AUDIT REPORT OF
THE AUDITOR GENERAL

Volume – 33

<table>
<thead>
<tr>
<th>PROJECT ID</th>
<th>GRANT NUMBERS</th>
<th>PROJECT NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>P118925</td>
<td>H 6990 AF</td>
<td>Sustainable Development of Natural Resources Project-II</td>
</tr>
</tbody>
</table>

WORLD BANK PROJECTS

YEAR ENDED 20 DECEMBER 2016
Supreme Audit Office  
Government of Islamic Republic of Afghanistan  

Auditors’ Report  

To:  
HE  
Minister of Finance,  
Government of Islamic Republic of Afghanistan  
Kabul  

Date: August 15, 2017  

Independent Auditors’ Report on the Financial Statements  

We have audited the accompanying statements of Cash Receipts and Payments (the “Financial Statements”) of the Second Sustainable Development of Natural Resources Project-II bearing World Bank Project ID No. P 118925 financed under Grant No. H-699 AF (hereinafter referred to as the “Project”) for the year ended 30 Qaws of Solar Year 1395 (21 December 2015 to 20 December 2016), and a summary of significant accounting policies and other explanatory notes forming part of the Financial Statements.  

The Ministry of Finance’s Responsibility for the Financial Statements and Compliance with Grant Agreement  

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

2. In addition, the Ministry is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the Project’s Grant Agreement. The Grant Agreement Number H-699 AF dated July 16, 2011 entered into between the Islamic Republic of Afghanistan and the International Development Association for the provision of United States Dollars Forty Three Million Nine Hundred Fifty Two Thousand, (USD 43,952,000 or SDR 32,800,000) funding to the Project.
Auditor’s Responsibility

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

4. In addition to the responsibility to express an opinion on the financial statements described above, our responsibility includes expressing an opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the Project’s Grant Agreement. This responsibility includes performing procedures to obtain audit evidence about whether all payments and receipts are in compliance with the terms and conditions of Grant Agreement.

5. An audit involves performing procedures to obtain reasonable and appropriate audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making the risk assessments, internal controls relevant to the entity’s preparation and presentation of financial statements are considered in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal controls. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

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

Opinion


8. In our opinion, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the terms and conditions of Project’s Grant Agreement.

9. Management Letter, attached to this Audit Report, highlights areas of improvement in financial management including compliance with financial covenants of the Grant Agreement and of results of its operations for the 30 Qaws of Solar Year 1395 (21 December 2015 to 20 December 2016). These observations and recommendations have been communicated to and discussed with the Project and are intended to improve internal controls and result in other operating efficiencies of the Project.

Dr. Mohammad Sharif Sharifi
Auditor General of Afghanistan
Supreme Audit Office
Kabul, Afghanistan
Islamic Republic of Afghanistan

Second Sustainable Development of Natural Resources

World Bank Reference: Project ID P118925; Grant ID H6990

Financial Statements for the year ended
30th Qaws 1395 (20th December, 2016)
Second Sustainable Development of Natural Resources
World Bank Reference: Project ID P118925; Grant ID H6990

STATEMENT OF CASH RECEIPTS AND PAYMENTS
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

<table>
<thead>
<tr>
<th></th>
<th>1395</th>
<th>1394</th>
<th>Cumulative To Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receipts</td>
<td>Payments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Payments</td>
<td>Payments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Controlled</td>
<td>made by Third Parties</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>RECEPTS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial Advance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Replenishments</td>
<td>6,362,452</td>
<td>6,362,452</td>
<td>10,922,213</td>
</tr>
<tr>
<td>Direct Payment</td>
<td>459</td>
<td>459</td>
<td>760,837</td>
</tr>
<tr>
<td>Taxes collected to be transferred</td>
<td>459</td>
<td></td>
<td>1,620,995</td>
</tr>
<tr>
<td>TOTAL RECEIPTS</td>
<td>6,362,911</td>
<td>-</td>
<td>11,683,050</td>
</tr>
</tbody>
</table>

PAYMENTS

Disbursement Category:

Goods, Works, Non-Consulting Services, Consultants' services, Incremental Operating Costs and Training
Bank Charges
275
6,628,985
275
6,628,985
12,379,591
325
1,625
34,147,239
34,147,239

TOTAL PAYMENTS
6,629,260
6,629,260
12,379,916
696,866
11,172
34,148,064

Increase/(Decrease) in Cash & Cash Equivalents
(266,349)
(266,349)
(696,866)
11,172

Cash and Cash Equivalents at the beginning of the year
277,521
277,521
974,387

Increase/(Decrease) in Cash & Cash Equivalents
(266,349)
(266,349)
(696,866)

Cash and Cash Equivalents at the end of the year
11,172
11,172
277,521

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

M. Mustafa Mastoor
Deputy Minister for Finance
Ministry of Finance, Islamic Republic of Afghanistan

Dated: July 15, 2017
Second Sustainable Development of Natural Resources
(World Bank Reference: Project ID P118925; Grant ID H6990)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

1) LEGAL STATUS AND ACTIVITY

a) The Second Sustainable Development of Natural Resources Project grant agreement was set up on July 16, 2011. The project's objective is to assist the Recipient's Ministry of Mines and National Environmental Protection Agency in further improving their capacities to effectively regulate the Recipient's mineral development in a transparent and efficient manner, and foster private sector development.

b) The grant amount is equivalent to Special Drawing Rights (SDR) 32,800,000. During the year 1393, an amount of XDR 5,907,000 was cancelled pursuant to project restructuring. A further amount of XDR 2,156,720 was cancelled in June 2016.

c) The project consists of the following parts:
   i) Award of Contracts and Licences
   ii) Regulation and Monitoring of Operations
   iii) Preservation of Aynak antiquities and support for alternative livelihoods through sustainable ASM
   iv) Project Implementation Support

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

e) These financial statements of the Project have been prepared in accordance with the requirements of the Development Grant Agreement signed between the Government of the Islamic Republic of Afghanistan and the International Development Association in July 2011.

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.
Second Sustainable Development of Natural Resources
(World Bank Reference: Project ID P118925; Grant ID H6990)

d) 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.

e) Currency translations
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.

3) NOTES TO ACCOUNTS

a) Receipts
These represent grants and aid received during the period.

b) Initial Advance
Initial advance represents the advance given by the World Bank into the designated bank account(s) of the project.

c) 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.

d) Payments made by third parties
These represent payments directly made by the World Bank, on basis of requests submitted by the Ministry of Finance in form of a withdrawal application, towards settlement of the claims, liabilities and contractual obligations against contracts and agreements for eligible expenditures of the project as per the financing agreement. These payments do not constitute cash receipts or payments by the entity and as such are disclosed in the "Payments by Third Party" column in the statement of Cash Receipts and Payments.

e) 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.

f) 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.

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

h) 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.
## APPENDIX A1

SUMMARY OF WITHDRAWAL APPLICATIONS
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

<table>
<thead>
<tr>
<th>Description</th>
<th>Application Number</th>
<th>Initial Advance</th>
<th>Amount USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA-A</td>
<td>65</td>
<td></td>
<td>1,035,155</td>
</tr>
<tr>
<td>DA-A</td>
<td>67</td>
<td></td>
<td>221,674</td>
</tr>
<tr>
<td>DA-A</td>
<td>66</td>
<td></td>
<td>622,529</td>
</tr>
<tr>
<td>DA-A</td>
<td>65</td>
<td></td>
<td>883,852</td>
</tr>
<tr>
<td>DA-A</td>
<td>64</td>
<td></td>
<td>310,403</td>
</tr>
<tr>
<td>DA-A</td>
<td>63</td>
<td></td>
<td>809,027</td>
</tr>
<tr>
<td>DA-A</td>
<td>62</td>
<td></td>
<td>371,606</td>
</tr>
<tr>
<td>DA-A</td>
<td>61</td>
<td></td>
<td>294,601</td>
</tr>
<tr>
<td>DA-A</td>
<td>60</td>
<td></td>
<td>621,133</td>
</tr>
<tr>
<td>DA-A</td>
<td>59</td>
<td></td>
<td>84,128</td>
</tr>
<tr>
<td>DA-A</td>
<td>58</td>
<td></td>
<td>3,417,432</td>
</tr>
</tbody>
</table>
Second Sustainable Development of Natural Resources
World Bank Reference: Project ID P118925; Grant ID H6990

APPENDIX A2

US Dollar SPECIAL ACCOUNT SUMMARY
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

<table>
<thead>
<tr>
<th>Account No:</th>
<th>27416</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depository Bank:</td>
<td>Da Afghanistan Bank (DAB)</td>
</tr>
<tr>
<td>Address:</td>
<td>Kabul</td>
</tr>
<tr>
<td>USD</td>
<td></td>
</tr>
</tbody>
</table>

**Opening Balance as per Bank Statement** 277,521

**Add:**
- Replenishments by World Bank 6,362,452
- Total Additions 6,362,452

**Deduct:**
- Payments for Project Expenditure 6,526,526
- Bank Charges 275
- Total Deductions 6,628,801

**Closing Balance as per B.S 30 QAWS 1395 (20 DECEMBER 2016)** 11,172
Second Sustainable Development of Natural Resources
World Bank Reference: Project ID P118925; Grant ID H6990

APPENDIX A3

US DOLLAR SPECIAL ACCOUNT RECONCILIATION
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

Account No: 27416
Depository Bank: Da Afghanistan Bank (DAB)
Address: Kabul

USD

Closing Balance as per bank statement - 30 QAWS 1395 (20 DECEMBER 2016) 11,172

Closing balance as per financial statements - 30 QAWS 1395 (20 DECEMBER 2016) 11,172
## Component-Wise Disbursements

For the year ended 30 QAWS 1395 (20 December 2016)

*(not an integral part of the Financial Statements)*

<table>
<thead>
<tr>
<th>Project Component</th>
<th>1394 USD</th>
<th>1395 USD</th>
<th>Cumulative To Date USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award of Contracts and Licences</td>
<td>1,235,979</td>
<td>1,225,825</td>
<td>3,983,816</td>
</tr>
<tr>
<td>Regulation and Monitoring of Operations</td>
<td>6,464,056</td>
<td>2,317,076</td>
<td>11,852,290</td>
</tr>
<tr>
<td>Preservation of Aynak antiquities and support for alternative livelihoods through sustainable ASM</td>
<td>3,241,902</td>
<td>2,139,843</td>
<td>8,875,561</td>
</tr>
<tr>
<td>Project Implementation Support</td>
<td>1,407,884</td>
<td>946,841</td>
<td>9,435,772</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>325</td>
<td>275</td>
<td>1,625</td>
</tr>
<tr>
<td><strong>TOTAL PAYMENTS</strong></td>
<td><strong>12,379,916</strong></td>
<td><strong>6,629,260</strong></td>
<td><strong>34,148,864</strong></td>
</tr>
</tbody>
</table>
Second Sustainable Development of Natural Resources  
World Bank Reference: Project ID P118925; Grant ID H6990

APPENDIX A5

STATEMENT OF ESTIMATED GRANT AMOUNT  
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)  
(Memorandum Statement - not an integral part of the Financial Statements)

<table>
<thead>
<tr>
<th>Amount</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of Grant</td>
<td>XDR 32,800,000</td>
</tr>
<tr>
<td>Amount disbursed by World Bank unti the end of 1395¹</td>
<td>XDR 23,636,666</td>
</tr>
<tr>
<td>Cancelled Amount</td>
<td>XDR 8,062,720</td>
</tr>
<tr>
<td>Undisbursed Balance</td>
<td>XDR 1,200,614</td>
</tr>
</tbody>
</table>

In reporting currency

| Amount disbursed by World Bank until the end of 1395² | USD 34,159,578  |
| Equivalent US Dollars for undisbursed amount³        | USD 1,608,823   |

Total estimated amount of Grant Funds available  
USD 35,768,401

Cumulative Payments for expenditure as per the Statement of Cash Receipts & Payments  
USD 34,148,405

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

2. Actual amounts of total disbursement made by the World Bank since the beginning of the project as available from Client Connection in US Dollars.

3. The amount of equivalent US Dollars for undisbursed balance of the grant where the currency of commitment of the grant is XDR (in the currency of commitment) has been calculated at the exchange rate of 1.34 USD per XDR which is the rate published by the World Bank as at last day of the financial year.