Islamic Republic of Afghanistan
Supreme Audit Office

AUDIT REPORT
FY 1397 (2018)

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Grant Number</th>
<th>Project Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>P143841</td>
<td>TF-13820</td>
<td>National Horticulture and Livestock Project</td>
</tr>
</tbody>
</table>

December 2019
Auditor General's Report

To,
His Excellency,
Minister of Finance,
Government of Islamic Republic of Afghanistan

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Statements of Cash Receipts and Payments (the "Financial Statements") of National Horticultural and Livestock Project bearing World Bank Project ID Number P143841 financed under Grant Number TF-13820 (hereinafter referred to as "Project") for the financial year ended on 30 Qaws 1397 (21 December 2018), which comprise a summary of significant accounting policies and other explanatory notes forming part of the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the cash receipts and payments of the Project for the financial year ended on 30 Qaws 1397 (21 December 2018) in accordance with Cash Basis IPSAS (International Public Sector Accounting Standard) - "Financial Reporting under the Cash Basis of Accounting" and comply with the terms and conditions of Project's Grant/ or Financing Agreement.

Basis for Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions ("ISSAIs"). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are the Supreme Audit Institution (SAI) of Islamic Republic of Afghanistan and independently derive our legal mandate from the Supreme Audit Office Law and in accordance with the Code of Ethics implemented by the SAO based on the ISSAI 130- Code of Ethics together with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan and applicable...
to SAO auditors including external experts for the audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics of SAO.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Ministry of Finance for the Financial Statements**

The Ministry of Finance is responsible for the preparation and fair presentation of the project financial statements in accordance with International Public Sector Accounting Standards "Financial Reporting under the Cash Basis of Accounting" and for such internal control as ministry determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and selecting and applying appropriate accounting policies.

The ministry is also responsible for ensuring that activities and financial transactions and information reflected in the Financial Statements are in compliance with the project's Grant/ or Financing Agreement.

Those charged with governance of the ministry are responsible for overseeing the project's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Evaluate the financial transactions and information reflected in the Financial Statements and whether they are in compliance with the terms and conditions of Project's Grant/ or Financing Agreements.

We communicate with those charged with governance of the ministry regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance of the ministry with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Requirements

Management Letter highlighting the areas of improvement in financial management including the compliance with covenants of the Grant/ Financing Agreements and results of its operations for the financial year ended on 30 Qaws 1397 (21 December 2018) has been attached to this report. These observations and recommendation have been communicated to and discussed with project management and intended to improve internal control and results in other operating efficiencies of the Project.

Report on Other Matters

The project operates through a CDC arrangement and this involves distribution of commodities to the farmers through the CDCs or individually. However, our review of the support documents and distribution lists casts doubt on whether the end user received the commodities.

There is a concentration risk in contractual management whereby a few routine suppliers are awarded contracts and the contract award system seems to be flawed as shown by discriminate evaluation of bidders, non-compliance with the applicable guidelines, disregard of the value for money concept and inconsistencies in the contract award notifications

Mohammad Naiem Haqmal
Auditor General
Supreme Audit Office
# National Horticulture and Livestock Productivity Project

World Bank Reference: Project ID P143841; Grant ID TF 13820

## STATEMENT OF CASH RECEIPTS AND PAYMENTS
FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

<table>
<thead>
<tr>
<th></th>
<th>1397 Receipts/</th>
<th>1396 Receipts/</th>
<th>Cumulative To Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payments by entity</td>
<td>Payments by entity</td>
<td>USD</td>
</tr>
<tr>
<td>RECEIPTS</td>
<td></td>
<td></td>
<td>USD</td>
</tr>
<tr>
<td>Initial Advance</td>
<td>16,000,000</td>
<td>-</td>
<td>21,100,000</td>
</tr>
<tr>
<td>Replenishment</td>
<td>17,000,000</td>
<td>32,278,108</td>
<td>124,124,801</td>
</tr>
<tr>
<td>Farmer's Contribution</td>
<td>1,578,906</td>
<td>1,939,682</td>
<td>7,377,118</td>
</tr>
<tr>
<td>Taxes received but not transferred</td>
<td>(2,425)</td>
<td>135</td>
<td></td>
</tr>
<tr>
<td>TOTAL RECEIPTS</td>
<td>34,578,906</td>
<td>34,215,365</td>
<td>152,602,054</td>
</tr>
</tbody>
</table>

| PAYMENTS         |                |                | USD     | USD     | USD     |
| Disbursement Category: |          |                | USD     | USD     | USD     |
| Goods, works, non-consulting services, consultants' services, Training and Operating Costs | 24,717,027 | 32,615,555 | 134,126,031 |
| Bank Charges     | 75             | 250            | 3,725   |
| TOTAL PAYMENTS   | 24,717,102     | 32,615,805     | 134,129,756 |
| Excess of Receipts over Payments | 9,861,804 | 1,595,560 | 18,472,288 |
| Taminat (Net)    | (91,147)       | 104,934        | 188,861  |
| Exchange gain    | 95,344         | (429)          | 95,992   |
| Increase/(Decrease) in Cash & Cash Equivalents | 9,866,001 | 1,794,055 | 18,756,851 |
| Cash and Cash Equivalents at the beginning of the year | 8,890,850 | 7,096,785 |
| Increase/(Decrease) in Cash & Cash Equivalents | 9,866,001 | (1,292,065) |
| Cash & Cash Equivalents at the end of the year | 18,756,851 | 8,890,850 |

The accompanying notes form an integral part of this financial statement.

Zahid Hamdard
Deputy Minister for Finance
Ministry of Finance, Islamic Republic of Afghanistan

Dated: December 8, 2019
National Horticulture and Livestock Productivity Project
World Bank Reference: Project ID P143841; Grant ID TF 13820

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

1) LEGAL STATUS AND ACTIVITY

a) The National Horticulture and Livestock Productivity Project was set up in December 2012. The project's objective is to promote adoption of improved production practices by target farmers, with gradual rollout of farmer-centric agricultural services systems and investment support.

b) The project was initially financed by a grant bearing reference number 13820 from the Afghanistan Reconstruction Trust fund in the amount of US Dollar 50,000,000. In September, 2014 the amount of grant was increased to US Dollar 100,000,000 through an amendment to the financing agreement. The amount of grant was further increased to US Dollar 190,000,000 through and amendment to the financing agreement made in July 2016.

c) The project consists of the following Parts:
   i) Horticultural Production
   ii) Animal Production
   iii) Project Implementation Management and Technical Assistance Support

d) The significant terms and conditions that determine or affect the availability of funding assistance are primarily the presentation of eligible expenditures to donor within the period as per and in accordance with the financing agreement.

e) These financial statements have been prepared in accordance with the requirements of the Grant Agreement signed between the Government of the Islamic Republic of Afghanistan and the International Development Association (acting as the Administrator of the Japan Social Development Fund) in December, 2012.

2) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation
   The financial statements are prepared under the historical cost convention and in accordance with Cash Basis IPSAS - Financial Reporting under the Cash Basis of Accounting issued by International Federation of Accountants (IFAC).

b) Reporting Entity
   These financial statements are for the Project referred to in para 1(a) which is funded by the grant(s) as specified in para 1(b) and encompass the operations of the project to the extent funded by those grant(s).

c) Payments
   Payments made from Special Account are recognised in the financial statements based on the date the cheque is issued and direct payments by World Bank are recognised on the date on which the withdrawal application for the payment is submitted to the World Bank. However, cheques or withdrawal applications that were ultimately rejected by the bank or the World Bank are reversed in the reporting period.
National Horticulture and Livestock Productivity Project
World Bank Reference: Project ID P143841; Grant ID TF 13820

d) Currency translations
   i) Transactions in currencies other than the reporting currency are translated into US Dollar at the rate of exchange at which the transaction is actually executed.
   ii) Balances held in currency other than the reporting currency at the end of the reporting are translated into reporting currency at the exchange rate of AFN 69.4433 per US Dollar on the last day of the reporting period as notified by the Da Afghanistan Bank.

3) NOTES TO ACCOUNTS

a) Receipts
   These represent grants, aid and farmer's contribution for the project received during the period and the amount of taxes collected but not transferred until the end of the financial year.

b) Initial Advance
   Initial advance represents the advance given by the World Bank to open the special account less withdrawal applications approved by the World Bank but not paid to the special account because they were directed toward a reduction in the Initial advance.

c) Reporting Currency
   The reporting currency is US Dollars. Since US Dollars is the principal disbursement currency of the donor, the financial statements are not prepared in the Afghani which is the currency of Afghanistan.

d) Farmers' Contributions
   These represent the contribution made by the farmers on cost sharing basis against saplings, fertilizers and technical input provided by the project for plantation of various horticulture crops.

e) Cash and Cash Equivalents
   Cash and cash equivalents at the end of reporting period include USD 7,000,111 equivalent of AFN 486,110,835 held in account number 9792 denominated in Afghani designated for Farmers' Contribution.

f) Bank Charges
   The Ministry of Finance has negotiated with Da Afghanistan Bank that bank charges will not be charged on the transactions in the US Dollar Special bank account of the grant. Bank Charges may be levied by intermediary banks on deposits into the Special Account and balances returned to the World Bank.

g) Comparison of Budget and Actual Amounts
   The Project, being the reporting entity for the purpose of these financial statements, in its capacity as such does not make its annual approved budget publicly available nor is its budget explicitly available publicly in the compiled approved budget in a manner purposeful to the context of these financial statements. Thus, the requirement of presenting a comparison of budget and actual amounts is not considered contextually applicable.
National Horticulture and Livestock Productivity Project
World Bank Reference: Project ID P143841; Grant ID TF 13820

h) Authorisation Date
These Financial Statements are authorised by the Deputy Minister for Finance, Ministry of Finance or any official acting on his behalf who has been so authorised to act on the date endorsed on the Statement of Cash Receipts and Payments.

i) Appendices
The accompanying appendices provide additional information and analysis and form an integral part of these notes, except as indicated otherwise.

j) Others
These Financial Statements are originally prepared in English and then translated into Dari. In the event of any inconsistency between the English and Dari versions, the English version shall be considered to be correct.
### SUMMARY OF WITHDRAWAL APPLICATIONS
FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

<table>
<thead>
<tr>
<th>Description</th>
<th>Application Number</th>
<th>Initial Advance</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA-1</td>
<td>171</td>
<td></td>
<td>10,000,000</td>
</tr>
<tr>
<td>DA-1</td>
<td>170</td>
<td></td>
<td>7,000,000</td>
</tr>
<tr>
<td>DA-1</td>
<td>167</td>
<td></td>
<td>16,000,000</td>
</tr>
</tbody>
</table>
National Horticulture and Livestock Productivity Project
World Bank Reference: Project ID P143841; Grant ID TF 13820

APPENDIX A2

SPECIAL ACCOUNT SUMMARY
FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

<table>
<thead>
<tr>
<th>Depository Bank:</th>
<th>Da Afghanistan Bank (DAB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address:</td>
<td>Kabul</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>USD</th>
<th>AFN</th>
</tr>
</thead>
<tbody>
<tr>
<td>A/c 27477</td>
<td>A/c 9792</td>
</tr>
<tr>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>8,847,744</td>
<td>-</td>
</tr>
</tbody>
</table>

Opening Balance as per Bank Statement

Add:

- Receipts from Donor: 33,000,000
- Farmer's Contribution: 428,031
- Credit against prior years: 41,067
- Transfer from A/c 27477: 402,900,251

Total Additions: 486,110,835

Deduct:

- Payment for Project Expenditure: 24,808,174
- Refund not deposited to this account: 46,123
- Transfers to A/c 9792: 5,751,853
- Incorrect debit by DAB: 4,122
- Bank Charges: 75

Total Deductions: 30,610,347

Closing Balance as per B.S 30 QAWS 1397 (21 DECEMBER 2018)

| 11,706,495 | 486,110,835 |
National Horticulture and Livestock Productivity Project  
World Bank Reference: Project ID P143841; Grant ID TF 13820

APPENDIX A3

SPECIAL ACCOUNT RECONCILIATION  
FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

Depository Bank:  
Da Afghanistan Bank (DAB)  
Address: Kabul

<table>
<thead>
<tr>
<th>A/c</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>27477</td>
<td>11,706,495</td>
</tr>
<tr>
<td>9792*</td>
<td>7,000,111</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,706,606</strong></td>
</tr>
</tbody>
</table>

Add:  
Refunds deposited into other accounts 46,123  
Incorrect debits by bank 4,122

| **Total** | **18,756,851** |

*Account denominated in Afghanis. Figure represents equivalent amount in US Dollars translated at the exchange rate of AFA 69.4433 for 1 US Dollar prevailing as at the last day day of the reporting period.
# STATEMENT OF GRANT FUNDS AVAILABLE

FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In currency of commitment</strong></td>
<td></td>
</tr>
<tr>
<td>Amount of Grant</td>
<td>USD 190,000,000</td>
</tr>
<tr>
<td>Amount disbursed by World Bank until the end of 1397¹</td>
<td>USD 145,224,801</td>
</tr>
<tr>
<td>Undisbursed Balance</td>
<td>USD 44,775,199</td>
</tr>
<tr>
<td><strong>In reporting currency</strong></td>
<td></td>
</tr>
<tr>
<td>Amount disbursed by World Bank until the end of 1397¹</td>
<td>USD 145,224,801</td>
</tr>
<tr>
<td>Equivalent US Dollars for undisbursed amount</td>
<td>USD 44,775,199</td>
</tr>
<tr>
<td>Farmers' Contribution</td>
<td>USD 7,377,118</td>
</tr>
<tr>
<td>Total estimated amount of Project Funds available</td>
<td>USD 197,377,118</td>
</tr>
<tr>
<td>Cumulative Payments for expenditure as per the Statement of Cash Receipts &amp; Payments</td>
<td>USD 133,940,760</td>
</tr>
</tbody>
</table>

¹. Actual amounts of total disbursement made by the World Bank since the beginning of the project as available from Client Connection.