Impact of external audit and Naïve adoption of Western Audit on National Solidarity Program (NSP)

By

SIDIQEE Mohammad Nasir
52114603

September 2016

Master’s Thesis Presented to
Ritsumeikan Asia Pacific University
In Partial Fulfillment of the Requirements for the Degree of
Master of Business Administration
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I, SIDIQEE Mohammad Nasir (Student ID 52114603) hereby declare that the contents of my thesis “The Impact of external audit and Naïve adoption of Western Audit on National Solidarity Program (NSP)” are original and true, and have not been submitted at any other university or educational institution for the award of degree or diploma.

All the information derived from other published or unpublished sources has been cited and acknowledged appropriately.

______________________________
SIDIQEE Mohammad Nasir
2016/07/20
Acknowledgement

Writing a thesis is quite a challenging task by all means. It was impossible for me to complete this task without the sincere guidance of my supervisor Professor Yasushi SUSUKI. I am very grateful to you for your suggestions, patience and efforts during seminar class.

I will never forget the seminar classes. They were very informative and enjoyable. During seminar class presentations I learned many things from my Supervisor and other seminar members. Their comments during my thesis presentations were very constructive.

I am thankful to JICA-PEACE team for their sincere support during this whole process and their contribution in capacity building in Afghanistan.

I am grateful to MRRD, SAO and NSP officials and respondents, who were very supportive during interviews.

I am also very thankful to Professor CORTEZ, M.A. for his kind efforts and comments.

Without moral support and encouragement of my family, especially my parents, I may have never been here. Thank you all very much.

Mohammad Nasir Sidiqee
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List of Abbreviations

AGO Attorney General’s Office
ARTF Afghanistan Reconstruction Trust Fund
ASOSAI Asian Organization of Supreme Audit Institution
CDC Community Development Council
CPI Corruption Perception Index
ECOSAO Economic Co-Operation of Supreme Audit Institutions
FP Facilitating Partner
GAAP Generally Accepted Accounting Principles
GAO Government Accountability Office of United States
GIAAC The General and Independent Administrating of Anti-Corruption
GoIRA Government of Islamic Republic of Afghanistan
HOO High Commission Oversight and Anti-Corruption
IFRS International Financial Reporting Standards
INTOSAI International Organization of Supreme Audit Institutions
MRRD Ministry of Rural Rehabilitation and Development
NGO Non-Governmental Organization
NSP National Solidarity Program
SAI Supreme Audit Institutions
SAO Supreme Audit Institution of Afghanistan
UNDP United Nations Development Program
Abstract
According to Transparency International's 2015 report, Corruption Perception Index (CPI), Afghanistan is the third most corrupt country in the world (Transparency International Report, 2015). Unfortunately, this is not the first time that Afghanistan has such a high ranking in the CPI. In 2013, Afghanistan was the most corrupt country in the world (Transparency International Report, CPI 2013). Since 2008, Afghanistan remains one of the top five corrupt countries in the world (Transparency International Report, CPI). Recently, British Prime Minister, David Cameron described Afghanistan as a “fantastically Corrupt” country (BBC, 2016). The SAO of Afghanistan has the responsibility of, and some limited authority, to play a role in diminishing corruption in Afghanistan. 

This research aims to investigate the audit system in use in Afghanistan, how it is contributing towards the mitigation of fraud, what the main reasons for such high levels of corruption are, and how various projects are audited and to contribute to a better-proposed system.

This research will follow qualitative based methodology. Direct interviews with NSP, SAO, MRRD officials, auditors and CDC accountants were conducted. The research will also compare national and westernized audit systems for a better understanding of current issues.

The absence of a proper institutional framework, adoption of the western review system without a realization of the ground realities of Afghanistan, systemic corruption, lack of auditing strategy for insecure areas, excessive bureaucracy, lack of competencies in the audit institutions, and deficiencies in the internal audit system are the main reasons for the current corruption situation in Afghanistan.
There is an extreme need for proper audit standards in the context of Afghanistan; SAO needs both a short and long term strategy for the capacity building of its auditors. All anti-corruption institutions should work under one umbrella, and audits may not be the only resolution of corruption.
Chapter 1: Introduction

1.1 Background of Study

The predominant purpose of this research is to investigate why the current audit system is not operating sufficiently, and how the institutional framework is contributing to corruption in Afghanistan. It is important to study the current standards and procedures followed by the Supreme Audit Offices of Afghanistan (SAO) and compare them with other government audit institutions to find differences. Therefore, SAO and U.S. Government Accountability Office (GAO) are compared. It is crucial to explore the main differences regarding realistic proofs as to why there is so much difference regarding overall results. Although their work environment is very different, as well as their challenge, their primary aim remains the same.

The government of the Islamic Republic of the Afghanistan (GoIRA) and International donors are highly fretful about the current level and forms of corruption in the country, as it is menacing the whole state-building process in Afghanistan (The World Bank, 2009). Corruption is not only a waste of much-needed funds for Afghanistan, but also results in forms of a misrepresentation of government in various terms: increased nepotism, lack of trust from international partners, and many other dimensions of corruption (The World Bank, 2009). In effect, many national and international observers believe that corruption is one of the reasons for the prolonged insurgency in the country.
The current financial audit laws of the Government of the Islamic Republic of Afghanistan (GoIRA) are not standardized and they are not meeting the criteria of world audit organizations, such as the International Organization of Supreme Audit Institutions (INTOSAI) (SAO-strategic plan, 2013). The Supreme Audit Office (SAO) of the Government of the Islamic Republic of Afghanistan (GoIRA) has very limited authorization unlike other Supreme Audit Institutions (SAIs). As far as the auditing capability of SAO is concerned, they lack professional human resources, modern audit techniques, and other required resources. Also, their reports have not clearly pointed out the issues. As a result, stakeholders are not satisfied with their audit reports and they are not achieving their goal (SAO-strategic plan, 2013).

**Corrupt officials in Afghanistan**

Percentage distribution of bribes by requesting official

<table>
<thead>
<tr>
<th>Public official</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Judges</td>
<td>19</td>
</tr>
<tr>
<td>Municipal and provincial officers</td>
<td>14</td>
</tr>
<tr>
<td>Customs officers</td>
<td>10</td>
</tr>
<tr>
<td>Prosecutors</td>
<td>9</td>
</tr>
<tr>
<td>Police officers</td>
<td>7</td>
</tr>
<tr>
<td>Members of the government</td>
<td>6</td>
</tr>
<tr>
<td>Cadastre officers</td>
<td>4</td>
</tr>
<tr>
<td>Tax and revenues officers</td>
<td>4</td>
</tr>
<tr>
<td>Others</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: (United Nations Office on Drugs and Crime, 2010)

*Figure 1: Corruption in Public officials*

Corruption is present in all government sectors. Many high-ranking government officials are involved in corruption. In (*Figure 1*) we can see that it is divided into all public sectors.
Afghanistan’s government has taken many steps to cope with corruption in all sectors. It is hard to believe that after taking so many anti-corruption steps, the corruption levels are still on the rise, as can be seen from (Figure 2). Since 2013 there was a rapid increase. One reason for the rapid growth in corruption since 2014 may be the withdrawal of international forces from Afghanistan. The General and Independent Administrating of Anti-Corruption (GIAAC) and Attorney General's Office (AGO), are the governing bodies tasked with anti-corruption duties (The World Bank, 2009). Since SAO is responsible for the overall government audit, specifically the audit of Qatia, or annual financial statement (The World Bank, 2009), and is also responsible for the audit of internal audit departments of the ministries. Therefore, SAO is playing a significant role concerning anti-corruption.

1.2 Problem Statement
To understand the problem statement of this research, it is necessary to know the structure of current anti-corruption efforts and audit institutional framework, authorities, responsibilities and standards they use. Due to the high level of corruption in Afghanistan, donor agencies have a strong demand for accountability and strict audit procedures. Currently, GIAAC, AGO, and SAO are responsible for anti-corruption measures and promotion of accountability in government agencies in Afghanistan. But their responsibilities are not clearly defined. The scarcity of competencies, standards, and proper planning in SAO has resulted in a distrust of donors. Following western audit system without knowing its applicability in context of Afghanistan are some of the main issues.

1.3 Research Objective
1. The main idea is how to stop corruption with an effective audit system in a war-torn country to satisfy various stakeholders’ needs. These stakeholders are both the national and international community.

2. To figure out the current factors and determinants for a better audit system in the context of Afghanistan by comparing western and local audit practices.

3. This research intends to find main issues in current audit structure of Afghanistan and based on those findings, suggest proper alternative system.

1.4 Research Questions
a. How would the implementation of Western audit principles be feasible in Afghanistan?

b. Does a government audit help reduce corruption in Afghanistan?

c. Are the auditors capable enough to conduct an audit of various types of projects, such as NSP?
d. Are there any specific procedures for carrying out their routine audit in hazardous areas?

1.5 Hypothesis

Limited human resources capacity lead to an inefficiency of audit results, and the naïve adoption of a Western audit system is contributive to the current level of corruption.

Government audit is helpful in corruption reduction in Afghanistan, but its results should be accessible public.

Lack of competency in SAO auditors’ in auditing various types of projects other then government projects leads to less impactful audit.

The effectiveness of projects is affected due to the various and complex policies and regulations of external auditors

1.6 Need for Audit research

It is crucial for Afghanistan to have a proper audit system, as both the domestic public and international donors demand it. Corruption is very high and is getting worse every day. Therefore, a proper and a more functional system are needed to meet the challenges ahead. During the last decade or so, the Afghan government has made many efforts to overcome the high level of corruption in the country.

They have established many high-profile oversight offices to reduce the degree of corruption in the country. Unfortunately, their efforts have been without many rewards.

The establishment of Oversight and Anti-Corruption (HOO) and restructuring and strengthening of Supreme Audit Office of Afghanistan are some of the initiatives that the government has taken to bring down the level of corruption in the country. It is better to understand the current situation of the audit institutions
and propose beneficial changes. Lack of study regarding the roots of the current corruption problem in the country is not assisting Afghanistan in overcoming this situation. This research may contribute to many of its stakeholders, especially MRRD, NSP and SAO.

1.7 Methodology
This research will follow a qualitative based methodology.

Direct interviews with NSP, SAO and MRRD officials and auditors were conducted. As SAO has to audit various types of projects, including international donors, specifically Western countries. Therefore, these donors demand western audit procedures to be followed.

So, research compared national and westernized audit systems specifically looking at the case of Afghanistan and U.S.

The research explores the available audit reports of external auditors as secondary data, while direct interviews with NSP, SAO, and MRRD officials were conducted.

The research will also compare national and westernized audit systems.

1.8 Limitations of the study
Due to time limitations and restricted access to anti-corruption agencies, the research may not have collected complete data during the field visit. There are very limited studies about the SAO and its audit performance. Findings of this study are based on the assumptions and experience of the respondents.

1.9 Disposition
In Chapter one, an introduction is offered, where study background, the problem statement, research objective, research questions, the need for this research in Afghanistan, methodology and limitations of the study are discussed.

In chapter two, the literature review, discusses what an audit is, Internal Audit and External Audit, audit in insecure areas and social audit, auditors qualification and selection process, Public Sector Audit and supreme audit institutions, corruption and corruption in Afghanistan. Chapter three is about the audit history in Afghanistan, the concept of audit, origin of the audit, primary objectives, auditor's qualities and overview of audits in Afghanistan are discussed. Chapter four is the comparison of SAO and GAO. Chapter five covers the main topic of methodology, research approach, data collection and secondary data. Chapter six covers the research findings. Chapter seven offers a conclusion and bibliography.
Chapter 2: Literature Review

In this section internal and external audits are discussed. Audit in insecure areas, social Audits, auditor qualification and selection, supreme audit institutions and international audit and public audit, corruption, and corruption in Afghanistan also a part of this chapter.

2.1 Internal and External audit

2.1.1 Internal Auditing:

Internal Auditing is independent, neutrally guaranteed and discussing action intended to increase the prominence and develop an organization’s activities (Institute of Internal Auditing, Website).

Although, internal auditor are operating for the organization and they are part of the overall structure of the organization, but they are authorized to express their opinion about the activities and the decision of the body.

MRRD has its own internal auditing department and since NSP is a combined project of MRRD and the World Bank, therefore NSP usually audited under the World Bank and MRRD audit procedures.

2.1.2 External Audit:

External auditors are not part of the organizational structure, and they are external to firms that express their opinion about an organization's financial performance and other activities. Usually supreme audit institutions are responsible for external audit of public project in a country.
In Afghanistan, SAO is responsible for external audit of NSP and other governmental projects. SAO reports their external audit findings to the government of Afghanistan and the World Bank.

2.1.3 Audit in insecure areas and Social Audit

Afghanistan is a vast country, with a lot of remote regions. In most parts of the country, security is a very challenging issue. As Afghanistan is a mountainous country, rural areas are very hard to access. It is hard to reach those areas, especially considering the current security situation. Although the government has access to those areas, during the winter season some areas are completely unreachable. Due to the lack of access, many projects cannot reach these areas. Some projects that are implemented are associated with many corruption allegations. Although there are many cases of various kinds of corruption, the main issue is “systemic corruption”, which has risen out of excessive bureaucracy (The World Bank, 2009, p.52). To halt such practices in these areas, there is a need for supervision. A social audit is helpful in this regard, as it will involve locals to monitor their projects at the community level. According to Archie B. Carroll and George W. Beiler, Social Audit is a theory of how to supervise, assess and scale the regular business by people. Robert D. Hay states that there are many definitions of “social audit”, and the term is relatively new and it discusses the “social responsibility” of firms.

Currently, NSP is using a social audit system in remote and insecure areas of Afghanistan. It is almost impossible for internal and external auditors to reach these areas. NSP projects are implemented in these regions. NSP conduct social audit of its project through the residents of these areas. NSP form teams of various
members and train them how to conduct the audit. These groups report their finding to NSP provincial officers. Although their results may not be very accurate, it is helpful in such areas.

2.2 Public Sector Audit and Supreme Audit Institutions

The role of the state-run audit institutions has deep historical roots, and for most countries they remained a highly critical division of government structure. Audit in the public sector is somehow different regarding accountability, central purpose and practice from other public sector management systems (Wilkins 1996, 422; Power 1997, 45).

Although, many terms are used to refer to a state audit, like public sector audit, or even merely public audit, which has always, played integral part in overall accountability in a political system. This type of audit is usually conducted and demanded, when one of the patrons cannot inspect accomplishments of the other party, usually due to lack of resources at an operational level (Power 1997, 137). By the means of demonstrative accountability, an audit provides a systemic procedure and impartial information to many stakeholders in a responsible manner (White and Hollingsworth 1999, 9).

Although audit perception and definition has considerably changed in the last decade or so, the primary objective remains the same. Currently, it can be used for a much broader purpose than the sole use for the auditing of financial statements. The very fundamental purpose of modern day qualified external auditors is to express their opinions on the firm's financial statements in a very neutral manner (Power, 1997). It is also noted by (Power 1997, 17; also Gray 967; Geist 1981, 3) that independence is the most challenging practice for auditors and it is the
trickiest part to generate an impartial and unbiased audit report. Similarly, it is
total for auditors involved in public auditing to produce fair and impartial reports
to acquire the necessary confidence of all stakeholders without any undue
pressure. This is due to the many stakeholders involved in public audits, each with
different priorities. Therefore it is a challenging task for an auditor to practice and
deliver reliable reports.

2.3 Auditors qualification and selection process

According to the Institute of Internal Audit and also cited by Reynolds, M. A. (2000)
Internal auditors have to follow these principles:

1. **Integrity**

   The honesty of internal auditors creates belief and is helpful for conducting an
   impartial and reliable audit.

2. **Objectivity**

   It the responsibility of an internal auditor to practice proficient detachment,
   while collection, examining and informing regarding the audit carried out to
   the clients. The audit results should be based on the facts and should cover and
   address all issues without the encouragement of personal or other benefits.

3. **Confidentiality**

   A professional internal auditor regards the significance and possession of the
   evidence they collected during the audit process and are legally bound not to
   disclose it without given power.

4. **Competency**

   An internal auditor should exercise and operate abilities, awareness, and
   proficiency while conducting an audit.
2.4 Corruption
The word corruption has been taken from Latin word ‘corrumpere’, which means ‘bribe,’ ‘mar’ and ‘destroy.’ Transparency International’s website defines corruption as "the abuse of entrusted power for private gain". Corruption can be classified into many classes, like big, small and political. It varies at different levels and different purposes. Corruption can also be defined as “the abuse of public position for private gain", is quite a realistic definition for the current corruption problem in Afghanistan.

Klitgaard, (1996) formulate corruption as:
“Corruption = Monopoly Power + Discretion – Accountability

In this formula, the word ‘accountability' is used as a function of ‘transparency'. Transparency can effect ‘accountability', ARC (2007) quoted as "[s]ufficient information must be available so that other agencies and the general public can assess whether the relevant procedures are followed, consonant with the given mandate" (ARC, 2007). But Stephan and Constantin (2012) made some changes to the equation and suggested that a ‘moral dimension' should also be included in the original form because it has a relation to corruption.


2.5 Corruption in Afghanistan
In Afghanistan, corruption exists in many forms and different levels. As per Transparency International's Corruption Perception Index, since 2000, Afghanistan has consistently scored very low and remains at the bottom of the list. In 2005, Afghanistan's rank was 117, but it drastically declined down to 160 out of 162
countries in 2015. Even though a lot of efforts were made and a handful of financial resources were spent to reduce the corruption level. As a result, little progress was made, and the overall picture remains bleak (Bertram I. Spector, 2012). As part of these efforts to halt corruption in the country, the Afghan Government has established the High Office of Oversight and Anti- Corruption (HOO) and strengthened the Supreme Audit Office (SAO) of Afghanistan (Bertram I. Spector, 2012), but considering overall efforts, progress level is very low.

The ground realities are also very dire regarding corruption. Many surveys show that the situation is worsening further. According to studies that have been conducted by Integrity Watch Afghanistan, UNDP (2005) and the World Bank, indicate that most of Afghan citizens believe that without paying the bribe, government services cannot be obtained. Although most Afghans are willing to pay some bribe to lower income staff.

What is worrying is the systemic and networked corruption. In this type of corruption, many government and third party or agents are involved. This kind of organized fraud is operating in networks inside and outside of the system. Also, it exists in many sectors such as "police, the justice system, municipalities, and customs" The World Bank (2009). Government officials at the top level are the ones who receive most of these rewards.

International donors and partners are also profoundly uneasy about the current situation. Many Afghans believe that the current differences in wages and reward systems of the government and international NGOs and foreign organizations operating in Afghanistan are encouraging corruption in the country. On the other hand, the government of Afghanistan is concerned with the manner in which these organizations operate, and the feasibility of their projects. The Afghan government
believes in spending aid and other financial resources, even though these channels are not productive and fruitful. The Afghan government also argues about the subcontracting of projects and offices and staff that are located outside Afghanistan are wasteful of these funds donated to Afghanistan.

Beside SAO, President of Afghanistan has announced the establishment of the General Independent Administration for Anti-Corruption (GIAAC) in 2004, (The World Bank, 2009) to tackle corruption in the country.

2.6 Supreme Audit Institutions (SAI)

Supreme audit institutions are central regulator agencies, which undertakes external audits of government institutional expanses, income and assets.

Supreme audit Institutes are paramount figures for ensuring accountability in the government sector. Although it has some limitations as quoted by Kayrak, M. (2008) "SAIs are regarded as prominent figures to protect public sector transparency and accountability albeit lack of functional, institutional and financial independence would be seriously detrimental to proper functioning of them". Besides these limitations, SAI's have legal authorities and much necessary expertise and access to government financial management. In Afghanistan, the Supreme Audit Office has to report to the President of Afghanistan and the Afghan Parliament. The roles of these institutions are vital, but they need a sufficient amount of support and independence to carry out proper and entirely independent audits. Kayrak, M. (2008) argues that there are mainly three institutional frameworks, which can shape the supreme audit
institutions, but it varies by the type of the political culture in the country. Firstly this type of the examination system can be called a "court of accounts," and can be audited through compliance review under the rules of the country. Secondly, the "auditor general with no judicial power" governs these institutions, as they are the neutral body, which usually report to the parliament of the country. Thirdly, an audit board manages this board system, and they don't have any judicial power and operate on a "Westminster model."
Chapter 3: Auditing history in Afghanistan

In chapter three Concept of Audit, Revolution of Audit, the main objective of an audit, auditor's ethics, the overview of audits in Afghanistan, and the National Solidarity program are covered.

3.1 Concept of Audit

The central concept of an audit is taken from the Latin word ‘audire', which means 'to hear'. So, it can be said that an auditor was initially a ‘hearer.' The core function of these ‘hearers' or auditors was to check and declare if the audited statements were correct and in line with the rules and standards. One of the main tasks for an auditor is to stop the misconduct, fraud, and misguiding of financial statements. Accounting has many rules and standards, and auditing can be called applied accounting. Similarly, conventional auditing has its own criteria and regulations. These rules and regulations are created to place the audit process into a systemic framework to achieve the desired goals and convince the stakeholders. In conventional auditing, the main purpose is to check whether the financial statements were prepared according to standards and the mentioned statements are "true and fair" (Salehi et al., 2009).

During the past decade or so, some changes were made in the functions of the auditors from 'hearer' to verifier. As a result in modern day auditing, the auditor has to declare his opinion that the financial statements are accurate and reliable or otherwise (Mahdi S. and Vahab R., 2010). Therefore, it is the responsibility of the auditor to form an exact and trusted opinion regarding the financial statements of the audited firm and the data should be reliable for external users and stakeholders. The new perception of assessment emphasizes the variation of possession and governance. Auditors are examine the bookkeeping evidence provided via the corporation that is
going to be audited and then the auditor declares his opinion to stakeholders, usually shareholders, government and so on. These stakeholders can use this information for multiple purposes. It is stated by (Tandon, 1999) and also cited in (Mohiuddin, 2012) that there are four chief features of conventional auditing:

1. Inspections should be carried out impartially
2. Neutral review was undertaken to examine financial statements of the organization for fraud or other intentional misconducts, regardless of the organization's profit and loss
3. These verifications are performed to find out financial statement data are correct and reliable
4. After examining the financial data, auditor declares his/her opinion regarding the results of his/her audit
As shown in the (Figure 3), the review process consists of some steps. Before beginning any audit, auditors should know clients. Knowing means that the auditors should have prior knowledge about the customer's organizational structure, primary businesses, strategies and financial matters. After that, the auditors should make audit planning, where auditors have to decide what types of information needed, which documents are required to be examined, and so on. The next stage is to visit the field and conduct the audit per plans to find facts. Once the necessary data are obtained, and reviewing of the documents is done, the auditor has to analyze the findings. Based on their professional competencies and audit laws, the auditor has to take decisions and provide his opinions. It is the responsibility of the auditors to report their finds to associated entities and maintain documents of their reports.

3.2 Origin and Evolution of audit

Auditing has a very long and ancient history. Auditing was first practiced during Mesopotamian Civilization back in 3600 B.C. Since then, many civilizations have used auditing for accountability, and check and balance purposes. The Egyptians, the Greeks, and Muslims used auditing for various purposes (Jahidur R. 2013). Although different civilizations have used an audit for different purposes, the main concept remains the same. Greeks used to audit government officials, and Egyptians used it for examining the commodity expenses, while Muslims used it for accountability. In the period of Umar (RA), ‘Hisbah’ was used for an audit, as receive of payment and recording the transaction was tasks of different persons (Jahidur R. 2013).

In the early 14th century, the business environment has changed, and many changes
have occurred. The introduction of a "barter system, sole proprietorship, and Partnership" has emerged (Jahidur R. 2013). As the partnership was developing, the role of internal audit was also becoming more and more significant. In the 18th century, the industrial revolution had begun. As a result of the evolution, the role of the third parties become more evident. Stock companies start operating in many countries. The required qualification, roles, and responsibilities of internal auditors have defined clearly. In late 18th century, the external audit was more frequently used. Similarly, the other audit type, performance review, social and environmental audit was becoming famous and widely applied in the late 19th century. Since the early 2000's the use of Shariah auditing became popular in many countries, especially in Islamic countries (Jahidur R. 2013).

3.3 Main Objectives of Audit

Auditing has similarities with management. Although auditing is a different field and auditors have independence, management has influence over auditors. Routine audits have two fundamental objectives, specific and general.

3.3.1 Specific Objectives
Specific audits are carried out for specific targets, to fulfill the requests. Every audit is conducted under specific requirements and situations, but overall these demands and circumstances should satisfy the primary objective of the audit. These specific objectives are the portion of the general audit objectives.

3.3.2 General objectives
The general aim of the audit can be accounting balance. The general objectives are retained in an audit as it will be helpful to overall accountability. For an auditor, it is necessary to follow and fulfill these main objectives and features.
I. **Reasonability:** At the beginning of the audit process, usually an auditor establishes a view of what might be the case in the records of the account that is going to be audited. Similarly, an auditor will form his/her opinion about the statement. After considering these points, the auditor will make a tentative plan for the audit of the required account. The auditor will also find what types of evidence will be needed, how long it might take to complete the process, and what documents he/she needs to check and so on.

II. **Validity:** Validity is an important factor to be considered during the audit process. The auditor needs to check the transactions validity, so the source that is going to be audited is required to present the financial statements to the auditor.

III. **Completeness:** It is the responsibility of the auditor to check if the transactions are accurately recorded and is according to rules and regulations of the concerned parties. Besides the need for valid transactions, auditors have to check if all the legitimate transactions registered in the financial statement.

IV. **Ownership:** It is the audit, which decides the ownership of assets and liabilities to be recorded in the financial statement. Although management has assertions on the recording of assets and liabilities in financial statements.

V. **Valuation:** It is the responsibility of the auditor to decide whether the prices of the assets and liabilities, which are documented, are precisely reflected in the financial statement.

VI. **Classification:** Another main objective of the audit is to find out whether the transactions are correctly classified, and titles for each, are recorded correctly and in line with the rules and regulations of the concerned organization.

VII. **Mechanical Accuracy:** Besides other objectives, the audit has to look for mechanical accuracy of the particulars of the financial statement.
VIII. **Disclosure:** The auditor involved in an audit, should also consider that all 
required and relevant information are part of the financial statement.

3.4 Auditors Ethical qualities
An auditor must respect organizational rules and have acceptable ethics. Behavior 
that is acceptable to human beings in a society can be called ethical conduct. 
Besides professional auditing qualities, auditors should also have good moral 
qualities in order to be acceptable. There are many codes of conduct that need to 
be considered for audit professionals to be acceptable in society. Two primary 
professional codes of ethics are (a) the general statement of acceptable conduct 
and (b) specific guidelines for identifying unacceptable behavior.

**Principles of Professional Ethics:** an auditor should follow the following 
principles.
1. Should be impartial and should preserve his impartiality and honesty during 
   auditing.
2. Should follow the technical standards of auditing proficiency and continuously 
   look for updates in standards and improve his auditing abilities.
3. An audit should be conducted in an unbiased way, and an auditor should 
   maintain a good relationship with clients to make the process convenient.
4. Should also have a pleasant relationship with other auditors to make 
   information sharing easier.
5. As part of society, auditors must have the public interest as one of their 
   priorities.
3.5 Overview of Audit in Afghanistan
Auditing has a history of more than one century in Afghanistan in various forms.

The Supreme Audit Institution of Afghanistan operating as an independent organization.


Figure 4: SAI's audit process

They report their audit findings to both the President and Parliament of Afghanistan. As shown in (Figure 4), similar to other international supreme audit institutions, SAO report to Parliament and President of Afghanistan.

3.6 National Solidarity Program (NSP) Afghanistan

The National Solidarity Program is one of the main programs of the Government of Afghanistan, and it was inaugurated in 2003. It is a community
base project, with the main objective of community empowerment in
countryside areas, establishment of local governance structure and women
empowerment, etc. (NSP, annual program reports, 2012).
The program has reached all provinces in Afghanistan. Since Afghanistan is a
mountainous country, it is hard for the government to have access to many
parts of the country. Although Ministry of Rural Rehabilitation (MRRD) of
Afghanistan implementing National Solidarity, leading donors are World
Bank, EU, Japanese Social Development Fund (JSDF) and some other
bilateral donors.
Currently, the National Solidarity Program operating in all 34 provinces of
Afghanistan with 35 Facilitating Partners (FPs) of national and international
NGOs, is implementing projects at a field level. NSP has covered more than
40,000 communities in the country, and has completed more than 64,000
development projects all over Afghanistan. The National Solidarity Program's
three phases have already completed, namely NSPI, NSPII and NSPIII (NSP
Afghanistan, website)

3.7 World Bank Corruption guidelines
According to Huther & Shah (2000), World Bank follow the following polices about
anti-corruption.

1. Avoiding fraud and bribery in the World Bank projects.
2. ‘Mainstreaming’ a fretfulness in World Bank
3. Offering assistance to reduce corruption worldwide.
4. Supporting countries to overcome corruption

Based on the above policy, World Bank support anti-corruption efforts in
Afghanistan. Beside financial support, World Bank also provides technical support
SAO in order to help reduce corruption.
In NSP World Bank has introduced many anti corruption measures. Auditing of NSP through international audit firms such as Deloitte a U.S. based audit firms and other famous audit firms are good examples of such efforts.
Chapter 4: Critical Comparison of Government Accountability Office and Supreme Audit Office

In chapter four SAO and GAO are compared. How both organizations are working and what the main differences between two institutions are.

4.1 Supreme Audit Office of Afghanistan
The supreme audit office of Afghanistan established the 1940s, but the current structure was created in 2001. The SAO has membership of INTOSAI, ASOSAI, ECOSAI and other international audit organizations (SAO, Website). The SAO mission is to be “an independent, efficient and effective Supreme Audit Institution that promotes public accountability and transparency” (SAO, strategic plan, 2013). They have around three hundred staff and four regional offices in Afghanistan. They conduct between 400 to 500 audits on the annual basis.

<table>
<thead>
<tr>
<th>S.N0</th>
<th>Description</th>
<th>Number of staff</th>
<th>Number of posts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>1</td>
<td>PHD</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Master and above bachelor</td>
<td>14</td>
<td>Nil</td>
</tr>
<tr>
<td>3</td>
<td>Bachelor</td>
<td>112</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>Above Baccalaureate</td>
<td>31</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 4-1: Education level of SAO Auditors

The issues that most of the auditors and other finance and accounting experts raised were the quality, skills, and education level of the auditors. According to the World Bank (2009), a lack of professional human resource is a serious threat in auditing. As shown (Table 4.1), a limited number of auditors has the required level of education to be a good auditor. Only 133 out of 243 auditors have a high level of education. During the interviews with NSP finance officials, most of them were concerned about the level of professional education of SAO auditors. SAO auditors have very limited knowledge of professional auditing, and their selection criteria are not in line with international practices (World Bank, 2009). It is also interesting that some of those who are educated; their education is not specifically in Auditing or Finance.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Directorate</th>
<th>Number of Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Audit Department</td>
<td>44</td>
</tr>
<tr>
<td>2</td>
<td>Audit Department of Enterprises</td>
<td>19</td>
</tr>
<tr>
<td>3</td>
<td>Audit Department of Provinces</td>
<td>34</td>
</tr>
</tbody>
</table>
4.2 Government Accountability Office

The Government Accountability Office (GAO) is a self-governing organization that has the responsibility of administrating and reporting the expenses of the federal government of United States. Many names are used for GAO, such as "Congressional Watchdog," "investigative arm of the Congress" and "defender of public interest" (GAO, 2014) and also cited by Afaqī, M. M. J. (2015). They are also a member of INTOSAI and they practice U.S. GAAP accounting standards. The head of GAO is called the Comptroller General and is usually assigned by the President of United States, following the approval of the Senate Afaqī, M. M. J. (2015).

4.3 Critical Analysis

Both SAO and GAO are practicing different audit standards and internal procedures. Both SAO and GAO are members of INTOSAI, but GAO has many internal standards for internal and external audits. They have years of experience and highly

### Table 4-2: Auditors division in various departments of SAO

<table>
<thead>
<tr>
<th></th>
<th>Audit Department of NGOs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Internal Audit Department</td>
<td>17</td>
</tr>
<tr>
<td>6</td>
<td>Audit Department of Construction</td>
<td>12</td>
</tr>
<tr>
<td>7</td>
<td>Audit Department of Municipalities</td>
<td>10</td>
</tr>
<tr>
<td>8</td>
<td>Audit Department of Revenue</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Performance and Environmental Audit</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>164</strong></td>
<td></td>
</tr>
</tbody>
</table>

(Source: SAO Website)
qualified staff. Their employees have competencies in audit, and they are familiar with national and international standards. They have openly announced that each dollar spent on GAO has a return of 134 USD.

On the other hand, SAO has many challenges to face. They are relatively inexperienced in modern auditing and not familiar with international audit standards. The hiring process is not based on international practices and maybe one of the reasons for lack of competencies. This can be seen in (Table 4.1). The World Bank (2009) quoted

“There are also other major variances with international standards. External Audit staffs are not appointed based on specific accounting qualifications and international standards for auditor competence.”

<table>
<thead>
<tr>
<th>U.S.-GAO</th>
<th>Afghanistan-SAO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Symbol</strong></td>
<td><strong>Institutional Logic</strong></td>
</tr>
<tr>
<td>Dollar Saved</td>
<td>Consequence with public as a regulator of their taxes as well as significance with the free market standard.</td>
</tr>
<tr>
<td>(134 USD saved by GAO for each Dollar spend in GAO)</td>
<td></td>
</tr>
</tbody>
</table>

Table 4-3: Audit Slogan of SAO and GAO

As far as audit slogans are concerned, GAO has clearly described on their website that each dollar spent on GAO, will save 134 USD. It is based on their calculations of the public
amount collected through audit procedures of GAO. Also GAO's structure and audit standard have covered all aspects of American audit.

GAO has a clear message for American Tax payers, that their audit system is strong enough to not allow federal government to spend public fund in wasteful manner by any mean. In this way they have created a very good image in American society as a “watch dog” agency.

SAO's audit symbol is recoveries, but there no specific amount of recoveries mentioned, although they have put their audit finding on their website. They are only following international audit standards; they don't have any internal procedure for audit in context of SAO's audit symbol is recovery, but there is no specific amount of recoveries mentioned, although they have put their audit finding on their website. They are only following international audit standards; they don't have any internal procedure for audit.

SAO lacks public trust and they are not acting collectively.

Therefore, GAO has a collective and more focus institutionalize system. While SAO lacks vision and are not operating in collective manner.

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Institutional Logic</th>
<th>Locus of Institutionalization</th>
<th>Symbol</th>
<th>Institutional Logic</th>
<th>Locus of Institutionalization</th>
</tr>
</thead>
</table>

Work Ethics
| GAO’s Core Values: Responsibility, Honesty, Trustworthiness | Normative ethics Scopes Of work Institutional Honesty | Collective Independence Integrity, Objectivity, Impartiality & Neutrality, Competence & Professionalism, Confidentiality, Cooperation, Innovation, Relevance | No shared possession. Individual’s are lead by individual morals. | Individual |

Table 4-4: Work Ethics of SAO and GAO

Both GAO and SAO mention core values. GAO core values are well defined and understandable. They work collectively to achieve the main goal of honesty and trustworthiness, as most of GAO auditors are professional auditors. SAO has described many core values, but during interviews, most of the respondents were concerned about the lack of direction from their seniors and coordination among various audit departments.

It is also worth mentioning that GAO auditors are operating in a very peaceful and comfortable working environment. But SAO auditors are not feeling save during their usual audits. SAO auditors’ wages were increase five to six times higher then other public employees in Afghanistan (SAO, Strategic plan 2009). During interviews most SAO auditors complained about their security.

4.4 Advantages and Disadvantages of western Audit system:

4.4.1 Advantages:
Western audit is helpful in satisfying the requirement of international donors. Since many donors demand for western audit system, based on their needs and anti-corruption efforts. Since, many donors follow IFRS system, therefore it is more
convenient for them. It is beneficial for SAO auditors to practice and follow international audit procedures.

4.4.2 Disadvantages:
SAO is not fully capable of following different audit procedure. Although it is advantageous for SAO auditors to practice various audit system, but it is complex for them to follow as they lack competency.

Usually western audit reports are written in English language, but SAO auditors are professional writers in English language, therefore there are possibilities of errors.

Some donors are not satisfied with SAO audit reports. Recently United Nations Development Program did not allow SAO to audit their projects, as SAO did not meet UNDP criteria for external audit.
Chapter 5: Methodology

Chapter five covers the main topic of Methodology, such as research approach, data collection, and secondary data. Interviews and qualitative method are also discussed in this chapter.

This chapter will focus on how the research was carried out. To collect primary data direct (face to face) interviews were conducted during the field visit. The interviews were held with management level staff of Ministry of Rural Rehabilitation and Development (MRRD), National Solidarity Program (NSP) and Supreme Audit Office of Afghanistan (SAO). Also, interviews were conducted with the auditor of SAO, MRRD, and Community Development Councils (CDC) finance staff. National solidarity program has no internal audit department, but they carry out internal audit through the Internal Control Unit and Financial Monitoring Unit.

5.1 Scientific approach
To fully understand ‘theory' and ‘method,' is to have become a mindful intellectual, a person in the field and conscious of the expectations and consequences of everything he/she is approaching. To be mastered by ‘method’ or ‘theory’ is simply to be working or practicing that ‘method’ or ‘theory’ (C.Wright Mills, cited by Afaq, M. M. J. 1970, 1).

According to Erikson & Wiedersheim-Paul (2001), scientific researches can be divided into two main classes, which are positivistic and hermeneutic. But it is argued by (Arbon & Bjerke, 1994), that scientific technique of research cannot be fit for social science. In social science, usually, researchers have some pre-knowledge and
understanding about the topic of their research. Since they have knowledge and understanding of the issue, therefore during their research process it is easier for them to find further resources for their data collection. Having some background and relation to the research will be very helpful to take the study to the next level, which is an in-depth study. At this stage, the research will use literature related to the topic, will have to find respondents with similar background and use their ideas and experience through systemic methods and according to rules and regulations. The researcher will interpret this information for developing their awareness and explaining the existing studies’ results. According to Erikson and Wiedersheim-Paul (2001), during research, new point/issues may be raised, and latest negotiations or interviews would respond to these matters with tools specifically used in the study.

The main idea of this research is to find out the reasons for the current issues of corruption in Afghanistan, how can it be tackled and what should be the role of supreme audit office Afghanistan in this regard. Since NSP is one the main projects of the government of Afghanistan, and donor agencies are always demanding for greater measures to tackle corruption. Therefore, the role of the external audit for bringing accountability will also be examined. To find the current situation and recommending solutions, I have conducted interviews with ten field auditors of supreme audit office of Afghanistan and five management level staff of supreme audit office. Also, during the data collection phase, I have interviewed three audit staff of Ministry of Rural Rehabilitation and Development and two finance department staff of the ministry. To find the impact of the external audit conducted by Supreme Audit Office and the internal audit carried out by the ministry's internal audit/control department, I have also conducted interviews with three (Block grant, Operation fund and program fund) unit heads. I conducted interviews with financial monitoring staff, which are currently
working on the block grant unit. Besides conducting interviews with NSP finance
department staff, I also conducted direct interviews with five community development
council's finance and accounting staff.

<table>
<thead>
<tr>
<th>Name of Organization</th>
<th>Position of the interviewee</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>MRRD</td>
<td>Director of Finance</td>
<td>MRRD/Kabul</td>
</tr>
<tr>
<td>MRRD</td>
<td>Internal Control</td>
<td>MRRD/Kabul</td>
</tr>
<tr>
<td>MRRD</td>
<td>Internal Auditor</td>
<td>MRRD/Kabul</td>
</tr>
<tr>
<td>MRRD</td>
<td>Internal Auditor</td>
<td>MRRD/Kabul</td>
</tr>
<tr>
<td>MRRD</td>
<td>NSP Finance Manager</td>
<td>MRRD/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Head of Finance Department, FMA</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Deputy Head of Finance Department</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Unit head of Block Grant, Unit</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Unit head of Operation Fund, Unit</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Block grand Manager</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Financial Monitor officer</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Financial Monitor officer</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Internal Control, Unit head</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Monitoring and Evaluation Unit Head</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Provincial Accountant, Saripul, Province</td>
<td>MRRD/NSP/Kabul</td>
</tr>
<tr>
<td>NSP</td>
<td>Accountant, Parwan Province</td>
<td>Parwan Province</td>
</tr>
<tr>
<td>SAO</td>
<td>Plan and Strategy Directorate, Officer</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>Auditor, Contracted</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>Auditor</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>Auditor</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>Auditor, South Zone</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>Auditor</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>Human Resource, Officer</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>External Audit, Officer</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>Auditor</td>
<td>SAO, Kabul</td>
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<td>SAO</td>
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<tr>
<td>SAO</td>
<td>Auditor</td>
<td>SAO, Kabul</td>
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</tr>
<tr>
<td>SAO</td>
<td>Auditor, Contracted</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>Plan and Strategy Directorate</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>SAO</td>
<td>Auditor</td>
<td>SAO, Kabul</td>
</tr>
<tr>
<td>CDC</td>
<td>Cashier and Accountant</td>
<td>Kabul</td>
</tr>
<tr>
<td>CDC</td>
<td>Accountant</td>
<td>Parwan</td>
</tr>
<tr>
<td>CDC</td>
<td>Accountant</td>
<td>Kapisa Province</td>
</tr>
<tr>
<td>CDC</td>
<td>Accountant</td>
<td>Kabul</td>
</tr>
<tr>
<td>CDC</td>
<td>Accountant</td>
<td>Saripul</td>
</tr>
</tbody>
</table>

**Table 5-2: List of Interviewees**

5.2 Research Approach

I will focus on how to find the main issues in audit system of Afghanistan. As the purpose of the research is to examine the current audit system, why it is not producing satisfactory results for its stakeholders. Therefore a qualitative approach will be used as a suitable approach. The interpretations of the "auditing" in government audit will be analyzed and discussed with accounting and auditing academicians and experts.

5.3 Data Collection and Analysis

As it was discussed, the primary data was collected through interviews and secondary data was collected from audit reports conducted by Supreme Audit Office and Ministry of Rural Rehabilitation and Development.

5.3.1 Qualitative or Quantitative Method

The qualitative or quantitative method may be used to carry out a research (Andersen, 1998). Each method has a procedure to be followed. In the case of the quantitative method, mathematical and statistical methods may be followed. While qualitative
method follows a different approach. In the qualitative approach widespread information is collected from various sources. Additionally, it is more elastic and attempts to realize and evaluate patterns (Trost, 1997). In the case of this research, the qualitative method has a higher priority. Interviews conducted with auditors, finance and accounting staff of SAO, MRRD, NSP and CDC's and management level official.

5.3.2 Primary Data

In this research, along with secondary data, primary data were used. The primary data were collected through following methods.

5.3.3 Interviews
Concerning primary data in this study, interviews were conducted with auditors, accountants and other finance related employees of Ministry of rural rehabilitation and development, supreme audit office of Afghanistan and National Solidarity Program. Also, some interviews were conducted with high-rank officials of SAO, MRRD, and NSP. On the other hand, interviews carried out with community development councils members, specifically with cashier and accountants of these CDCs. The list of the interviewees (see Table 5.1) consists of 35 employees of the SAO, MRRD, NSP, and CDCs.

These interviews were conducted during the month of August and September 2015. The main idea behind these interviews was to find the holistic picture of the current issues of auditing at various levels and stages. Five interviews conducted with internal auditors and finance staff of MRRD. Similarly, 11 interviews were carried out with NSP workers. These interviews carried out with various units inside finance department of NSP. Although NSP has no internal audit system, they verify and control most of the documents through various stages in NSP database. At field level,
NSP has one accountant for each province of Afghanistan. These accountants are usually responsible documentation and physical verifications.

5.3.3.1 Semi-structured interview:
According to Bernard (1988), semi-structured interview are best applied when you have lesser opportunity to meet interviewees again. The interviews type with MRRD and NSP finance staff were semi-structured. As the intention was to collect as much information is it was possible. The interviews with SAO official were semi-structured as well. In total 14 interviews were conducted with SAO staff. Most of the interviews have been carried out with auditors of SAO. Only two of the auditors were contracted employees of the SAO, which were responsible for the audit of NSP Headquarter.

5.3.3.2 Structured Interview:
Bryman, A., & Bell, E. (2015) stated that structured interview which can also be called standardized interview, intends to find specific information and same questions will be asked from all respondents.

In this research structured interviews were arranged with community development council members. Interviews with CDC members were structured interviews and same questions were asked from all respondents. The primary purpose of interviews with NSP and CDC were to find the impact of audits conducted by SAO auditors and MRRD internal auditors.

5.4 Secondary Data
Secondary data collected thorough analysis of some other person's information. It is easier to find in most cases and inexpensive than primary data (Andersen, 1998). In
the case of this research, secondary data were collected from various sources such as Book, Articles, Reports, Internet website, Databases and Audit reports.

Besides many advantages of secondary data, it also contains some disadvantages as well. According to Andersen (1998), as the information collected in the form of secondary data by the researcher may not be examined as it needed, since the new user believe that previous researcher has already investigated the data.

5.5 Justification of Research

The most significant tool to assess and searching the source of the research is the justification of the study. Justification of the research can be helpful in finding and measuring the validity, reliability and relevance of the sources. Regarding qualitative research both rationality and consistency can be dignified easily. Representation and statistical evaluation are important determinants for rationality and trustworthiness of the research (Holme & Solvang, 1997). To produce excellent worth research, the above components are significant to be considered.

5.5.1 Validity

According to Smith (2000), if a research focuses the subjects it designed to be focus could be called acceptable. To produce a high-quality research, it is crucial to conduct proper interviews, surveys and select the most reliable and appropriate interviewees. The respondents should be chosen based on the needs of data required. Since result drawn from these sources are contributive to end conclusion of the research. Besides the sources of the data, it is important to raise questions that could retrieve the necessary information required for the research. During the formation of the question and selection of the interviewees, these points were considered watchfully. It was also
thought to involve all required possible participators to ground realities. In this research, to find the impact of the SAO and MRRD audit, CDC and NSP staff were interviewed. Also SAO and western audit systems were compared because many international donors in Afghanistan demand for western style of audit.

5.5.2 Reliability

Research can be dependable if its outcome accepts some other research results sketched by another academician (Erikson & Wiedersheim-Paul, 2001). The results of the research can feasible and trusty if its conclusions matches or similar to other researches of similar nature. Although semi-structured interviews were conducted in this study, in the case of the respondents of CDCs where they lack professional skills and knowledge of auditors, questions were designed before the interview just restrict them to the main topic.

5.5.3 Sources

Sources used in research are essential for validity and reliability of the research. The sources should be chosen accurately and should be applicable, acceptable and trustworthy by the researcher (Erikson & Wiedersheim-Paul, 2001). The sources used can be examined in the following stages. (a) Comment (b) Source (c) Clarifications and (d) Helpfulness (Holme & Solvang 1997). During the selection process of interviewees in this research all mentioned points considered. To have the better understanding of the current Audit system in Afghanistan and its relation/Impact on NSP considered. Also, interviews were conducted with Accountants and Finance Department heads to find their point of views about the current accounting standards used in MRRD and NSP. On the other hand to get proper clarifications about the
auditor, their issues and point of views research tried to interview auditors from various provinces of Afghanistan, which was helpful to find the overall picture of the audit in Afghanistan.

Similarly, secondary sources were chosen with due care. A limited number of studies has conducted regarding audit and corruption issues. But World Bank, UNDP, USAID and some other international organizations have conducted various surveys and publish many articles related to this research, were carefully selected as secondary data. To compare the SAO with western audit systems, the study tried to focus on accounting standards such as IFRS and GAAP and auditing standards.
Chapter 6: Findings

In Chapter six main finding are discussed along with research questions and interview results and hypothesis are also dealt with in this chapter.

Question # 1:
How would the implementation of Western audit principles be feasible in Afghanistan?

Afghanistan’s accounting and auditing practices are not in line with international standards and practices (SAO, Strategic plan, 2013). Also, The World Bank (2009), raised the following issues in Afghanistan Accounting system.

1. Insufficient and weekly monitoring methods;

2. Competency restrictions and the requirement for Capacity building of government employees.

3. “Manual workarounds of automated processes; and”

4. Extremely limited “accounting systems”.

Which has made it very hard to practice the international standards? Also, government employees are not very familiar IFRS reporting, and it's needed. Mostly GAAP rules are followed in Afghanistan. But currently, the international donors are demanding for introduction and implementation of IFRS procedures.

Similarly, Auditing practicing is different regarding standards and regulations of western audit systems. Almost all western countries are practicing IFRS financial accounting principles and reporting procedures. But in Afghanistan, there are no clear
guidelines for the usage of either principle. Therefore, adopting western audit system in Afghanistan is not very efficient in current environments. Besides these challenges, SAO currently facing the shortage of experienced auditors as well as their internal guideline and structure are not good enough to practice international audit standards.

The research further examines and compared the U.S. Government Accountability Office and Supreme Audit Institutions of Afghanistan, to answer the first research question. The findings show that practice is different in both organizations concerning institutional settings, audit practices, and work ethics. Beside other differences, U.S. GAO has an active Employee union as well.

**Dollar Saved:**

GAO has clearly described that they save 134 USD for each USD that is spent on them on their website. But in SAO such statement is described. Even though they mentioned recoveries but it clear.

Therefore the Hypothesis that Limited Human Resources capacity leads to inefficiency of Audit results and Naïve Adoption of Western Audit system is contributive to the current level of corruption is correct.

**Question # 2:**

*Does a government audit help reduce corruption in Afghanistan?*

To answer the second question, the research will focus on current literature and studies on corruption in Afghanistan from international donors as well as during interview, and some questions were directed to answer this question.

According to World Bank (2009)
There are significant systemic weaknesses in the comprehensiveness of the government audit function. Afghanistan has only basic legislative provisions and fragile institutional capacity for External Audit World Bank (2009, P.34)

Many other similar issues needed to be addressed. During interviews, most of the auditors believed it might be not the only way to stop corruption.

Although SAO is playing a vital role in tackling corruption in many government sectors, SAO may not be a long-term solution. Internal audit department and the introduction of AFMIS across government ministries may be helpful in reducing corruption along with the strong role of SAO and reduced level of bureaucracy at state level…Said one SAO auditor

Systemic corruption, where most of the senior government officials are involved, cannot be alone tackled with auditing alone.

Most of us know that there is systemic corruption. It cannot be reduced by audit, internal or external, since high-rank officials are involved. Even if we caught them, it is impossible to recover the public fund… said Senior Official

So, it is not the only audit that can help reduce the level of corruption. The government cannot tackle systemic corruption. Instead, institutional changes are required and with a comprehensive government strategy to overcome corruption.

Also, close-ended questions were asked about the impact of SAO and MRRD audit on CDCs. The respondents of these questions were NSP finance employees and CDC accountants and cashiers.
<table>
<thead>
<tr>
<th>Total number of Respondents</th>
<th>NSP Respondents</th>
<th>CDC Respondents</th>
<th>Yes</th>
<th>NO</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>11</td>
<td>5</td>
<td>3</td>
<td>12</td>
<td>1</td>
</tr>
</tbody>
</table>

**Table 6-2: Impact of government audit on NSP**

Out of 16 respondents, 12 believe that government review has no bearing on NSP, while three respondents say that it is effective, and one CDC accountant did not know about the impact.

So, this hypothesis that Government audit is helpful in corruption reduction in Afghanistan, but its results should be accessible public is correct. Even though it has minor impact on NSP.

**Question # 3:**

_Are the auditors capable enough to conduct an audit of various types of projects, such as NSP?_

This question directed to SAO, NSP, and MRRD Auditors. Most of the interviewees believed that it is very hard for an auditor to audit all types of projects without having prior knowledge of these organizations. Because these projects have different objectives and are implemented by various donors as well as their record keeping system is different. Some of the projects are politically motivated, and projects are for community development and poverty reduction. Therefore their accounting systems are also different.

Another issue is the use of international accounting standards. Most of the INTOSAI members are following IFRS standards; currently, U.S. government auditing is using GAAP accounting systems. Also, U.S. GAO has their procedures as well. NSP has many reporting formats and method for different donors.
The government agencies and donor agencies have their requirement, most of our auditors have good experiences in government auditing, but for World Bank (ARTF and other funds) and other donors SAO has some contracted auditors as well as permanent auditor, although they (contracted auditors) are not permanent employees, they are capable of conducting audit of such projects, In the beginning, it was very hard, it is much easier now…SAO Official

But NSP finance staffs did not appear impressed by audit of SAO. Many of them complained about the audit procedure, duration and reporting system of the audit.

As our system and practices are different than government, we have to report to various organizations, such as World Bank group, many bilateral donors, and government of Afghanistan. It is important for external auditors to understand the whole process, such as fund flow, donor requirement and demands and so on and make the judgment accordingly…Senior NSP Finance Official

Therefore this hypothesis that Lack of competency in SAO auditors’ in auditing various types of projects other then government projects leads to less impactful audit is correct.

**Question # 4:**

*Are there any specific procedures for carrying out their routine audit in hazardous areas?*

Beside many other issues in Afghanistan security is a highly critical issue. Even though systemic corruption exists in all parts of the country. Most of the interviewee's opinion was that systematic corruption might not be confronted by auditing alone. It
requires better management at higher levels of government. But other types of fraud are happening in troubled areas without being punished. Most of NSP finance officials have the same opinion concerning corruption.

I am not saying that it was not happening in secure areas. It is going on, but may not be on the same scale, as it is happening troubled areas. Because in safe areas, almost everyone has access to information including the community member, auditors and finance and monitoring officers of NSP regarding the projects in the community. In insecure areas it was difficult to find information about projects, we usually call them (CDC accountants/Cashiers) to bring their documents in main offices, as we can't go there, but even still they cannot provide complete documents…NSP Financial Monitoring Officer

It is hard to visit insecure areas. Currently, most of the auditors, especially external auditors examine unsafe area CDC’s documents in provincial offices or Headquarters. It is very easy for CDC members to prepare fake documents as neither NSP or MRRD nor CDC members could verify those documents.

We don't have any particular procedure or guidelines for auditing in Insecure areas. Since we cannot visit NSP-CDCs and other projects physically, therefore the only alternative is to audit their documents in Provincial offices or Headquarter. It is very easy for them to file financial statements with fake data and then provide fake documents to verify their financial documents. In some cases, we experienced that projects did not exist…SAO Auditor
Most of the auditors complained about the lack of system and procedures for conducting the audit in insecure areas. They confirmed that there is no accurate system for auditing of insecure areas.

Which shows that the hypothesis that effectiveness of projects affected due various and complex policies and regulations of the external auditor is correct.
Chapter 7: Recommendation

7.1 Conclusion

The current institutional arrangements and practices are not suitable in Afghanistan. The limitations in the capacity of auditors are a serious threat for efficiency of audit in decreasing corruption level. As far as the issue of external auditors is concerned, there is a need for change in terms of selection procedures, capacity building and following up regarding international standards. It is important to follow and hire external auditors based on global processes (The World Bank, 2009, p.34). Although SAO is offering many capacities building programs for its auditors, further training in professional auditing is significantly required. SAO needs to focus and train newly hired young auditors through extensive audit programs for their long terms plans to work with international standards.

The establishment of a proper internal audit department is needed to increase the accountability at NSP. Also, international standards of accounting should be explicitly introduced to Government Finance departments. There is no clear explanation of the usage of either GAAP or IFRS systems. The government of Afghanistan also needs to assign more authority to SAO and bring all anti-corruption programs under one umbrella.

Since there are many projects, and their objectives are different in the context of Afghanistan, therefore SAO needs to precisely define the needs of each type of client, and auditors should audit based on the nature of the projects as well as the needs of the customers. All in all, this research concludes that there is need for changes in SAO structure, follow-up procedures, introduction of new methods in the context of Afghanistan, training of new auditors, and proper guidelines for accounting practices.
Auditing alone may not be the only solution to overcome the current level of corruption. Therefore the government of Afghanistan needs to introduce a comprehensive strategy and implement it at a higher level of government to reduce the current level of bureaucracy and tackle systemic corruption.
7.2 Bibliography


28. NSP, annual program reports, 2012


41. The World Bank, 2009, FIGHTING CORRUPTION IN AFGHANISTAN SUMMARIES OF VULNERABILITIES TO CORRUPTION ASSESSMENTS


7.3 Appendix
SAO Audit Report
THE ISLAMIC REPUBLIC OF AFGHANISTAN

SUPREME AUDIT OFFICE

AUDIT REPORT
and
MANAGEMENT LETTER OF THE AUDITOR GENERAL

Afghanistan Emergency National Solidarity Project,
Grant No. TF90205, TF92433, TF 92435, H4760, TF 98459 and H6030
SOLAR YEAR 1390
THE ISLAMIC REPUBLIC OF AFGHANISTAN

SUPREME AUDIT OFFICE

MANAGEMENT LETTER OF THE AUDITOR GENERAL

Afghanistan Emergency National Solidarity Project
Grant No. TF90205, TF92433, TF 92435, H4760, TF 98459 and H60

SOLAR YEAR 1390
His Excellency  
Minister of Finance  
Government of Islamic Republic of Afghanistan  
Kabul  

January 2013  

Dear Minister,  

Subject: Management Letter for the Audit of Project Financial Statements, Special A and Float accounts of Afghanistan Emergency National Solidarity Project, Devel Grant Agreements and Afghanistan Reconstruction Trust Fund Grant Agreement TF90205, TF92433, TF 92435, H4760, TF 98459 and H6030 financed and administered by International Development Association (IDA) and Grant Agreements of Bilateral Donors for the year ending on 29th Hoot 1390 (19th March 2012).  

1. The International Development Association (IDA) has concluded Grant Agreements with the Islamic Republic of Afghanistan for the financing of the Afghanistan Emergency National Solidarity Project under Grant No. 90205, TF92433, TF 92435, H4760, H6030, TF 98459 dated May 27, 2007, September 23, 2008, September 23, 2008, November 29, 2009, 29 June 2010 and 24 January 2011 respectively. Similarly Grant Agreements concluded between Bilateral Donors are as follows:-  

<table>
<thead>
<tr>
<th>Country</th>
<th>Government / Agency</th>
<th>Date of Original Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherland</td>
<td>Netherland Minister for Development Cooperation through Embassy of Netherland</td>
<td>August 17, 2000</td>
</tr>
<tr>
<td>UK</td>
<td>Department for International Development (DFID)</td>
<td>June 27, 2006</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Swiss Government (Federal Council)</td>
<td>December 5, 2</td>
</tr>
<tr>
<td>Denmark</td>
<td>Government of the Kingdom of Denmark through Embassy of Denmark to Afghanistan</td>
<td>December 17, 2009</td>
</tr>
<tr>
<td>New Zealand</td>
<td>New Zealand Agency for International Development (NZAID)</td>
<td>June 19, 2007</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Ministry of Foreign Affairs of the Czech Republic</td>
<td>February 13, 2009</td>
</tr>
<tr>
<td>Italy</td>
<td>Government of the Republic of Italy</td>
<td>December 11, 2009</td>
</tr>
<tr>
<td>France</td>
<td>Agence Francaise De Development</td>
<td>June 9, 2009</td>
</tr>
</tbody>
</table>
2. The objectives of the Project is to strengthen community level governance in Afghanistan and to assist in reconstruction and development of rural communities, and to improve the access of rural communities to social and productivity infrastructure and services by supporting certain components of the Reciprocal National Solidarity Program. The Project consists of the following parts:
   - Part A - Grants for Community Sub-Projects
   - Part B - Community Facilitation and Sub-Project Preparation
   - Part C - Capacity Building of Community Development Councils
   - Part D - Implementation and Management Support and
   - Part E - External Monitoring and Evaluation.

3. The expenditure during the solar year 1390 as per the financial statement was USD 161.091 million and the cumulative expenditure was USD 9 million.

4. The Technical Annex / Grant Agreements require the account of the Project to be audited by the Auditor General of the Islamic Republic of Afghanistan with the assistance of the Audit Agent, S. N. Nanda & Co., Chartered Accountants. These require an assessment of:
   a) The adequacy of the accounting and internal control systems;
   b) The ability to maintain adequate documentation for transactions; and
   c) Eligibility of incurred expenses for financing by the International Development Association.

5. The audit of the Financial Statement was conducted by the Supreme Audit Office of the Islamic Republic of Afghanistan (SAO), the Supreme Audit Institution (SAI) country, with technical assistance from the Audit Agent S. N. Nanda & Co., Chartered Accountants. The responsibility of the SAO is to express an opinion on the financial statements based on the audit.

6. We conducted our audit in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) Fundamental Auditing Principles and Guideline standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

7. The audit involves performing procedures to obtain audit evidence about the financial statements. The procedures selected depend on judgment, including the assessment of the risks of material misstatement. Financial Statements, whether due to fraud or error. In making those risk assessment, we consider internal controls relevant to the entity's preparation and presentation of the Financial Statements is considered in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, and the presentation of the financial statements.
8. The Ministry of Finance (the “Ministry”) is responsible for preparation and fair presentation of the Financial Statements in accordance with International Public Sector Accounting Standard “Financial Reporting under the Cash Basis of Accounting” (the “Cash Basis IPSAS”). On this basis revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred.

9. In the audit report, we gave our opinion on whether the financial statements present fairly, in all material respects, the cash receipts and payments of the Project for the solar year ended 29 Hoot 1390, in accordance with Cash Basis IPSAS.

In this management letter, we have noted our findings on the effectiveness of the internal controls and other matters of significance which came to light during the

10. **AUDIT FINDINGS**

10.1 **Block grant disbursements during the year 1390 – payments to ineligible projects**

According to detailed data provided by Management Information System (MIS) department of NSP, the summarized Sector / Status wise expenditure for subprojects funded in 1390 are as follows;

**Sector wise expenditure – as per MIS**

<table>
<thead>
<tr>
<th>Sector</th>
<th>AFN</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>1,599,884,581</td>
<td>30.272</td>
</tr>
<tr>
<td>Irrigation</td>
<td>1,450,881,595</td>
<td>27.452</td>
</tr>
<tr>
<td>Water supply &amp; sanitation</td>
<td>1,209,031,774</td>
<td>22.876</td>
</tr>
<tr>
<td>Rural Development – Community Centre</td>
<td>572,800,049</td>
<td>10.838</td>
</tr>
<tr>
<td>Power</td>
<td>395,979,888</td>
<td>7.492</td>
</tr>
<tr>
<td>Livelihood</td>
<td>19,546,236</td>
<td>0.371</td>
</tr>
<tr>
<td>Education</td>
<td>18,195,253</td>
<td>0.344</td>
</tr>
<tr>
<td>Public building – Administrative Building</td>
<td>11,451,000</td>
<td>0.217</td>
</tr>
<tr>
<td>Health</td>
<td>6,670,423</td>
<td>0.126</td>
</tr>
<tr>
<td>Operation &amp; Maintenance</td>
<td>629,303</td>
<td>0.012</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,285,070,102</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

**Status wise expenditure- as per MIS**

<table>
<thead>
<tr>
<th>Status</th>
<th>AFN</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ongoing</td>
<td>4,248,483,416</td>
<td>80.387</td>
</tr>
<tr>
<td>Completed</td>
<td>874,483,000</td>
<td>16.546</td>
</tr>
<tr>
<td>Changed</td>
<td>103,761,578</td>
<td>1.963</td>
</tr>
<tr>
<td>Suspended</td>
<td>83,490,300</td>
<td>1.580</td>
</tr>
<tr>
<td>NULL</td>
<td>629,303</td>
<td>0.012</td>
</tr>
<tr>
<td>Approved</td>
<td>(18,454,257)</td>
<td>(0.349)</td>
</tr>
<tr>
<td>Failed</td>
<td>(7,323,237)</td>
<td>(0.139)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,285,070,102</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
Finding

a) NSP Operations Manual – Version 6 – Chapter IIA-6 (page 21) mentions “Negative Menu” which means the sub-projects which will not be funded by NSP. One of the items in the “Negative Menu” is “construction, rehabilitation or maintenance of any government office building”.

Among the Sector wise expenditure mentioned above – Table 1 - under the Sector “Public Building”, AFN 11,451,000 has been spent for “Administrative Building” (Output).

b) Also the 2 terms ‘Suspended’ (AFN 83,490,300) and NULL (AFN 629,303) - mentioned in the Table 2 - have not been defined in the Operations Manual.

Risk

The payments for the projects in the Negative Menu may be considered as ‘ineligible’ in the event they are proved to be ‘government office building’.

Using terms (Suspended & NULL) not mentioned in the Manual may mislead the reader.

Recommendation

NSP should be careful not to finance projects included in Negative Menu. The MIS Department, in their reports, should only use terminologies which are defined in the Manual.

NSP Response

• We checked and found out that the subproject output and sectors were wrongly entered by PMUs. The actual outputs for these subprojects are public bath. This has been fixed by MIS verification team today. We will also communicate this with PMUs to be more vigilant in the future.
• It is available in OM6 annex H, IV.E.1 Basic Considerations section.
• There is no NULL status in the system. The rows with NULL status represent all 1x entry, which was included in the report for auditors.

Further comments from SAO

We will test the documents during our next visit to ascertain the true nature of these projects.
10.2 NSP not preparing consolidated quarterly Financial Management Reports (FMR) –

NSP audit normally commences within 3 months from the end of financial year. Our experience shows that Financial Statements from MOF are not ready by then in order for the auditor to fix materiality levels and plan the audit.

The next source of reliable information for the auditor is the quarterly Financial Monitoring Reports (FMR) prepared by the project management and sent to the donors. NSP finance team has provided us FMR relating to funds received from World Bank. There is no consolidated FMR for the funds received both from IDA / World Bank and other bilateral donors.

Since NSP has not prepared a consolidated FMR from its accounting system showing all receipts and payments during the year, we were unable to ascertain at the beginning of the audit whether the data selected from the books of accounts of NSP matches with the books maintained by MOF and the financial statements submitted by MOF for audit.

Risk

The sample selection and testing done by the audit team (in the absence of financial statements from MOF at the beginning / during the course of audit) may not cover all expenditures financed by various donors.

Recommendation

At least at the year end, NSP should prepare a consolidated financial statement from its books and submit to audit. Any difference identified with the financial statements prepared by MOF should be reconciled in order to provide assurance that all major categories of expenditures are matching with the MOF records.

NSP Response

NSP has been preparing monthly financial reports for submission to all the donors agencies and IUFRs for World Bank.

Further comments from SAO

We were not provided a consolidated financial statement of all donors by the NSP finance team and hence we stand by our observation. Our concern is further explained in paragraph 3 below.

10.3 Accounting policies – Basis of preparation

It is mentioned in the Significant Accounting Policies Statement attached to the Financial Statements, that “the accompanying combined financial statements of the NSP are based on the books of account maintained by the project implementing agency, MRRD, through the Management Support Consultant (MSC)”.
We don’t agree with this policy statement. Because at the beginning of the audit in July 2012, we asked the Finance Department of NSP to provide us details of payments made during 1390. The following is what they (NSP - Program Support Unit) provided us.

List of Payments during the year 1390 (Donor Wise) – as provided by NSP

List of 395 payments was provided summary of which was as follows;

<table>
<thead>
<tr>
<th>Expenditure by Category</th>
<th>Amount $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments to FP (Facilitating Partners)</td>
<td>24,524,028.85</td>
</tr>
<tr>
<td>Block Grant Disbursements</td>
<td>161,366,154.92</td>
</tr>
<tr>
<td>Operations Expenses</td>
<td>13,751,327.34</td>
</tr>
<tr>
<td>Incremental Operating Costs</td>
<td>2,616,539.95</td>
</tr>
<tr>
<td>Others</td>
<td>7,885,137.08</td>
</tr>
<tr>
<td><strong>Total payments in 1390</strong></td>
<td><strong>210,143,188.14</strong></td>
</tr>
</tbody>
</table>

Since there was no draft FS at the beginning of audit, samples were selected and testing was done on the basis of data provided by NSP as above.

Now, as per the draft FS received from MOF recently, the total payment is USS 161,091,285/-. 

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block Grants</td>
<td>105,488,366</td>
</tr>
<tr>
<td>Others</td>
<td>55,602,919</td>
</tr>
<tr>
<td><strong>Total payments as per FS</strong></td>
<td><strong>161,091,285</strong></td>
</tr>
</tbody>
</table>

The difference is huge, USS 49,051,903 (US$ 210,143,188 reported by NSP minus US$ 161,091,285 reported in FS). Since we are certifying the FS prepared by MOF, we are ignoring the data provided by NSP. However it is incorrect to say in the ‘Notes’ that FS is based on books maintained by MRRD.

In our opinion, the Project / MOF should provide us reason for such variation or should amend the ‘Notes’ to reflect the correct position.

Risk

The sample selection and testing done by the audit team based on data provided by NSP (in the absence of financial statements from MOF at the beginning / during the course of audit) may be overestimation or under estimation in the absence of a fairly accurate statement from NSP.

Recommendation
With the experience of the last few years, NSP should know the basis of preparation of financial statements by MOF. With this knowledge, at the year end, NSP should prepare a consolidated financial statement (similar to what MOF prepares) from its books and submit to audit. Any difference identified with the financial statements prepared by MOF should be reconciled in order to provide assurance that all major categories of expenditures are matching with the MOF records. We also recommend that the quarterly consolidated FMR to be prepared by NSP should be in the same format as the year-end financial statement prepared by MOF to make the task easier at year end.

**MOF comments**

This note has been appearing since past so many years and also holds good for this year as well. MoF is only preparing the FS whose underlying basis remains the Mi6s submitted by the Implementing agency. The information in the FS cannot be different from what is maintained by project.

**NSP comments**

The expenditure by category which is submitted to Auditors were as per donor’s account (WB & Bilateral) replenishments to FAs, Direct payments to vendors etc, but the information sent to MOF is the actual expenditures from NSP FAs therefore there are some difference between the figures.

**Further comments from SAO**

We stand by our observation. This huge difference cannot be explained away by such vague comments. We recommend that, in 1391, NSP should prepare consolidated financial statements, similar to what MOF prepares, before commencement of audit.

### 10.4 Block Grant disbursements – difference between FS and MIS report

As per the financial statements, the total block grant payment during the year is US$ 105,488,366 (AFN 5,051,965,361). The MIS report submitted by NSP shows disbursement of AFN 5,285,070,102. The difference is AFN 233,104 million as given below.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>AFN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total block grant disbursement as per MIS report</td>
<td>5,285,070,102</td>
</tr>
<tr>
<td>Total block grant payment as per financial statements - $</td>
<td>5,051,965,361</td>
</tr>
<tr>
<td>Difference</td>
<td>233,104,741</td>
</tr>
</tbody>
</table>

Reconciliation has not been provided for the difference between the two statements. Such differences were existing in earlier years also. NSP is using the MIS data for monitoring and following up of block grant disbursements and the progress. How can there be effective follow up if the basic data itself is not reliable.

**Risk**
The objective of the MIS reports and its reconciliation with the financial statements is to give added assurance to the stakeholders that there are checks and balances in place, and any errors or fraud committed in the financial reporting is immediately detected, reported and corrected.

Recommendation

The project should carry out periodical reconciliation between its financial reports and MIS reports. Such reconciliation reports should be made available during the project.

NSP Response

The actual disbursement from the float account to CDC is AFN 5,051,965.2, which is generated by MIS. However, the financial statements may not include the reversals or the actual disbursements which are booked in 1390 in MIS database but actually made in 1391. Therefore, the MIS figure is more than the actual disbursement made to CDCs.

Since NSP/MIS have launched new system, from 1391 onward all the transactions will match between FD and MIS.

Further comments by SAO

Such differences between MIS and Financial Statement have been maintained in earlier years also and are reported in our management letters with a request for reconciliation. NSP should reconcile the differences in order to give a true and fair report.

I am grateful to the personnel of the National Solidarity Program (NSP), the Ministry of Rehabilitation and Development (MRRD), the Ministry of Finance and the SAO for their cooperation during the audit. We are requesting that the NSP should take measures to implement the recommendations made, and update the SAO office within two months of the date of this letter.

Dr. Mohammad Sharif "Sharifi"
Auditor General
Supreme Audit Office
Afghanistan, Kabul