,543,352,165	96.18	70.45
22	50,693,830,093	38,189,336,029	12,504,494,064	75.34	19.28
23	514,128,705	514,128,699	6	99.99	0.26
24	11,627,520,000	11,435,932,075	191,587,925	98.35	5.77
25	11,108,550,647	8,353,471,133	2,755,079,514	75.2	4.2
Total	218,986,221,106	197,991,707,432	20,994,513,674	90.41	100

The figures in the table given above shows that around 70.45% of the operating budget expenditure in under code 21 (Wages and Salaries), 19.28% under Code 22 (Use of Goods and Services), 0.26% under Code 23 (Interest & Repayment of Loans), 5.77% under Code 24 (Subsidies Grants & Social Benefits) and 4.2% under Code 25 (Acquisition of Assets).



As per the National Budget document, at the beginning of the FY 1392, the approved Contingency Funds for the Operating Budget was Afs 24,305,406,000; out of which, an amount Afs 1,490,000,000 was reduced through the mid-year amendments. However, an amount Afs 398,248,358 received from British, Danish and French grants was added as "Supplement" to the Contingency Code (900034) to support the local governments. Therefore, the total Contingency Funds after reduction through the mid-year amendments and addition through supplement comes to an amount Afs 23,213,654,358. In the FY 1392, an amount Afs 22,857,837,822 or 98.46% of the total contingency funds has been transferred and utilized.

Details of use of contingency fund by top 16 budgetary units are presented in the following table:

No	Agencies	Amended Funds from the Contingency Funds (Figures in Afs)					Total	Percentage use from the Contingency Funds
		Code						
		21	22	23	24	25		
1	M/o Martyrs, Disables and Social Affairs	18.145.079	3.000.000	-	10.260.000.000	-	10.281.145.079	**44.98**
2	M/o Finance	594.353.857	2.854.092.990	514.128.705	97.150.000	57.415.900	4.117.141.452	**18.01**
3	M/o Public Works	10.670.400	1.700.000.000	-	-	127.600.000	1.838.270.400	**8.04**
4	Genl Dirctt for Adm Affairs	372.365.279	233.766.898	-	370.370.000	280.486.666	1.256.988.843	**5.50**
5	M/o Interior Affairs	621.907.153	1.990.000	-	500.000.000	-	1.123.897.153	**4.92**
6	M/of Education	678.640.252	117.695.504	-	-	52.888.565	849.224.321	**4.72**
7	M/o Foreign Affairs	286.069.023	420.948.898	-	-	-	707.017.921	**3.09**
8	IDLG	57.893.170	115.412.508	-	-	217.875.815	391.181.493	**1.71**
9	MAIL	18.278.780	299.284.524	-	-	41.362.354	358.925.658	**1.57**
10	Directorate of Presidential Guard	249.755.600	61.260.772	-	-	-	311.016.372	**1.36**
11	Supreme Court	145.494.220	78.263.334	-	-	-	223.757.554	**0.98**
12	M/o Public Health	11.683.836	79.499.199			90.124.091	**181.307.126**	**0.79**
13	Office of the President	148.961.662	20.394.800			6.766.200	**176.122.662**	**0.77**
14	M/o Energy and Water	57.099.090	595.000	-	-	71.473.150	**129.167.240**	**0.57**
15	MRRD	2.916.660	31.284.773	-	-	92.462.000	**126.663.433**	**0.55**
16	M/o of Higher Education	60.437.803	41.722.000	-	-	-	**102.159.803**	**0.45**
Total		**3.334.671.864**	**6.059.211.200**	**514.128.705**	**11.227.520.000**	**1.038.454.741**	**22.173.986.510**	**97.01**
Other Agencies		455.506.757	162.762.575	-	-	65.581.980	683.851.312	**2.99**
Grand Total		3.790.178.621	6.221.973.775	514.128.705	11.227.520.000	1.104.036.721	22.857.837.822	100

According to table above, 16 budgetary units applied Afs 22,173,986,510 or 97.01% of the total Contingency Funds and the rest Afs 683,851,312 or 2.99%. Further, some of the budgetary units, like in the previous years, have utilized more of Contingency Budget than their Core Budgets. Agencies which have utilized more from their Contingency Budget than their Core Budget are as follows:

Agencies with higher utilization from the Contingency Funds than the Core Budget				
No	**Agencies**	**Core Budget**	**Contingency Funds**	**Percentage usage from the Contingency Funds in Comparison to the Core Budget**
1	General Directorate for Administrative Affairs and Council of Ministers	762.787.645	1.256.988.843	164.8
2	Ministry of Finance	1.780.920.000	4.117.141.452	231.18
3	Ministry of Public Welfare	517.640.500	1.838.270.400	355.12
4	M/o Labor, Social Affairs, Martyrs and Disabled	1.344.210.480	10.281.145.079	764.84

Article 32, paragraph (9) of the Public Finance and Expenditures Management (PFEM) Law on expenditure and revenue plan provides for "an appropriation not exceeding 3% of total programme expenditures for contingencies" meaning that the budgetary units' expenditure plan for contingency expenditure should not exceed 3% of their core budget. However, like previous years, in 1392 also, a few budgetary units have utilized more from their Contingency Funds than their Core Budget. Although the Ministry of Finance recognizes only the Policy Reserve Fund (900001) and the Disaster Contingency Funds (900002) as the main Contingency Codes, according to information provided by the General Directorate of Treasury, during the Fiscal Year 1392, total amounts of Afs 1,042,198,421 and Afs 947,974,542 have been transferred and used from the Policy Reserve Fund (900001) and the Disaster Contingency Funds (900002) respectively. Some budgetary units have utilized more than 3% of their Core Budget for these two Codes. The details are as follows:

No	Agencies	Total Approved Budget after Amendments	Amendments from the Contingency Budget (Afs)		Percentage of Amendments	
			Code(900001)	Code(900002)	900001	900002
1	Office of the President	1.665.749.960	77.987.016	-	4.68	-
2	Upper House (Meshrano jirga)	514.952.630	20.000.000	-	3.88	-
3	House of Representatives (Lower House) (Wolosi Jirga)	1.185.905.510	39.180.000	-	3.3	-
4	General Directorate for Administrative Affairs	782.787.645	432.442.075	482.033.902	55.24	61.57
5	The Supreme Court	1.313.815.183	76.000.000	-	5.78	-
6	Directorate of Presidential Guard	851.159.532	178.556.372	-	20.97	-
7	M/o Finance	1.780.920.000	11.073.141	227.140.640	0.62	12.75
8	M/o Refugees and Returnees	199.062.430	10.000.000	36.400.000	5.02	18.28
9	M/o Agriculture, Irrigation and Livestock	1.252.792.830	-	192.400.000	-	15.35
10	M/o Counter Narcotics	136.583.760	21.000.000	-	15.37	-

11	National Environmental Protection Administration	164.900.000	12.888.102	-	7.81	-
12	Academy of Sciences	151.327.764	35.732.200	-	23.61	-

As per the table above, against the provisions of the paragraph 9, Article 32 of the PFEM Law, 12 budgetary units have utilized more than 3% from under contingency codes (under the Policy Reserve Code (900001) and Disaster Continegncy code (900002)) compared with approved Core Budget. The General Directorate for Administrative Affairs and Council of Ministers has used 55.24% from the Policy Code (900001) and 61.57% from the Disaster Code (900002); the Directorate of Presidential Guard has used 20.97% from the Policy Code (900001); and the Ministry of Finance, Ministry of Refugees and Migrants and MAIL have used 12.75%, 18.28% and 15.35% respectively from the Disaster Code (900002); all more than 3% of the core budget, against the stipulation in the PFEM Law.

Further, based on the information provided by the General Directorate of Treasury, out of Afs 22,857,837,822 Contingency Budget, code wise distribution is as follows

Sl. No.	Contingency code	Amounts (Afs)
1.	900001 – Policy Reserve Fund	1,042,198,421
2.	900002 – Disaster Cont. Fund	949,974,542
3.	900003 – Interest on Debt	784,678,783
4.	900006 – Pensiosn for Martyrs & Disables	4,250,000,000
5.	900007- Pension, civilian and military	4,610,000,000
6.	900008 – International membership	292,867,777
7.	900009 – Continegncy fund for RRR and Super Scale	333,578,378
8.	900014 – Cont fund for increase in salary of govt. employees	324,164,200
9.	900015 –Continegncy fund for maintenance of Salang Roads	300,000,000
10.	900017 – Cont fund for maintenance of roads	1,500,000,000
11.	900020 – Cont. fund for financial reimbursements	201,762,413
12.	900023 – Cont fund for Afghan cricket team	52,000,000
13.	900029 – Cont fund for central bank recapitalization	2,100,000,000
14.	900030 – Cont fund for banking service commission	320,000,000
15.	900031 – Cont fund for liability of DDR Military Officers	1,500,000,000
16.	900034 –Cont fund for district delivery prog.	859,873,674
17.	900035 – Cont fund for Ariana Afghan Airlines	636,150,315
18.	900036 – Cont fund for securing strategic projects	800,000,000
	Total	**20,857,248,503**

However, the result of the audit shows that most of the funds raised from the Contingency Codes have not been used for the purposes required by the budget. The details are presented in the findings audit. The adjustments /transfers of contingency funds are placed at Annex 1.

As per the Qatia Statements for the Operating Budget, FY 1392, a total amount of Afs 5,165,287,808 was made as advance payments. Out of which, an amount Afs 4,114,007,540 has been adjusted in the year and Afs 1,051,280,268 is pending adjusted against the budgetary units. Out of the unadjusted advances, Afs 560,018,819 or 53.27% belongs to the Ministry of Finance. Further details regarding unadjusted advances are included in the findings of the Audit Report.

Comparison of Advance Payments, Adjusted Advance Payments & Advance Payments Balance of the Year 1392 with 1388, 1389, 1390 and 1391

Year	Total Advance Payments	Adjusted	Remaining Balance	Percentage un adjusted	Remarks
1388	5.564.981.375	4.340.393.894	1.224.587.481	22.00	FY 1391 was of 12 months
1389	5.460.488.123	3.870.407.409	1.590.080.714	29.12	FY 1391 was of 12 months
1390	5.978.104.653	4.612.589.459	1.365.515.194	22.84	FY 1391 was of 12 months
1391	4.495.010.988	3.598.956.363	896.054.625	19.93	FY 1391 was of 9 months
1392	5.165.287.808	4.114.007.540	1.051.280.268	20.35	FY 1391 was of 12 months

A comparison of the advance payments, adjusted advances & unadjusted advance payments for the years 1388 to 1392 shows that the Ministry of Finance has not been able to take timely action in timely settlement of the advances to avoid accumulation of unadjusted balance though it has sent a circular to the budgetary units for settling the advances. Lack of an effective mechanism for this purpose has resulted in the advances remaining unadjusted over the years including lack of adequate information on adjustements from agencies. This is a matter of concern.

C. Major Findings from the analysis of Qatia Statement of Operating Budget Expenditure for the year 1392:

1. Audit revealed that a large portion of the Contingency Funds has not been utilized for the purposes meant in the budget approved by the Parliament and signed by H.E the President; rather they have been used for other purposes (instances of non-compliance with the budgetary purpose). Some of the instances are as follows:

    1.1. Out of the total amount of Afs 3,500 million, which was budgeted under code "900029 – recapitalization of the central bank" at the beginning of the year, a sum of Afs 500 million was reduced in the mid-year amendments. From the remaining balance (Afs 3,000 million), as per Form B-23, No-2211, dated 05/23/1392, Afs 50 million, an amount of Afs 200 million which has no number; Form B-23, No-3337, dated 16/09/1392, an amount of Afs 200 million; Form B-23, No-2865, dated 04/08/1392, an amount of Afs 150 million; Form B-23, No-3350, dated 20/09/1392, an amount of Afs 50 million; Form B-23, without number and date, an amount of Afs 600 million, total Afs 1,250,000,000 (41.7%) has been reduced from the Contigency Code 900029, originally allotted for recapitalization of the central bank but later on transferred to other areas. The remaining balance amounting to a sum of Afs 1,750,000,000 (57.3%) has been used for the stated purpose (recapitalization of the central bank).

    1.2. According to Form B-23, No-3337, dated 16/09/1392 an amount of Afs 220,000,000 from Code 900003 - interest on debt, Afs 250,000,000 from Code 900010 - the Contingency Fund for Fuel subsidy; Afs 50 million from Code 900014 - the Contingency Fund for Salaries, Afs 200 million from Code 900029 - Fund for the Central Bank's recapitalization; Afs 18 million from Code 900032 - Fund for Printing valuable documents and securities; and Afs 12 million from Code 900033- the Contingency Fund for social support for displaced employees of State Owned Enterprises have been deducted. Out of which, Afs 100 million has been transferred to to Code (21) of Directorate of Presidential Guard, Afs 150 million to Code (22) of Ministry of Foreign Affairs, Afs 50 million to Code (21) of Ministry of Interior, Afs 50 million to Code (22) of Ministry of Education, Afs 50 million to Policy Code 900001 and Afs 50 million to RRR and super scale Program Code 900009.

    1.3. According to Form B-23, No-3350, dated 20/09/1392 amounts A,fs 15 million, Afs 20 million, Afs 25 million, Afs 50 million and Afs 20 million, from Code 900010 - the

Contingency Fund for Fuel; Code 900003 - the Contingency Fund for increase in Civil Services salaries; Code 900024 - the Contingency Fund for Purchase of Land; Code 900029 - the Fund for recapitalization of the Central Bank; and Banks' Commission Code 900030 – banking service commission respectively have been deducted, out of which a total sum of Afs 100 million and Afs 30 million have been transferred to Code (210) of Ministry of Interior Affairs and Code (210) of Upper House (Meshrano Jirga).

1.4. According to Form B-23, with no number and date, an amount of Afs 300 million from Foreign Loan Installment Payment Code 900003, Afs 600 million from Code 900029 - Fund for Compensating Reduction in Central Bank's Capital and Afs 200 million from Code 900036 - Fund for Protection and Support of Strategic Development Projects, total of Afs 1,100,000,000 have been deducted; out of which Afs 100 million, Afs 100 million, Afs 50 million, Afs 200 million, Afs 50 million and Afs 100 million have been transferred to Policy Code 900001, Disaster contingency 900002, Code 900010 of Fund for Fuel subsidy, Code 900020 - Fund for financial reimbursement, Code 900030 - Fund for Banks' Commission and Code 900035 - Fund for Arian Afghan Airlines respectively.

1.5. According to Form B-23, No-944, dated 27/01/1392, an amount of Afs 50 million and Afs 30 million from Code 900020- Fund for financial reimbursement; and Code 900030 -the Fund for Banks' Commission respectively have been reduced and transferred to Code 900008 - the Contingency Fund for Membership of Ministries in International Organizations.

1.6. According to Form B-23, No-1083, dated 15/02/1392, an amount of Afs 100 million has been reduced from Code 900020 - Fund for financial reimbursement and added to Code 900009, the Fund for PRR and super scale.

1.7. According to Form B-23, No-3327, dated 16/09/1392, an amount of Afs 10 million from Code 900005 – civil service reform, pay and grading, Afs 5 million from Code 900014 – increase in salries of government employees, Afs 20 million from Code 900010 - Contingency Fund for Fuel Subsidy and Afs 10 million from Code 900024 - the Contingency Fund for Acquisition of Land, were reduced and added to the Policy Code 900001.

1.8. According to Form B-23, No-3225, dated 09/09/1392, an amount of Afs 110 million from Code 900024 - Contingency Fund for Acquisition of Land has been reduced, out of which amounts Afs 100 million and Afs 10 million have been transferred to Code 900030 - the Fund for Banks' Commission and to Code 900008 - the Contingency Fund for Membership of Ministries in International Organizations respectively.

1.9. According to Form B-23, without date and number, an amount of Afs 10 million has been deducted from Contingency Code for Fuel Subsidy 900010 and added to Code 900008 - the Fund for Membership of Ministries in International Organizations.

1.10. According to Form B-23, No-2668, dated 16/07/1392, an amount of Afs 125,000,315 has been reduced from the Code 900003 - the Contingency Fund for Payment of Loans, and added to Code 900035 - the Fund for Ariana Afghan Airlines.

1.11. According to Form B-23, No-2667, dated 13/09/1992, an amount of Afs 150,000,000 from Code 900020 - the Contingency Fund for the financial reimbursement, Afs 100,000,000 from Code (900036) - the Contingency Fund for the Protection and Maintenance of Strategic Development Projects , Afs 50,000,000 from Code 900005 - the Fund for the Implementation the Salaries and Grading Programme, and Afs 100,000,000 from Foreign Loan Installment Payment Code 900003, total Afs 500,000,000 have been

deducted and added to Code 220, Miscellaneous Services of Directorate of Treasury of the Programme 201.

2. According to the Qatia Statements, the total unadjusted advance payments for the Operating Budget in FY 1392 shows an amount Afs 1,051,280,268 allotted to 35 Budgetary Units, out of which Afs 560,018,819 (53.27%) pertains to the Ministry of Finance, Afs 166,836,063 (15.78%) pertains to General Directorate of Administrative Affairs and Council of Ministers, Afs 166,836,063 (11%) to Ministry of Education, and Afs 75,718,648 (7.2%) to the Ministry of Foreign Affairs and the remaining balance of Afs 132,728,256 (12.62%) pertains to other 31 Budgetary Units.

   As per the information provide by the Finance and Admisnitration Directorate, the Ministry of Finance, an amount Afs 560.018.819 is outstanding against the Ministry of Finance and an amount of Afs 500 million against letter of credit for contract for fuel on account of Breshna Shirkat transferred to the account of M/s Ghazanfer Company. Still, Afs 60,018,819 or 5.7% is outstanding advances of the MoF, which is not settled.

   Furthermore, the unadjusted advances for the years 1381-1389 belonging to 30 Budgetary Units is Afs 1,821,763,561. Out of which, Afs 1,182,993,127 or 65% belongs to the Ministry of Finance. Likewise, out of the unadjusted advances of the FY 1390 belonging to 18 Budgetary Units of Afs 102,691,787 and the unadjusted advances of the FY 1391 belonging to 23 Budgetary Units of Afs 672,315,536, Afs 594,666,665 or 88.45% belongs to the Ministry of Finance. In fact the Ministry of Finance has the largest percentage of the unadjusted advances for the period 1381-1392.

   According to the comments received from the General Directorate of Treasury, the advances for the year 1392 in comparison to the overall volume of payments in 1392 was insignificant and good progress was made in adjustments. However, the MoF did not comment as to why it has not been able to adjust the advances pending for many years. The details for the mentioned dues are presented at Annex 2.

3. With regard to the unadjusted advances, a comparison of the figures in the Qatia statements and the AFMIS, the following differences have been observed:

   3.1 The total unadjusted advances against Code 21 in the Qatia statements are reported as Afs 36,114,846 while it is Afs 36,047,345 under the AFMIS; a difference of Afs 67,519.

   3.2 The total unadjusted advances against code 22 in the Qatia statements are reported as Afs 912,248,349, while it is recorded as Afs 729,957,495 under the AFMIS, a difference of Afs 119,290,854.

   3.3 The total unadjusted advances against code 25 in the Qatia statements are reported as Afs 7,976,923, while it is recorded as Afs 7,276,973 under the AFMIS, a difference of Afs 699,950.

   In this context, the General Directorate of the Treasury is of the opinion that “the recording of advance payments from all the provinces is done based on the Accounting Guidelines through the Form M-22 and followed up accordingly. For utmost precaution, recording of advances through the provinces are avoided. It should be noted that with the existing circumstances, reliance on the data entered (in the system) alone may distort the conclusion”.

On the matter of why the AFMIS despite its high cost has not been able to cover all the accounts records of the center and provinces so far, the General Directorate of the Treasury is of the opinion that entering figures of advances in the AFMIS is the decision of the agency and the system is not to be blamed".

4. During the FY 1392, a total Afs 116,501,200 was disbursed as Petty Cash for 43 budgetary units, out of which Afs 73,500,000 or 63% related to the President's Office. Petty cash is given for urgent requirements of agencies and to meet immediate day to day contingencies, all of which should have been settled by the end of FY 1392 and accounted for in the agencies' expenditure. However, an amount of Afs 114,665,071 has been adjusted and accounted for and Afs 1,836,129 remained unadjusted petty cash advance on account of certain agencies. Unadjusted petty cash advances indicate weak monitoring by the respective agencies and also the MoF with regards to the settlement of the advances. A list of the agencies with the adjusted and unadjusted petty cash advances is at Annex -3.

5. According to the information made available the Administrative and Finance Directorate of Ministry of Finance, during FY1392, an amount Afs 500 million was transferred to the account of M/s Ghazanfar Oil & Gas Company against a letter of credit for oil supply contract for the Breshna Co. As per the documents, the end date of the letter of credit was 27/02/1392, but the account has not been settled yet. MoF maintained that the Breshna Co. is responsible for non-settlement of the amount of the letter of credit and responsibility does not rest with the MoF. Based on separate information provided by the Administrative and Finance Directorate of Ministry of Finance, out of Afs 1,712,541,137 of the previously unadjusted amount relating to one letter of credit for the Breshna Co, Afs 646,000,000 was transferred to the Import Account of the government and as per receipt report, Afs 610,304,041 was reported as adjusted. As such, Afs 456,237,096 remained unadjusted balance. The total unadjusted amount of letter of credit relating to the Breshna Co. for M/s Ghazanfar Oil & Gas Company (the aforesaid unadjusted amount together with the unadjusted letter of credit for Afs 500 million in FY 1392) comes to Afs 956,237,096, which is still to be adjusted.

6. As per the Qatia Statement for Operating Expenditure, an amount Afs 6,354,394,566 has been recorded against six budgetary units under "Budget Supplement", as follows:

   6.1. Vide proposal no 258, dated 21/12/1391 of the MoF and decree no-7776 dated 21/12/1391 of H.E the President, an amount of Afs 6,182,852,052 from the Combined Security Transition Command – Afg (NTM-A/CSTC-A) was approved as an addition to Development Budget of Ministry of Defense and Ministry of Interior Affairs for payment of the contracts of the year, 1391 which remained unpaid at the end of the year. Out of which, as per form B-23 no. 192 dated 24/12/1391, Afs 4,206,546,50 was added to the budget of the Ministry of Defense and Afs 1,976,305,549 to the budget of Ministry of Internal Affairs.

   6.2. As per the letter no-2892, dated 17/04/1392 of the General Directorate of Administrative Affairs and Council of Ministers and the sanction no 14, dated 03/04/1392 of the Council of Ministers, out of GBP £4.35 million (DIFD) grants which was meant for financing the cost of preservation and maintenance of water supply facilities in Helmand for three years; as per form B-23, no-2722 dated 20/07/1392, Afs 52 million was added as "Supplement" to the operating budget of the Ministry of Water and Energy and as per form B-23, no-2346 dated 17/06/1392, Afs 54,236,000 to the operating budget of the Ministry of Public Works.

6.3. Based on Proposal No-40 dated 07/08/1392 of the Ministry of Justice, sanction No-5272 dated 15/08/1392, Proposal No-41 dated 11/08/1392 and sanction No-5318 dated 18/08/1392 of H.E the President, Afs 4,924,062; as per Form B-23 No-3213 dated 09/09/1392 and based on Proposal No-11, dated 17/02/1392 of the Ministry of Justice and sanction No-1392, dated 26/03/1392 of H.E the President, Afs 1,409,750; (as per Form B-23 No-1581 dated 26/03/1392), a total of Afs 6,333,812 UNDP's grant for paying the rent of the office of Ministry of Justice in Shash Darak was added to the operating budget of Ministry of Justice as a "Supplement".

6.4. As per Form B-23 no-2733 dated 20/07/1392 and following the sanction no-22, dated 11/06/1392 of the Council of Ministers, Afs 58,972,710 of IBB aid was added as "Budget Supplement" to the Ministry of Information and Culture for payment of incentive salaries to certain employees, production of media programmes and expenses towards electricity relating to the National Radio and TV.

6.5. In addition to the aforesaid, vide Sanction No-22, dated 11/06/1392 of the Council of Ministers, out of a grant of Afs 471,569,550 by Britain, Denmark and France for enhancement of services at the districts' administration in 1391 Budget, Afs 398,248,358 was added as Supplement to the Contingency Code (900034) in the operating budget of FY 1392 for enhancement of local offices and rendering of services.

Based on the provisions of Part B, Article No-23 of the Guidelines for Budget Implementation, "Supplementing the Operating Budget from the non-discretionary funds during the financial year can take place based on justifiable needs, guidance from the President and donor's commitment with the condition that the aforesaid information is required to be presented to the National Assembly".

According to the information / documents provided by the General Directorate of Budget, Ministry of Finance, information regarding supplementary budget under Contingency code 900034 of Afs 58,972,702 grants of IBB added to the budget of Ministry of Information and Culture as well as supplement to the budget of some the development projects was reported to the Ministry of Parliamentary Affairs, first by the Letter No-18426, dated 26/06/1392 signed by the General Directorate of the Budget followed by the Letter No-21687, dated 19/08/1392 signed by the Minister of Finance. The supplement to budget of the Ministry of Defense and the Ministry of Interior was reported to the Ministry of Parliamentary Affairs as per Letter No (BS1-6535), dated 05/01/1392. The supplement to the budget of the Ministery of Public Works and the Ministry of Energy and Water was reported to the Ministry of Parliamentary Affairs as per the Letter No (BS1-16497), dated 22/05/1392 signed by the General Directorate of Budget. Similarly, vide Letter No (BS1-170), dated 03/10/1392, signed by the Minister of Finance and addressed to the Ministry of Parliamentary Affairs, the information regarding supplement to the budget of the Ministry of Justice was reported. However, it was found that the issue date of the letter fell in FY 1393. Further, in the letter relating to the UNDP's grant for the Min of Justice, an amount of only Afs 3,514,312 is mentioned; while in the Qatia records based on 2 number of form B, a total of Afs 6,333,812 has been recorded. As such, the amounts as per the records and that mentioned in the letter do not match.

7. According to an agreement dated 20/01/1392 (10/04/2011) signed between the Ministry of Finance and the Central Bank (DAB), the Ministry of Finance committed to pay an amount of Afs 41,352,520,200 for compensating the loss of the Kabul Bank to the Central Bank (recapitalization of

the DAB). Based on the provisions of the said agreement, the entire amount is payable to the Central Bank in a period of eight years in installments. As per the available records, during the years 1391 and 1392, a total amount of Afs 5,567,305,600 was paid through the Finance & Administration Directorate of MoF to the Central Bank. As per the agreed terms of instalments, Afs 3,949,918,400 was to be paid to the Central Bank during the year 1392. In this regard, the following are are noteworty:

7.1. During the years 1390-1392, the amounts payable to the Central Bank was recorded under the Contingency code 200029 - "Central Bank Recapitalization". However, the Central Bank was not agreeable for the same to be recorded under such head and noted that it has not received any compensation in lieu of Kabul Bank's loss from the Ministry of Finance and has received only the installments as loans. Based on the information previously available from the Central Bank, in 1390 it has received Afs 1,039,060,000 in lieu of sale of Kabul Bank's assets from the Kabul Bank's Settlement Management Dept. and Afs 2,458,710,000 from the MoF, a total of Afs 3,497,770,000. Out of which, an amount of Afs 732,243,450 is towards interest payment. Similarly, during 1391, the Central Bank received Afs 3,108,595,600 from the MoF and Afs 2 billion from the Kabul Bank's Settlement Management Dept., a total of Afs 5,108,595,600. Out of which, an amount of Afs 680,288,260 was towards interest payment. According to the aforesaid and as explained by the Central Bank, MoF's commitment is for the payment of Kabul Bank's debts to the Central Bank, however, actually the payment for Kabul Bank's debts is being recorded under "Central Bank Recapitalization", which is not agreeable.

7.2. The amount of the annual installment payable to the Central Bank as per the agreement between the MoF and the Central Bank being known in the year, the MoF should include the payable amount in the budget and pay the same to the Central Bank. As per the agreement, an amount of Afs 3,949,918,400 should have been paid in four installments in the FY 1392 to the Central Bank. However, though as per the budget document at the beginning of the year 1392, an amount of Afs 3,500,000,000 was budgeted and got approved under the Contigency code 900029, later on through the midyear amendment, an amount Afs 500 million was reduced and from the remaining balance, an amount Afs 1,750,000,000 only was paid to the Central Bank; an amount of Afs 1,250,000,000 was amended/transferred and used for other purposes.

In this regard, the General Directorate of Budget, MoF commented that in the budget document of 1392, amount of Afs 3 billion was included in the Operational Contingency Code as Compensation for the Kabul Bank's loss, which should be paid to the Central Bank (DAB) when asked for. However, during the FY 1392, they did not receive any such request from the Central Bank. As such, certain amounts have been used for the requirements of some Miscellaneous Codes that faced budget deficit during the year. However, as per the documents of the MoF, it is observed that the MoF has transferred Afs 1,250,000,000 from the aforesaid code to other areas during the Fiscal Year and not at the end of the year.

8. According to international best accounting practices, all transactions must be identified and classified under specific objects of expenditure in Financial Statements (Qatia Statement). In other words, the Qatia Statement should follow the same budgetary classification structure (Chart of Accounts) which is followed by the budget. As per the Article 7, para 7 of the Public Finance and Expenditure Management Law, treasury's responsibilities includes "maintaining the Treasury

General Ledger and recording transactions according to budget classification and accounting rules compliant with internationally accepted standards and principles". Nonetheless, during the auditing of Qatia accounts, like previous years, during the year 1392, it was observed that a total of Afs 1,745,033,892 has been recorded (as per AFMIS data) as unclassified expenditure – "Not Elsewhere Classified", meaning the expenditures are not identified with any object codes. Out of this, Afs 31,541,073 relates Code 21128 (Wages and Salaries -cash) and Afs 1,713,492,819 in Code 22809 (goods, services and other expenses). Out of the total unclassified expenditure, Afs 1,115,499,243 or 63.92% belongs to the Ministry of Interior, Afs 562,653,925 or 32.24% to the Ministry of Defense, Afs 17,587,809 or 1% to Independent Directorate of Local Governance, Afs 15,131,013 or 0.86% to the Ministry of Public Health and the remaining Afs 34,161,902 or 1.96% belongs to the other 29 Budgetary Units. A comparison of the unclassified operating expenditure for last 3 years (1390-92) is as follows:

1390	1391	1392
1,961,664,066	1,937,531,851	1,745,033,892

Although the unclassified expenses in the year 1392 shows a relative reduction in comparison to the earlier years, 1390 and 1391, since the codes 21128 and 22809 are without any specific budgetary object of expenditure and purpose for their spending is not clear, therefore, recording such large figures under the heading "Not Elshwere Classified" by any reason is questionable and needs to be reviewed.

In this regard, the General Directorate of Treasury of the MoF stated that "….there is more than 210 classification code in the Chart of Accounts, however, despite exhaustive classification of objects of expenditure, in practice there come cases which cannot be identified with any existing specific object of expenditure in the given classifications of the previous chart of acccounts, therefore, such cases are recorded under the heading "Not Elsewhere Classified". However, during the current Fiscal Year, utmost attention was paid so that unclassified transactions should be minimized. It was decided that the codes 21128 and 22809 should be removed from the system, but in case of urgent need of the agencies such codes will be needed and the directorate may act accordingly".

The details of unclassified expenditure of FY1392 Operating Budget are annexed at table no (4) of the Annex.

Furthermore, based on the information provided by the General Directorate of Treasury and as per the AFMIS, during the year 1392, in adidition to the unclassidied expenditure mentioned above 10 budgetary units, have also used from "Special Operative & Hidden Expenditure (code 21130). They include Afs 17,220,000 by the President's Office, Afs 48,000,000 by the General Directorate of Administrative Affairs and Council of Ministers, Afs 24,000,000 by the Supreme Court, Afs 4,014,400 by the Directorate of Presidential Guard, Afs 195,000,000 by the Ministry of Defense, Afs 199,000,000 by Ministry of Interior Affairs, Afs 24,000,000 by the Independent Directorate of Local Governance, Afs 19,000,000 the Ministry of Borders and Tribal Affairs, Afs 700,000,000 by the General Directorate for National Security and Afs 2,000,000 by the Independent Directorate for kochis Affairs.

However, as per the letter no-223260 dated 09/07/1392 of the General Directorate of Budget which was issued following their letter no-212461 dated 16/12/1392 addressed to the General Directorate of Treasury, the following information is available for the approved "operative funds" for the year:

- General Directorate for National Security, Afs 620,000,000
- Ministry of National Defense, Afs 200,000,000
- Ministry of Interior Affairs, Afs 200,000,000
- Directorate of Presidential Guard, Afs 20,000,000
- The Supreme Court, Afs 24,000,000
- The President's Office (Directorate for Prominent Officials' Guard), Afs 18,000,000
- General Directorate of Administrative Affairs and Council of Ministers, Afs 48,000,000
- Independent Directorate of Local Governance, Afs 24,000,000
- Ministry of Borders and Tribal Affairs, Afs 12,000,000
- Independent Directorate for Nomad (kochi) Affairs, Afs 2,000,000

Even a comparison of the operative expenditure against the original approved opertive fund shows that an amount Afs 80,000,000 by the General Directorate of National Security and Afs 7,000,000 by the Ministry of Borders and Tribal Affairs have been paid in excess of the approved fund.

The General Directorate of Treasury has commented that "the allocations are made by the General Directorate of Budget as per major codes and the control of expenditure as per the sub-codes is not possible, and as a consequence the expenditure appear to have exceeded the original approval. They have also added that, what is mentioned as the original approved budget is in fact the figure approved by the Wolosi Jirga and signed by the President and recorded in the Budget Document. The expenses of the relevant agencies for the year 1392 has exceeded neither in the major head, nor from the original approved budget".

9. According to paragraph 8 of the Budget Execution Guidelines, 1392 the sub-codes relating to salaries, food allowances, electricity bills, communications expenses, repairing of vehicles, and maintenance and repairs of buildings are among the restricted sub-codes and transfers from such sub-codes to other codes is not allowed.

    9.1. As per Form B-23, No-3163, dated 04/09/1392, an amount of Afs 8 million belonging to the Directorate of Presidential Guard was reduced from code 210 - salary of National Security Council and was added to code 220 – goods and sevices of the Directorate of Presidential Guard.

    9.2. As per Form B-23, No-1503, dated 19/03/1392 pertaining to the Supreme Court, an amount of Afs 7,500,000 was reduced from Repairs & Maintenance Code (224) and was added to the Code (210- salaries) of the same Directorate.

    9.3. As per Form B-23, No-414, dated 18/03/1392, in the Ministry of Labor, Social Affairs, Martyrs and Disables, an amount of Afs 18,500,000 was reduced from Salaries Code (210), out of which amounts Afs 11,971,475, Afs 5,200,900 and Afs 1,327,625 respectively were added to Use of Goods and Services Code (220), Repairs and Maintenance Code (224) and Utilities Code (225) of the Ministry.

    9.4. As per Form B-23, No-387, dated 29/02/1392 of the Ministry of Labor, Social Affairs, Martyrs and Disables, an amount of Afs 70,000,000 was reduced from the Food Code (222) and was added to goods and services code (220).

    9.5. As per Form B-23, No-759, dated 12/08/1392, of the Ministry of Labor, Social Affairs, Martyrs and Disables, an amount of Afs 18,500,000 was reduced from the Salaries Code (210), out of which amount of Afs 17,172,375 was added to Repairs and Maintenance Code (224) and Afs 1,327,625 to Utilities Code (225).

9.6. As per Form B-23, No-409, dated 11/03/1392 of the Ministry of Labor, Social Affairs, Martyrs and Disables, an amount of Afs 10,000,000 was reduced from the Food Code (222) and added to Repairs and Maintenance Code (224).

9.7. Based on the proposal of the General Directorate of Administrative Affairs and Council of Ministers and the Decree No-3659 dated 13/06/1392 of the President, an amount of Afs 15 million was to be reduced from Utilities code (225), a restricted code and added to the Repairs and Maintenance Code (224), anoter restricted code. However, as per the records, an amounts Afs 20 million and Afs 5,000,000; total Afs 25 million, was reduced from the goods and services code (220) and utilities code (225) respectively. Out of which, Afs 15 million was added to the Food Code (222) and Afs 10,000,000 to Repairs and Maintenance Code (224). Accordingly, the transfer has taken place from one restricted code to the other and also only ten million has been transferred to Repairs and Maintenance Code (224) and the remaining balance has been transferred to food code (222,) disregarding the Presidential sanction.

The General Directorate of Budget has only titled the transfers from the restricted sub-codes as "Restricted" and has mentioned that such amendments are not in contradiction to the Guidelines for Budget Execution. However, it is observed that not only some transfers have taken place from the restricted sub codes to the other sub codes; in some cases transfers have taken place from one restricted sub code to the other. In such condition, audit infers that the practices are contradictory to the Budget Execution Guidelines. However, more clarity is required in the budget execution guidelines to avoid such cases.

10. As per the Qatia Statement for Operating Budget and the AFMIS, during the FY 1392 under the code 23 "Payment of Interest and Repayment of Loans Code", a total payment of Afs 514,128,705 has been recorded. Out of which, Afs 246,080,340 or 48% was for the repayment of loans and Afs 268,080,340 or 52% was for payment of interest. It appears, the interest payment exceeds the payment of principle loan amounts by 22%. The General Directorate of Treasury has commented that "since the Islamic Republic of Afghanistan is a poor country, it tries to borrow loans with longer repayment period and since the repayment period was 10 years, during this period only interest is being paid". However, no reliable information has been provided on the types of loans paid and their principle amount.

Based on the documents pertaining to amendments from code 900003 – Debt payment, cases of amendments are as following:

10.1 According to Form B-23, No-2127 dated 13/05/1392, an amount of Afs 105,974,051 was deducted from the code 900003 for the repayment of loan installment of the Asian Development Bank, out of which, Afs 74,933,357 was added to code 23201 for the repayment of principle and Afs 31,040,694 to code 23001 for payment of interest.

10.2 According to Form B-23, No-2124, dated 13/05/1392, an amount of Afs 21,386,375 was reduced from code 900003 for the repayment of World Bank's loan, out of which Afs 1,901,391 has been added to loan repayment code 23200 and Afs 19,484,984 to foreign loan code 23000.

10.3 According to Form B-23, No-1399 dated 08/03/1392, an amount of Afs 45,500,697 was reduced from code 900003 for payment of interest to the World Bank and added to repayment of loan – others code 23003.

10.4 According to Form B-23, No-1400 dated 11/03/1392 an amount of Afs 675,484 was reduced from code 900003 and added to Code 23001 for payment of interest to Asian Development Bank.

10.5 According to Form B-23, No-3088 dated 01/05/1392, Afs of 725,155 was reduced from code 900003 and added to code 23001 for payment of interest to Asian Development Bank.

10.6 According to Form B-23, No-2024 dated 01/05/1392, an amount of Afs 39,722,726 was reduced from the code 900003, out of which Afs 25,500,439 was added to loan repayment code 23201 and and the rest to code 23001 for interest payment to the Asian Development Bank.

10.7 According to Form B-23, No-1058 dated 21/08/1392, an amount of Afs 10,365,061 was reduced from the code 900003 and added to code 23001 for payment of interest to the Asian Development Bank.

10.8 According to Form B-23, No-1704 dated 08/04/1392, an amount of Afs 9,200,322 was reduced from code 900003 and added to the interest payment code 23001 for payment of interest to the Asian Development Bank.

10.9 According to Form B-23, No-1701 dated 08/04/1392, an amount of Afs 1,245,431 was reduced from the code 900003 and added to the code 23003 for payment of OPEC's loan.

10.10 According to Form B-23, No-13268 dated 10/09/1392, an amount of Afs 59,860,642 was reduced from code 900003, out of which Afs 6,125,038 added to the code 23200 and Afs 53,735,604 to code 23000 for payment of interest and repayment of loan respectively to the World Bank.

10.11 According to Form B-23, No-240 dated 24/11/1391, an amount of Afs 2,311,324 was reduced from code 900003 and added to code 23003 for repayment of OPEC's loan.

10.12 According to Form B-23, No-90 dated 02/11/1391, an amount of Afs 35,481,932 was reduced from code 900003, out of which Afs 23,654,839 was added to code 23201, repayment of loans and Afs 11,827,093 to payment of interest code 23001 for payments to the Asian Development Bank.

10.13 According to Form B-23, No-5, dated 19/10/1391, an amount of Afs 5,932,772 was reduced from code 900003 and added to code 23000 for payment of World Bank Loan.

10.14 According to Form B-23, No-450, dated 15/12/1391, an amount of Afs 29,249,297 was reduced from code 900003 and added to code 23003 for repayment of loans to the Asian Development Bank.

10.15 According to Form B-23, No-239 dated 24/11/1391, an amount of Afs 28,867,722 was reduced from code 900003 and added to code 23203 for repayment of loans to the Asian Development Bank.

10.16 According to Form B-23, No-4 dated 19/10/1391, an amount of Afs 22,164,451 was reduced from code 900003, out of which Amount of Afs 21,327,307 was added to code 23201 and Afs 837,144 to code 23001 for repayment of loans and payment of interest respectively to the Asian Development Bank.

11. As per Budget Document at the beginning of the year, FY1392, the approved ceiling for the total number of employees for the ministries and government agencies was 837,253 employees. The Department of Organizational Structures (Tashkelat) of the General Directorate of Administrative Affairs and Council of Ministers however has shown a total number of 838,213 employees as the ceiling for the number of employees for the year 1392. As such, an increase of 960 in the number of positions has been recorded which shows significant changes in the government employees structures during the year 1392.

In this regards, paragrpah 11 and 12 of the Budget Execution Guidelines state as follows:

> Paragraph 11: "Any law or regulation that indicates salary increment / or increase in any other allowances of civil servants and military staff which is opposed to the content of this document (national budget)is not acceptable. In case that a new law is approved, allowances or new spending are applicable from the beginning of the next year after analysis of the respective ministry and approval of the DM office in Ministry of Finance".

> Pargraph 12. "Ministries and organizations are obliged to prepare their Tashkeel (organizational structure) by national and sub national levels based on the budget ceiling assigned by the Tashkeel commission to each ministry and strictly avoid any increase in or hiring of employees in the course of the fiscal year so that the process of implementation of Salaries and Grading System is not disturbed.

Nonetheless, as mentioned above, in contradiction to the aforesaid Budget Execution Guidelines at paragraph 11 and 12, during the FY1392, a total number of 960 positions were added. Out of which, as per the information from the Department of Organizational Structures (Tashkelat) of the General Directorate of Administrative Affairs and Council of Ministers, 51 posts were added in the Ministry of Foreign Affairs, 167 posts in the Ministry of Higher Education, 54 posts in the Ministry of Transport, 2 positions in the Ministry of Borders and Tribal Affairs, 189 posts in the Directorate of Presidential Guard and Eminent Persons, 35 posts in the General Directorate of Administrative Affairs and Council of Ministers, 31 posts in Office of the Council of National Security, 345 posts in the Electoral Complaints Commission and 100 posts were created in the Ministry of Labor, Social Affairs, Martyrs and Disables.

Also, based on the information and documents provided by the General Directorate of the Budget, following the Decree No-5567, dated 04/09/1392 of the President, 65 posts were added in the General Directorate of Presidential Guard; based on the Letter No-3391, dated 08/05/1392 of the Directorate of Organizational Structure (Tashkelat), 51 posts were added in the Ministry of Foreign Affairs; based on Decree No-1647, dated 07/03/1392 of H.E the President and based on the Decree No-5121, dated 13/08/1392 of H.E the President 3 posts and 176 posts were added in the Directorate for Protection and Security of Prominent Figures respectively; based on the Letter No-6687, dated 03/10/1392 of Directorate of Organizational Structure (Tashkelat) of the General Directorate of Administrative Affairs, 342 posts were added in the Electoral Complaints Commission; based on the Sanction No-3661, dated 13/06/1392, and Sanction No-3671, dated 13/06/1392, one post and 3 posts respectively were added to General Directorate of Administrative Affairs and Council of Ministers; and based on Sanction No-3259, dated 25/06/1392 of H.E the President 157 posts were added in the Ministry of Higher Education.

Besides, as per Decree No-2326, dated 11/04/1392, of H.E the President, 4 additional posts have been created in the Office of President's Community Affairs Advisor whose salaries and expenses of Afs 1,030,576 have been paid as per Form B-23, No-3312, dated 01/05/1392 from the Policy Code (900001).

12. Article 47 (1) of the PFEM Law with regards to amendments of approved budget states that, "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." However, as per the Qatia Statements for Operating and Development Expenditure for the year 1392, during the year an amount of Afs 5,604,352,691 was transferred from the Development Budget of Ministry of Defense to its Operating Budget, for which not only no consultation was done with the Budget Committee but also the amended budget constitutes almost 33% of the total Development Budget and 8.89% of the total Operating Budget of the Ministry. This is in contradiction to the provisions of the PFEM law.

The General Directorate of Budget on this issue states as follows:

"The amendment of USD 57,776,013, which was implemented as per the Form, B-23, No-853 was funded from by CSTC-A which is a non-discretionary fund from the external donor. After the consent of the donor agency, the amendment has been made following the enactment No-24, dated 18/09/1392 of Council of Ministers. This is not from domestic revenue and does not fall under the provision of Article 47 of Public Financial and Expenditure Management Law."

However, as can be seen from the provision of Article 47 (1) of Public Financial and Expenditure Management Law, no differentiation is stipulated for amendments and financing from either domestic sources or external sources. Further, the amount of US$ 57,776,013 shown as transfer from CSTC-A equals to Afs 3,004,248,676, while the amended funds is Afs 5,604,352,691.

13. Article 32 (9) of Public Financial and Expenditure Management Law with regards to use from the Contingency Funds states that the agency's expenditure and revenue shall include "an appropriation not exceeding 3% of total programme expenditures for contingencies". However, as mentioned previously, some of the budgetary units like the previous years, in 1392 also, have utilized more than their Operating Budget from their Contingency Funds. The MoF takes into account only the Policy Reserve Code 900001 and the Disaster Contingency Code 900002 as the Core Contingency Codes. Based on the information provided by the General Directorate of Treasury, during the year 1392, a total of Afs 1,042,198,421 was amended and used from the Policy Code 900001 and Afs 947,974,542 from the Disaster Contingency Code 900002. Some Budgetary Units have used from the mentioned codes more than 3% of their Core Budget. For instance, Directorate of the President's Office, the Upper House (Meshrano Jirga), Council of Representatives (Wolosi Jirga), the Supreme Court, the Directorate of Presidential Guard, Ministry of Counter Narcotics, National Authority for Environmental Protection, and Academy of Sciences have used 4.48%, 3.88%, 3.3%, 5.7%, 20.97%, 15.37%, 7.71% and 15.37% respectively from the Policy Code 900001. Similarly, the General Directorate of Administrative Affairs and Council of Ministers has used 55.24% from the Policy Code 900001 and 61.57% from the Disaster Contingency Code 900002; and the Ministry of Finance, Ministry of Refugees and Repatriates Affairs, and Ministry of Agriculture, Irrigation and Livestock have used 12.57%, 18.28% and 15.35% respectively, from Disaster Contingency Code 900002, which is in contradiction to the provision of Article 32 (9) of the Public Financial and Expenditure Management Law.

14. During the year 1392, based on four M-16, a total amount of Afs 226 million was transferred as a receipt to the State of Emergency Committee's Account 50055 for dealing with emergency and unforeseen situations. Out of which, Afs 131.059 million was accounted for as on the date of the prearation of the Qatia Statement. Afs 94,940,132 vide transfer No-254 dated 07/02/1392 relating to the said Committee has remained unsettled for over a year (since the transfer date). Non-submission of the expenditure documents of the mentioned amount for adjustments and proper accountability for more than a year is raised questions and needs to be reviewed.

15. Based on the proposals of the relevant budgetary units and after it has passed the budgetary process and approved by the Council of Ministers, the National Assembly and signed by the President, the ceilings for the operating and the development budgets for respective agencies are fixed. Therefore, any changes in the ceiling of both operating budget and development budget should be approved by the National Assembly and signed by the President. The audit results show that during the FY 1392, changes in the Operating and Development Budgets have taken place after the mid-year amendments as follows for which approval of the National Assembly are not taken:

    15.1 As per Form B-23, No-669, dated 23/09/1392, an amount of Afs 2.6 million and as per Form B-23, No-3372, dated 30/09/1392, amount of Afs 3,004,352,691, a total of Afs 5,604,352,676 was

reduced from Code 22 (of development budget) of Ministry of Defense and added to Code 22 of the operating budget of that Ministry.

15.2 As per Form B-23, No-1874, dated 25/09/1392, an amount of Afs 70 million from Contingency Fund for Noristan Province, Code (910004), Afs 70 million from Contingency Fund for Zabul Province, Code (910005), Afs 150 million from the Contingency Fund for Improving the of Revenue Collection System in the agencies, Code (910020), Afs 25 million from Contingency Fund for Saripul Province, Code (910023), Afs 7 million from Contingency Fund for Urozgan Province, Code (910026), Afs 100 million from Contingency Fund for Kochis, Code (910027), Afs 6 million from Contingency Fund for Higher Educaton of Students, Code (910029) and Afs 27 million from Contingency Fund for Foreign Exchange Balance, Code (910033); a total of Afs 400 million, was reduced from the Contingency Code of Development Budget and added to Code 24 of Operating Budget of Ministry of Interior.

With the aforesaid amendments, a total amount of Afs 6,004,352,676 has been reduced from the ceiling of Development Budget and added to the ceiling of Operating Budget, for which the approval of the Parliament has not been taken. As observed, the transfer from the Development Budget of the Ministry of Defense to its Operating Budget took place at the end of the FY 1392. It is difficult to understand how the process of transfer and utilization of such a large amount could be completed at the end of the year.

16. The following transfers from the development budget to the operating budget which took place at the end of the FY 1392, however, as per the transfer forms, were recorded with the General Directorate of Treasury in the FY 1393:

16.1 Form B-23, No-699, dated 23/09/1392, based on which Afs 2.6 billion was transferred from the Development Budget of the Ministry of Defense to its Operating Budget, has been recorded vide No-3370, dated 01/10/1392 (FY 1393) with the General Directorate of Treasury following the Letter No-223505, dated 30/09/1392 which was addressed to the Directorate of the Treasury.

The General Directorate of Treasury has stated that the mentioned form issued by the Provincial Budgetary Directorate on 30th Qaws (the last day of Financial Year) was recorded by the Directorate of Treasury in AFMIS on the same date in transaction records of FY 1392 based on the procedure after the completion of all requirements and examinaton of checks. The form corresponding to the signed allotment vide receipt no. -3370 dated 01/10/1392 is recorded only one day later. As per the AFMIS, during the year 1392, aforesaid allotment has not been utilized.

16.2 Form B-23, No-1874, dated 25/09/1392, based on which an amount of Afs 400 million has been transferred from the Contingency Funds of the Development Budget to Code (24) of Operating Budget of the Ministry of Interior, was issued by the General Directorate of Budget through Letter No-233568 dated 30/09/1392 and recorded under No-3373 dated 07/10/1392 by the General Directorate of Treasury, which shows it was recorded in the FY 1393.

17. Results of audit show that out of the total operating budget unspent balance of Afs 20,994,513,674 in FY 1992, Afs 20,047,508,957 or 95.49% belongs to 9 Budgetary Units. Of which, Afs 14,758,673,533 relates to Ministry of Defense and Afs 3,696,882,268 to the Ministry of Interior, togehther 86.90% of the total remaining balance. The substantial unspent budget revals that the process of budgeting and approval of budget of the mentioned agencies has been weak and without feasibility. As per the documents, around 90.6% of the remaining balance for the year 1391 also belongs to these two ministries.

II. The Development Budget Qatia Statements 1392

A. Details of the Development Budget of the FY 1392 (based on the documents of the budget at the beginning of the year).

Details	Amount (Afs)	Percentage of Core & Contingency Budget
Core Budget	152,931,798,708	96.94%
Contingency Budget	4,818,271,900	3.06%
Total	**157,750,070,608**	**100%**

The total Development Budget for the FY 1392 as per the Budget document at the beginning of the year of Afs 157,750,070,608 was passed by the National Assembly and signed by the President. Out of which, Afs 152,931,798,708 is the Core Budget and Afs 4,818,271,900 is the Contingency Budget.

Further, as under:-

- Discretionary Projects
  - New discretionary projects — Afs 28,885,742,770
  - Carryforward discretionary projects — Afs 16,594,000,440
- Non-discretionary Projects
  - New non-discretionary projects — Afs 84,220,477,840
  - Carryforward non-discretionary projects — Afs 28,049,849,780

Total discretionary and non-discretionary projects — **Afs 157,750,070,830**

B. Details of the sources of funding for the Development Budget of FY 1392 as per the budget document at the beginning of the year, has been described in the following table:.

No	Sources of Funding	Details of Sources of Funding	Amount
1	Domestic Sources	Share of Domestic Revenue	11.821.767.500
		Revenue from Railway	2.080.000.000
		Revenue from the sales of wood of Konar Forest	260.000.000
		Saved revenues from the previous years	2.000.000.000
		Aynak Copper properties (sources of funds from contract of Aynak Copper)	2.600.000.000
		Sources transferred from FY 1391 (domestic revenue)	3.532.144.200
Total of Domestic Sources			**22,293,911,700**
2	External Sources (Discretionary)	Incentive Prog. - Afghanistan Reconstruction Trust Fund (ARTF)	9.360.000.000
		World Bank (DPG)	2.600.000.000

		Afghanistan Reconstruction Trust Fund (O & M)	554.320.000
Total External Sources (Discretionary)			**12.514.320.000**
3	External Sources (Non-discretionary)	World Bank	11.007.658.500
		Total grants from Japan	2.385.936.400
		UNDP	1.469.482.600
		UNESCO	397.711.111
		UNHCR	18.998.200
		UNAMA	5.410.600
		UNICEF	1.226.245.300
		Afghanistan Reconstruction Trust Fund (ARTF)	27.677.231.900
		Trust Fund for Peace and Rehabilitation	1.046.455.000
		Grant from Germany	122.362.200
		Grants from Italy	2.312.632.400
		UNODC	658.048.000
		United States Agriculture Department	321.914.300
		CSTC-A	37.935.025.400
		Grants from the United States	5.067.682.900
		Asian Development Bank	12.735.435.200
		Brunei, Darussalam	82.181.300
		Britain	163.599.300
		Denmark	2.157.568.900
		New Zealand	2.288.500
		International Organization for Agricultural Development	260.000.000
		France	959.246.100
		Canada	751.900
		Latvia	1.261.000
		Worldwide Union for Vaccination and Immunity	178.175.900
		Kazakhstan Government	23.399.500
		Trust Fund for Law and Order	183.600
		Center for Disease Control and Prevention	46.154.200
		Global Fund	487.356.500
		Norwegian Government	135.820.900
		Holland Government	12.462.800
		Spain	16.750.200
		Indian Government	380.342.000
		Chinese Government	73.008.000
Total External Sources (non-discretionary)			**109.407.316.700**
4	**Debts**	Islamic Development Bank	1.398.944.000
		Asian Development Bank	440.606.700
		Saudi Development Fund	997.462.200

Total Debts	**2.837.012.900**

C. Details of the Development "Budget Supplement" and Mid-year budget amendment, FY 1392

Details			Amount	Comments
Total Operating Budget for the FY 1391			111.646.305.264	As per these figures there is discrepancy between the figures in Qatia Statement and Budget Document of the FY 1392, the details for which is represented later
Total Expenditure in the year 1391			(53.986.490.489)	
Total Reduction in 1391	Donors' unrealized commitments	10.189.823.710	(11.351.918.630)	
	Completed Projects	198.673.240		
	Deccrease in Contingency Funds Expenditure	963.421.680		
Balance of Development Budget of FY 1391 after Deductions			46.307.896.145	
Total Transfer Funds (estimated) at the beginning of the year 1392			44.643.849.952	
Transfer in the second tranche			1.664.046.193	
Revised Budget at the beginning of FY 1392			113.106.220.500	
Total Development Budget before the Mid-year amendments			159.414.116.645	
Deductions in Mid-year amendments	Discretionary	4.897.031.776	(22.732.433.613)	
	Non-discretionary	17.835.401.837		
Additions in Mid-year amendment	Discretionary	3.515.200.000	4.977.300.380	
	Non-discretionary	1.462.100.380		
Total Revised Development Budget of FY 1392 after Mid-year amendments			**141.658.983.412**	

As per the description given in the table above, there is a difference of Afs 16,064,087,197 or (10.18%) between the Development Budget of 1392 after the Mid-year amendments and the budget at the beginning of the year.

D. Sources of funding revised Development Budget FY 1392 after Mid-year amendments

Sources of Funding		Amounts (USD)				
		Transfer Funds in the first period (estimated)	Transfer Funds in the second period	New sources at the beginning of the year	Changes in the Mid-Year Assessments	Total sources in the Mid-Year Assessments
Domestic Sources	Domestic Revenue	-	-	227.341.682	(71.026.084)	156.315.599
	Revenue from Railway	-	-	40.000.000	-	40.000.000
	from the sales wood of Konar Forest	-	-	5.000.000	-	5.000.000
	Revenue from Aynak Copper	-	-	50.000.000	(50.000.000)	-
	Transfer Sources from 1391 (Domestic revenue)	67.925.850	-	-	(67.925.850)	-
Total Domestic		67.925.850	-	322.341.682	(188.951.934)	201.315.598
External Sources	Discretionary	60.000.000	-	180.660.000	-	240.660.000
	Non-discretionary	537.673.348	20.541.983	1.619.124.571	(314.871.182)	1.862.468.721
Total External Sources		597.673.348	20.541.983	1.799.784.572	(314.871.182)	2.103.128.721
Aggregate Total (Domestic & External)		**665.599.198**	**20.541.983**	**2.122.126.254**	**(503.823.116)**	2.304.444.320

As after the mid-year amendment in the development budget, domestic sources was estimated to fund US$ 201,315,598 equivalent to Afs 10,468,411,095 and the external sources a sum of US$ 2,103,128,721 equivalent to Afs 109,362,693,492; a total of Afs 119,831,045,587. This shows a deficit of Afs 21,823,937,825 or 15.40% in comparison to the budget at the beginning of the year.

E. Realization (execution) of development budget of the FY 1392

Descriptions		Amount (Afs)
Original approved Development Budget (Core Budget) based on the budget document at the beginning of the year		152.931.798.604
Additions	Increase in difference between the estimated transfer and actual transfer	3.032.573.856
	Increase in Mid-Year Assessments	4.717.300.380
Total		**160.681.672.840**
Reductions	Reduction in the difference between estimated transfer and actual transfer	**1.755.026.623**
	Reduction in the Mid-Year Assessments	22.680.433.516

	Transfer to Operating Budget	5.604.352.691
	Transfer to Contingency Code	239.200.000
Amount after amendments		**130.402.660.010**
Amendments from Reserves (Contingency Funds)		3.648.988.077
Budget Supplement (annexure to budget)		6.142.671.496
Aggregate Total		**140.194.319.583**
Total expenditure in the year 1392		80.152.954.662
Balance		**60.041.364.921**

As per the description in the table above, notwithstanding the "Budget Supplement" of Afs 6,142,671,496, the total of Development Budget recorded in Qatia in comparison to the budget document in the beginning of the year has come down from Afs 157,750,070,608 to Afs 140,194,319,583 or less by 11.12%. The main reasons for such reduction is: Deduction of Afs 17,963,133,136 in the Mid-Year amendments, transfer of Afs 5,604,352,691 to the Operating Budget, transfer of Afs 239,200,000 to the Contingency Funds and the balance remaining with the Contingency Funds.

As per the Development budget Qatia Statement, Afs 6,142,671,496 has been added as "Budget Supplement" to certain projects belonging to 7 Budgetary Units. According to information provided by the General Directorate of Budget and as per the documents, based on resolution No-22, dated 11/06/1392, US$ 60,009,000, equivalent to Afs 3,120,468,000 has been approved as per the new commitments from the World Bank, ARTF, Asian Development Bank and other donor organizations for the development project of the ministries of Mines, Public Works, Public Health, Agriculture, Irrigation and Livestock, Counter Narcotics, MRRD and Breshna Company. Similarly, based on the resolution No-27, dated 29/07/1392, an amount USD 8,087,255 equivalent to Afs 420,537,260 as new commitments has been approved for the development projects of the MAIL, Ministry of Refugees and Returnees Affairs and Kabul Municipality; and based on the resolution No-29, dated 13/08/1392, amount of USD 38 million equivalent to Afs 1,976 billion from donors' new commitments, has been approved for the development projects of the Ministry of Public Works, MAIL, Ministry of Public Health and Ministry of Counter Narcotics. Furthermore, based on separate resolutions of the Budget Committee, an amount of Afs 783,604,016 has been added from the Contingency Codes to eight development projects belonging to the MRRD and recorded as "Budget Supplement" in Qatia. The details for these cases are discussed in the section on Audit Findings.

As per the document, "Supplement to Development Budget" and the Revised Budget in the Mid-Year amendment, the Contingency Funds for financing some of the development projects was approved for an amount of Afs 5,412,770,896. During the financial year, an amount of Afs 239,200,000 was increased over the approved development budget, out of which, Afs 3,648,988,077 was transferred and used during the year and Afs 2,002,982,819 remained as balance. The amended/transferred funds constitute 64.56% of the total Contingency Funds.

The total Development Budget of FY 1392 after amendments during the year and addition of "Budget Supplement" has been recorded as Afs 140,194,319,583 in the Development Qatia, out of which Afs 80,152,954,662 has been spent and Afs 60,041,364,921 balance. The utilisation of Development Budget in 1392 is around 57.17% of the total Development Budget recorded in Qatia statements

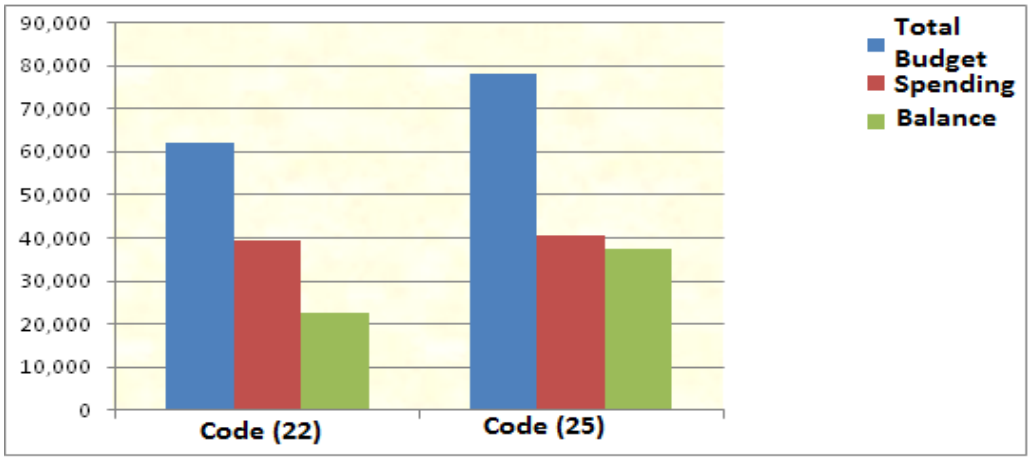
The list of agencies with the percentage of spending from their Development Budget has been annexed at table No-5.

Like previous years, the spending under the Development Budget mainly falls in two codes i.e., Code 22 (use of goods and services) and Code 25 (acquisition of assets). The details as per the Development Expenditure Qatia Budget are as follws:

Code	Total Budget after Amendments	Total expenditure	Balance	Percentage of utilised	Percentage share of Codes in the utlised funds
22	61.989.182.459	39.453.806.546	22.535.375.913	63.64	49.2
25	78.205.137.125	40.699.148.116	37.505.989.008	52.04	50.8
Total	140.194.319.583	80.152.954.662	60.041.364.921	57.17	100

According to the table above, out of the total development budget expenditure of Afs 80,152,954,662 in FY 1392, share of expenditure under code 22 is 49.2% and under code 25, 50.8%. However, utilization of budget (expenditure) in Code 22 (use of goods and services and payment to consultancies and salaries to contract staff etc.,) is about 63.64% and in Code 25 (acquisition of assets or building affairs, repairs and purchase of equipments, etc.,) is about 52.04%. This shows that the utilization/realization of Development Budget in Code 22 was more in comparison to Code 25. This suggest that the Budgetary Units in order to increase their spending have focused on purchase of goods, payment of salaries (to contract staff) and spending on consultancy services, rather than infrastructural projects.

The following figure shows the realization (spending) of Development Budget of the year 1392 in Code (22) and Code (25):



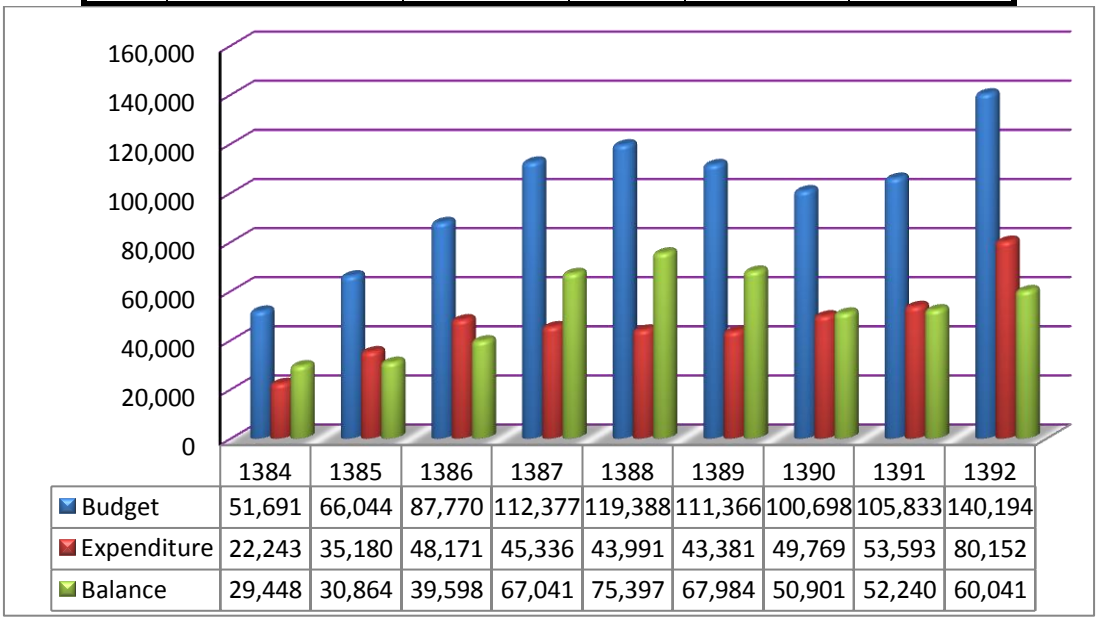
Based on the information by the General Directorate of Treasury, the total spending of Development Budget of Afs 80,152,954,662 was finance by Afs 11,734,099,144 domestic revenue, Afs 66,681,738,613 external grants and Afs 1,737,476,908 loans. The percentage share of domestic revenue, grants and loans in financing the Development Budget was 14.63%, 83.20% and 2.17% respectively.

As per the approved Development Budget for the FY 1392, financing of the development budget was estimated at Afs 10,468,411,096, Afs 109,362,693,496 and Afs 2,958,800,000 from domestic sources, grants and loans respectively. In view of the approved level of financing and the level of actual financing of the Development Budget, actual financing from domestic sources is 112.09% of the budget level, from grants is 60.97% of the budget level and from loans is 58.97% of the budget level. In regard to the query that from which source has the additional Afs 1,265,688,048 domestic financing been met for the developmental budget, the General Directorate of Treasury commented that though Afs 10.468 billion was estimated in the budget document for financing the Development Budget from domestic soruces, at the end of the year, however, due to the requirements and following the Decree No-4521, dated 24/09/1392 of Ministry of Finance, US$ 45 million, equivalent to Afs 234,000,000 was transferred from the domestic revenues for financing the Development Budget.

Comparison of development budget realization from years 1384-1392

(Figures in Billion Afs)

year	Total budget After amendmentduring theyear	Expenditure	Balance	Percentage of expenditure	Percentage of non-expenditure
1384	51.691	22.243	29.448	43	57
1385	66.044	35.180	30.864	53.7	46.7
1386	87.770	48.171	39.598	55	45
1387	112.377	45.336	67.041	40.3	59.7
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



	1384	1385	1386	1387	1388	1389	1390	1391	1392
Budget	51,691	66,044	87,770	112,377	119,388	111,366	100,698	105,833	140,194
Expenditure	22,243	35,180	48,171	45,336	43,991	43,381	49,769	53,593	80,152
Balance	29,448	30,864	39,598	67,041	75,397	67,984	50,901	52,240	60,041

The chart above represents a comparative position of the increase in development budget utlisation/realization during the last few years. However, considering 33% increase in the core development budget of 1392 in comparision to 1391, still the implementation of the development budget is low. The unspent balance in 1392 as compared to 1391 showed an increase of 15 percent. More concerted efforts from budgetary units are required to achieve reasonable level of expenditure for development budget, especially for basic projects.

Based on Development Qatia statement, during year 1392, advance payments of Afs 18,169,453,642 were given to 36 budgetary units; out of which Afs 12,890,845,603 was adjusted and Afs 5,278,608,039 remained unadjusted. The unadjusted amount is about 29% of total advances. Entities having the highest development budget unadjusted advances in 1392 are as follows.

No	Code	Entity	Advances	Adjusted	Unadjusted	Percentage unadjusted
1	10	President Office	53.084.714	-	53.084.714	100
2	11	Mishrano Jerga	3.473.328	-	3.473.328	100
3	13	Office of Administrative Affairs	1.405.759	-	1.405.759	100
4	15	President's Protective Service	19.536.466	9.865.966	9.670.500	49.5
5	20	Ministry of Finance	621.070.409	8.337.360	612.733.049	98.7
6	22	Ministry of Defense	3.171.879.360	436.042.501	2.735.836.859	86.3
7	23	Ministry of Foreign Affairs	230.442.918	-	230.442.918	100
8	25	Ministry of Commerce & Industries	12.422.484	3.317.970	9.104.514	73.3
9	26	Ministry of Interior Affairs	5.086.155	-	5.086.155	100
10	27	Ministry of Education	177.326.942	5.841.722	171.485.220	96.7
11	28	Ministry of Higher Education	18.229.313	12.401.036	5.828.277	32
12	29	Ministry of Refugee & Returnees	164.115	-	164.115	100
13	34	Ministry of Communication & IT	500.056.384	4.094.592	495.961.792	99.2
14	41	Ministry of Energy and Water	40.134.999	15.818.814	24.316.184	60.6
15	49	Ministry of Urban Development	79.872.126	3.719.304	76.152.822	95.3
16	50	Ministry of Justice	1.067.300	833.873	233.427	21.9
17	58	Afghanistan National Standard Authority	54.048.219	-	54.048.219	100
18	79	Kabul Municipality	1.280.850	-	1.280.850	100
19	83	Brishna Shirkat	41.469.652	1.475.616	39.994.036	96.4

Details of development budget unadjusted advances FY 1392 and previous years have been given in the audit finding section.

F-Major Findings from audit of development budget Qatia statement

1. Based on the development budget Qatia statement 1392, Afs 6,142,671,496 has been reported as increase due to budget supplement in certain projects of 7 budgetary units; the details are given below:

1-1 Based on the sanction No. 22 dated 1392/6/11 and letters no. 18426 dated 1392/6/26 and no. 21687 dated 1392/8/19, from an amount of US$ 60,009,000 or equal to Afs 3,120,468,000 of World Bank's new commitments, Afghanistan Reconstruction Trust Fund, Asian Development Bank and other funding organizations, an amount of US$ 57,558,990 or equal to Afs 2,993,067,480 has been given to the following projects as budget supplement:

1-1-1 A sum of US$ 10.837.000 equal to Afs 563.524.000 grant from Asian Development Bank to project No. (AFG/830007) 220 KV Transmission line Chimtala Substation to new South-West Substation related to Breshna Shirkat.

1-1-2 A sum of USv 1.000.000 equal to Afs 52.000.000 grant from Asian Development Bank to project No. (AFG/830011) Program Management and project implementation consultant related to Breshna Shirkat.

1-1-3 A sum of US$ 2.000.000 equal to Afs 104.000.000 grant from Asian Development Bank to project No. (AFG/830014) Gereshk Hydropower station and distribution network rehabilitation, related to Breshna Shirkat.

1-1-4 A sum of US$ 2.000.000 equal to Afs 104.000.000 grant from Asian Development Bank to project No. (AFG/830017) 220 Kv Transmission line between Kunduz and Taluqan related to Breshna Shirkat.

1-1-5 A sum of US$ 3.969.000 equal to Afs 206.388.000 grant from Global Fund to project No. (AFG/370762)Improvement of Health Services Delivery through expansion of the Health system strengthening efforts, related to Ministry of Public Health.

1-1-6 A sum of US$ 65.630 equal to Afs 3.412.760 grant from Global Alliance for Vaccines and Immunization to project No. (AFG/ 370321) Health System Strengthening, related to Ministry of Public Health.

1-1-7 A sum of US$ 11.000.000 equal to Afs 572.000.000 World Bank grant to project No. (AFG/ 370803) strengthening health system, Ministry of Public health.

1-1-8 A sum of US$ 2.000.000 equal to Afs 104.000.000 grant from Agriculture Development International Organization to project No. (AFG/390509) Rural Microfinance and Livestock Support Project (RMLSP) related to Ministry of Agriculture, Irrigation and livestock.

1-1-9 A sum of US$ 6.857.300 equal to Afs 356.579.600 grant from International Narcotic and Law Enforcement project (USA) to project No. (AFG/ 480024) Good Performance Initiative (GPI), Ministry of Anti Narcotics.

1-1-10 A sum of US$ 14.809.660 equal to Afs 770.102.320 grant from Czech Republic, Afghanistan Reconstruction Trust Fund (ARTF) and Slovakia to project No. (AFG/430017) National Solidarity Program (NSP) related to MRRD.

1-1-11 A sum of US$ 3.020.400 equal to Afs 157.060.800 World Bank grant to project No. (AFG/ 430236) Afghanistan Rural Enterprise Development Program (AREDP) related to MRRD.

1-2 Based on the sanction no. (27) dated 1392/7/29 of the Council of Ministers and letter no. 21686 dated 1392/8/19 of the MoF, from a sum of US$ 8.087.225 or equal to Afs 420.535.700 from the Afghanistan Reconstruction Trust Fund (ARTF) and UNHCR, a sum of Afs 390.000.000 has been added to the following projects as budget supplement:

1-2-1 A sum of US$ 5.000.000 equal to Afs 260.000.000 from the Afghanistan Reconstruction Trust Fund (ARTF) to project no. (AFG/ 970087) Kabul Municipality's Development Project.

1-2-2 A sum of US$ 2.500.000 equal to Afs 130.000.000 from the Afghanistan Reconstruction Trust Fund (ARTF) to project no. (AFG/390598) On-Farm Water Management Project (OFWM) related to Ministry of Agriculture, Irrigation and livestock.

1-3 Based on the sanction no. (29) dated 1392/8/13 of Ministers Council and letter no. (6068) dated 1392/9/5 of Office of Administrative Affairs & Council of Ministers' Secretariat, a sum of US$ 38.000.000 equal to Afs 1.976 billion has been added to the following projects as budget supplement:

1-3-1 A sum of US$ 5.000.000 equal to Afs 260.000.000 World Bank grant to project no. (AFG/ 420160) National Road Program, related to Ministry of Public work.

1-3-2 A sum of US$ 20.000.000 equal to Afs 1.040.000.000 grant from USAID to project no. (AFG/390639) Agriculture Development Fund (ADF) related Ministry of Agriculture, Irrigation and Livestock.

1-3-3 A sum of US$ 11.000.000 equal to Afs 572.000.000 grant from Afghanistan Reconstruction Trust Fund (ARTF) to project no. (AFG/370803) strengthening Health System related to Ministry of Public Health.

1-3-4 A sum of US$ 2.000.000 equal to Afs 104.000.000 grant from INL to project no. (AFG/480024) Good Performance Initiative, related to Ministry of Anti Narcotic.

Based on Article 23, paragraph (a) of the Budget Execution Guidelines related to development budget: "The development budget is comprised of discretionary and non-discretionary funds, and is approved at the beginning and at the middle of each year by Parliament. Making a decision about financing 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 fund is secured during the year, it will be sent to Parliament as *supplement*".

Considering the aforesaid provision of the Budget Execution Guidelines, the budget supplement of projects included in part (1-1) have been sent through letter no. 18426 dated 1392/6/26 and 21687 dated 1392/8/19 and the budget supplement of projects included in part (1-2) have been sent through letter no. 21686 dated 1392/8/19 and the budget supplement of projects included in part (1-3) have been sent through letter no. 23107 dated 1392/9/13 of Ministry of Finance to Ministry of State in Parliamentary Affairs.

2- Funds for the following projects have been transferred from discretionary funds through separate approvals of either the Budget Committee or the Minister of Finance and have been recorded in budget supplement column in the Qatia statements:

2-1 Based on letter no. 35089 dated 1392/3/6 proposal of the General Directorate of Budget and decree no. 3362 dated 1392/7/3 of the Minister of Finance and based on B-23 form no. 223164 dated 1392/9/17, a sum of US$ 67,308 equal to Afs 3,500,016 has been deducted from code no. 910020 - Continegncy Fund for Improving the System of Revenue Collection and as per the sanction no. 2 dated 1392/2/18 of the Budget Committee based on the request of the Members of the National Assembly from Zabul Province, through B-23 forms no. 221699 dated 1392/3/21, a sum of US$ 500,000 equal to Afs 26,000,000 has been deducted from code no. 910027 Contingency fund for Kochies and the total sum of Afs 29,500,016 has been added to project no. AFG/430063 - National Rural Water Supply, Hygiene Education and Sanitation Program of the MRRD.

2-2 As per the sanction no. 1 dated 1391/12/15 of the Budget Committee based on the request of the Members of the National Assembly from Noristan province, a sum of US$ 3,000,000 equal to Afs 156,000,000 has been deducted from Contingency Fund of the said province and has been added to project no. AFG/430453 of the MRRD.

2-3 As per the sanction no. 1 dated 1391/12/15 of the Budget Committee based on the request letter from Paktia's provincial government to MoF, vide B-23 form no. 221702 dated 1392/3/29, a sum of US$ 200,000 equal to Afs 10,400,000 has been deducted from code no. 910022 contingency fund for development projects in Paktia province and has been added to code no. AFG/430462 - Paktia development projects (vulnerable provinces) of MRRD.

2-4 Based on sanction no. 1 dated 1391/12/15 of the Budget Committee, as a result of request made by the Members of the National Assembly from Kunar province and vide B-23 form no. 221701 dated 1392/3/29, a sum of US$ 3,000,000 equal to Afs 156,000,000 has been deducted from code no. 910021 contingency fund for development projects in Kunar province and has been added to code no. AFG/430464 - Kunar development projects (vulnerable provinces) of MRRD.

2-5 Based on sanction no. 2 dated 1392/2/18 of the Budget Committee, as a result of request made by the Members of the National Assembly from Zabul province and vide B-23 form no. 2217000 dated 1392/3/29, a sum of US$ 2,000,000 equal to Afs 104,000,000 and also as per sanction no. 6 of the Budget Committee and vide B-23 form no. 222776 dated 1392/8/6, a sum of US$ 682,000 equal to Afs 35,464,000; total of Afs 139,464,000 has been deducted from code no. 910005 contingency fund for development projects in Zabul province and has been added to code no. AFG/430463 – Zabul development projects (vulnerable provinces) of MRRD.

2-6 Based on sanction no. 8 dated 1391/8/17 of the Budget Committee, as a result of request made by the Members of the National Assembly from Samangan province and vide B-23 form dated 1392/2/2, a sum of US$ 3,000,000 equal to Afs 156,000,000 has been deducted from Continegncy code 910032 - contingency fund for development projects in Samangan and has been added to project no. AFG/430461 – Samangan development projects (vulnerable provinces) of MRRD.

2-7 Based on sanction no. 8 dated 1391/8/17 of the Budget Committee, as a result of request made by the Members of the National Assembly from Ghor province and vide B-23 form no. 221261 dated 1392/2/2, a sum of US$ 1,220,000 equal to Afs 63,440,000 has been deducted from code no. 910013 – Continegcy funds for development projects in Ghor province and has been added to code no. AFG/430460-Ghor development projects (vulnerable provinces) of MRRD.

2-8 Based on sanction no. 8 dated 1391/8/17 of the Budget Committee, as a result of request made by the Members of the National Assembly from Daikondi province and vide B-23 form no. 211262 dated 1392/2/2, a sum of US$ 1,400,000 equal to Afs 72,800,000 has been deducted from code no. 910006 - contingency fund for development projects in Daikondi province and has been added to code no. AFG/430459 Daikondi development projects (vulnerable provinces) of MRRD.

However, based on development budget Qatia statement, instead of recording the trasnfered amounts against the column related to contingency funds, they have been recorded against budget supplement column. As a result of wrong recording in Qatia statement, the amount of budget supplement are overstaed by Afs 783,604,016 and correspondingly, the figures against the contingency fund transfers are understated by the same amount.

Ministry of Finance cited delay by MRRD in presenting development budget Qatia statement (27th Hamal 1393) as the reason and added that it does not affect the overall result of Qatia statement. Furthermore, as observed at parts 2-6, 2-7 and 2-8 above, sanctions of the Budget Committee related to 1391 have been executed in the financial year 1392.

3. The funding of the development in 1392 was estimated at 7.39% from doestic revenue sources and 77.2% from foreign grants, with 15.4% deficit. Whereas, after the mid-year amendments, in the revised development budget, compared with the budget at the beginning of the year, a sum of Afs 16,091,087,452 deficit has been observed. However, development budget deficit increased from Afs 12,697,509,278 to Afs 21,827,878,742 or about 72%. The reasons for such deficit is attributed to decrease in the domestic revenue and changes in donor's grants.

4. Based on B-27 forms - issued allotments, it is observed that in some cases allotments do not meet the requirements of project objectives. The following cases are presented as examples:

4-1 Based on B-27 form no. 6468 dated 1392/7/20, an allotment of Afs 251,292 from pension reform project has been used for purchasing of Iodized salt.

4-2 Based on B-27 form no. 1216 dated 1391/12/27, an allotment of US$ 74.459 from pension reform project has been used for a survey on destitute families in Daikondi province.

4-3 Based on B-27 form no. 145 dated 1391/11/29, an allotment of Afs 19,975,000 from pension reform project has been used for a survey on destitute families in Dare Sof district and Khoram sar Bagh in Samangan province.

4-4 Based on B-27 form no. 4442 dated 1392/4/29, an allotment of Afs 22,935,000 from pension reform project has been applied to extend financial help for the poor families in Qargayee district of Laghman province.

4-5 Based on B-27 form no. 20115 dated 1392/4/26, an allotment of Afs 2,401,915 from project no. AFG/370321 related to strengthening of health system has been used to meet the expenditure against external audit services.

4-6 Based on B-27 form no. 1048 dated 1391/12/23, an allotment of Afs 4,350,978 from project no. AFG/370144 related to Capacity Building for Grants & Contract Management Unit (GCMU) (NCBP - National Capacity Building Programme for the Human Resources of Health) has been used to meet expenditure against external audit services.

4-7 Based on B-27 form no. 1557 dated 1392/1/10, an allotment of Afs 1,034,790 from project no. AFG/370070 related to basic package of health services (BPHS) has been used to meet expenditure against external audit services.

4-8 Based on B-27 form no. 1743 dated 1392/1/17, an allotment of Afs 40,000 from project no. AFG/370070 related to basic package of health services (BPHS) has been used for purchase of Credit Card for 20 officials of Kabul MoPH Directorate.

4-9 Based on B-27 form no. 2403 dated 1392/2/3, an allotment of Afs 513,000 from project no. 370070 related to basic package of health services (BPHS) has been used for contract to purchase three vehicles for City Health Project.

4-10 Based on B-27 form no. 2253 dated 1392/1/28, an allotment of Afs 2,892,380 from project no. AFG/370070 related to basic package of health services (BPHS) has been used for purchasing stationary for Kabul MoPH Directorate.

4-11 Based on B-27 form no. 6901 dated 1392/8/11, an allotment of Afs 640,605 from project no. AFG/370070 related to basic package of health services (BPHS) has been used for payment of 8 days salary of the personnel of the MoPH's Reinforcement Mechanism Department.

4-12 Based on B-27 form no. 1561 dated 1392/1/11, an allotment of Afs 180,000 from project no. AFG/370070 related to basic package of health services (BPHS) has been used for purchase of Credit Card for 20 officials of Kabul MoPH Directorate.

4-13 Based on B-27 form no. 2503 dated 1392/1/31, an allotment of Afs 76,000 from project no. AFG/370070 related to basic package of health services (BPHS) has been used for purchasing Credit Card for advisors related to Kabul MoPH Directorate.

4-14 Based on B-27 form no. 1734 dated 1392/1/17, an allotment of Afs 368,233 from project no. AFG/370070 related to basic package of health services (BPHS) has been used for salary payment of Kabul MoPH trainers.

5. As per the development budget supplement and revised budget after midyear amendment 1392, total transferred funds in the first round has been recorded as US$ 846,129,038 and the fresh budget at the beginning of year of US$ 2,093,119,625; total US$ 2,939,248,663 equal to Afs 152,840,930,476. However, in development budget Qatia statement, the original approved budget

along with the first round amendments is recorded as Afs 152,931,798,604. This shows a difference of Afs 90,868,128. The General Directorate of Budget opined that figures related to the original approved budget in Qatia statement has been recorded as per the budget at the beginning of the year. Whereas, the original approved budget in the document of budget at the beginning of the year included the transferred funds in the first round as well as the initial fresh budget at the beginning of the year; hence there should not be any difference in the said figures.

6. In the documents related to the development budget supplement and revised budget after midyear amendment, the transferred funds in the second round has been recorded as a sum of US$ 26,315,678 equal to Afs 1,368,415,256. Whereas, in the Qatia statements, in the column related to "difference in transfer - estimated difference in actual transfer", Afs 3,032,573,856 has been shown as addition and Afs 1,755,026,632 deduction. The difference between the said two figures is Afs 1,277,547,233; which at variance compared with the difference mentioned at paragraph 5 above of Afs 90,868,128.

7. Based on paragraph 22 of Budget Execution guidelines, "projects with no progress, after two years of its approval, are subjected to the evaluation of the Budget Committee and will be discarded, unless adequate valid reasons are provided for the delay". List of the projects which have been removed by General Directorate of Budget are as follows:

7-1 Project no. AFG/420369 of the Min of Public Works funded by the Govt. of Afghanistan related to Construction and laying of asphalt of Ghilan to Jaghori road started in 1391 with a total funding of Afs 500.

7-2 Project no. AFG/280064 of the Min of Higher Education funded by the Agriculture Department of USA related to Capacity Building of the Kabul University Agriculture Faculty started in 1383 with the funding of Afs 12,994,690.

7-3 Project no. AFG/280070 of the Min of Higher Education funded by the World Bank related to the Strengthening Higher Education Program started in 1384 with the funding of Afs 740,379,080.

7-4 Project no. AFG/280120 of the Min of Higher Education funded by the Govt. of Afghanistan related to the Construction of Louis Dupree Library started in 1386 with the funding of Afs 26,751,000.

7-5 Project no. AFG/610036 of the Afghanistan Science Academy funded by the Govt. of Afghanistan related to Purchasing of equipment for Museum started in 1389 with the funding of Afs 2,570,000.

7-6 Project no. AFG/360186 of the Ministry of Information and Culture funded by the Govt of Afghanistan related to the Construction of the Surrounding Wall of Ghulam Muhammad Maimanagi Museum started in 1389 with the funding of Afs 6,446,100.

7-7 Project no. AFG/390124 of the Ministry of Agriculture, Irrigation and Livestock funded by the Govt of Afghanistan and the Agriculture Dept of the USA related to Community based NRM (CBNRM) started in 1382 with the funding of Afs 360,515,300.

7-8 Project no. AFG/390194 of the Ministry of Agriculture, Irrigation and Livestock funded by the Govt of Afghanistan related to the Agricultural Statistics and Surveys in order to Establish Database started in 1384 with the funding of Afs 252,240,190.

7-9 Project no. AFG/390246 of the Ministry of Agriculture, Irrigation and Livestock funded by the Govt of Afghanistan - Transitional projects started in 1384 with the funding of Afs 106,186,890.

7-10 Project no. AFG/390471 of the Ministry of Agriculture, Irrigation and Livestock funded by the Govt of Afghanistan related to Construction of Veterinary Clinic in Jaji Maidan, Khost started in 1387 with the funding of Afs 28,815,000.

7-11 Project no. AFG/580006 of the Afghanistan National Standard Authority (ANSA) funded by the Govt of Afghanistan related to Procurement/Setting up of Laboratories for Testing of Liquified Petroleum Gas (LPG) for Kabul and Provinces started in 1389 with funding of Afs 2,463,000.

7-12 Project no. AFG/660004 of the Supreme Audit Office (SAO) funded by the Govt of Afghanistan related to the Construction of new building for SAO with the funding of Afs 286,312,380.

7-13 Project no. AFG/350022 of the Min of Economy funded by Government of Afghanistan relating to Repairing of the Ministry of Economy's building including heating system started in 1385 with funding of Afs 70,412,000.

Notwithstanding the aforeasaid, as per development budget Qatia statement (1389-1392), a number of other projects without having any activity or very minimal activities over years have been transferred from one year to another year's budget.

8. As per the development budget supplement and revised budget after midyear amendment 1392, the total development budget 1391 is recorded as Afs 111,646,305,264; whereas the total revised budget 1391 based on budget supplement of the same year a sum of Afs 107,350,130,760. Compared with the figure mentioned in the document of development budget supplement and budget after midyear amendment 1392 this shows a difference of Afs 4,296,174,504. Further, total development budget expenditure 1391 as per Qatia statement was Afs 53,593,076,358; whereas the said figure in development budget supplement 1392 is recorded as Afs 53,986,490,489, which shows a difference of Afs 393,414,131 compared to actual development budget figure 1391.

As per the explanation by the General Directorate of Budget, the difference in total development budget 1391 and the document of development budget supplement and budget after midyear amendment 1392 is due to exchange rate differences in 1391 budget and 1392 budget. Development budget expenditure of FY1391 in the development budget 1392 has been accounted as per the exchange rate of Afs 52 per US$; whereas, in FY 1391, it has been accounted for as per the daily exchange rate and recorded in Qatia.

9. The following 29 projects have been initiated in 1391, however, these projects have not been enumerated in budget at the beginning of year or the development budget supplement and revised budget after midyear amendment 1392:

9-1 Project for supporting computerized passport system, code no AFG/260299 for a sum of US$ 862,793 related to the Ministry of Interior Affairs.

9-2 Project for distribution of Electronic ID Card, code no AFG/260309 for a sum of US$ 4,771,976 related to the Ministry of Interior Affairs.

9-3 Project for Incentive to the Afghan student's Studying Abroad, code no AFG/230112 for a sum of US$ 576,360 related to the Ministry of Higher Education.

9-4 Project for Islamic Cultural Center in Ghazni Province, code no AFG/590068 for a sum of Afs 4,351,118 related to the Independent Directorate of Local Governance (IDLG).

9-5 Ghazni Indoor/covered Market project, code no AFG/590069 for a sum of US$ 1,500,000 related to the Independent Directorate of Local Governance (IDLG).

9-6 Project for Reconciliation and Peace Measures, code no AFG/590070 for a sum of US$ 79,858 related to the Independent Directorate of Local Governance (IDLG).

9-7 Project for the Construction of Admin. Building of Urozgan Province, code no. AFG/590072 for a sum of US$ 2,800,000 related to the Independent Directorate of Local Governance (IDLG).

9-8 Project for the Construction of Roads in Sar-e-pul City, code no AFG/590073 for a sum of US$ 3,400,000 related to Independent Directorate of Local Governance (IDLG).

9-9 Project for construction of 3 district buildings in Farah province, code no AFG 590074 for a sum of US$ 300,000 related to the Independent Directorate of Local Governance (IDLG).

9.10 Construction project of conference hall in Farah province, code No. AFG/590075 for a sum of US$ 150,000 related to the Independent Directorate of Local Governance (IDLG).

9.11 Construction project of Farah's provincial administrative guest house, code No. AFG/590076 for a sum of US$ 150,000 related to the Independent Directorate of Local Governance (IDLG).

9.12 Construction project of Mosque (masjid) in Chory district of Uruzgan province, code no. AFG/240073 for a sum of US$ 600,000 related to the Min of Haj and Religious Affairs.

9.13 Project for Asphalt laying for the 505 km road and 4 km pavement in Qale Naw city (Badghis Province), code no. AFG/420339 for a sum of US$ 2,162,000 related to the Ministry of Public Works.

9.14 Project for Construction of road from Dehrawood to Uruzgan code No. AFG/420345 for a sum of US$ 3,000,000 related to the Ministry of Pulic Works.

9.15 Project for the Construction of Islamic Center in Ghazni Province for the year 2013, code No. AFG/490307 for a sum of US$ 8,002,225 related to to Ministry of Urban Development.

9.16 Project for the Construction of Land Transport offices in Farah province, code no. AFG/450181 for a sum of US$ 100,000 related to the Ministry of Transportation and Civil Aviation.

9.17 Rehabilitation and modernization Project Mazar-e-sharif Fertilizer Factories code no. AFG/320140 for a sum of US$ 4,049,039 related to Ministry of Mines and Petroleum.

9.18 School building construction project in Dare Zumchi village, Sancharak district, Sar-e-Pul province code No. AFG/270750 for a sum of US$ 100,000 related to the Ministry of Education.

9.19 Project for the Construction of Mohajer Abad Secondary School code No. AFG/270755 for a sum of US$ 250,000 related to the Ministry of Education.

9.20 Project for the Construction of Karezak girls school code No. AFG/270756 for a sum of US$ 250,000 related to the Ministry of Education.

9.21 Project for the Construction of the second part of the dormitory of Janat Gul Khan Kuchi's Religious School code no. AFG/270757 for a sum of US$ 1,400,000 related to the Ministry of Education.

9.22 Project for the Construction of 100 bed hospital in Daikundi province code No. AFG/370732 for a sum of US$ 700,000 related to the Ministry of Public Health.

9.23 Project for Construction of Hospital in Nooristan province code No. AFG/370734 for a sum of US$ 1,500,000 related to the Ministry of Public Health.

9.24 Project for the Construction of 30 bed clinic in Butkhak code No. AFG/370761 for a sum of US$ 500,000 related to the Ministry of Public Health.

9.25 Project for the Construction three comphrehsive health centres (CHC) code no. AFG/370763 for a sum of US$ 600,000 related to the Ministry of Public Health.

9.26 Asphalt project of 4.64 km road and construction of bridge in capital of Farah province code no. AFG/430451 for an amount of US$ 600,000 related to Ministry of Rural Rehabilitation and Development.

9.27 Project for the Expansion and Graveling of the road in the Abkamaree district of Badghis province code no. AFG/430452 for a sum of US$ 750,000 related to Ministry of Rural Rehabilitation and Development.

9.28 Project for the Construction of small dam (Khaq safeed, posht road, Anardara and Sheb koa) in Farah Province code no. AFG/390695 for a sum of US$ 400,000 related to the Ministry of Agricultural, Irrigation and Livestock.

9.29 Project for Construction & Equipping of Technical & Vocational Training Center in Farah code number AFG/470204 for a sum of US$ 200,000 related to Ministry of Labour, Martyrs, Disables and Social Affairs.

Based on the decision of the Budget Committee in 1391, the General Directorate of Budget included these projects in the Qatia under Contengency and reserve budget codes for vulnerable provinces. However, inclusion of the project for the construction of the road from Dehrawood to Uruzgan, code no. AFG/420345, US$ 3,000,000 related to Ministry of Public Works in the Development budget Qatia statement in 1391 and the decision of the Budget Committee is not clear and its inclusion in the 1392 Qatia is not certain.

It is further observed that funds for the aforesaid projects has been amended from reserve funds based on the request from members of parliament and concerned organizations and after the approval of budget committee, which has been transferred from 1391 to 1392 budget as it was not utilized in 1391. As per Qatia statement of 1392, out of above mentioned projects, following projects did not have any expenditure in 1392:

- Project for construction of 3 district buildings in Farah province, code no AFG 590074 for a sum of US$ 300,000 related to the Independent Directorate of Local Governance (IDLG).
- Construction project of conference hall in Farah province, code No. AFG/590075 for a sum of US$ 150,000 related to the Independent Directorate of Local Governance (IDLG).
- Construction project of Farah's provincial administrative guest house, code No. AFG/590076 for a sum of US$ 150,000 related to the Independent Directorate of Local Governance (IDLG).
- Project for Asphalt laying for the 505 km road and 4 km pavement in Qale Naw city (Badghis Province), code no. AFG/420339 for a sum of US$ 2,162,000 related to the Ministry of Public Works.
- Project for Construction of road from Dehrawood to Uruzgan code No. AFG/420345 for a sum of US$ 3,000,000 related to the Ministry of Pulic Works.
- Project for the Construction of Land Transport offices in Farah province, code no. AFG/450181 for a sum of US$ 100,000 related to the Ministry of Transportation and Civil Aviation.
- Rehabilitation and modernization Project Mazar-e-sharif Fertilizer Factories code no. AFG/320140 for a sum of US$ 4,049,039 related to Ministry of Mines and Petroleum.
- Project for the Construction of Mohajer Abad Secondary School code No. AFG/270755 for a sum of US$ 250,000 related to the Ministry of Education.
- Project for the Construction of Karezak girls school code No. AFG/270756 for a sum of US$ 250,000 related to the Ministry of Education.
- Project for the Construction of the second part of the dormitory of Janat Gul Khan Kuchi's Religious School code no. AFG/270757 for a sum of US$ 1,400,000 related to the Ministry of Education.
- Project for the Construction of 100 bed hospital in Daikundi province code No. AFG/370732 for a sum of US$ 700,000 related to the Ministry of Public Health.
- Project for Construction of Hospital in Nooristan province code No. AFG/370734 for a sum of US$ 1,500,000 related to the Ministry of Public Health.

- Project for the Construction three comphrehsive health centres (CHC) code no. AFG/370763 for a sum of US$ 600,000 related to the Ministry of Public Health.
- Project for Construction & Equipping of Technical & Vocational Training Center in Farah code number AFG/470204 for a sum of US$ 200,000 related to Ministry of Labour, Martyrs, Disables and Social Affairs.

10. With reference to the development budget attachment and revised budget during the year, a total of 616 projects have been included in budget document. Out of these, against 7 projects no funds made available and one project has been duplicated in budget document. Thus, the total number of implementable projects in budget document is 608 projects. However, a total of 698 projects have been included in Development Budget Qatia statements 1392, which shows 90 additional projects compared with the original budget document.

With the regard to the additional projects, the General Directorate of Budget stated that they have been approved by the Budget Committee and their budgets transferred from reserve fund. However, based on the review of the relevant documents, it is seen that 39 projects are without core and reserve budget (their budget was zero) and out of 51 projects for which budget was trasnferred from reserve fund, only 6 projects incurred expenditure. The remaining 45 projects reported no activity and no expenditure. List of aforesaid projects is attached in Annex -6.

Further, out of total projects reported in development budget Qatia statement, 187 projects have no activity and expenditure nil. Out of which, 2 projects are related to the President Office, 1 project to the Upper House (Meshrano Jerga), 2 projects to the Lower House (Wolesi Jerga), 2 projects to the Supreme Court, 2 projects to the Ministry of Finance, 2 projects to the Ministry of Foreign Affairs, 5 projects to the Ministry of Haj and Religious Affairs, 3 projects to the Ministry of Interior Affairs, 25 projects to the Ministry of Education, 7 projects to the Ministry of Higher Education, 2 projects to the Ministry of Mines and Petroleum, 20 projects to the Ministry of Public Health, 4 projects to the Ministry of Agriculture, Irrigation and Livestock, 13 projects to the Ministry of Energy and Water, 32 projects are to the Ministry of Public Works, 6 projects to the Ministry of Rural Rehabilitation and Development, 2 projects to the Ministry of Transport and Civial Aviation, 3 projects to the Ministry of Labour, Martyrs, Disables and Social Affairs, 2 projects to the Ministry of Urban Development, 2 projects to the National Standards Authority (ANSA), 29 projects to the IDLG, 2 projects to the National Environment Protection Agency (NEPA), 3 projects to the Afghanistan Science Academy, 1 project to the Afghanistan National Olympic Committee, 7 projects to Kabul Municipality, 1 project to the Afghanistan Investment Support Agency (AISA), 1 project to the Micro Finance Investment Support Facility for Afghanistan (MISFA) and 6 projects are related to the Breshna Sherkat. The total budgeted amount of Afs 9,370,952,827 related to aforesaid projects has remained unspent. A list of the aforesaid projects is attached at Annex - 7.

Despite approrpriations and allotments, against the following projects no activities have been reported and their expenditure was zero:

- Project for Equipment for Schools, AFG/270332 of the Ministry of Education - total budget after amendments during the year was Afs 3,348,696 and allotments AFS 2,311,875 but no expenditure incurred.
- Project for Construction of Teachers' training and dormitory building in Herat province, AFG/270758 of of Ministry of Education - total budget after amendments during the year was Afs 36,400,000 and allotments Afs 13,943,411 but no expenditure incurred.

- Project for Construction of vocational institute building for girls in (Takhar, Daikundi, Panjshir, Ghor and Badghis), AFG/270804 of the Ministry of Education - total budget after amendments during the year was Afs 91,000,000 and allotments Afs 4,647,024 but no expenditure incurred.
- Project of rehabilitation of national printing press, AFG/360024 of the Ministry of Information and Culture - total budget after amendments during the year was Afs 3,780,920 and allotments Afs 419,550 but no expenditure incurred.
- Project for Construction and Extension of cold storages (Chiller Houses), AFG/390677 of the Ministry of Agriculture, Irrigation and Livestock - total budget after amendments during the year was Afs 416,000,000 and allotments Afs 416,000,000 but no expenditure incurred.
- Project for Design and Construction of Gambiri Irrigation in Farah province, AFG/ 410130 of the Ministry of Energy and Water - total budget after amendments during the year was Afs 211,412,864 and allotments Afs 32,240,000 but no expenditure incurred.
- Project for Construction of Land Transport Offices, AFG/ 450181 in Farah province of the Ministry of Transport and Civil Aviation - total budget after amendments during the year was Afs 5,200,000 and allotments Afs 5,188,121 but no expenditure incurred.
- Project for Construction of NEPA Central Building, AFG/600006 of the National Environment Proetction Agency (NEPA) - total budget after amendments during the year was Afs 69,310,852 and allotments Afs 37,000,000 but no expenditure incurred.

11. Whereas the following projects are neither recorded in the budget document nor have any expenditure, they have been reported in the Qatia statements without any budget fund or expenditure (such reporting is superfluous):

- Project for preparation and development of fabric for uniform, AFG/220163 of the Ministry of Defense.
- Project for payment against contracts of 1391, AFG/229001 of the Ministry of Defense.
- Project for purchase of equipments and vehicles, AFG/260311 of the Ministry of Interiors.
- Project for the Construction of Mess for the Kabul Province Security Command, AFG/260312 of the Ministry of Interior Affairs.
- Project for payment against contracts of 1391, AFG/269001 of the Ministry of Interior Affairs.
- Project for providing Protection to government dignitaries (Operating Budget), AFG/269002 of the Ministry of Interior Affairs.
- Project for enhancement of Policy and Capacity of the Ministry of Information Technology, AFG/340065.
- Project for the Technical Assistance to the Ministry of Public Health, AFG/370274.
- Project for the enhancement of the Capacity and Effectiveness of the Ministry of Refugee and Repatriats, AFG/290227.
- Project for the capacity development and Tashkeel expansion of the project coordination unit of the Ministry of Energy and Water, AFG/ 410063.
- Project for urgent Rehabilitation of irrigation canals in Helmand AFG/410064 of the Ministry of Energy and Water.
- Project for power distribution in Farah province, substation, etc., including from Iran, AFG/410427 of the Ministry of Energy and Water.
- Project of development, construction and strengthening of distribution networks in provinces, AFG/ 410481 of the the Ministry of Energy and Water.

- Reconstruction project for road from Kunduz to Farkhar, AFG/420183 of the Ministry of Public Works.
- Project for Kabul province AFG/430327 of the MRRD.
- Development project for Daikundi province (vulnerable province) AFG/430457 of the MRRD.
- Development projects for Ghor province (vulnerable province) AFG/430458 of the MRRD.
- Project for evaluation and preservation of wildlife diversity AFG/600021 of the NEPA.
- Implementation Plan, 2% of the areas that should be protected by 2015 AFG/600022 of NEPA.
- Project on waste studies and how to involve private sector AFG/600023 of NEPA.
- Construction of office building for Geodesy and Cartography in provinces, AFG 600024 of NEPA.
- Construction project for plants/crops nursery in the Balkh province AFG/600025 of NEPA.
- Construction of new building of provincial and regional administration and management for Geodesy and Cartography, AFG/650020.
- Project for repair and modernization of the cadastre (map or register of land and real estate, ownership of pieces of land) survey office's heater system and phone system, AFG/650021 of the Geology and Cartography Agency.
- Exclusive Capacity building of employees to enable to operate equipments and machinery, AFG/650022 of Geology and Cartography Agency.
- Project for survey and strategic studies of nuclear energy in Afghanistan AFG/750008 of the Afghanistan Atomic Energy Commission.
- Project for supply of drinking water in Bamyan, Khost and Logar, AFG/820008 of Water Supply and Canalization Coorporation.

With reference to these projects, which were neither included in development budget original or budget annexure documents nor in revised budget after midyear amendment and had no budgeted funds, the question was raised why were they included in Qatia. The General Directorate of Treasury mentioned that these projects has been kept activated for the purpose of processing and monitorin of contractor's retention money (taminat) and if any such transactions are done to include them in system / Qatia (in case they are removed, the payment system will not accept them). What is the audit's final view; there is no material impact of these observations on the Qatia?

12. The following projects have been included in budget document without any fund:

12.1 Project of establishing revolving funds and plan distribution system for Breshna Sherkat AFG/830013 of Breshna Shirkat.

12.2 Project for establishing information and technology office, AFG/490141 of the Ministry of Urban Development.

12.3 Agricultural innovation development project AFG/390661 of the Ministry of Agriculture, Irrigation and Livestock.

The General Directorate of Treasury mentioned that the aforesaid projects were not included in national budget FY 1392 and transferred as part of the transferred list of 1391 to 1392 in mid-year budget without having funds.

The aforesaid projects carried neither any funds nor any expenditure in FY 1392. In the absence of these projects in original budget documents, it raises doubt why the projects without funding were

trasbferred from 1391 to 1392 during mid-year amendments. No convincing explanation and evidence to this effect was provided.

13. With reference to the development budget attachement and the mid year amendment; project "Survey and Design of Salang Alternate Road" code AFG/420350 with a funded of US$ 1,000,000 under the Ministry of Public Works has been recorded twice in the budget documents.

General Directorate of Budget stated the "the project was launched in the beginning of the year with the total budget of USD$ 1,000,000 aided by Asian Development Bank (ADB). However, during the mid-year amendments, the Ministry of Public Works requested for additional funds of US$ 1,000,000 from discretionary fund of the government. As such, the additional fund was added to the previous approved amount and thus the total budget became US$ 2,000,000. While MoF was preparing the documents of the project, it did not record the numbers at one page, and due to the lack of time it was recorded at differnt pages."

14. With regard to the development budget Qatia statement, in the mid year amendment column; a total amount of Afs 22,680,433,516 has been recorded as deductions in budget. An amount of Afs 7,083,006,474 relates to the MoD budget and Afs 8,681,667,176 to the development budget of MoI of the CSTC-A fund. Therefore, a total amount of Afs 15,764,673,652 was transferred to the operating budget of the mentioned ministries. Further, an amount of Afs 6,915,759,864 has been decreased from the budget of some other projects. The reason for the aforesaid decreases in the development budget documents is not clear and neither any clarifications nor any documents for the decreases were provided. However, the General Directorate of Budget stated that most of the decreases in the budget are related to non-discretionary budget of the CSTC-A fund and are transfer from the development budget to the operating budget. The remaining US$ 39 million decreases are related to non-discretionary budget. The reason for decrease in this type of budget was anticipated flow of fund from donors; hence decrease in the projects that are under the control of the government. The decision was taken by Budget Committee (Fourth draft of 1392) and was approved by Council of Ministries.

The following development budget allotments (B-27) were processed by the General Directorate of Budget in the year 1392 and forewarded to the Treasury General Directorate, which are recorded in the FY 1393:

14.1. Form B 27, No 88, Dated: 25/11/1392, amount Afs 14,679,524, issuance of allotments for salary payments to the Independent Board of New Kabul.
14.2. Form B 27, No 73, Dated: 23/11/1392, amount US$ 35,000, issuance of allotments for expenses of evaluation of applicant's legal documents of the independent board of New Kabul.
14.3. Form B 27, No 89, Dated: 25/11/1392, amount Afs 306,120, issuance of allotments for Gas purchases for the independent board of New Kabul.
14.4. Form B 27, No 87, Dated: 25/11/1392, amount US$ 302,940, issuance of allotments for remaining amounts of the contractors, related to the independent board of New Kabul.
14.5. Form B 27, No 90, Dated: 25/11/1392, amount Afs 2,659,000, issuance of allotments for purchases of Total station, related to the independent board of New Kabul.
14.6. Form B 27, No 115, Dated: 28/11/1392, amount Afs 150,000, issuance of allotments for purchases of drinking water, related to the independent board of New Kabul.
14.7. Form B 27, No 67, Dated: 23/11/1392, amount Afs 468,191,878, issuance of allotments related to the Kabul Municipality.
14.8. Form B 27, No 118, Dated: 28/11/1392, amount Afs 3,907,618 AFN, issuance of allotments for expenses of asphalting Dasht-Barchi road, related to the Kabul Municipality.

14.9. Form B 27, No 79, Dated: 24/11/1392, amount Afs 7,870,000, issuance of allotments for salary payments of fourth quarter, related to the Kabul Municipality.

14.10. Form B 27, No 105, Dated: 28/11/1392, Amount: 238,500 AFN, issuance of allotments for salary payments of a translator, related to the Central Statistics Directorate.

14.11. Form B 27, No 64, Dated: 23/11/1392, amount Afs 2,635,332, issuance of allotments for second installment for the building of the Statistics Directorate of Badakhshan Province, related to the Central Statistics Directorate.

14.12. Form B 27, No 116, Dated: 28/11/1392, amount Afs 4,785,000, issuance of allotments for payments of Qaesar project in Murghab, related to the Ministry of Public Work.

14.13. Form B 27, No 117, Dated: 28/11/1392, amount US$ 100,296, issuance of allotments for labour payments for Hairatan to Mazar railway, related to the Ministry of Public Work.

14.14. Form B 27, No 41, Dated: 21/11/1392, amount US$ 2,140,744, issuance of allotments for expenses of Armalik-Laman road asphalt, related to the Ministry of Public Work.

14.15. Form B 27, No 40, Dated: 21/11/1392, amount Afs 1,694,828, issuance of allotments for payment for repairing of the road between Bamyan city and its airport, related to the Ministry of Public Work.

14.16. Form B 27, No 121, Dated: 28/11/1392, amoun Afs 1,522,996 AFN, issuance of allotments for staff salary payments, related to the Ministry of Martyrs', Labour, Diables and Social Affairs.

14.17. Form B 27, No 127, Dated: 28/11/1392, amount Afs 2,628,168, issuance of allotments related to the Ministry of Martyrs', Labour, Diables and Social Affairs.

14.18. Form B 27, No 128, Dated: 28/11/1392, amount Afs 2,364,000, issuance of allotments for staff salary payments, related to the Ministry of Martyrs', Labour, Diables and Social Affairs.

Issuance of allotments related to FY 1392 in FY 1393 and its reflection in Qatia statement of 1392 are against Public Finance and Expenditure Management Law and instruction contained the paragraph 32 of the Budget Execution Guidelines which states that the "financial year of 1392 starts from 1st of Jadi 1391 to end of Qaws 1392".

After the allotment forms (B-27) and budgetary amendments (B-23) are sent by the General Directorate of Budget to the General Directorate of Treasury for further processing and recording in AFMIS system, the General Directorate of Treasury put stamp on these forms. As per the date of receipt stamped, audit observed that a number of allotment forms related to FY 1392 as noted below have been stamped by the General Directorate of Treasury in FY 1393.

- Based on form B-27 no. (23) Dated17/11/1391 (FY 1392), allotment of Afs 80,160 for alternative subsistence related to the Independent Board of New Kabul stamped date by the general directorate of treasury 15/11/1392 (FY 1393).
- Based on form B-27 no. (99) dated 25/11/1391 , allotment of Afs 250,000 of advance payments of social benefit payments related to DCDA, approval date in general directorate of treasury 26/11/1392.
- Based on form B-27 no.(24) dated 17/11/1391 a sum of AFS 234,500, translation cost allotment related to DCDA, approval date in general directorate of treasury 15/11/1392.
- Based on form B-27 no.(22) dated 17/11/1391 a sum of AFS 170,600, allotment related to purchase of 28 item service goods, related to DCDA, approval date in general directorate of treasury 15/11/1392.
- Based on form B-27 no.(27) dated 17/11/1391 a sum of AFS 3,161,123, salaries allotment related to ministry of commerce and industries, approval date in general directorate of treasury 17/11/1392.
- Based on form B-27 no.(28) dated 17/11/1391 a sum of AFS 373,000, office expenditure allotment related to ministry of commerce and industries, approval date in general directorate of treasury 17/11/1392.

- Based on form B-27 no.(53) dated 22/11/1391 a sum of AFS 4,440,405, construction allotment of Qale-Mosa roads, related to Kabul municipality, approval date in general directorate of treasury 22/11/1392.
- Based on form B-27 no.(68) dated 23/11/1391 a sum of AFS 1,172,893, construction and asphalting allotment of Dashte-Barchi road, related to Kabul municipality, approval date in general directorate of treasury 21/11/1392.
- Based on form B-27 no.(98) dated 25/11/1391 a sum of AFS 566,251, salaries allotments related to central statistics organization, approval date in general directorate of treasury 26/11/1392.
- Based on form B-27 no.(51) dated 22/11/1391 a sum of USD 21,646, trip allowances allotment related central statistics organization, approval date in general directorate of treasury 22/11/1392.

General directorate of treasury states that aforesaid forms are related to FY 1392 and they have been recorded in AFMIS system in the same year. However, formal procedure got delayed due to work overload, huge number of documents, shortage of time and end of financial year.

15. Based on the reports from the Afghanistan Financial Management Information System (AFMIS), during 1392, a sum of Afs 1,199,211,900, under code no. 22809 relating to 18 budgetary units has been recorded as expenditures not elsewhere classified, out of which a sum of Afs 1,123,831,323 or 93.71% is related to the Ministry of Agriculture, Irrigation and Livestock, Afs 54,940,613 or 4.58% to the Water Supply and Canalization Agency and Afs 20,439,954 or 1.71% to other 16 budgetary units.

16. Based on the information provided by the General Directorate of Treasury, unadjusted development budget advances for the years 1381-1389 for 17 budgetary units was Afs 892,063,547. Afs 554,762,110 or 62.18% relate to the Ministry of Rural Rehabilitation and Development (MRRD) and Afs 286,406,830 or 32% to the Ministry of Finance (MoF). development budget unadjusted advance balances for the year 1390 related to 13 budgetary units were Afs 1,967,570,101, out of which Afs 1,847,193,163 or 94% was related to MRRD, Afs 61,462,451 or 3.12% to the MoF. Similalry, unadjusted development budget advances for the year 1391 related to 16 budgetary units were Afs 3,305,536,991, out of which Afs 2,373,287,562 or 71.79% was related to the MRRD, Afs 732,220,214 or 22.15% to the MoF and Afs 122,680,195 or 3.71% to the Ministry of Foreign Affairs.

Furthermore, devenopment budget unadjusted advance balances for the year 1392 related to 30 budgetary units were Afs 5,278,608,039. Out of which, Afs 2,735,836,859 or 51.82% related to the Ministry of Defense, Afs 741,651,373 or 14.05% to the MRRD, Afs 612,733,049 or 11.6% to the MoF and Afs 495,961,792 or 9.39% to the Ministry of Communication and IT.

Details of development budget unadjusted advance balances for the years 1381-1391 are attached Annex 8.

17. Based on a comparison of the development budget Qatia statement of 1392 against the figures in the AFMIS, following differences with regard to the development budget unadjusted advances has been observed:-

- Total unadjusted advances under code no. 22 reflected in Qatia statement is Afs 3,673,027,838, whereas in AFMIS, it is Afs 930,153,302, which shows a difference of Afs 2,742,874,536.
- Total unadjusted advances under code no. 25 reflected in Qatia statement is Afs 1,605,580,201, whereas in AFMIS, it is Afs 980,423,337, which shows a difference of AFS 625,156,864.

Audit observations and response of the MoF are provided in part 3-3, paragraph 3, page 51 of this report.

III. Revenue Qatia Statement

1. Operating Revenue Qatia statement

1.1 Assessment of operating revenue plan for the year 1392 and revenue assessment and collection

Base on the information provided by Advance Estimate Planning Department, Revenue Coordination Directorate of the Revenue Planning General Directorate, revenues of the year 1392 has been estimated as follows:

- Ministries and central organizations a sum of Afs 48,695,580,000.
- Mustofiats a sum of Afs 16,399,820,000.
- Customs a sum of Afs 57,719,010,000.

Total -Afs 122,814,410,000/-

As above, revenues for the year 1392 were estimated at Afs 122,814,410,000; details of the estimated plan and revenue assessment as well as collection of revenue as per the Qatia statement 1392 are as follows:

Revenue codes	Description of revenue codes	Revenue plan FY 1392	Assessed Revenue	Collections	Remaining
11	Tax revenue	62,009,214,373	53,958,936,695	52,788,074,648	1,170,862,047
12	Custom duty and Fees	33,337,303,614	28,305,412,929	28,305,412,929	-
13	Non tax revenue	22,696,700,875	22,511,705,566	21,955,377,896	556,327,670
14	Miscellaneous revenue	1,058,014,566	2,501,650,935	2,501,348,390	302,545
15	Sales of non current assets	67,256,248	36,563,627	36,125,027	438,600
17	Social contributions	3,646,197,325	3,746,722,769	3,746,656,482	66,287
19	Grants	87,228,776,500	140,082,069,955	140,082,069,955	-
Total without code 19		122,814,887,001	111,060,992,521	109,332,995,372	1,727,997,149
Total with code 19		210,043,465,501	251,143,062,476	249,415,065,327	1,727,997,149

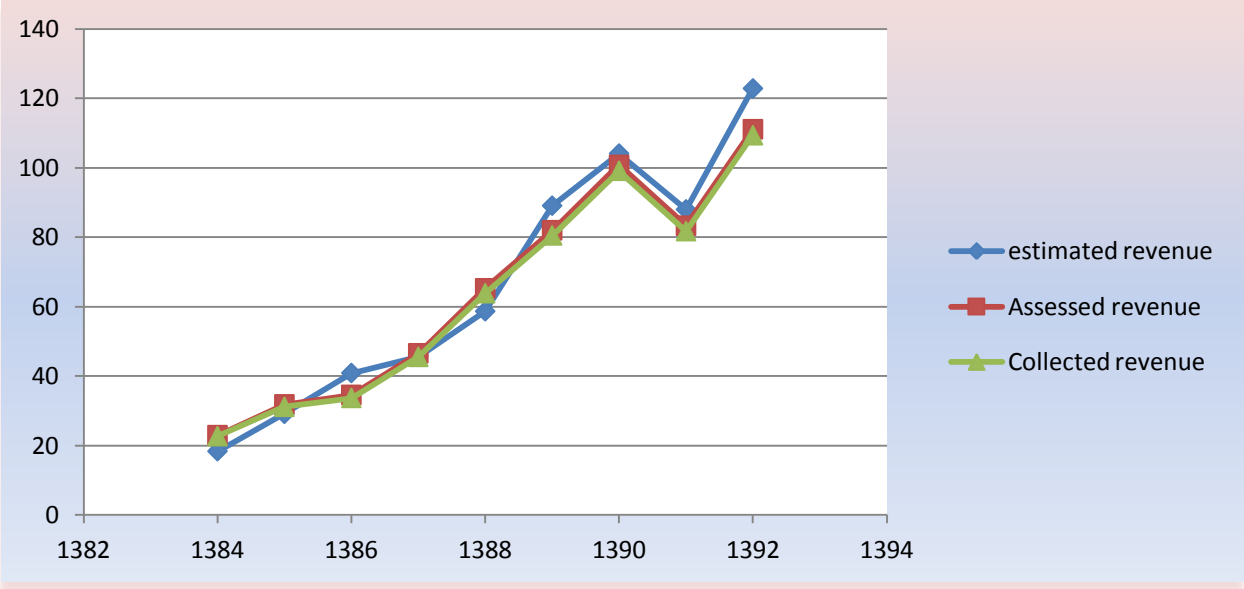
As per the Revenue Qatia statement, in the FY 1392, estimated revenue was Afs 122,814,887,001, assessed revenue was Afs 111,060,992,521 and revenue collected was Afs 109,332,995,372. Assessed revenue compared with estimated revenue plan in FY 1392 was less by Afs 11,753,894,480 or 9.5%.

Based on the statements of the budgetary units, the Directorate of General Revenue Planning, Office of the Deputy Minister Revenue and Customs has stated security issues in the provinces, exit of foreign troops from Afghanistan, lack of secure environment for investors, intervention of neighbor countries and lack of cooperation from police forces in summoning shopkeepers and merchants as the main reasons for the aforesaid deficit.

A comparative position of the estimated revenue plan, assessed revenue, collected revenue and revenue remaining for collection against assessed revenue for the years 1384-1392 is given the table below.

(Figures are in billion Afs)

Year	Estiamted Revenue Plan	Assessed Revenue	Collected Revenue	Remained revenue	Assessed Revenue as percentage of Estimated Revenue
1384	18.318	22.930	22.646	0.284	125.17
1385	29.078	31.799	31.079	0.720	109.35
1386	840،40	34.534	33.662	0.872	84.55
1387	649،45	46.509	45.485	1.023	101.88
1388	58.635	65.236	63.830	1.405	111.25
1389	89.041	81.967	80.477	1.490	92.05
1390	104.054	100.785	99.396	1.388	96.85
1391	87.967	83.271	81.705	1.566	94.66
1392	122.81	111.06	109.332	1.727	90.42



As it can be seen from the figures above, there is a deficit in assessed revenue compared to the revenue plan from 1389 onward; maximum deficit being 9.5% in FY 1392.

However, though domestic revenue collection from 1384 onwards shows an increasing trend, considerating the increasing trend of operating budget expenditure, gap between domesic revenue and operating expenditure are increasing. While one of the most important objectives of the government in short term is self-sufficiency in meeting the operating budget expenditure, increasing gap between domestic revenue and operating expenditure will affect the achievement of the objective of the government in long term.

Based on Qatia statement, estimated foreign grants for funding operating budget in the year FY 1392 was Afs 87,228,776,500 against which Afs 140,082,069,955 or 160.59% was assessed and collected, which shows an increase of Afs 52,853,293,455 or 60.59%.

Based on revenue Qatia statement FY 1391 (9 months), assessed revenue from domestic sources was Afs 83,271,422,066. Adding the share of one more quarter (quarterly average basis), assessed revenue for 12 months could have been Afs 104,089,277,582. Assessed revenue of FY 1392 (Afs 111,060,992,521) compared to that of the FY 1391 shows an increase of Afs 6,971,714,938 or 6.69%.

As per the General Directorate of Treasury, the share of foreign grants of Afs 140,082,068,955 related to the operating budget for the FY 1392 is as follows:

No	Descriptions	Amount (Afs)
1	Grants revenue through MoJ account	7,831,162
2	Grants revenue through MoIC	63,163,776
3	Revenue from ARTF	14,157,013,348
4	Revenue from Public order trust fund	27,524,865,504
5	Revenue of CSTCA for MoD	73,111,169,623
6	Revenue of CSTCA for MoI	24,589,937,481
7	Revenue of other donors (SPAD project)	628,084,061
Total		140,082,069,955

With regard to the increase of 60.59% in the collected revenue compared with the estimated plan from the foreign grants for the operating budget 1392, the Directorate of General Revenue Planning, Office of the Deputy Minister Revenue and Customs was asked to provide the reasons. The aforesaid Directorate refused to comment stating that the matter is related to the General Directorate of Treasury. Based on the information provided by the General Directorate of Treasury, Afs 28,781,212,026 of the grants related to the FY 1391 has been reflected in revenue Qatia statement FY 1392.

B: Major findings of audit relating to the operating revenue Qatia Statement, 1392

1. As per the information received from the Afghanistan's Telecom Regulatory Authority (ATRA), vide letter no. RSI -52248 dated 19/9/1392 of the General Revenue Directorate of the Ministry of Finance, an amount of Afs 1,500,000,000 of telecom revenue from TDF account has been transferred to the Revenue account of Ministry of Finance as advance. This has however to be refunded to the TDF account from the revenue of financial year 1393. Besides, according to the documents received from the AISA, during the FY 1392, an amount of US$ 12,000,000, equivalent to Afs 624,000,000 advance tax payment has been made to the account no. 1203044 of Ministry of Finance. As such, assessment and collection of domestic revenue of FY 1392 shows inflated revenue equal to the said amount of transfers and advance payments.

2. According to the revenue Qatia statement, an amount of Afs 140,082,069,955 was received as foreign grants for the operating budget in the FY 1392 as shown below:

- Revenue of Afghanistan Reconstruction Trust Fund (ARTF) -Afs 14,157,013,348
- Revenue of Law and Order Trust Fund Afghanistan (LOTFA) -Afs 22,419,279,957
- Revenue of CSTC-A for the M/o Defense -Afs 55,092,352,065
- Revenue of CSTC-A for the M/o Interior -Afs 19,379,202,168
- Revenue from other donors -Afs 253,110,391

Total Amount - Afs 111,300,957,929

The fund reflected in the Qatia statement is Afs 140.082.069.955

Difference - Afs 28,781,112,026

According to the relevant fund transfer documents through which the funds were included in the government revenue account, the additional revenue of Afs 26,781,112,026 in FY 1392 appeared to be related to the FY 1391 which was included in the revneue in 1391. However, it was not not reflected so in the Qatia statement of FY 1391 and instead has been reflected in the Qatia statement FY1392. Due to such wrong reflection of the said revenue in the Qatia statements in the FY 1391 and FY 1392, differences exist in the debit and credit account of the Treasury Directorate and the Revenue Qatia Statement during these two years.

The General Directorate of Treasury stated that the aforesaid amounts related to the grants on account of LOTFA, CSTC-A, from France and England were received in FY 1391 but was not for spending in the FY 1391. As such, after getting the approval of the donors, the aforesaid amounts has been reflected in the FY 1392.

3. In the FY1392, US$ 51,197,726 equal to Afs 2,923,902,132 relating to the revenue of Development Policy Grant (D.P.G) has been deposited to the government receipt account vide voucher no. 4533 dated 17/7/1392. However, the same has not been reflected in Revenue Qatia Statement (Code 19 - Grants).

The General Directorate of Treasury stated that the mentioned amount has been given to MoF by the donors for special purpose as advance grants. If the amount is utilized during the financial year in which is received, it would be reflected in the Revenue and Expenditures report, otherwise, it would be kept in special accounts and will be utilized in the next year.

However, according to the documents related to the said fund, the grants is being kept in the treasury account no 600100, which need to be reflected in the Revenue Qatia account of the FY 1392, though the same has not been done.

4. As per the documents related to Account No. 27232 - Discretionary Fund, Account No 27495 - CSTC-A (Ministry of Defense) and Account No 27482 - CSTC-A (Ministry of Interior), it is observed that vide letter and voucher refrence 26, an amount of Afs 27,560,867,718 has been transferred from the Treasury Account 600102 (foreign currency) for the purpose of payment of development budget expenses. Out of which, up to the end of the FY1392, an amount of Afs 27,110,553,292 was spent and an amount Afs 450,314,426 remained in the three aforesaid accounts. Despite previous such recommendations by the SAO, due to carelessness of the MoF authorities, it has not been transferred to the government receipt account.

In this regard, the Directorate of Treasury stated that for observing accountability towards the donors and since all the three accounts are part of the Treasury Single Account, it has not been transferred to the Account No 600100.

However, as per the documents, out of the three accounts, only one is related to discretionary fund of development budget, therefore, it is required that the mentioned funds should have been transferred to the account no 600100 by the end of the FY 1392.

5. According to the request made by General Directorate of Budget and order no 4521 dated 24/9/1392 of the Minister of Finance, US$ 45 million has been transferred to the development budget from the domestic revenue relating to the operating budget as per paragraph 24 of the Budget Execution Guidelines.

According to paragraph 24 of the Budget Execution Guidelines, "in case of any increase in revenue collection during the fiscal year, as compared to the projected amount, or savings from discretionary funds, Ministry of Finance has the authority to use the additional revenue to finance development budget deficit".

However, it is observed that the assessed domestic revenue for the FY 1392 in comparison with estimated plan showed a deficit of about 9.57%. The Ministry of Finance showed a deficit of 10.2% in the development budget after the midyear amendment in 1392, as compared to the budget at the beginning of year due to decrease in domestic revenue and discretionary fund of the government. It can be concluded that the aforesaid amendment has been done in a explicit contradiction of paragraph 24 of the Budget Execution Guidelines.

6. According to the budget documents at the beginning of the year, domestic revenue for funding the operating budget was estimated at Afs 109.098 billion and for funding the development budget at Afs 20.294 billion. However, at page no 4 of the budget documents at the beginning of the year, the total estimated amounts for domestic revenue 1392 is stated at Afs 123 billion and in the Revenue Qatia statement, it has been recorded at Afs 122.814 billion; the two amounts not matching. The General Directorate of Budget stated that the figures of domestic revenue mentioned in the budget includes all the domestic revenue which has been planned for funding the national core budget at the beginning of the financial year 1392; details are given below (figures in '000 Afs):

No.	Details of resources based on preliminary budget documents of the year 1392	Figures in $	Figures in Afs
1	Domestic Revenue	2,265,385	117,800,000
2	Oil Transit Revenue	60,000	3,120,000
3	Railway Revenue	40,000	2,080,000
Total		2,365,385	123,000,000
1	Revenue from woods of Kunar Forests	5,000	260,000
2	Assets of Ainak Copper mine	50,000	2,600,000
3	Transitional resources of financial year 1391 (domestic revenue)	67,926	3,532,144
Total		122,926	6,392,144
Total planned domestic resources for funding national budget 1392		2,488,310	129,392,144

The General Directorate of Budget has shown only the first three figures of the revenue which contains an amount of Afs 123 billion in the planned domestic revenue of year 1392, but the last three figures which contains an amount of Afs 6.392 billion has not been considered as planned domestic revenue in national core budget.

As per the information provided by General Directorate of Revenue Planning, Office of Deputy Minsiter of Customs Revenue, domestic revenue of the year 1392 according to the information provided by General Directorate of Budget as per the table at page 17 of the budget document at the beginning of the FY 1392 (Mid-term Fiscal Framework 1388-1394), the portion of domestic revenue for funding the operating budget is Afs 109.098 billion, the portion of domestic revenue in funding the development budget is Afs 13.902 billion; total Afs 123 billion. However, the mentioned amount doesn't match with the figure contained in the Revenue Qatia statement and the figures contained in the decree no 115 dated 8/11/1392 of the President. On the other hand, the share of domestic revenue in the budget supplement document and revised budget after midyear amendment shows an amount of Afs 114.260 billion. In fact, the budget document at the beginning of the year, which is annexed in the development and revised budget, which has been revised in the middle of the year, and the domestic revenue plan of the General Directorate of Revenue planning does not present a clear figure of the domestic revenue planing.

7. As per Revenue Qatia statement for the FY 1391 Afs 1,566,100,864 was the balance transferrable to the FY 1392. However, as per the Revenue Qatia statement 1392, the balance of the previous year has been reflected as Afs 1,640,403,578; showing a difference of Afs 74,302,714. The Details are as follows:

(Figures in Afs)

Code	Description	Transferrable balance to the year 1392	Transferred Funds	Additional Difference of transfer
11	Taxable revenues	1,066,560,149	1,125,814,800	59,254,651
13	Non-taxable revenues	498,837,683	513,823,746	14,986,063
14	Other revenues	198,145	260,145	62,000
Total		1,565,595,977	1,639,898,691	74,302,714

The additional amount of Afs 74,302,714 shown as transferred from the FY 1391 to FY 1392 comprise Afs 59,254,651 under code 11, Afs 14,986,063 under code 13 and Afs 62,000 under code 14.

The General Directorate of Revenue Planning stated that the excess being observed in figure of the Revenue Qatia statement 1392 as compared with that of the FY 1391 is due to late sending of the reports of balances of 1391 by the Mustofiate in 1392 owing to insecurity in several districts of the provinces.

8. A comparison of the figures of the customs revenue shown in the revenue plan against the computed totals shows a difference of Afs 4,218,800,000, the details are as as follows:

(Figures in Afs ' 000)

Directorates	Type of Revenue			Actual Total	Total as show in the plan	Difference	
	Tax	Receipt	others			Less valuation	Over valuation
Herat Customs	6,070,990	10,374,250	472,380	16,917,620	16,000,000	917,620	-
Nengarhar Customs	4,667,700	5,894,080	5,210	10,566,990	11,490,000	-	923,010
Balkh Customs	3,386,900	5,377,200	63,580	8,827,680	8,000,000	827,680	-
Nemroz Customs	2,118,250	2,642,490	131,270	4,892,010	5,510,000	-	617,990
Kandahar	954,950	1,007,620	5,430	1,968,000	2,500,000	-	532,000

Customs							
Kabul Customs	445,770	785,990	0	1,231,760	1,430,000	-	198,240
Post and Parcel Customs	870	2,380	0	3,250	5,000	-	1,750
Kabul Air Customs	821,280	1,531,720	0	2,353,000	1,800,000	553,000	-
Faryab Customs	1,094,270	1,975,200	121,260	3,190,730	6,000,000	-	2,809,270
Khost Customs	404,270	436,650	0	840,920	970,000	-	129,080
Kunduz Customs	365,520	376,760	168,730	911,010	1,040,000	-	128,990
Farah Customs	357,100	1,029,230	13,660	1,399,990	2,500,000	-	1,100,010
Paktiya Customs	157,400	112,600	0	270,000	350,000	-	80,000
Takhar Customs	2,260	8,730	0	10,990	4,000	6,990	-
Paktika Customs	57,830	42,480	10	100,320	105,000	-	4,680
Kunar Customs	0	12,000	0	12,000	11,000	1,000	-
Badakhshan Customs	0	3,800	130	3,930	4,000	-	70
Total	**20,905,360**	**31,613,180**	**981,660**	**53,500,200**	**57,719,000**	**2,306,290**	**(6,525,090)**
			Differences	**4,218,800**		**4,218,800**	

According to the computation given in the table above, the total of customs revenue according to the plan has been shown at Afs 57,719,000,000, whereas the actual total of the figures (Tax, receipts and etc.) comes to Afs 53,500,200,000; the customs revenue plan figure shown being more by Afs 4,218,800,000 than the actual computed figure.

The Directorate of Revenue Analysis and Estimates, General Directorate of Revenue Planning stated that, "Only the regular and sustainable revenues are generally considered as part of the revenue planning and those revenues which are for this year only and they may not be available for the next year, are deducted from the total of the revenues and are not considered. On the contrary, some of the expected revenues which evidently are for the current year were included in the total revenue in the plan. Certain issues, such as the closure of commercial roads, changes in the route of the trade due to geographical problems, political or economical problem, which can change the route of the business or imports and can change the trend of revenue, are considered important. In the opinions of the General Directorate of Customs and the General Directorate of Revenues and the other Directorates related to Revenues, which are the implementing agencies for the revenue plans, responsibility of collection of revenues is as per the relevant rules and documents. The differences in respect of current year revenue plan against the the last year's revenues arise due to consideration of the significant economic assumptions (growth of taxable imported goods and efficiency of the entity in revenue collection) relating to customs revenue, as after considering the collection of the previous year's revenue as the basis of current planning, addition and subtraction of one time revenues and addition of predicted revenues as per specified assumptions are implemented. Subsequently, for each agency, specific issues are considered, for example, change in the route of the business which might result in reduction of revenues for one custom agency and increase in the imports and business of the other custom agency, etc. Accordingly, custom revenue plan has shown reduction or increase in revenue as per the changes in route of business/imports, etc. In addition, the estimated plan considered and provided by the General Directorate of Customs is according to the revenue plan agreed to with the provincial agencies and is in complete compliance with the given plan."

9. A review of the documents provided by the General Directorate Revenue Plan regarding the assessment and collection of customs revenue shows a difference of Afs 9,213,800,000 or 15.96% as against the approved plan. The details are given in the table below (Fig. in Afs):

Directorate	Plan	Collected	Increase	Decrease	Percentage of Increase and Decrease	
					Increase	Reduction
Nangarhar customs	11.490.000.000	10.148.090.000		1.341.910.000		11.67
Paktika Customs	105.000.000	94.190.000	.	10.810.000		10.29
Paktiya Customs	350.000.000	339.960.000		10.040.000		2.86
Khost Customs	970.000.000	672.420.000		297.580.000		30.67
Kunarha Customs	11.000.000	23.440.000	12.440.000		113.09	
Badakshan Customs	4.000.000	1.610.000		2.390.000		59.75
Takhar Customs	4.000.000	15.870.000	11.870.000		296.75	
Kunduz Customs	1.040.000.000	652.330.000		387.670.000		37.27
Balkh Customs	8.000.000.000	6.203.440.000	.	1.796.560.000		22.45
Kandahar Customs	2.500.000.000	2.174.970.000		325.030.000		13
Faryab Customs	6.000.000.000	5.329.580.000		670.420.000		11.17
Herat Customs	16.000.000.000	12.963.920.000		3.036.080.000		18.97
Farah Customs	2.500.000.000	2.605.100.000	105.100.000		4.20	
Neemroz Customs	5.510.000.000	5.159.560.000		350.440.000		6.36
Kabul Customs	3.235.000.000	2.120.720.000		1.114.280.000		34.44
Total	57.719.000.000	48.505.200.000	129.410.000	9.343.210.000		

As can be observed from the table above, except for the customs directorate in Kunar, Takhar and Farah provinces, wherein the assessment and collection revenues have partly increased, there is reduction in all other customs. There is a decrease of Afs 1,341,910,000 in revenues of Nangarhar Custom, Afs 1,796,560,000 in the revenues of Balkh Custom, Afs 3,036,080,000 in the revenues of Herat customs and Afs 1,114,280,000 in the revenues of Kabul customs.

The biggest decrease of 59.75 % is observed in Badakhshan Customs, followed by 37.27% in Kunduz Customs, 34.44% in Kabul customs, 30.67% in Khost customs, 22.45% in Balkh Customs and 18.97% in the Herat customs.

The General Directorate of Customs cited security related problems and about 3.8% percent reduction in the imports of taxable goods as the main reasons for the deficit.

10. A comparison of the figures in the Revenue Qatia Statement for the FY1392 with that of the AFMIS shows the following differences of revenue recorded in the AFMIS and the Qatia statement (fig in Afs:

C h	Details	Collected Revenues	Differences

		Based on Qatia	Based on AFMIS	Over Calculation in Qatia	Under Calculation in Qatia
11	Tax revenues	52,788,074,648	52,512,657,660	275,416,988	-
13	Non-Tax Revenues	21,955,377,896	21,934,966,338	20,411,558	-
14	Others	2,501,348,390	2,797,236,936	-	295,888,546

As can be observed from the table above, an amount of Afs 295,828,546 has been recorded more in the Qatia statements under Codes 11 & 13 compared with that of the AFMIS and an equivalent amount of Afs 295,888,546 has been recorded less in the Qatia statements under miscellaneous code 14 than that of AFMIS. However, even if the over statements of the codes 11&13 is compared with the understatement of code 14, still an amount of Afs 60,000 remains as a difference.

11. It is observed that the revenue plan for the FY1392, like the previous years, has not been prepared carefully and the plan is not in accordance with the activities of the departments which has resulted in differences in the revenues against the estimated plan in some of the departments. The differences between the actual plan and revenue collected are given below:

NO	Agencies	Estimated Revenue Plan	Collected Revenue	Difference between Planed Revenue and Collected Revenue		Percentage of Increase/ decrease	
				Increase	Decrease	Increase	Decrease
1	M/o Urban Devt.	33.360.000	29.468.198		4.131.802		12
2	M/o Transport	3.549.830.000	3.301.228.732		248.601.268		7
3	MRRD	15.920.000	9.556.706		6.343.294		40
4	M/o Public Welfare	2.273.000.000	1.691.787.081		58121291		26
5	M/o Energy and water	24.500.0000	58.030.087	23.530.082		38	
6	M/o Women Affairs	2.100.000	194.625		1.905.375		91
7	M/o Info & Culture	180.300.000	194.083.289	13.783.289		43	
8	M/o Economy	5.470.000	3.734.493		1.735.507		32
9	M/o Telecom & IT	1.467.000.000	3.208.186.802	1.741.186		119	
10	M/o Mines	1.359.260.000	584.453.554		774.806.44		57
11	M/o Higher Education	121.720.000	98.791.531		22.928.469		22
12	M/o Interior Affairs	2.490.750.000	1.859.105.928		631.644.07		34
13	M/o National Defense	120.000.000	181.686.248	61.686.248		51	
14	Upper House (Wolosi Jirga)	10.000.000	137.083		9.862.917		99
15	Department of Norms and Standards	19.000.000	3.802.372		15.197.628		80

Furthermore, as per M-29 Reports of Revenue Collection of the Mustofiates, there is a substantial difference between the Collected Revenue and Planned Revenue; the details for which from some of the provinces are described in the table below:

NO	Province	Predicted plan of Revenue	Collected Revenue	Difference in Plan and collection of Revenue	Percentage of Increase/ decrease

				Increase	Decrease	Increase	Decrease
1	Khost	1.270.430.000	937.293.391	-	333.136.609	-	26.22
2	Kandahar	3.573.340.000	3.055.670.805	-	514.667.195	-	14.40
3	Herat	18.743.230.002	15.417.801.449	-	3.325.428.553	-	17.74
4	Faryab	6.329.720.000	5.791.289.805	-	538.430.195	-	8.51
5	Juzjan	271.470.000	229.276.385	-	42.193.615	-	15.54
6	Balkh	10.046.040.000	7.848.164.327	-	2.197.875.673	-	21.88
7	Kunduz	1.397.000.000	1.008.485.191	-	388.514.809	-	27.81
8	Baghlan	285.610.000	266.521.939	-	19.088.061	-	6.68
9	Takhar	295.280.000	277.166.277	-	18.113.733	-	6.13
10	Laghman	149.460.000	126.019.409	-	23.440.591	-	15.68
11	Nangarhar	12.939.730.000	11.437.701.452	-	1.502.028.458	-	11.61
12	Ghazni	322.590.000	276.269.959	-	46.320.041	-	14.36
13	Kabul	3.174.000.000	2.189.987.604	-	984.012.396	-	31.00

The existence of such substantial differences between the Estimated Revenue and Collected Revenue is the indicator of lack of required knowledge of the resources of revenues, which represents the fact that the revenue plan has not been prepared scientifically and systematically in accordance with the realities and activities of the entities.

12. Although the codes for Revenue Classification are arranged as code 11 to 19, the Plan presented by the Ministry of Finance to the agencies is general plan and they have not been classified code wise.

13. Although the Estimated Revenue Plan for the FY 1392 has been prepared to include the agencies at the Center, Mustofiates at the provinces and Customs; yet the revenue of Mustofiates and Customs have been mixed in Qatia Statement.

14. The review of financial and accounting affairs of some of the Local Budgetary Units shows that some of the budgetary units have collected huge amount of revenue without any plan, e.g.,:

- By the Security Headquarter of Nimroz Province, an amount of Afs 2,204,227 for the General Department of Traffic, an amount of Afs 20,136,100 for the Passport Department; a total of Afs 22,340,327.
- An amount of Afs 239,463,518 has been collected in Atal ANA Headquarter of Kandahar province against any previous Plan.
- An amount Afs 37,064,651 has been collected in the Security Headquarter of Nangarhar Province against any previous plan.
- An amount of Afs 6,803,998 has been collected in the University of Nangarhar against any previous plan.
- The Directorate of Public Health of Balkh province has collected an amount of Afs 877,270 against any previous plan.

II. Development Budget Revenue Qatia Statements

The General Directorate of Revenue has prepared the Qatia Statement of Development Revenue based on the information presented by the General Directorate of Treasury as follows:

NO	Donor	Code 14 (Misc. Rev)	Code 18 (Loans)	Code 19 (Grants)
1	World Bank	-	55,315,932	7,352,664,059
2	Afghanistan Reconstruction Trust Fund	-	-	22,833,257,276
3	Asian Development Bank	-	892,829,031	9,506,137,468
4	Other Donors	-	789,331,945	11,421,353,166
5	Discretionary Development Fund	159,371,265	-	-
Total		159,371,265	1,737,476,908	51,139,411,869

From the table above, it is observed that during FY1392, the revenue received from Foreign Grants and others in development sector was a total amount Afs 53,036,260,042 out of which, amount Afs 159,371,265 has been collected under Code 14 (Miscellaneous Revenues), amount Afs 1,737,476,908 under Code 18 Loans and amount Afs 51,139,411,869 under Code 19 Grants for the development projects. In fact, out of amount of US$ 1,862,468,721, equivalent to Afs 96,848,373,492 of the Discretionary Grants which was estimated in the Supplement to Budget and Revised Budget after the mid-year amendment for funding the Development Budget of FY 1392, an amount of Afs 51,298,783,134 has been collected and an amount of Afs 45,549,590,358 has remained as balance. Hence, the realization and collection of revenue from Foreign Grants and other sources for funding the Development Budget in comparison to estimated funds shows a deficit of about 47%.

Moreover, while as per the General Directorate of Budget loans in the FY 1392 for Development Projects has been mentioned as US$ 56 million, equivalent to Afs 2,958,800,000; as per the Qatia Statement of Revenue during the mentioned year, an amount of US$ 33.413 million equivalent to Afs 1.737.476.908 was obtained and utilized and amount Afs 1,221,323,092 is remaining as balance which shows a deficit of 41.28%.

As per the Qatia Statement of Development Budget, the total expenditure for Development Projects has been reflected at Afs 80,152,954,662. On the basis of information presented by the General Directorate of Treasury, the sources of funding consist of Afs 11,734,099,144 from the domestic revenue, Afs 66,681,738,613 from the Foreign Grants and an amount of Afs 1,737,476,908 from Loans. However, as per the Budget Supplement Document and Revised Budget after Mid-Year amendments, the total Estimated Funds from Discretionary Grants is Afs 96,848,373,496; out of which during the FY 1392, an amount of Afs 51,298,783,134 has been received. With the addition of an amount of Afs 12,514,320,000 Discretionary Funds as per the supplementary budget, it comes to Afs 63,813,103,134. With comparison to the amount of expenses met from the external grants, this shows a deficit of Afs 2,868,634,479.

Based on the information obtained from the Directorate of Treasury, the following amounts have been obtained for the funding of the Development Budget:

- Funding from the Donors (Grants and Loans) which is included in the the Development Budget Revenue report: Afs 52,876,881,976
- CSTC-A funding which is included in the Operating Budget and which has been transferred to the Development Budget: Afs 8,344,304,793.
- Funding from the Incentives Prog of ARTF, included in the Operating Budget Revenue: Afs 4,120,020,301
- Funding of DPG which includes Operating Budget Revenue and which has been transferred to the Development Budget: Afs 2,918,270,382.

- Funding from the Domestic Sources: Afs 11,998,963,573.

Chapter 5: Report on Loans and Government Investment Strategy

As per core budget of FY1392, it is the policy of the Ministry of Finance that excess funds not deemed to be needed immediately to support budget expenditures shall be invested to earn additional funds for the government. Current investment of State funds is done by Da Afghanistan Bank (DAB) and amounts earned are kept by it to compensate DAB for bank services used by the government. It is anticipated in coming years that the earned money will be paid to the government and DAB will be compensated for the banking services provided based on market rates.

The primary goal of the investment of State funds is to maximize investment earnings for the government while undertaking a prudent degree of investment risk. Authority for the investment of government funds under the direction of the Minister of Finance is derived from the Article 15 of the Public Finance and Expenditure Management Law

The Ministry will take into account the following principles when selecting acceptable investments for its excess funds:

- Safety of the principal of the investment
- Length of the investment
- Liquidity of the investment
- Diversification
- Minimization of foreign exchange risk

The amount of funds being invested is to be arranged considering the comments of different departments of MoF like: General Department of Budget, Cash Management Office, Loans and Assets Management Office by General Directorate of Treasury.

The purpose of MoF for implementing this strategy is to jointly work with DAB in order to benefit from savings being currently used by the bank's investment. All investment is made based on market conditions.

New and Previous Loans of Islamic Republic of Afghanistan

Based on international principles, external Debt is contracted between International Institution or Creditor and Debtor. The loan agreements present the usage of the given debt according to terms and conditions of the loan Agreement in specified projects.

The debts shall be reimbursed based on installments mentioned in the agreement. Generally, Afghanistan debt related to developments projects and divided in to two types:

1. Debts without administrative fees. In case of such debt, just principal repayments are made (debt related to Saudi Arabia Development Fund).

2. Debt which has administrative fees and commitment charges

These debts are repaid bi-annually according to the terms and conditions mentioned in the Agreement. These debts are related to Asian Development Bank, Islamic Development Bank and World Bank. If the debtor could not used the amount of the loan in a specific time period then the debtor will pay a certain fee, which is called commitment charges, and all World Bank loans include commitment charges for unused debt amount. These charges are same in all countries and fortunately these charges are nearly zero during the last few years.

Share of Member fees

Islamic Republic of Afghanistan obtained membership of the International Monetary Fund in 1955 and pays its annual membership fee quarterly.

It is pertinent to mention that:

- Against 9 World Bank's loans totalling US$ 432 million, around US$ 415 million has been paid to the Government of Afghanistan. The Government of Afghanistan has not repaid any amount yet and the total payable amount is reflected under loans.
- Against 14 Asian Development Bank's agreed loans amounting to US$ 758.62 million, US$ 681 million has been paid to the Government of Afghanistan. The Government of Afghanistan has not repaid any amount and the total payable amount is reflected under loans.
- Against 4 Islamic Development Bank's agreed loans amounting to US$ 68 million, US$ 24 million was paid to the Government of Afghanistan and no repayment has been made yet.
- Against 2 Saudi Development Fund's agreed loans amounting to US$ 80 million, US$ 46 million was paid to Government of Afghanistan. The Government of Afghanistan has made no repayment.
- Againts International Monetary Fund's (IMF) agreed loans amounting to US$ 248 million; US$ 131 million are paid to Government of Afghanistan with no repayment by the Government of Afghanistan has been made on date.

Loans against which the Islamic Republic of Afghanistan has been exempted

- Government of China amounting to £9.6 million equal to US$ 18.80 million in Hoot 1382 (March 2004).
- Government of Denmark amounting to 5 million Danish Kroner equal to US$ 0.90 million.
- Government of Slovakia in Jadi 1383 (January 2005) amounting to US$ 29.34 million.
- Government of Germany in 1381 (September 2002) amounting to £ 34.5 million equal to US$ 67.51 million.
- Government of Germany in 1385 (April 2007) amounting to US$ 29.6 million.
- Government of Russia in August 2007 amounting to US$ 10,316.22 million.
- Saudi Arabia Government in January 2008 amounting to £ 12.8 million equal to US$ 24 million.
- Government of Iraq in 1386 (May 2008) amounting to US$ 9.5 million.
- Government of Croatia amounting to US$ 0.41 million. (US$ 0.41 million).

- International Development Bank in 26 May 2010 amounting to US$ 69.8 million.
- The United State of America in 1389 (22nd July, 2010) amounting to US$ 108.5 million.
- Democratic Republic of Germany in 1389 (17th March2010) amounting to US$ 17 million.

As per the budget documents, the total exemption of foreign debts to government of Afghanistan from 1381 till end of 2nd Quarter of 1391 is US $ 12,381.78 billion.

The total foreign loans that the Islamic Republic of Afghanistan should pay in future or be exempted of are as following:

Loans of previous years:

- Loans from Kuwait Development Fund amounting to US$ 21.9 million.
- Iranian loans amounting to US$ 9.99 million.
- Loans from OPEC Development Fund amounting to US$ 1.94 million.
- Bulgarian loans amounting to US$ 51.04 million.

General Directorate of Treasury of the MoF has provided the following information regarding loans and their repayment for the years 1381-1392 qs following:

A. Loans utilized since FY1381 till the end of FY1391

1. From the World Bank, an amount of XDR 301,716,930 was received from FY1381 to the end of FY1391 with relaxation for payment for 10 years and repayment duration 30 – 40 years. The loans utilized in 9 projects with specific object.
2. From the Asian Development Bank, an amount of XDR 210,398,937 was received from FY1381 to the end of FY1391 with relaxation for payment for 10 years and repayment duration 30 – 40 years. The loan utilized in 7 projects each with specific object and in other 4 projects a total of SDR 236,921,161 was received.
3. From the Islamic Development Bank, an amount of ID 18,174,237 was received from FY1381 to the end of FY1391 with relaxation for payment for 10 years and repayment duration 25 – 30 years. The loans utilized in 4 projects with specific object.
4. From the Saudi Development Bank, an amount of SAR 176,786,962 was received from FY1381 to the end of FY1391 with relaxation for payment for 10 years and repayment duration 25 – 30 years. The loans utilized in 1 project with specific object.
5. From the OPEC fund, an amount of USD 1,781,250 was received from FY1381 to the end of FY1391 with relaxation for payment for 10 years and repayment duration 25 – 30 years. The loans utilized in 1 project with specific object.
6. From the IMF, an amount of SDR 87,350,000 was received from FY1381 to the end of FY1391 with relaxation for payment for 10 years and repayment duration 15 years. The loans utilized in 2 projects with specific object.

B. Loans utilized in FY1392

1. From the World Bank, an amount of SDR 3,429,343 was received with relaxation for payment for 10 years and repayment duration 30 – 40 years. The loans utilized in 1 project with specific object.
2. From the Asian Development Bank, an amount of SDR 22,110,288 was received with relaxation for payment for 10 years and repayment duration 30 – 40 years. The loans utilized in 10 projects with specific object.
3. From the Islamic Development Bank, an amount of ID 2,992,242 was received with relaxation for payment for 10 years and repayment duration 25 – 30 years. The loans utilized in 4 projects with specific object.

C. Loans repaid during FY 1382 till the end of FY1392

As per information provided by Department of Cash and Loan Planning of the General Directorate of Treasury, an amount of Afs 25,289,921 in FY1382, an amount of Afs 290,729,894 in FY1383, an amount of Afs 325,210,262 in FY1384, an amount of Afs 354,143,950 in FY1385, an amount of Afs 248,102,364 in FY1386, an amount of Afs 155,119,896 in FY1387, an amount of Afs 174,176,765 in FY1388, an amount of Afs 112,351,076 in FY1389, an amount of Afs 176,106,159 in FY1390, an amount of Afs 112,590,981 in FY1391 and an amount of Afs 514,128,699 in FY1392, total Afs 2,487,949,967 has been repaid.

Out of loans repaid in FY 1392, an amount of Afs 124,654,057 was as administrative expenses/interest and an amount of Afs 8,026,429 as loan installment of World Bank's loans; an amount of Afs 79,496,380 as administrative expenses/interest and an amount of Afs 159,494,208 as installment of the Asian Development Bank's loans; an amount of Afs 60,373,148 as administrative expenses/interest and an amount of Afs 28,867,722 as installment of the Islamic Development Bank's loans; an amount of Afs 49,660,000 as administrative expenses/interest of the Saudi Development Bank's loans; an amount of Afs 3,556,755 as administrative expenses/interest of the OPEC fund's loans were repaid. A total of Afs 317,740,340 as administrative expenses / interest and Afs196,388,359 as repayment of loans, total Afs 514,128,699 has been repaid.

However, as per the Qatia account statements of the operating budget for the FY1392, out of Afs 514,128,699 mentioned above, an amount of Afs 246,080,340 or 48% has been recorded towards repayment of loans and Afs 268,080,340 or 52% towards administrative expense/ interest. The details of which has been explained at pages 43-44 of this report.

It is observed that the information provided by Department of Cash and Loans Planning of the General Directorate of Treasury differ with that of the Qatia Statement.

D. Exemption of External Loans by Countries with Month/Year of Exempted Notification

As per information provided by General Department of Treasury, the loans related to previous years which have been exempted are as following:

- An amount of £ 9.6 million equal to US$ 18.80 million by China Government in March 2004 (Hoot 1382).
- An amount of 5 million Danish Kroner equal to US$ 0.90 million by Denmark Government.
- An amount of US$ 29.34 million by Slovakia Government in January 2005 (Jadi 1383).
- An amount of£ 34.5 million equal to US$ 67.51 million by Germany Government in September 2002 (1381)
- An amount of US$ 29.6 million by Germany Government in April 2007 (1385).
- An amount of US$ 10316.22 million by Russian Government in August 2007.
- An amount of£ 12.8 million equal to US$ 24 million by Saudi Arabia Government in January 2008.
- An amount of US$ 9.5 million by Government of Iraq in May 2008 (1386).
- An amount of US$ 0.41 million by Croatia Government.
- An amount of US$ 108.5 million by The United State of America in July, 2010 (1389).
- An amount of US$ 17 million by Democratic Republic of Germany in March2010 (1389).

The total exempted loans mentioned above has been shown as US$ 10621.78 million, while in the core budget at the beginning of the year the total exempted loans was reflected as US$ 12381.78 million, a gap of US$1759.910 million against the information provided by General Directorate of Treasury. It indicates lack of exact and accurate information related to the loans and previous years' loan exemption.

As per the core budget document at the beginning of FY 1392, an amount of US$ 54,557,940 equal to Afs 2,837,012,880 was considered as loans to finance the development budget of FY 1392. But in development budget, supplement document and budget after midyear amendment, financing of development budget has been shown from external grants (discretionary and non-discretionary) for a total sum of Afs 109,362,693,496. However, it has not clarified as to how several projects were included in budget after midyear amendment and how much funding has been considered from loans. The General Directorate of Budget of MoF stated that the mentioned money is from grants and was not included as loans. In 1392, loans utilized for financing development budget was US$ 56.9 million equal to Afs 2,958,800,000 which differs by an amount of Afs 121,787120 from the figures contained in budget document at the beginning of FY 1392.

As per the budget document after midyear amendment, financing of those projects which were considered from loans in FY 1392 and was indicated by General Department of Budget are as follows:

Organizations	Project Code	Project Title	Financing Agency	Total budget figures in (US$)	Remarks
Ministry of Public Work	AFG/420011	Rehabilitation - Asphalt of Doshi to Puli-khumri Road	Islamic Development Bank	10,303,846	Loans
	AFG/420016	Super Corridor: Asphalt of Andkhoy - Aquina Road (36 kms)	Islamic Development Bank	9,724,601	Loans
	AFG/420109	Construction of Armalak - Laman Road (50Km)	Saudi Development Fund	19,181,966	Loans
Ministry of Energy and Water	AFG/410038	South Western Basin Integrated Water Resource Management	Islamic Development Bank	528,928	Loans
			Asian Development Fund	9,097,611	Fund of Asian Development Bank was 66.6% as a loan, 33.3% was as grants.
	AFG/410138	Extension of 220 kv transmission line from Tajikistan boarder to kundoz	Islamic Development Bank	8,088,746	Loans
			Total	56,925,658	

Excluding the 33.3% of the Asian Development Bank's grants mentioned above related to the project AFG/410038 and the balance 66.6% of the loan amount of US$ 6,059,009 along with the other loans mentioned above, the total loans in FY 1392 for financing the 5 projects mentioned above comprised US$ 53,887,096 equal to Afs 2,802,128,991.

With regard to the expenditure of nine 9 projects from loans, information against which have been provided by the General Directorate of Treasury, are as follows:

S/No	Organizations	Project Code	Project Title	Total Expenditure from Loans
1	Ministry of Power and Water	410038	Western Basin Integrated Water Resource Management	623,412,605
2		410082	Emergency reconstruction of projects providing power (reconstruction of Kabul medium voltage power station, reconstruction Naghlo dam power station...)	43,429,526
3		410101	Project of Transmitting and distributing power (110 kv transmission line from Sherkhan Border to Imam Saheb district...)	28,957,296
4		410138	Extension of 220 kv transmission line from Tajikistan boarder to kundoz and pulikhumri including baghlan and kundoz	159,136,523

			substations	
5		410412	Project Implementation Unit (PIU)	11,886,405
6	Ministry of Public Work	420011	Rehabilitation - Asphalt of Doshi to Puli-khumri Road	156,708,629
7		420016	Super Corridor: Asphalt of Andkhoy - Aquina Road (36 kms)	66,946,998
8		420064	Construction of MazarSharif- Dar-e-Souf Road 140 Km	256,606,221
9		420109	Construction of Armalak - Laman Road (50Km)	390,374,701
Total				**1,737,476,908**

As per the General Directorate of Budget (previous table), 5 projects have been funded from loans with an amount US$ 53,887,096 equal to Afs 2,802,128,991. However, as per the General Department of Treasury, 9 projects (table above) have been funded from loans. On the other hand, the actual figures of loan for the approved projects in budget was not clear and the funds spent from loans on aforesaid projects during FY1392 was shown as an amount of Afs 1,737,476,908.

Difference in information provided by the General Departments of Budget and the General Directorate of Treasury related to certain projects vis-à-vis financing from loans, shows a lack of coordination between aforesaid Directorates and indicates that the General Department of Budget lacks information about actual amount of loans and the projects which have been funded from loans during the FY 1392 and the previous years. This was also reflected in the audit report of the Qatia accounts for the FY 1391.

As per operating budget Qatia accounts and AFMIS system, a total amount of Afs 514,128,705 has been paid under code 23- repayment of loans and payment of interest during the fiscal year 1392, out of which an amount of Afs 246,080,340 or 48% is related to repayment towards loan installments and an amount of Afs 268,080,340or 52% is towards ayment of interest. Further details have been given in our audit findings of operating budget Qatia audit in paragraph 10, pages 43=44.

Chapter 6: Bank Reconciliation

During audit of the Qatia Accounts Statements, 1392, for obtaining assruace regarding whether the figures contained in the Qatia accounts are according to the payments and receipts statements under the Treasury Single Account 600100 and Account 600102 of the central bank (DAB) and their balances in the books of the General Directorate of Treasury, we carried out examination of the bank statements and their reconciliation/adjustements. The details are as following:

A. Account (600100)

As per the information provided by the Central Bank (DAB), the cash balances at end of FY 1391 and at beginning of FY 1392 under TSA 600100 was Afs 15,317,217,954.58; total credit during the year, including the aforesaid opening balance was Afs 220,748,481,680.12; debit during the FY 1392 was Afs 204,054,996,080.77 and the balances at the end of FY 1392, transferable to the FY1393, was Afs 16,693, 484,599.35.

B. Account (600102)

As per the information provided by Central Bank (DAB), the opening balance for the FY1392 under the Account 600102 was US$ 980,852,784, credit during the year US$ 2,037,167,135; total US$ 3,018,019,919. Debit during the FY 1392 was US$ 2,071,384,950 and the closing balance at the end of FY 1392, transferable to the FY1393, was US$ 946,634,969.

As a result of the aforesaid examination under the Accounts 600100 and 600102 with accounts and reconciliation provided by General Directorate of Treasury, no gaps were observed in operating and development budget expenditure Qatia accounts and revenue Qatia, except the matter mentioned in the opinion with regard to revenue Qatia.

A copy each of balances of bank accounts (600100 & 600102) is attached in Annexes 9 and 10.

Chapter 7: Miscellaneous

1. Based on the information provided by Aid Coordination Dept. of MoF, the total aid made available to the Islamic Republic of Afghanistan in the years 2002-2012 comes to US$ 74.74 billion. Of which,

US$ 14.56 billion or 19.48% has been spent through government budget and US$ 60.18 billion or 80.52% has been spent directly by the concerned donors. Details are as follows:

Year	Grants Amount	Expenditure Mode (billion US$)			
		Gov. Budget	**Percentage of Expenditure**	**Out of Gov. Budget (%)**	**Percentage of Expenditure**
2002-2010	56.80	10.22	18	46.58	82
2011	12.92	2.33	18	10.59	82
2012	5.02	2.012	40.08	3.008	59.92
Total	74.74	14.56	19.48	60.18	80.52

As per the table above, the total amount of grants from 2002 to 2010 was US$ 56.8 billion; of which US$ 10.22 billion or 18% has been spent through the government's core budget and US$ 46.58 billion or 82% has been spent directly by donors. Similarly, out of the the total amount of grants in 2011 of US$ 12.9 billion, US$ 2.33 billion or 18% has been spent through government's core budget and the remaining US$ 10.59 billion or 82% has been spent directly by donors. Out of grants of US$ 5.02 billion in 2012, US$ 2.012 or 40.08% has been spent through government's core budget and US$ 3.008 billion or 59.92% has been spent directly by related donors.

Details of external grants as per the sectors under the National Development Strategy, 2002 to 2012

1.1 Out of the total grants made by the United States of America (USA) of US$ 49.423 billion, an amount of US$ 3.090 billion related to the Infrastructures and Natural Resources Sector, US$ 2.159 billion to Governance, US$ 714 million to Education, US$ 880 million to Health, US$ 4.067 billion to Agriculture and Rural Development, US$ 473 million to Social Security, US$ 760 million Economic and Private Sector Development and US$ 34.644 billion to the Security Sector and US$ 2.638 billion to other areas.

1.2 Out of the total grants made by Japan of US$ 4.622 billion, an amount of US$ 592.3 million related to the Infrastructures and Natural Resources Sector, US$ 375.1 million to Governance, US$ 157.4 million to Education, US$ 382.8 million to Health, US$ 340.0 million to Agriculture and Rural Development, US$ 628.6 million related to Social Security, US$ 10.0 million to Economic and Private Sector Development and US$ 1490.2 million to the Security Sector and an amount of US$ 646.1 million to other areas.

1.3 Out of the total grants made by the European Union of US$ 2.938 billion, an amount of US$ 182.1 million related to the Infrastructures and Natural Resources Sector, US$ 513.6 million to Governance, US$ 50.2 million to Education, US$ 258.4 million to Health, US$ 473.8 million to Agriculture and Rural Development, US$ 748.5 million related to Social Security, US$ 55.0 million to Economic and Private Sector Development and US$ 544.1 million to the Security Sector and an amount of US 112 million to other areas.

1.4 Out of the total grants made by the Asian Bank of US$ 1.409 billion, US$ 1.061 billion related to the Infrastructures and Natural Resources Sector, US$ 339.0 million to Governance and an amount of US$ 8.9 million to Agriculture and Rural Development.

1.5 Out of the total grants made by England of US$ 2.878 billion, an amount of US$ 596.0 million related to the Infrastructures and Natural Resources Sector, US$ 672.1 million to Governance, US$ 189.3 million to Education, US$ 183.5 million to Health, US$ 351.2 million to Agriculture and Rural Development, US$ 232.9 million related to Social Security, US$ 125.1 million to Economic and Private Sector Development and US$ 362.6 million to the Security Sector and an amount of US 165 million to other areas.

1.6 Out of the total grants made by the World Bank of US$ 1.967 billion, an amount of US$ 621 million related to the Infrastructures and Natural Resources Sector, US$ 400.7 million to Governance, US$ 132.2 million to Education, US$ 171.3 million to Health, US$ 533.9 million to Agriculture and Rural Development, US$ 3.1 million related to Social Security, US$ 91.6 million to Economic and Private Sector Development and an amount of US 13.6 million to other areas.

1.7 Out of the total grants by Germany of US$ 1.343 billion, an amount of US$ 387 million related to the Infrastructures and Natural Resources Sector, US$ 173.4 million to Governance, US$ 131.8 million to Education, US$ 39.6 million to Health, US$ 110 million to Agriculture and Rural Development, US$ 16 million related to Social Security, US$ 88.8 million to Economic and Private Sector Development and US$ 302.8 million to the Security Sector and an amount of US$ 184.6 million to other areas.

1.8 Out of the total grants by India of US$ 759 million, an amount of US$ 502.7 million related to the Infrastructures and Natural Resources Sector, US$ 4.1 million to Governance, US$ 90.6 million to Education, US$ 28.8 million to Health, US$ 2.7 million to Agriculture and Rural Development, US$ 124.1 million related to Social Security, US$ 3.1 million to Economic and Private Sector Development and an amount of US 3 million to other areas

1.9 Out of the total grants by Canada of US$ 1.470 billion, an amount of US$ 4.5 million related to the Infrastructures and Natural Resources Sector, US$ 179.5 million to Governance, US$ 135.8 million to Education, US$ 152.7 million to Health, US$ 184.8 million to Agriculture and Rural Development, US$ 191.8 million related to Social Security, US$ 247.1 million to Economic and Private Sector Development and US$ 120.6 million to the Security Sector and an amount of US 253.1 million to other areas.

1.10 Out of the total grants made by Holland of US$ 1.202 billion, US$ 49.8 million related to the Infrastructures and Natural Resources Sector, US$ 425.8 million to Governance, US$ 36.2 million to Education, US$ 9.4 million to Health, US$ 84.2 million to Agriculture and Rural Development, US$ 203.7 million to Social Security, US$ 14.4 million to Economy and Private Sector Development, US$ 228.8 million dollars to the Security Sector and US$ 149.2 million to other areas.

1.11 Out of the total grants made by Norway of US$ 839 million, US$ 11.8 million related to the Infrastructures and Natural Resources Sector, US$ 31.9 million to Governance, US$ 8.3 million to Education, US$ 13.4 million to Health, US$ 103.4 million to Agriculture and Rural Development, US$ 71.4 million to Social Security, US$ 25.7 million dollars to the Security Sector and US$ 573.3 million to other areas.

1.12 Out of the total grants made by Australia of US$ 928 million, US$ 6.0 million related to the Infrastructures and Natural Resources Sector, US$ 139.4 million to Governance, US$ 39.1

million to Education, US$ 33.2 million to Health, US$ 51 million to Agriculture and Rural Development, US$ 413 million to Social Security, US$ 2.0 million to Economy and Private Sector Development, US$ 23.5 million dollars to the Security Sector and US$ 221.3 million to other areas.

1.13 Out of the total grants made by Italy of US$ 631 million, US$ 107.8 million related to the Infrastructures and Natural Resources Sector, US$ 243.8 million to Governance, US$ 9.5 million to Education, US$ 21.8 million to Health, US$ 65.3 million to Agriculture and Rural Development, US$ 135.5 million to Social Security, US$ 8.9 million to Economy and Private Sector Development, US$ 26.2 million dollars to the Security Sector and US$ 12.5 million to other areas.

1.14 Out of the total grants made by Sweden of US$ 820 million, US$ 47.1 million related to the Infrastructures and Natural Resources Sector, US$ 292.3 million to Governance, US$ 192.5 million to Education, US$ 34 million to Health, US$ 9.2 million to Agriculture and Rural Development, US$ 205.9 million to Social Security, US$ 13.2 million to Economy and Private Sector Development and US$ 26.3 million to other areas.

1.15 Out of the total grants made by United Nations (UN) of US$ 179 million, US$ 8.9 million related to the Infrastructures and Natural Resources Sector, US$ 23.2 million to Governance, US$ 50.8 million to Education, US$ 57.7 million to Health, US$ 6.5 million to Agriculture and Rural Development, US$ 14.7 million to Social Security, US$ 0.3 million Economic and Private Sector Development, US$ 15.9 million to the Security Sector and US$ 0.9 million to other areas.

1.16 Out of the total grants made by Denmark of US$ 562 million, US$ 97.1 million related to the Governance Sector, US$ 114.0 million to Education, US$ 10.2 million to Health, US$ 87.4 million to Agriculture and Rural Development, US$ 33.1 million to Social Security, US$ 5.2 million to Economic and Private Sector Development, US$ 16.8 million to the Security Sector and US$ 198.7 million to other areas.

1.17 Out of the total grants made by Iran of US$ 377 million, US$ 180 million related to the Infrastructure and Natural Resoruces Sector, US$ 10 million to Governance, US$ 33 million to Education, US$ 6 million to Health, US$ 10 million to Agriculture and Rural Development, US$ 16 million to Social Security, US$ 3 million to Economic and Private Sector Development, Afs 8 million to the Security Security and US$ 111 million to other areas.

1.18 Out of the total grants made by France of US$ 286 million, US$ 35.2 million related to the Infrastructure and Natural Resources Sector, US$ 43.5 million to Governance, US$ 51.8 million to Education, US$ 45.6 million to Health, US$ 61.6 million to Agriculture and Rural Development, US$ 15.0 million to Social Security, US$ 1.2 million to Economic and Private Sector Development and US$ 32.3 million to the Security Sector.

1.19 Out of the total grants made by Spain of US$ 196 million, US$ 36.1 million related to the Infrastructure and Natural Resoruces Sector, US$ 26.4 million to Governance, US$ 7.8 million to Education, US$ 10.9 million to Health, US$ 53.5 million to Agriculture and Rural Development, US$ 8.7 million to Social Security, US$ 0.8 million to the Security Sector and an amount of US$ 52.0 million to other areas.

1.20 Out of the total grants made by Turkey of US$ 345 million, US$ 31.3 million related to the Infrastructure and Natural Resources Sector, US$ 1 million to Governance, US$ 48.7 million to Education, US$ 57.3 million to Health, US$ 2.4 million to Agriculture and Rural Development,

US$ 4.4 million to Social Security, US$ 0.9 million to Economic and Private Sector Development, US$ 43.1 million to the Security Secor and an amount of US$ 156.4 million to other areas.

1.21 Out of the total grants made by Finland of US$ 207 million, US$ 0.1 million related to the Infrastructure and Natural Resources Sector, US$ 53.7 million to Governance, US$ 0.5 million to Education, US$ 11.6 million to Health, US$ 18.8 million to Agriculture and Rural Development, US$ 36.2 million to Social Security, US$ 28.4 million to the Security Sector and an amount of US$ 58.1 million to other areas.

1.22 Out of the total grants made by Russia of US$ 147 million US$ 1 million related to the Education Sector, US$ 37 million to Social Security, US$ 109 million to the Security Sector.

1.23 Out of the total grants made by Saudi Arabia of US$ 98 million, an amount of US$ 45 million related to the Governance Sector, US$ 0.29 million to Education, US$ 2 million to Health, US$ 51 million to Social Security an amount of US$ 0.01 million to the Security Sector.

1.24 Out of the total grants made by the Agha Khan Foundation (AKF) of US$ 140 million (US$ 141 mil), US$ 25 million related to the Infrastructure and Natural Resources Sector, US$ 16 million to Education, US$ 20 million to Health, US$ 33 million to Agriculture and Rural Development, US$ 17 million to Social Security and an amount of US$ 30 million to the Economic and Private Sector Development.

1.25 Out of the total grants made by UAE of US$ 160 million, US$ 5 million related to the Infrastructure and Natural Resources Sectors, US$ 2 million to Governance, US$ 3 million to Education, US$ 5 million to Health, US$ 31 million to Social Security, US$ 104 million to Economic and Private Sector Development and an amount of US$ 10 million to the Security Sector.

1.26 Out of the total grants made by China of US$ 59 million, US$ 2 million related to the Governance Sector, US$ 1 million to Health, US$ 14 million to Agriculture and Rural Development, US$ 2 million to the Security Sector and an amount of US$ 40 million dollars to other areas.

1.27 Out of the total grants made by Switzerland of US$ 139 million, an amount of US$ 1 million related to Infrastructure and Natural Resources Sector, US$ 28 million to Governance, US$ 12 million to Education, US$ 12 million to Health, US$ 32 million to Agriculture and Rural Development, US$ 29 million to Social Security, US$ 4 million to the Security Sector and US$ 21 million to other areas.

1.28 Out of the total grants made by South Korea of US$ 85 million, an amount of US$ 4 million related to Infrastructure and Natural Resources Sectors, US$ 11 million to Governance, US$ 17 million to Education, US$ 29 million to Health, US$ 5 million to Agriculture and Rural Development, US$ 5 million to the Security Sector and an amount of US$ 14 million to other areas.

1.29 Out of the total grants made by the Czech Republic of US$ 107 million, an amount of US$ 4 million related to Infrastructure and Natural Resorources Sector, US$ 1 million to Governance, US$ 6 million to Education, US$ 1 million to Health, US$ 4 million to Agriculture and Rural Development, US$ 8 million to Social Security, US$ 5 million to the Security Sector and an amount of US$ 78 million to other areas.

1.30 Out of the total grants made by the Islamic Development Bank (IDB) of US$ 32 million, US$ 27 million related to Infrastructure and Natural Resources Sector and an amount of US$ 5 million to Education.

1.31 Out of the total grants made by Belgium of US$ 57 million, US$ 12 million related to the Governance Sector, US$ 1 million to Education, US$ 6 million to Health, US$ 8 million to Agriculture and Rural Development, US$ 20 million to Social Security, US$ 4 million to the Security Sector and an amount of US$ 6 million to other areas.

1.32 Out of the total grants made by New Zealand of US$ 40 million, US$ 8 million related to the Infrastructure and Natural Resources Sector, US$ 8 million to Governance, US$ 6 million to Education, US$ 4 million to Health, US$ 3 million to Agriculture and Rural Development, US$ 1 million to Social Security, US$ 3 million to the Security Sector and an amount of US$ 7 million to other areas.

1.33 Out of the total grants made by Ireland of US$ 24.34 mil, US$ 16 million related to the Governance Sector, US$ 0.09 million to Education, US$ 0.25 million to Health, US$ 1 million to Agriculture and Rural Development, US$ 5 million to Social Security and an amount of US$ 2 million to the Security Sector.

1.34 Out of the total grants made by Poland of US$ 37 million, an amount of US$ 22 million related to the Infrastructure and Natural Resources Sector, US$ 4 million to Governance, US$ 6 million to Education, US$ 3 million to Social Security and an amount of US$ 2 million related to other areas.

1.35 Out of the total grants made by Kuwait of US$ 19.65 million, US$ 0.2 million related to the Infrastructure and Natural Resoures Sector, US$ 15 million to Governance, US$ 4 million to Health and an amount of US$ 0.45 million to Social Security.

1.36 Out of the total grants made by Luxemburg of US$ 11 million, an amount of US$ 8 million related to the Governance Sector, an amount of US$ 1 million to Education and an amount of US$ 2 million to the Social Security sector.

1.37 Out of the total grants made by Austria of US$ 7.06 million, US$ 1 million related to the Governance Sector, US$ 0.06 million to Health, US$ 2 million to Agriculture and Rural Development, an amount of US$ 2 million to Social Security and an amount of US$ 2 million related to the Security Sector.

1.38 Out of the total grants made by Hungary of US$ 5 million, an amount of US$ 0.20 million related to the Governance Sector, an amount of US$ 2 million to Education, an amount of US$ 0.43 million to Health, an amount of US$ 1 million to Agriculture and Rural Development, US$ 0.07 million to Social Security and an amount of US$ 1 million related to the Security Sector.

1.39 Out of the total grants made by Lithuania of US$ 5.37 million, an amount of US$ 0.37 million related to the Infrastructure and Natural Resoruces Sector, an amount of US$ 1 million to Governance, US$ 1 million to Education and an amount of US$ 3 million to the Health Sector.

1.40 The grants made by Brunei of US$ 0.44 million related to the Social Security Sector.

1.41 Out of the total grants made by Portugal of US$ 1 million, an amount US$ 0.1 million related to the Infrastructure and Natural Resources Sector and an amount of US$ 0.9 million to the Governance Sector.

1.42 The grants made by Greece of an amount of US$ 1 million related to the Social Security Sector.

1.43 Out of the total grants made by Singapore of US$ 2 million, US$ 1 million related to the Health Sector and US$ 1 million to the Agriculture and Rural Development Sector.

1.44 Out of the total grants made by Estonia of US$ US$ 0.73 mil, an amount of US$ 0.05 million related to the Governance Sector, US$ 0.04 million to Education, US$ 0.38 million to Health and an amount of US$ 0.26 million to the Security Sector.

During 2002 to 2012, out of the US$ 89.728 billion committed grants by the donors to the Government of the Islamic Republic of Afghanistan, an amount of US$ 74.651 billion has been provided as grants by the countries and agencies listed above. Out of which an amount of US$ 7.648 billion related to the Infrastructure and Natural Resources Sector, an amount of US$ 6.359 billion to the Governance and Rule of Law Sector, an amount of US$ 2.272 billion to the Education Sector, an amount of US$ 2.495 billion to the Public Health Sector, an amount of US$ 6.729 billion to the Agriculture and Rural Development Sector, an amount of US$ 3.782 billion to the Social Security Sector, an amount of US$ 1.564 billion to the Economic and Private Sector Development Sector, an amount of US$ 38.087 billion to the Security Sector and an amount of US$ 5.716 billion to other areas.

2. As per the review of documents related to approved contracts by special procurement commission, there exist a massive difference between estimated cost of certain contracts and approved cost of contracts, following are some of the samples:

2.1 The estimated cost of the contract of 2 items of clothing material needed by all the organizations and offices of the Army was an amount of Afs 513,274,500; however, the approved cost of contract by the Special Procurement Commission (SPC) was an amount of Afs 182,348,400, a difference of Afs 330,926,100.

2.2 The estimated cost of the contract for procurement and preparation of 26 clothing items needed by battalions and offices of the Defense Ministry was Afs 382,781,300; however, the approved cost of contract by the SPC was Afs 219,450,800, a difference of Afs 163,330,500.

2.3 The estimated cost of the contract for purchase of 9 clothing items needed by battalions, National army central organizations was an amount of Afs 991,557,800; howver, the approved cost of contract by the SPC was Afs 451,804,500, a difference to Afs 539,753,300.

2.4 The estimated cost of the contract for purchasing of 32 items of livelihood material needed by security command of Uruzgan province was an amount of Afs 246,735,813; the approved cost of the contract by the SPC was Afs 202,554,665, a difference of Afs 44,181,148.

2.5 The estimated cost of the contract for 6 lots of computer equipments needed by Ministry of Interior (MoI) was an amount of Afs 186,810,000; however the approved cost of the contract by the SPC was 143,700,000; a difference of Afs 43,110,000.

Substantial differences between the estimated costs and the approved costs of the aforesaid mentioned contracts show that there is weakness in procurement planning by the organizations and they have estimated the cost of goods excessively and in an unrealistic manner. This also indicates that during last few years most of the remaining balances in operating Qatia statements of these ministries are due to these unrealistic and excessive budget estimates.

3. Based on the information provided by General Budget Directorate, five organizations, Supreme Audit Office, Ministry of Finance, Independent Administrative Reform Commission, Ministry of Commerce and the Central Bank have been included in Incentive Program of the World Bank and four organizations namely the Ministry of Finance, Ministry of Mines and Petroleum, Ministry of Telecommunication and Afghanistan Independent Land Authority has been included in Development Policy Grants (DPG) as per the following:

3.1 Incentive Program: Under this program World Bank was to pay a total amount of US$ 212 million, divided into three main parts. 1) An amount of US$ 142 million against certain bench marks related to structural reform, 2) an amount of US$ 38 million dollars revenue collection based on determined objectives of International Monetary Fund (IMF), and 3) remaining US$ 32 million against better performances related to Office and Maintenance expenditures on projects in the same year.

Out of US$ 212 million dollars of estimated flow in three main parts, only US$ 76.8 million dollars has been recovered during this year and remaining US$ 135.2 million which is equal to Afs 7,304,000,000 has been lost due to not preparation of internal audit report by MoF, non-enactment of money laundering law and non-implementation of work plan by Customs General Directorate based on the previous agreement (1391).

Based on the information provided by General Budget Directorate, in 1392 World Bank was to pay US$ 182 million against the implementation of related bench marks. Compared with the amount of US$ 212 mentioned above, this shows a difference US$ 30 million. It is learn that the World Bank would pay US$ 44.3 million in relation to bench marks related to 1393, as indicated by World Bank in last meeting. With deduction of aforesaid amount again there will be a difference amounting to US$ 10.3 million.

Out of the 10 bench marks related to structural reform, only 6 bench marks including the one related to Office and Maintenance (O&M) has been fully and bench mark related to revenue collection has been partially completed, as a result of which an amount of US$ 118 million dollars has been recovered and remaining US$ 64 million dollars due to non fulfillment of structural reform benchmark for revenue mathcin has not been received. US$ 76.8 million was received earlier. There is a difference of US$ 41.2 million. On the one hand, it indicates the lack of accurate response by General Budget Directorate officials to Qatia Commission and on the other; it shows weak management of Ministry of Finance in implementing the aforesaid programs based on the determined bench marks.

3.2 Development Policy Grant (DPG) Program: under this program an amount of US$ 50 million supposed to be received by the Ministry of Finance up to the end of FY 1392 has been received.

4. An overview on audit of development projects funded through World Bank grants.

The Government implements several development projects in the critical areas of Infrastructure and Natural Resources, Education, Health, Agriculture and Rural Development, Governance including Economic Governance and Social Protection sectors. These projects are based on financing through Discretionary Development Grants and Development Budget Funds (non-discretiary) and a few from Development Loans.

Based on the audit of the of the projects being implemented from the World Bank grants in several ministries, the following weaknesses and deficiencies with regard to issues relating to: a) project implementation and project control, b) procurement , and c) payment and accounting in the projects have been observed. These weaknesses and deficiencies are related to weakness in project's implementation, planning, internal control and monitoring mechanisms, inadequate and weak project documentation, inadequate financial management of the projects, including weaknesses in payment and accounting and deficiencies in procurement process.

The projects, which have been covered for the purpose of presenting the review of the financial management and compliance with terms of the project implementation and budgetary and grant authorities include: *Female Youth Employment Initiative Pilot Project (FYEIPP)* and *Afghanistan Second Skills Development Project (ASDP II)* (Min of Education), *Afghanistan Skills Development Project (ASDP)* (jointly by the Min of Education and Min of Labor, Martyrs', Disabled and Social Affairs), *Higher Education Expansion System Improvement and Strengthening Higher Education Project (HEISP)* (Min of Higher Education), *Basic Package Health Services (BPHS), Afghanistan HIV/AIDS Prevention Project, System Enhancement for Health Action in Transition (SEHAT) project* and *Afghanistan Strengthening Health Activities for Rural Poor (SHARP)* (Min of Public Health), *Afghanistan Agricultural Inputs Project (AAIP)* and *On-Farm Water Management Project (OFWMP)* (Min of Agriculture, Irrigation and Livestock), *Kabul Urban Transport Efficiency Improvement Project* (Kabul Municipality), *Afghanistan Urban Water Sector Project (AUWSP)* (Min of Urban Development / AUWSSC), *Justice Service Delivery Project (JSDP)* (Min of Justice/Supreme Court/Attorney General Office), *Afghanistan Resource Corridor Project (ARCP)* (Min of Public Works), *Afghanistan New Market Development Project (ANMDP)* (Min of Commerce & Industry), *Afghanistan Pension and Safety Net Project (APSNP)* (Min of Labor, Martyrs', Disabled and Social Affairs*), Second Public Financial Management Reform Project (PFMR II)* and *Capacity Building for Results Facility Proj (CBR)* (Min of Finance).

Weak Project Implementation

Projects	Project Period or up to Dec 2013	Grants available /Allotted Funds (US$)	Status of the Project	Risk
Ministry of Education - Female Youth Employment Initiative Pilot Project (FYEIPP) with objective of job skills training to the beneficiaries to improve their access to income-earning opportunities.	17th Aug 2011-30th Aug 2014 / 3 years.	2.05 million	Up to 21st Dec 2013 (28 months or 78% of the total allowed period), utilization US$ 553,146 i.e., 27%.	Project's pace of development being very slow, risk of lapse of substantial portion of the grant and non-compliance with achievement of the targets and public policy objectives unless extension is granted. Donor cancelling the unspent balance on expiry of the extended grant deadline is critical risk.
Ministry of Education - Afghanistan Skills Development Project (ASDP II) for strengthening and improving technical and vocational education and training.	Oct 2012 – Dec 2013.	6.5 million	Up to 21st Dec 2013, utilization US$ 1.18 million, 18% of the approved allotment	Slow pace of project due to lack of monitoring and coordination and underutilization for achieving the set physical and qualitative targets.
Min of Public Health- Result Based Funding (RBF), part 4 of the SHARP project with the objective of improving the quantity and quality of health care service	RBF – 2010 to Sept 2013. SEHAT –	RBF - 12 million/ SEHAT 1392 13.9 million.	RBF – at the end of the project time, 5.04 million i.e., 42.2% /	RBF project which was implemented since 2010 in 14 provinceshas the objectives to improve the quantity and quality of health care service through

through motivating the front line health care workers *&Afghanistan System Enhancement for Health Action in Transition (SEHAT) Project*with objectives of expanding the scope, quality and coverage of health services provided to the population, particularly to the poor, in the project areas, and to enhance the stewardship functions of the Ministry of Public Health.	1392 onwards.		SEHAT 1392 7.4 million or 53.3%	motivating the front line health care workers by paying incentive for additional services could not achieve its targets. As a result, the remaining targets not achieved under the RBF have to be included in the SEHAT project, which is going on. However, under the SEHAT project also, in 1392, only 53.3% implementation has been achieved.
*Min of Public Health- Afghanistan HIV/AIDS Prevention Project*with objectives of communication and advocacy and Strengthening of HIV/AIDS Surveillance and targeted intervention in high risk areas.	Aug 2007 – 30 Nov. 2013 with two extension .	10 million	At the end of the specified projects time, Nov 1392 - 9.97 million	At the end of the specified period of the project, fund was not fully utilized. Further, component on 'Targeted Interventions for High Risk Behaviour' overspent at the cost of the component 'Strengthening of HIV/AIDS Surveillance', under which targets were not fully achieved. Due such lopsided implementation, the unimplemented components of HIV/AIDS prevention project have been shifted to the now ongoing SHARP project.
Min of Agriculture, Irrigation & Livestock (MAIL) – Afghanistan Agriculture Inputs Project (AAIP) with the objectives of improving the agricultural inputs delivery system in order to increase adoption of improved crop production technologies through expanding development of certified seeds and improving access to agricultural inputs of reliable quality and to strengthen institutional capacity for safety and reliability of agricultural inputs and sustainable production of certified wheat seed.	Starting 1392.	Allotment for 1392, 4.93 million	1392, 2.74 million or 55.5%	Slow pace of implementation in 1392 and risk of under achievement of targets in future if the pace is not increased and monitored appropriately.
MAIL - On-Farm Water Management Project (OFWMP) with objective to assist farmers in the Project Areas to adopt improved farm practices that increase agricultural production and productivity by enhancing the efficacy of water in	Mar 2011 – Dec 2013	17 million up to the end of 1392/2013	11.38 million or 67%	Project implementationis less than the budget in the first and second component of the project, leading to less delivery of intended outputs and outcomes. The project could achieve average 67% of budgeted expenditure due to overspending of expenditure in component 3.

conjunction with other farm inputs				The project activities have not been planned well to extend full benefits and utilize available resources and funds.
Min of Justice / Supreme Court/Attorney General Office – Justice Service Delivery Project with objective to increase the access to and use of legal services and legal empowerment.	First grant – Feb 2012 through 2013 Second grant June 2012 – valid up to May 2017	First grant – 2.764 million; second grant – 40 million	First grant - 599,241utilized, 2,164,759 cancelled and 848,369 withdrawn by the donor. Second grant – up to 1392, 2.5 million or 5.13% of the total grant despite 32% of the project period over.	Due to slow progress, one grant was under-utilized and ultimately balance fund was lost. There is risk of unspent grant money in the second grant also being cancelled or withdrawn by the donor resulting in denial of justice service delivery to the intended beneficiaries.
Min of Urban Development / Afghan Urban Water Supply & Sewerage Corporation (AUWSSC) – Afghanistan Urban Water Sector Project (AUWP) with objective to develop the capacity of the AUWSSC for operational management and investment planning and implementation for increasing access to and ensuring reliability of water supply and sewerage service in urban centers.	July 2006 – June 2014 (with 2 extension)	18.72 million	8.04 million up to 1392 or 43%	Due to slow pace of implementation and despite extension in the project, full benefit of the grant is not being utilized. There is risk of losing the part of the grant as 57% of the fund is still remaining with only a few months left for the closing of the project time.
Min of Commerce and Industry – Afghanistan New Market Development Project (ANMDP) with objectiveto help in the revitalization of private sector activities in four major urban cities - Kabul, Mazar-e-Sharif, Jalalabad and Heart, through the provision of business development technical assistance to support private firms' initiatives to gain market knowledge, improve product quality and processing technologies, and increase their presence in both domestic and export markets.	July 2011 – Feb 2016,	22 million for the entire period.	3.81 million or 17% up to 1392	Despite 30 months have passed, i.e., 53.3% of the project period, implementation / utilization of the project is only 17%. There is risk of project not achieving the set physical and qualitative targets within the project period.

Weak Internal Control and Monitoring Mechanisms, Inadequate and Weak Project Documentation

Review of monitoring, internal control and documentation mechanisms of projects which has been pointed in this part shows that implementation of projects by concerned ministries are facing the following deficiencies and inadequacies:

a) *Weak asset control*: invariably, projects procure several assets and inventories for implementation of the projects such as computers, laptops, printers/scanners, furniture, air conditioners, vehicles, equipment including office equipment, stationary, etc. As per the prevailing provisions of the financial management and accounting rules/guidelines of the government as well as the conditions of the project financing, as applicable, the assets and inventories need to be appropriately recorded in the registers / maintained as per the formats prescribed by the government. Generally, however, projects are found to have not been maintaining Fixed Asset Register (FAR) reflecting the assets purchased by the project or they are being maintained inadequately. Further, in many cases, no adequate database of inventories has been maintained. Such weaknesses in asset control and management has two-fold risks; one, assets, which are purchased and to be maintained by the project as a trust to be eventually handed over to the ministry / agency, are at risk of misappropriation and may not be available or located at the closure of the project, and second, during the time of the project, there may be risk of inaccuracies in the financial information and not fair presentation of the financial statements of the projects.

b) *Weak financial control and monitoring*: generally, the projects have shown weaknesses in their financial management and monitoring. Such weaknesses are reflected in inadequate and unrealistic budgeting and project planning and spending, deficient documentations and submission of withdrawal forms to the donor (the World Bank in these cases) resulting in loss of grant funds to the project, incurring payments without approval of the donor or diverting funds for purposes not specified by the project wherever required resulting in risks of unnecessary objections and deductions by the donor, incurring expenditure under one project from another project, non-compliance with the terms of the financing terms, etc. Such weaknesses may put the projects to the risk of lack of trust of the donors in project management and sustainability of the projects being managed by the project management. Further, there is a need for financial monitoring of payments released to Facilitating Partners/NGOs and monitoring compliance with contractual terms and conditions, as in some cases they are found to have been making irregular payments to contract staff and wrongly appointed staff/officials.

c) *Absence of internal audit set up and arm's length assessments of the projects internally*: in almost all the projects that were covered under the review, it was found that the projects have not set up any credible internal audit set up; either the projects have continued without internal audit or are in the process of recruiting internal auditor or if an internal auditor appointed, either not commensurate to the size and requirement of the project or being applied for checking and verification of transactions (M-16), which is against the very requirement of having an internal

audit at arm's length and not being integral part of day-to-day management of the project. Invariably, the projects are without internal audit and wherever any claim of internal audit by the Internal Audit Department of the Ministry (or controlling agency) is made, no audit reports were made available to the SAO's audit. The grant agreements / financing arrangements require setting up credible internal audit set up.

d) *Inadequate procedures, documentations and reporting*: All projects are required to develop and put in place required financial management manual documenting the financial management arrangements for the project, including detailed arrangements and procedures for payments and reporting for those that will benefit from the project. However, in many cases, this requirement was not complied with. Further, Internal Financial Reports (IFRs) maintained by the projects as per the requirements of the financing agreements, either did not reflect the status of physical progress of the project or the financial information contained in the IFR differed when compared with the financial statements given by the MoF.

Weaknesses in Procurement and Contract Management

a) *Procurements outside procurement plan/without allotments/ against financing agreement*: In certain cases, projects are found to have made procurements outside their procurement plan without prior 'no objection' from the donor (World Bank) as stipulated under the financing arrangement (SHEP/ MoE) or procured items without allotments being available for which payments were made in next financial years (FYEIPP/MoE) or applied. In one case, project (HIV/AIDS Prevention Proj/MoPH) applied the World Bank's NoL obtained under another project (SHARP/MoPH) for undertaking works contract which was not provided for under the HIV/AIDS Prevention Project. Similarly, HIV/AIDS Prevention Proj/MoPH made inter-component reallocation without Bank's approval resulting in under implementation of some components, e.g., HIV/AIDS Surveillance.

b) *Tendering / Bidding process not fully in compliance with the Procurement Law / Donor's procurement guidelines*: The Afghanistan Procurement Law as well as the procurement conditions / guidelines of the donors require the projects to follow a competitive open bidding process for all high value items and give wider publicity, except wherever Single Source procurement are not required. Further, it is also required that procurements shall not be split to avoid meeting the requirements of law and bidding and evaluation process. However, due to weak control in procurement, process of tendering and biding, cases of less publicity, publication of incomplete details, less time period for submission of bids were found in the procurement process of many projects. In a few cases, procurements were split to avoid set procedures. In many cases, spot purchases are being made even though amount involved is high. Often, this has the risk of project receiving less responsive bids and less competitive prices, and above all, non-compliance with the established rules and regulations. In a few cases, long after bids, purchase orders were not issued by due date and several extensions were sought from the supplier. Such cases, for example, are found in BPHS & SHARP (MoPH), JSDP (MoJ, SC & AGO), PFMR II (Internal Audit Dept/MoF) and ARCP (MoPW).

c) *Weak control in bid evaluations*: An important criterion of bid evaluation is that bids should be responsive to the conditions stipulated in bid inviting documents. However, in certain projects, bid evaluation did not examine the responsiveness of the bid to the conditions of procurement and lack of documentary proofs or at time signature of the bidder to establish the bona fide of the bidder (e.g., SHARP/ MoPH, KUTEI/Kabul Municipality, ANMDP/MoCI).

d) *Weak contract management – short performance guarantee, short or non-deduction of liquidated damages, non-deduction of retention money/taminat, payment released despite adverse performance or extra payment to contractors*: Implementation of projects involves effective and efficient contract management. One of the mechanisms required by the procurement guidelines for ensuring project performance is valid and credible performance guarantee from the contractors / service providers to ensure their commitment for performance of the project. In many cases, it was found that performance bank guarantees from contractors / service providers being accepted by the projects are for shorter period than the period of contract. In some cases, even the performance guarantee was not made available to the audit (e.g., ASDP (MoE and MoLSA), ASDP II (MoE), KUTEI (Kabul Municipality), JSDP (AGO), BPHS (MoPH), etc.). Further, in a few cases, it has been found that for delay in performance of the project/contract, adverse performance, etc. against the provisions of the contract, the projects failed to deduct liquidated damages from the contractors / service providers and payments/guarantees were released without deductions (e.g., ASDP (MoE & MoLSA), KUTEI (Kabul Municipality), ARCP (MoPW), PFMR II (RIMU / MoF), APSNP (MoLSA), HIV/AIDS Prevention Proj (MoPH)). In one case (SHEP/MoHE), it was found that project paid extra amount than the work done to the contractor, which was reportedly recovered after being pointed out. In another case (OFWMP/MAIL), it was found that the project did not deduct the 10% of the retention money/taminat required towards performance security from the payments released to several construction companies. Weak contract management as borne by the cases mentioned above pose risk of not only financial loss to the project / government but also inadequate warrantee cover and contractual complications.

Weaknesses in control and management of payments relating to payroll and project activities and their accounting

a) *Weak control and monitoring in payments made to project staff and for various activities including operation costs*: projects make payments to the project staff including international contracted staff towards their remuneration and entitlements, for organizing various activities for implementation of the project and achieving the objectives of the projects as well as for different operational activities such as repairs of vehicles, equipments, hiring of vehicles, etc., minor office supplies, charges for communication facilities such as mobile recharges, accommodation and travelling charges, etc. However, audit of the projects under reference reveal that several projects are making payments of salaries and other entitlements such as travel to the project staff without proper and adequate payroll documentation. Such weaknesses include payments without supporting invoice and timesheet or certified attendance report, invoice not signed or signed by third parties, leave records not maintained properly,

various entitlements such as travel without adequate supporting documents or tickets (e.g., ASDII (MoE), ASDP (MoE and MoLSA), AAIP (MAIL), OFWMP (MAIL), AUWSP (MoUD/ AUWSSC), ARCP (MoPW), KUTEI (Kabul Municipality), PFMR II (ARDS (MoEc)/PPU/IAD (MoF), JSDP (MoJ)). Similarly, payments are also found to have been made on certain project activities such as trainings and workshops towards travel and allowances without adequate and sufficient supporting documents and verifications or by treating non-training activities as training activities (e.g., SEHAT & SHARP (MoPH), ASDP (MoE & MoLSA), etc.). In a few cases, irregular payments or payments without adequate supporting documents towards operating costs or purchase of tickets without proper competitive market survey were also found (e.g., ASDP II (MoE), ASDP (MoE & MoLSA), OFWMP (MAIL), etc.). In a few cases, payments for operational costs are met through cash payments only including out of operation advance, which can be met through cheques to facilitate proper monitoring and accountal (OFWMP (MAIL), PFMR II (ARDS/MoEc).

b) *Lack of control and monitoring in withdrawal, payments and accounting relating to advances*: The chart of accounts and the payments procedure permits withdrawal of advances by the agencies and projects to meet various requirements as per the purposes specified. However, in many projects, it is found that a large amount of cash advances are taken, sometimes even before authorization by designated authority, advances payments, including petty cash advances, are recorded as final charge instead of advances for final adjustments to be recorded in advance registers, advances are not adjusted with the specified time or unutilized advances refunded to the project after long overdue, advances are adjusted on the basis of documents that are predated or related to expenditures prior to advances taken, petty cash balances being negative (SEHAT & SHARP (MoPH), FYEIPP (MoE), ASDP (MoE and MoLSA), OFWMP (MAIL), KUTEI (Kabul Municipality), JSDP (MoJ)). In one case, (ASDP (MoE & MoLSA), advance payment was found to have been released to an institution (American Institute of Afghanistan) for training/course (ACCA) for courses continuing beyond project period of June 2014. In yet another case (OFWMP/MAIL), advances paid to consultancy service, which was due to be adjusted in the subsequent payments to the consultant, were not correctly adjusted resulting in excess payment to consultant as on date.

c) *Weak accounting and maintenance of accounting records in making payments*: Several cases of weak accounting and accounting records are found in the projects. These include mismatch between M-16 numbers and those recorded in cash book (SEHAT/MoPH), payments made against invoices already paid (AAIP/MAIL), ASDP/MoE & MoLSA), violation of cut off principle and accounting of an amount against and M-16 relating to 1391 in 1392 in journal (BPHS/MoPH), expenditure relating to objectives of one project – ASDP II released from another project - ASDP (MoE), recording of expenditure on last day of 1392 though documents suggest different dates of expenditure (ASDP/MoE & MoLSA). Specifically, the ASDP II project of the Min of Education has found to have made two ineligible payments.

- The ASDP II project – P132742 made payment of US$ 12,145 for procurement of security equipment, which is covered under the ASDP project - P102573. The provisions relating to

the eligible expenditures of the ASDP II project provides eligible expenditure up to US$ 5,800 only under the "Category of Goods". The ASDP project did not take specific approval from the World Bank for release of payment from another project.

- The ASDP project made payment of US$ 10,973 for procurement of consultancy services as Environment & Social Management Specialist on ASDP project relating to the Ministry of Labour, Social Affairs and Martyred and Disabled (MoLSA). This activity has not been mentioned under the project description of the ASDP II as per the Financing Agreements. The ASDP II project did not take specific approval from the World Bank for release of payment.

d) *Non-compliance with tax laws and non-deduction of taxes*: In compliance to the requirements of the Afghan Income Tax Law and other applicable taxes, projects are required to deduct applicable taxes from the payments / disbursements which are made to the project staff, international consultants, contractors and service providers. However, in many cases, projects are not complying with such provisions and are not deducting or short deducting taxes from the staff or contractors or training institutes, have not even procured Tax Identification Number (TIN) and are not submitting tax returns/withholding tax returns in time to the tax authorities (ASDP /MoE & MoLSA, OFWMP/MAIL, SHEP/MoHE, ARCP/MoPW, JSDP/AGO, KUTEI/Kabul Municipality).

The concerned projects and the respective ministries / agencies are required to take appropriate action and strengthen their control and monitoring system as well as speed up the pace of project implementation for benefitting from the grants and fully realize the social, health, economic, infrastructural and agricultural and rural development targets and objectives.

5. As per the information provided by the General Directorate of International Commerce of the Ministry of Commerce and Industries and based on the statistical reports of Central Statistic Organization, the total cost of imported items during the 1st quarter of 1392 was a sum of US$ 2,585.1 million and the total cost of exported items was US$ 114.8 million. During the 2nd quarter of 1392, the total cost of imported items was US$ 2,336.5 million and the total cost of exported items was US$ 122.3 million dollars. During the 3rd quarter of 1392, the total cost of imported items was US$ 2,054 million and the total cost of exported items was US$ 110.2 million, which shows a decreasing trend in imports and initially increase trend in exports in 1392. The decreasing trend in imports indicates decrease in the commercial activities in the country and resulted in decrease of revenues in terms of customs duty.

6. Qatia Statement Audit Commission intended to provide information related to tax exemptions in this report, however, the customs and revenue department refused to provide related information in this regard.

Chapter 8: Defects, deficiencies and recommendations

Defects and Deficiencies

Audit report of the Qatia financial statements 1391 provided recommendations and suggestions against the defects and deficiencies in the performance of certain Directorates in the MoF and budgetary units. On the review of the same during the audit of Qatia statements 1392, it was observed that certain defects and deficiencies in performance of MoF and budgetary units still exist, which result in the following shortcomings and deviations:-

1. Based on the decree No. 6084 dated 3/10/1391 of the State President, all the budgetary units were required to prepare their Qatia statement for the FY1392 by the month Jaddi and present it to MoF by the month of Dalwa for consolidation of the government's Qatia statement 1392. The MoF was required to prepare the government's Qatia statement during month Dalwa and Hoot after reconciling it with budgetary units and present it to the Supreme Audit Office by the month of Hamal. The Supreme Audit Office was required to complete the audit within next three months and submit the audit report of Qatia Statements and comments thereon by the end of month of Jawza to the national assembly and the president. However, despite previous audit recommendations and government's decree, no action has been taken so far. Operating expenditure Qatia statement of 1392 was provided to audit on 24th Hamal, development expenditure Qatia statement and revenue Qatia statement were provided on 27th of Hamal to the audit. Compared to the last year (1391), no improvement has taken place and the Qatia statement of operating budget was provided with 12 days delay, development expenditure Qatia statement with 9 days delay and revenue Qatia statement with 13 days delay to the audit. Based on information provided by the General Directorate of Treasury, this delay is due to delay in submission of Qatia statements by budgetary units, as apart from the National Directorate of Security, which provided its operating Qatia statement on 7th Jaddi to MoF, there was a delay in providing Qatia statement by other budgetary units. The maximum delay in providing operating Qatia statement was from the Mesrano Jirga, Ministry of Refugees and Repatriates, Directorate of Kochies, Independent Commission for Overseeing the Implementation of Constitution, Office of Administrative Affairs & Council of Ministers' Secretariat, Wolosi Jirga, Ministry of Public Health and National Olympic Committee. Similarly, no budgetary units could provide their developing Qatia statement in time; however the maximum delay was from MRRD, President's Protective Service, Meshrano Jirga, Ministry of Energy and Water, Ministry of Public Health and Independent Election Commission.

2. Delay in submission of relevant documents and information required for audit and in some cases, even incomplete, superfluous and undocumented information was given to the audit commission, which actually created unnecessary diversions.
3. Lack of cooperation of Revenue department and Custom department with the audit commission in providing required documents and information, no response to most of the Estelams / questioner which was being sent to the named departments have been received so far.
4. Budget is prepared on the basis of inaccurate planning and some superfluous models given by budgetary units, MoF is indifferent in this regard.
5. Recording contingency fund expenditure as a part of the total expenditure in the Qatia statements from which it is not clear how much fund has been spent from the general core budget and how much from contingency and reserve fund and for which purpose by the difference agencies. Reconciled figures of contingency codes is not attached is the Qatia statements.
6. Against the Budget Execution Guidelines, amendment in restricted codes in certain budgetary units and transfer to other codes.
7. Transfer of huge amounts from development budget to operating budget after midyear review.
8. Increase in ceiling of organizational structure (tashkeel) of some budgetary units against Budget Execution Guidelines.
9. Lack of clear and documented information about the total committed, paid and exempted loans; lack of budget attachment and documents and revised budget after midyear amendments related to the projects funded through loan documents and also lack of availability of different information from the General Directorates of Budget and Treasury.
10. Lack of availability of information about actual operative approved budget of agencies in the General Directorate of Treasury.
11. There were differences between the figures of Qatia statements and that of the budget documents.
12. Recording amended amounts from contingency funds in the attachment column of Development Qatia on the part of the Directorate of Treasury.
13. Amendments in operating and development budget and issuing allotments at the end of the financial year and in some cases, at 30th Qaws, not allowing time to process bill and utilize the amended funds or allotments in accordance with the Budget Execution Guidelines, Public Finance and Expenditure Management (PFEM) Law and Accounting Manual for Cash and Funds.
14. Delay in processing of forms related to allotments and budgetary amendments by General Directorate of Budget and delay in sending the same to the Directorate of Treasury in order to record it in AFMIS.
15. Some budgetary forms without number and processing date are included in the system.
16. Different interpretations of the funds transferred under the title “compensation for the central bank’s losses” between MoF and the DAB.

17. Negligence in timely adjustment and collection of the the advances relating to the operating and development expenditure resulting in accumulation of unsettled advances in some of the budgetary units, especially MoF since 1381.
18. Negligence in timely adjustment of funds deposited in the account no. 50055 relating to the Emergency Committee.
19. There were differences in the figures of advances, adjusted advances and remaining of operating and development budget advances stated in Qatia statements and the AFMIS.
20. Negligence of some budgetary units in settlement of petty cash advances up to the end of financial year.
21. Negligence in timely adjustment of Letter of Credit opened against the contract for fuel supply required for Breshna Shirkat, resulting in the government's fund remaining in the contractor's account.
22. Recording figures in Afs and other currencies, lack of proper exchange / conversion rate, not recording the exchange rate in some forms.
23. Payment of huge amount in operating and development budget expenditure under the head "expenditure not elsewhere classified" wherein the expenditure's objective is not clear.
24. Bringing changes in operating and development budget's ceiling during the financial year due to transferring of funds from development budget to operating and vice versa.
25. Non-utilization of substantial percentage of development budget by some of the budgetary units and lack of capacity in optimum utilization of the development budget.
26. No activity was initiated in some development projects despite allotments.
27. Transfer of some projects to next year without having any activity.
28. Recording some projects in budget document without having fund and recording a large number of projects in Qatia statement without having fund or without having been recroded in budget document. No reasonable explanation for this was provided.
29. Utilizing contingency funds against the objectives determined in the budget.
30. Reserved funds (contingency) pertaining to development budget utilized in operating Budget.
31. Adjusting and utilizing contingency funds specially funds from code 900001 - policy and code 900002 - emergency more than the percentage determined in Public Finance and Expenditure Management (PFEM) Law.
32. Recording of transactions in the AFMIS and the Qatia Statement 1392, the documents of which show dated in 1393.
33. Revenue plan of 1392 was not prepared by applying scientific standards and by taking into account the various activities of the agencies. Therefore, a significant difference has been seen in the figure of revenue assessed as compared with the advance revenue plan in certain agencies.
34. Figures related to customs plan not matching with its detailed aggregated figures and large differences are seen.

35. There is a substantial deficit in the assessment of domestic revenue as against the advance revenue plan, especially in assessment and collection of customs revenue.
36. Mismatch in the remaining revenue figure transferable from 1391 with the figures recorded in Qatia statement 1392.
37. Estimated revenue plan of the central agencies, Mustofiate of the provinces and Customs have been prepared separately. However, in the Qatia Statements, revenue of Mustofiate and customs has been combined.
38. Inclusion of large amount of foreign grants in the revenue Qatia statement of the FY1392, which were received in the government's treasury accounts and records in the FY1391.
39. Non-inclusion of large amounts of foreign grants, which were included in the government's accounts /bank records in the year FY 1392 but not reflected in Qatia statements of revenue.
40. Mismatch of figures of revenue in Qatia and AFMIS.
41. Sending letters to the entities outside the MoF having the signature of concerned Directors, which is against the administrative principles.
42. Based on paragraph 19 of the Budget Execution Guidelines, the MoF is required to give response to any letters received by them within 7 working days. However, as per the record books of General Directorate of Budget, Treasury, Revenue and Customs, in some cases it was observed that the letters were kept for more than one month without any response.

B: Recommendations:

During the audit of the Qatia Accounts statements for the FY1392, it was found that Ministry of Finance has not completely and effectively implemented the recommendations of the Supreme Audit Office pertaining to previous years. Therefore, in addition to the recommendations given earlier, the following recommendations are given:

1. To prevent any time lag in the audit process and for timely preparation and presentation of the audit report, the MoF and all the budgetary units are requested to prepare and submit the Qatia statement in time as per the decree no. 6084 dated 1391/10/3 of the State President. Delay in preparing and submitting Qatia statement will limit the time for auditing and preparing the report and directly affect the quality of report and eventually it will create further problems and responsibilities.

2. Any information provided to the audit commission without supporting documents or information which is unauthenticated will delay and divert the audit process, create problems in concluding the audit. Therefore, it is stressed that in future the MoF should pay due care to the audit queries and the information required and provide relevant and complete information with supported documents.

3. Keeping audit query without due reason and providing irresponsible responses or not providing response to the Estelams and required documents is violation of article 15 and 21 of Audit Law and Legal action will be taken against the perpetrators.

4. All budgetary units should be asked to prepare their budgetary plan for operating expenditure by considering actual spending requirements with a view to better utilization of the financial resources of the country.

5. While preparing development budget, priority should be given to infrastructure projects that provide opportunities for more employment and help in reduction of unemployment in the country and increase social welfare and economic growth. Serious attention should be paid for full utilization of the development budget.

6. To help avoid deficit in the budget, proper attention should be paid while preparing budget. Projects without firm financing sources should not be included, as it causes unnecessary budget deficit.

7. In order to transparently reflect which budgetary units received how much amount from which of the reserve codes and how much was used for what purposes, it is required to prepare and present reserve code-wise budget-expenditure reconciliation statement separately and should be enclosed with statements of the Qatia accounts.

8. Amendments from restricted codes to other chapters and budgetary codes should be strictly prohibited.
9. The ceiling for operating and development budget are prepared as per the proposed estimates of budgetary units and sent to the State President of Islamic Republic of Afghanistan for his signature after the budgetary process through Council of Minister and upper house of National Assembly. Hence, any changes in the ceiling of operating and development budget should take place after the approval of upper house National Assembly otherwise it will be treated unauthrized.
10. Any increase in the organizational structure (tashkeel) of the entities, which is against the budget execution guidelines should be avoided.
11. Projects which are funded through loans should be clearly reflected in the budget documents and budget attachments at the time of preparation of the budget. Furthermore, the General Directorate of Budget is required to revise/update the documents related to the loans committeed, loans paid and loans exempted from previous years up to the 1392 with the help of the General Directorate of Treasury and reflect the figure in the subsequent years budget, to avoid any difference between the budget documents and documents of the General Directorate of Treasury.

12. In development budget expenditure, serious attention should be given to implementation of projects, as they are financed from loans and foreign grants.

13. Amendments in the codes except those mentioned in the budget execution guidelines is the authority of budgetary units, but the budgetary units do not have the authority to use more than

their actual approved operative budget. The General Directorates of Budget and Treasury are required to adopt necessary mechanisms to control the operative expenditure based on approved budget limitation.

14. In order to avoid misunderstanding, the difference between the budget figures and development budget expenditure related to last year must be clearly defined in the attached document of development budget in the next year.

15. Development budget attachment after the approval of National Assembly and signature of the President becomes the final budget document and all the activities should take place accordingly. The Qatia statement must be prepared as per the budget attachment and no difference should be there between figures in budget attachment and Qatia statement.

16. Amendment in any budgetary section should be inserted in specified column of Qatia statement, any incorrect arithmetical figures will affect the transparency in transactions and it will create further problems. For example, recording amended amounts of development budget contingency funds in the budget attachment column.

17. Budgetary amendments and allotments at the end of financial year should be strictly avoided, as it may not be possible to process the bills and use the allotments within the short time or it may cause illegal activities and possible abuses of funds.

18. The General Directorate of Budget is required to send the forms related to approved allotments to the General Directorate of Treasury for inclusion in the AFMIS well in time.

19. Allotment forms and budgetary amendments must have issuing number and date of the concerned entities, receipt number and date of General Directorate of Budget and receipt number and date of General Directorate of Treasury. Forms without having number and date should not be treated valid.

20. Amounts payable to the Central Bank shall be recorded in the budget document as per the term of agreement between the MoF and the Central Bank, because the Central Bank denies receiving any amounts under the head “Central Bank Recapitlaization” or “Compensation for reduction in the capital of Central Bank”. Furthermore, it is required that those amounts recorded in the budget document for the said purpose must be as per the installments mentioned in the agreement, because it has been observed that mostly the amounts payable to the central Bank were used for other purposes.

21. Audit of the Qatia accounts reveals that due to lack of adequate care of certain budgetary units and the MoF in settlement of advances in time, a huge amount of advance payments are pending for settlements. Therefore, serious attentions of the concerned agencies are drawn for ensuring settlement of advances in time. To avoid any accumulation of unadjusted advances and difficulties in their settlement, it is required to stop execution of next bills of the concerned entity/persons pending settlement of their previous bills as per the stipulated time line.

22. Audit result of 1391 and 1392 reveals that a huge part of amounts transferred to account no. 50055 of the emergency committee up to the time of preparing the Qatia statement was

unadjusted, especially the remaining funds of 1392 which was executed at the beginning of the said year remained unadjusted for one year. MoF and concerned entities are requested to pay due care in adjustment and recovery of the unadjusted amounts.

23. To avoid parking of the government money in contractors accounts, due care should be given in adjustment of the amounts paid for letter of credit (LC) related to Breshna Shirkat to the concerned contractor's account.

24. Figures should be in numbers and letters and relevant figures appearing at different places in the forms (in front and back of forms) should be in accordance with each other. If otherwise, it should not be accepted.

25. While issuing the allotments in foreign currency, its equivalent in Afghani and its exchange rate should be clearly mentioned in the form.

26. Attention should be given to the various articles of Public Finance and Expenditure Management (PFEM) law as well as the Budget Execution Guidelines while preparing and implementing the budget.

27. As per the international standards of accounting and based on Article 7 paragraph 7 of Public Finance and Expenditure Management law, all the transactions should be classified with specific object codes, expenditure with classification in which the purpose is not clear and may cause further embezzlement should be strictly prohibited.

28. The total development budget expenditure 1392 compared with the previous year's shows a marginal increase, but still it is very low. Considering the development budget Qatia statement, there are a number of projects without allotments and expenditure and some of the project despite having allotment showed no activity and their expenditures are zero.

    Therefore, to reach the desirable level of development budget implementation, MoF and Ministry of Economy with the cooperation of other entities are required to enhance the effective mechanism of assessing the projects.

29. Ministry of Finance is required to revise the transferred projects with the cooperation of concerned entities and remove those projects in which no activities have been initiated in many years from the budget document.

30. Contingency funds are included in national budget in certain cases against which it may not be possible to forecast or estimate within the entities budget. However, amendment of contingency fund in unnecessary cases against the identified objectives should be prohibited.

31. Contingency fund in development budget is estimated for projects in less developed provinces, hence its amendment for other purposes specially diverting it to operating budget without approval from National Assembly should be strictly prohibited.

32. The percentage of utilization from contingency fund especially code (900001) policy is clearly indicated in the public finance and expenditure management (PFEM) law. Activities must be as per the said condition and amendments more than the determined limit should be avoided.

33. The audit results shows that certain budgetary forms (budgetary amendments and allotments) related to operating and development budget 1392 are recorded in AFMIS and Qatia statements of 1392, whereas the recording date in General Directorate of Treasury shows 1393. As the financial year starts from 1st Jaddi and ends in Qaws of the next year, inclusion of documents related to the other financial year is not appropriate.

34. Based on revenue Qatia statement, again there is difference in the estimated plan, assessed and collected revenue of the Mostofiats and other entities which shows that revenue plan is not prepared considering the performance of the entities and requires revision in the estimation and planning of the revenue sources of the country. It is required that after analysis and evaluation of the revenue plan based on scientific and accepted methods could be sent to the relevant entity for assessment of the revenue and their practical realization.

35. In the customs revenue plan portion, a huge difference has been observed compared to the total figure, due care should be taken while preparing next year's plans.

36. In order to clearly identify customs and Mostofiat's revenue, it is necessary that revenue Qatia statements of customs and Mustofiats to be prepared separately and should be consolidated in General Qatia account.

37. Audit of bank account (600102) balance, revenue Qatia statement and related documents reveals that a sum of Afs 28.7 billion foreign grants revenue of operating budget was reflected in revenue Qatia statement of financial year 1392, whereas the same was included in government receipt account in 1391. Such recording distort the picture of accounts and revenue. Hence, recording revenue received and taken to government account in the previous fiscal year in the Qatia statement of the next fiscal year should be avoided.

38. Difference has been observed in figures in the Qatia statement compared with the figures in the AFMIS system. This has mainly arisen due to recording of transaction in AFMIS system wrongly. Hence, all transaction should be recorded in their respective parts/sections, as any it affects the transparency.

39. Based on the administrative principles, letters from MoF to other entities should be signed by minister himself. Sending letters which is being signed by the directors in MoF should be avoided.

40. As per the requirement of the paragraph 19 of Budget Execution Guidelines, responses to the letters received by the MoF should be given within 7 working days.

41. Documents and records shall be kept physically also in addition to the financial management system (AFMIS), until capacity for full usage of the AFMIS at the center and at the provinces is robust and AFMIS is free from incomplete records and anomalies.

42. While preparing the statements of the Qatia accounts, the MoF should not rely solely on the information from the AFMIS system, as the latter is still incomplete in certain aspects, but should ensure its accuracy by reconciliation as per accounting books and documents.

43. AFMIS is a new and positive step to modernize Afghanistan accounting system and efforts should be made for better use of the system in center and provinces.

44. To prevent probable misusage of resources, efforts should be made to establish efficient and effective controlling system (internal control) and establishment of accounting department as an independent unit from Treasury Department. Controlling financial activities of the budgetary department, treasury department, revenue department and the budgetary units is essential.

45. It would be appropriate that the revenue department of MoF informs all relevant units to send their revenue reports accurately, timely and with supporting documents to MoF. Since Qatia accounts indicate final accounts of the State's fiscal activities in a specific year, therefore, changes in revenue figures after preparation of Qatia account would not be accepted.

As per the above, audit report of Qatia accounts 1392 is prepared and is being presented to the Auditor General for giving opinion and sending to concerned agencies.

Sd/-

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