



# **Afghan Gas Enterprise**

**Audited Financial Statements for the Years Ended  
1395 & 1396**



**Supreme Audit Office**  
**Government of Islamic Republic of Afghanistan**  
**Auditor's Report**

29 August 2019

**To**  
**HE**  
**Minister of Mines and Petroleum,**  
**Government of Islamic Republic of Afghanistan**  
**Kabul**

**Independent Auditor's Report on Financial Statement**

**Adverse Opinion**

We have audited the accompanying financial statements of Afghan Gas Enterprise, which comprise the statement of financial position as at 30 Qaws 1395 and 1396 and the statement of profit or loss and other comprehensive income for the years then ended.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly in all material respects, in accordance with International Financial Reporting Standards.

**Basis for Adverse Opinion**

- 1) Afghan Gas Enterprise generates more than 90% of its revenue from Kod-e-Barq Enterprise, during the audited period Afghan Gas Enterprise recognized AFS 368,511,936 and AFS 449,864,210 revenue for 1395 and 1396 respectively. However Kod-e-Barq has confirmed the amount as AFS 358,427,923 and AFS 443,420,237 AFS for 1395 and 1396 respectively. As a result Afghan Gas has overstated their revenue and receivables from Kod-e-Barq by AFS 10,084,013 and AFS 6,443,973 for 1395 and 1396 respectively. We are unable to satisfy ourselves on the completeness of these revenues as stated in Profit and loss account.
- 2) As at 30 Qaws 1396, the receivables of Afghan Gas Enterprise which include receivables from Mazar City, of AFS 38,740,690, has been outstanding for more than 15 years and some of the receivables have not confirmed the balance. Instances are as follows;

S. No	Particulars	Amount (AFS)	Confirmed Amount
1	CNG Pump	488,662	0
2	Ezatullah s/o Abdul Aziz عزت الله ولد عبدالعزيز	292,230	0
3	Farhad s/o Bahaudin فرهاد ولد حاجي بهاء الدين	277,766	Not Confirmed
4	Mohd. Usman s/o Mangi محمد عثمان ولد منگي	250,681	Not Confirmed
5	Mohd. Ali s/o Abdul Jalil محمد علي ولد عبدالجليل	335,805	Not Confirmed
6	Nasratullah s/o Mohd. Nabi نصرالله ولد محمد نبي	224,394	Not Confirmed
<b>Total</b>		<b>1,869,538</b>	



No impairment or provision for bad and doubtful debts has been recognized in the financial statements by Afghan Gas Enterprise for these receivables. We are unable to substantiate existence and recoverability of these receivables and therefore we are unable to satisfy ourselves regarding the status of recovery of such receivables.

- 3) Afghan Gas Enterprise's inventory includes 24,193 gas meters which were purchased prior to the year 2001 and these meters have never been used. As per management due to weak gas pressure it is uncommercial to assemble these meters and put them into use. Furthermore, the Gas has a chemical known as Sulphur liquid which is highly likely to damage these meters. The management has no plan in place for these meters to either use them or dispose them. We are unable to satisfy ourselves on the valuation attributed to these meters as stated in the balance sheet.
- 4) Long term payables includes a municipality tax amounting to AFS 5,355,906. This tax as per the decision of council of Ministers (NO.32 dated 30/08/1385) does not exist anymore, and exonerates the Enterprise from the obligation. As a result the payables are materially overstated by AFS 5,355,906. We are unable to satisfy ourselves on the obligation of these payables as stated in the balance sheet.
- 5) The financial statements provided do not include Statement of Cash Flows, Statement of Changes in Equity and notes to the accounts, making the financial statements incomplete as per IFRS requirements.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI 1000-2999 corresponding with ISAs). 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 independent of the Enterprise in accordance with the INTOSAI Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter Paragraph**

Without qualifying our report on this point, we draw management's attention to revenue recognition process of Afghan Gas Enterprise. The Enterprise billing process to their customers is based on monthly estimated gas usage. As per standard process the billing should be based on the actual consumption of gas. Billing of customers based on estimates might result in understatement/overstatement of the revenue of Afghan Gas Enterprise.

Afghan Gas Enterprise's over 90% of revenue comes from one customer (Kod-e-Barq Enterprise), the management has not assessed going concern. Our report is not modified in respect of this matter.

### **Responsibilities of Management for the Financial Statements**

The Management is responsible for preparation and fair presentation of the Financial Statements. 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.

In preparing the financial statements, management is responsible for assessing the Enterprise's ability to continue as a going concern, disclosing, as applicable, matters related to going concern

and using the going concern basis of accounting unless management either intends to liquidate the Enterprise or to cease operations, or has no realistic alternative but to do so.

Management is responsible for overseeing the Enterprise's financial reporting process.

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

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.

Board Letter attached with this Audit report, highlights the areas of improvement in financial management along with auditor's recommendations.

Yours Truly,



**Mohammad Naïem Haqmal**  
**Auditor General**  
**Supreme Audit Office**  
**Afghanistan**

31 Aug 2019



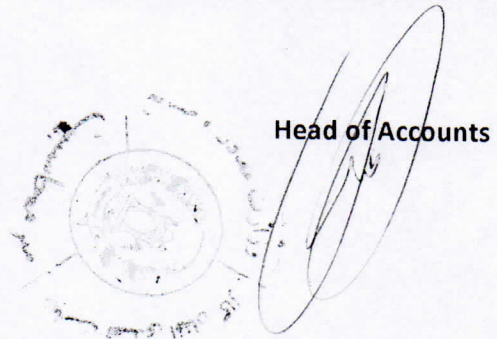
**Afghan Gas Enterprise**  
**Statement of Financial Position**

	<b>1396</b>	<b>1395</b>
	<b>Afs</b>	<b>Afs</b>
<b>A: Current Asset</b>		
<b>Cash &amp; Cash Equalients</b>		
Cash in Hand	-	5,501
Cash at Bank	11,632,396	8,984,208
<b>Total Cash &amp; Cash equivalent</b>	<b>11,632,396</b>	<b>8,989,709</b>
<b>B: Inventory</b>		
Stock (Saleable Goods)	30,941,928	31,042,241
Raw Materials & composition	-	-
Lubricants	40,202,774	37,136,146
Consumable, Surplus & scrap Goods	152,565	131,457
Stock at Store (Less valuable & less lasting good)	37,848,205	39,512,381
Other Inventories	298,026	771,600
<b>Total Inventory</b>	<b>109,443,498</b>	<b>108,593,825</b>
<b>C: Receivables</b>		
Receivables	2,643,612	5,857,121
Advances	16,262,354	7,631,433
Receivables for SOEs, SOC's, Government Org & Military units	32,444,338	530,724,406
Trade Receivables (Clients & Contract)	1,128,900,748	467,423,776
Other Receivables	13,108,315	-
<b>Total Receivables</b>	<b>1,193,359,367</b>	<b>1,011,636,736</b>
<b>D: Other Current Asset</b>	-	<b>1,906,062</b>
<b>Total current Asset (A+B+C+D)</b>	<b>1,314,435,261</b>	<b>1,131,126,332</b>
<b>Non-Current Asset (Fixed Asset)</b>		
<b>A: NCA</b>		
Initial Value of NCA	2,494,406,075	2,492,347,474
Accumulated Depreciation	(1,325,017,335)	1,258,648,727
Carrying Value	1,169,388,740	1,233,698,747
Exchange & Changes in NCA	40,000	2,058,601
<b>Total Fixed Asset</b>	<b>2,494,446,075</b>	<b>2,494,406,075</b>
<b>Total Asset</b>	<b>3,808,881,336</b>	<b>3,625,532,407</b>
<b>A: Current Liabilities</b>		
Short Term Loan	56,070,028	309,258
Advances from Customers	-	55,571,351
Tax payable	744,801,665	642,317,246
Advances from Contractors	-	8,834,810
Other Liabilities	-	-
<b>Total Current Liabilities</b>	<b>800,871,693</b>	<b>707,032,665</b>
<b>B: Capital</b>		
Share Capital	2,494,446,075	2,494,406,075

Capital in circulation	58,084,791	58,002,791
Rehabilitation Fund	101,402,732	56,163,278
Repairing Fund	185,264,466	164,172,734
Pension	3,150,514	3,032,170
Unearn Revenue	3,630,609	3,604,331
Development Fund	16,654,642	13,995,587
Cultural Fund	26,210,363	27,388,096
Sinking Fund	7,982,174	7,851,787
Profit for the Year	111,183,277	89,882,893
<b>Total Capital</b>	<b>3,008,009,643</b>	<b>2,918,499,742</b>
<b>Total capital &amp; Liabilities</b>	<b>3,808,881,336</b>	<b>3,625,532,407</b>

Director General

Head of Accounts





**Afghan Gas Enterprise  
Profit & Loss**

	1396 Afs	1395 Afs
<b>A: Revenue</b>		
Operational Revenue	486,849,578	403,853,439
4% BRT	(19,473,983)	(16,154,138)
<b>Operational Income after BRT</b>	<b>467,375,595</b>	<b>387,699,301</b>
<b>B: Other Income</b>		
Revenue from scrap metal	20,808	-
Revenue from sale of Condensat*	10,696,000	13,130,701 type of oil
Miscellaneous Revenue	2,089,352	-
<b>Total Non Operational Revenue</b>	<b>12,806,160</b>	<b>13,130,701</b>
BRT on Non Operational Revenue	(512,246)	(525,228)
<b>Non Operational Income after BRT</b>	<b>12,293,914</b>	<b>12,605,473</b>
Rental Income	1,288,780	88,000
Taxed withheld on Rental income	(128,878)	(8,800)
<b>Rental Income after withholding tax</b>	<b>1,159,902</b>	<b>79,200</b>
<b>Total Other Income before CIT</b>	<b>13,453,816</b>	<b>12,684,673</b>
15% Tax on Other income	(2,018,072)	(1,902,701)
<b>Total Other Income after CIT</b>	<b>11,435,743</b>	<b>10,781,972</b>
<b>Total Income A+B (Revenue + Other income) before Taxes</b>	<b>500,303,394</b>	<b>416,538,112</b>
<b>C: Operating Expenses</b>		
Salaries	166,634,238	166,184,036
Spare parts	30,311,500	19,262,044
Royalties	48,029,526	-
Electricity	12,964,504	15,002,119
Consumable Goods	12,973,133	18,643,833
Repairs (Wells)	15,450,332	5,876,376
Cost of wells (Gas leakage from wells)	2,635,200	2,628,000
Depreciation	67,261,336	71,864,268
Miscellaneous cost	13,386,365	11,040,405
<b>Total operating expenses</b>	<b>369,646,134</b>	<b>310,501,081</b>
<b>Operating income before tax</b>	<b>111,183,276</b>	<b>89,882,893</b>
CIT @ 20 %	(22,236,655)	(17,976,579)
<b>Profit after tax (Net profit)</b>	<b>88,946,621</b>	<b>71,906,315</b>
<b>D: Funds</b>		
Incentive Fund	13,341,993	10,785,947
Development Fund	4,447,331	3,595,316
CSR	2,668,399	2,157,189
Sinking fund	1,778,932	1,438,126
<b>Total fund</b>	<b>22,236,655</b>	<b>17,976,578</b>
<b>Distributable profit</b>	<b>66,709,966</b>	<b>53,929,737</b>

Director General



Head of Accounts



**Supreme Audit Office  
Government of Islamic Republic of Afghanistan**

**Board Letter**

29 August 2019

**To  
HE  
Minister of Mines and Petroleum,  
Government of Islamic Republic of Afghanistan  
Kabul**

Dear Sir/Madam,

**Audit of Financial Statements for the Year Ended Qaws 30 1395 and 1396**

We are pleased to enclose the financial statements of Afghan Gas as at and for the year ended Qaws 30 1395 and 1396, prepared by the management of the Enterprise together with our audit report thereon.

**Responsibilities of Management for the Financial Statements**

The Management is responsible for preparation and fair presentation of the Financial Statements. 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. Management is responsible for overseeing the Enterprise's financial reporting process.

In preparing the financial statements, management is responsible for assessing the Enterprise's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Enterprise or to cease operations, or has no realistic alternative but to do so.



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

Our responsibility is to express an opinion on these Financial Statements based on our audit. We have conducted audit of the financial statements 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.

This work is not primarily directed towards the discovery of weaknesses (other than those which influence us in forming that opinion) or the detection of fraud, and should not, therefore, be relied upon to show that no other weaknesses exist. Accordingly the comments, which follow, refer to only those matters which have come to our attention during the course of our normal audit work and do not attempt to include all possible improvements that a more exhaustive system review might develop.

## **Matters for the Board's attention**

We have described in the ensuing paragraphs our significant observations and findings resulting from audit of the financial statements that we believe require your attention on priority basis:

### **1. Issue: Billings based on estimation**

The Enterprise billing process to their customers is based on monthly estimated gas usage and not actual gas usage. As per standard process the billing should be based on actual consumption of Gas.

#### **Consequences/Risk:**

Billing of customers based on estimates have resulted and may continue to result in understatement/overstatement of the revenue and debtors of Afghan Gas Enterprise.

#### **Recommendation:**

We recommend development of a mechanism through which customers are charged or billed on realistic basis.

#### **Management Response:**

Management did not provide response

### **2. Issue: Revenue from Kod-e-Barq Enterprise overstated by AFS 16,527,986**

Afghan Gas Enterprise has recognized revenue of AFS 368,511,936 and AFS 449,864,210 from Kod-e-Barq Enterprise for 1395 and 1396 respectively. However, Kod-e-Barq has confirmed AFS 358,427,923 and AFS 443,420,237 for 1395 and 1396 respectively.

#### **Consequences/Risk:**

As a result revenue is overstated by AFS 10,084,013 and AFS 6,443,973 for 1395 and 1396 respectively. This is a pending issue for many years between Afghan Gas Enterprise and Kod-e-Barq Enterprise and has remained unresolved. This issue has a direct impact on the receivables

too. Kod-e-Barq Enterprise argues that it does not receive the amount of cubic meter of gas reported by Afghan Gas Enterprise due to the pressure of gas.

**Recommendation:**

Both Afghan Gas and Kod-e-Barq Enterprises are owned by Ministry of Mines and Petroleum. We, therefore, recommend to the board to resolve this issue between the two enterprises. A reconciliation should be performed between the two Enterprises to create uniformity and accuracy.

**Management Response:**

Management did not provide response

**3. Issue: Loss of revenue due to charge of Business Receipt Tax (BRT) of 4%**

During the course of the audit we observed that Afghan Gas are accounting for and paying BRT of 4% amounting to AFS 35,628,121 for 1395 and 1396 from revenue generated from the main source of their income. As per the Article 80.1 of Income tax law Afghan Gas is exempt from BRT payment.

**Consequences/Risk:**

Noncompliance with Income Tax Law and Material Misstatement of gross operation revenue.

**Recommendation:**

We recommend to the Board to discuss and resolve this issue with Ministry of Finance. After resolving the issue Afghan Gas Enterprise shall treat all BRT payment as advance tax and off set their advance tax with their current and future tax liabilities.

**Management Response:**

Management did not provide response

**4. Issue: 2% Bonus on Revenue to Employees not supported by formal policy**

On top of monthly salaries, 2% of gross revenue is paid as bonus to employees each month. However, no policies or procedures were availed to us to show this is the correct bonus.

**Consequences/Risk:**

This seems to have been a general practice in the Enterprise from past years. Considering the revenue recognition of Afghan Gas Enterprise which is based on estimation, there is a risk that the bonus paid could be over/understated. There is also risk that revenue could be overstated so that more bonuses are paid.



**Recommendation:**

We recommend that the management should establish performance based bonus system and a proper policy should be developed and approved by the board.

**Management Response:**

Management did not provide response

**5. Issue: Salary Withholding Taxes**

Afghan Gas Enterprise withholds salary taxes from its employees and deposits them in the Ministry of Finance's Bank Account on quarterly basis. Income Tax Law requires that tax withheld shall be deposited within 10 days.

**Consequences/Risk:**

Afghan Gas Enterprise maybe charged late payment penalty on salary withholdings at 0.10% per day for the late payment periods.

**Recommendation:**

As per article 4 of Afghanistan Income Tax Law, tax withheld from employees' salaries shall be deposited in the Ministry of Finance's relevant bank account within 10 days of deduction from salary. If the client fails to make such arrangements, as per article 46.2 the tax withheld shall be subject to 0.10% penalty per day.

**Management Response:**

Management did not provide response

**6. Issue: Tax not withheld on Incentives Funds**

Tax has not been withheld on incentive funds paid to employees. As per Article 13 Section 4 of Afghanistan Income Tax Law, any allowances and/or bonuses given to employees are subject to tax.

As per Afghanistan Income Tax Law article 13 section 4, incentive as a salary transfer to employees are subject to tax, therefore;

- If such incentives are transferred with salary then tax will be calculated in the norm of salary,
- If such incentives are transferred separately then this incentive is subject to 20% tax.

**Consequences/Risk:**

Afghan Gas Enterprise maybe subject to penalties for both not withholding tax and late payment penalty

**Recommendation:**

Afghan Gas Enterprise should deduct tax on incentive funds for 1395 & 1396 and for subsequent periods. Afghan Gas Enterprise shall calculate tax on 20% norm and pay penalty with the principle amount to Ministry of Finance. The actual tax on amount is AFS 3,848,464 and penalty for both years is AFS 2,570,046. We recommend that Afghan Gas Enterprise shall recover the said amount from its employees and make payment to Ministry of Finance.

**Management Response:**

Management did not provide response

**7. Issue: Obsolete gas meters held in inventory**

Inventory includes 24,193 gas meters which were purchased prior to year 2001 and these meters have never been used. As per management due to weak gas pressure it is uncommercial to assemble these meters and put them into use. The book value of these meters is AFS 30,470,842.

**Consequences/Risks:**

The management has no plan in place for these meters to either use them or dispose them. In the absence of an active market for these stocks as per International Accounting Standard 2 the inventory should be valued at lower of cost or net realizable value. There is a material overstatement of inventory by AFS 30,470,842.

**Recommendations:**

We recommend the Board to take a decision about these meters as these meters are being kept for a long period of time with no plan in place. We also recommend to the management of Afghan Gas Enterprise to treat these meters as per International Accounting Standard 2.

**Management Response:**

Management did not provide response

**8. Issue: Low price goods and lubricants**

We were unable to verify physical count of 1395 and 1396 year end using current physical verification because proper records of inflows and outflows are not maintained.

In addition we were only provided with the stock/inventory lists but we were unable to get these inventory lists updated due to non-availability of identification, stocking, access, name and classification of the available inventory. Moreover, due to non-availability of item wise classification of inventory, we were unable to reach at summarized form of available inventory.

**Consequences/Risks:**

In the absence of proper stocking system there is risk that inventory doesn't exist or has not been completely and accurately counted, recorded and valued.



**Recommendations:**

We recommend that the management keep proper records of each class of inventory which capture proper inflows and outflows over the year and stock of low price items is maintained in proper shelves.

**Management Response:**

Management did not provide response

**9. Issue: Receivables overstatement**

As at Qaws 30 1396 Afghan Gas's total receivables is AFS 1,193,359,367, the ratio of recovery of receivables is 21%. We observed that the Enterprise has many long outstanding receivables in respect of customers that are appearing in the books of accounts. Confirmations sent for 1396 and the instances are as follows:

S. No	Particulars	Amount (AFS)	Confirmed Amount
1	CNG Pump	488,662	0
2	Ezatullah s/o Abdul Aziz عزت الله ولد عبدالعزيز	292,230	0
3	Farhad s/o Bahaudin فرهاد ولد حاجي بهاء الدين	277,766	Not Confirmed
4	Mohd. Usman s/o Mangi محمد عثمان ولد منگي	250,681	Not Confirmed
5	Mohd. Ali s/o Abdul Jalil محمد علي ولد عبدالجليل	335,805	Not Confirmed
6	Nasratullah s/o Mohd. Nabi نصرالله ولد محمد نبي	224,394	Not Confirmed
<b>Total</b>		<b>1,869,538</b>	

The Enterprise has receivables of **AFS 38,740,690** from Mazar City which are appearing in the books of accounts. There is no supply of Gas to Mazar City since 1382 yet these balances are recognised in the books of accounts. No proceeding or action has been taken by the management.

**Consequences/Risks:**

Long outstanding balance in accounts receivable represents weak internal control of management over the recovery of advances and receivables. This may lead to increased bad debts which will affect Enterprise's profit and it will also have adverse effect on Enterprise's receivable turnover ratio. No Impairment or Provision for bad and doubtful debts has been recognized in the financial statements by Afghan Gas for these receivables, this means the receivables are overstated by **AFS 40,610,228**.

**Recommendation:**

We recommend management to take appropriate measures regarding the recovery of their receivables to increase the recovery ratio of receivables because if the situation remains the same Afghan Gas Enterprise might face cash flow problems in future. This would include receivables aging analysis, assigning specific unit for debt collection with specific collection targets for the staff in this unit. An appropriate policy needs to be developed for bad and doubtful debts and the accounting treatments including write offs if collection has failed.

Furthermore, the receivables from Mazar City are not recoverable and it should be removed from books of accounts.

**Management Response:**

Management did not provide response

**10. Issue: Disputed Receivables from Kod-e-Barq Enterprise:**

**Kod-e-Barq Enterprise is the biggest customer of Afghan Gas Enterprise in fact Afghan Gas generates more than 90% of its revenue from Kod-e-Barq Enterprise.**

- I. As per the financial statements receivables breakup of Afghan Gas Enterprise the receivables from Kod-e-Barq are AFS 619,630,022 and AFS 458,514,029 for 1396 and 1395 respectively. However, the confirmation received from Kod-e-Barq is AFS 426,066,564 and AFS 277,048,961 for 1396 and 1395 respectively.
- II. As per the management of Afghan Gas Enterprise the receivables have been carrying from many years. The reason is due to dispute from Kod-e-Barq about the actual gas received from Afghan Gas. Kod-e-Barq argues that they don't receive the gas at the same speed as it is released at Afghan Gas's end.

**Consequences/Risks:**

As a result there is unreconciled receivables of **AFS 193,563,564** and **AFS 186,465,068** for 1396 and 1395 respectively from Kod-e-Barq Enterprise.

**Recommendation:**

Since both Afghan Gas and Kod-e-Barq Enterprises belong to Ministry of Mines and Petroleum, the Ministry should resolve this dispute immediately.

**Management Response:**

Management did not provide response

**11. Issue: Existing Fixed assets (Yatam Taq Gas Wells) have not been recognized**

The Gas Wells at Yatam Taq have never been recognised, as per management representation in the form of Istelam (Questionnaire) No. 29 dated 12/05/1398, it states that the documentations have not yet been sent to Chief Accountant's office so that it can be accounted for in the financial statements.



**Consequences/Risks:**

There is a risk that fixed assets are materially understated.

**Recommendation:**

We recommend the management to value and recognise the Yatam Taq gas wells as assets in accordance with applicable standard (IAS 16 & IFRS 6).

**Management Response:**

Management did not provide response

**12. Issue: Fixed Assets recognized at nil value(Gas Wells)**

As per the fixed asset register provided by the management Khwaja Gogardak and Shakarak gas wells are fully depreciated and recognized at nil value in the financial statements. However, the Enterprise extracts and supplies gas from those wells to customers. No revaluation of these wells has been undertaken

**Consequences/Risks:**

Fixed assets are materially understated.

**Recommendation:**

We recommend management to carry out the revaluation of Khwaja Gogardak and Shakarak gas wells gas assets in accordance with applicable standards.

**Management Response:**

Management did not provide response

**13. Issue: 274 apartments not recognized in the books of accounts**

The Enterprise owns 274 apartments (96 three bedroom flats, 144 two bedroom flats, and 33 one bedroom flats). These apartments are used by employees of the Enterprise. However, these apartments have nil value in the books of accounts.

The Enterprise also has a three storey building used as headquarters and many other infrastructure. However, these are not recorded anywhere in financial statements.

**Consequences/Risks:**

There is a risk that the assets are not properly recognised and that the assets are understated.

**Recommendation:**

We recommend the management to carry out the valuation of these assets and recognise them accordingly.

**Management Response:**

Management did not provide response

**14. Issue: Long Term Payables**

Long term payables include 5,355,906 AFS municipality tax. This tax as per the decision of Counsel of Ministers (No. 32 dated 30/08/1385), does not exist anymore.

**Consequences/Risks:**

Payables are overstated by AFS 5,355,906 therefore financial statements are misstated.

**Recommendation:**

We recommend that the management should remove this from the payables list as this is not payable.

**Management Response:**

Management did not provide response

**15. Issue: Fixed Asset Register/Asset Tagging:**

During the course of our audit, we have noted that the fixed assets register does not contain details in respect of location / custodian of each asset, department/cost centre and exact location of the asset, as per the best practices. Further, we observed that fixed asset are not tagged serially.

**Consequences/Risks:**

There is a risk of mismanagement and misappropriation of fixed assets.

**Recommendation:**

Proper fixed asset management requires that Afghan Gas Enterprise should tag their assets in order to keep better control on their assets.

**Management Response:**

Management did not provide response

**16. Issue: No Internal Audit Function:**

Afghan Gas does not have an internal audit function. Internal audit is a key pillar in the overall control environment of the Enterprise and is essential for identification of internal and external risks to the Enterprise caused by control weaknesses, override of controls, non-compliance with applicable laws and regulations and other business risks caused by lack of controls.

**Consequences/Risks:**



Internal Audit would focus initially on areas that are of concern to management and in which there may be a lack of controls with a view to ensuring that key management objectives and strategies are achieved. An effective internal audit function helps in complying with the Enterprise's policy and procedures and applicable laws and regulations and also adds value by identifying areas of improvement.

**Recommendation:**

We recommend that management review the requirement for the establishment of an internal audit function based on the current and future expected activities of the Enterprise.

**Management Response:**

Management did not provide response

**17. Issue: Manual Accounting System**

We observed that Afghan Gas Enterprise operates manual accounting system which makes keeping and tracing records difficult. In addition we also noted the enterprise does not have a competent accounting team with the skills and knowledge to prepare financial statements as per IFRS.

**Consequences/Risks:**

There is an increased risk of fraud, errors and inefficiency in operations due to lack of computerized system.

**Recommendation:**

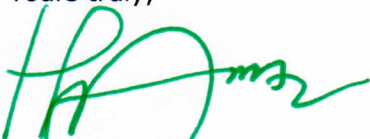
We recommend a computerized accounting system should be acquired which can help in improving the accounting system and compliance generally accepted accounting principles. We also recommend that Afghan Gas should train its existing staff or recruit professional staff that have the knowledge and competence of keeping proper accounting records and prepare financial statements as per IFRS.

**Management Response:**

Management did not provide response

We wish to take this opportunity to express our appreciation for the cooperation and courtesy extended to us by the management and staff of Afghan Gas Enterprise during the course of audit.

Yours truly,



**Mohammad Naiem Haqmal**  
**Auditor General**  
**Supreme Audit Office**  
**Afghanistan**

31 Aug 2019