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Form Approved  
OMB No. 0704-0188

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|   |                                    |                                     |   |   |                                 |
|---|------------------------------------|-------------------------------------|---|---|---------------------------------|
| 1. REPORT DATE<br><b>09 APR 2010</b>  |                                    | 2. REPORT TYPE                      |   | 3. DATES COVERED<br><b>00-00-2010 to 00-00-2010</b> |                                 |
| 4. TITLE AND SUBTITLE<br><b>Afghanistan's Control and Audit Office Requires Operational and Budgetary Independence, Enhanced Authority, and Focused International Assistance to Effectively Prevent and Detect Corruption</b> |                                    |                                     |   | 5a. CONTRACT NUMBER                                 |                                 |
|   |                                    |                                     |   | 5b. GRANT NUMBER                                    |                                 |
|   |                                    |                                     |   | 5c. PROGRAM ELEMENT NUMBER                          |                                 |
| 6. AUTHOR(S)  |                                    |                                     |   | 5d. PROJECT NUMBER                                  |                                 |
|   |                                    |                                     |   | 5e. TASK NUMBER                                     |                                 |
|   |                                    |                                     |   | 5f. WORK UNIT NUMBER                                |                                 |
| 7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)<br><b>The Special Inspector General For Afghanistan Reconstruction, 400 Army Navy Dr., Arlington, VA, 22202</b>  |                                    |                                     |   | 8. PERFORMING ORGANIZATION REPORT NUMBER            |                                 |
| 9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)   |                                    |                                     |   | 10. SPONSOR/MONITOR'S ACRONYM(S)                    |                                 |
|   |                                    |                                     |   | 11. SPONSOR/MONITOR'S REPORT NUMBER(S)              |                                 |
| 12. DISTRIBUTION/AVAILABILITY STATEMENT<br><b>Approved for public release; distribution unlimited</b>   |                                    |                                     |   |   |                                 |
| 13. SUPPLEMENTARY NOTES   |                                    |                                     |   |   |                                 |
| 14. ABSTRACT  |                                    |                                     |   |   |                                 |
| 15. SUBJECT TERMS   |                                    |                                     |   |   |                                 |
| 16. SECURITY CLASSIFICATION OF:   |                                    |                                     | 17. LIMITATION OF ABSTRACT<br><b>Same as Report (SAR)</b> | 18. NUMBER OF PAGES<br><b>30</b>                    | 19a. NAME OF RESPONSIBLE PERSON |
| a. REPORT<br><b>unclassified</b>  | b. ABSTRACT<br><b>unclassified</b> | c. THIS PAGE<br><b>unclassified</b> |   |   |                                 |



## OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

April 9, 2010

The Honorable Hillary R. Clinton  
U.S. Secretary of State

The Honorable Karl W. Eikenberry  
U.S. Ambassador to Afghanistan

Dr. Rajiv Shah  
Administrator U.S. Agency for International Development

William M. Frej  
USAID Mission Director to Afghanistan

This report discusses the results of the Office of the Special Inspector General for Afghanistan Reconstruction's review of U.S. and other donor efforts to strengthen the capability of Afghanistan's Control and Audit Office (CAO) to deter and prevent corruption. It includes two recommendations to strengthen the CAO's capability and capacity. This report is part of a series of audits of U.S. efforts to combat corruption and strengthen the rule of law in Afghanistan.

A summary of this report is on page ii. This performance audit was conducted by the Office of the Special Inspector General for Afghanistan Reconstruction under the authority of Public Law No. 110-181 and the Inspector General Act of 1978, as amended. When preparing the final report, we considered joint comments from the U.S. Embassy Kabul and the USAID Mission to Afghanistan. We also considered comments from the CAO. All comments indicated concurrence with the findings and recommendations contained in this report. Copies of the comments are included in appendices II and III of this report. Finally, we considered technical comments from the World Bank, the U.S. Government Accountability Office, and the USAID Office of Inspector General.

A handwritten signature in black ink that reads "John Brummet". The signature is written in a cursive, slightly slanted style.

John Brummet  
Assistant Inspector General for Audits  
Office of the Special Inspector General  
for Afghanistan Reconstruction



# SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR Audit-10-8

April 2010

## Afghanistan's Control and Audit Office Requires Operational and Budgetary Independence, Enhanced Authority, and Focused International Assistance to Effectively Prevent and Detect Corruption

### What SIGAR Reviewed

The strengthening of institutions that oversee and implement anti-corruption measures in Afghanistan is a key operational principle of the U.S. Government's draft Anti-Corruption Strategy for Afghanistan. The United Nations Convention against Corruption requires Afghanistan to establish accounting and auditing standards, as well as related oversight. As Afghanistan's Supreme Audit Institution, the Control and Audit Office (CAO) is responsible for auditing the financial matters of the government. It has audit authority over state entities within central and provincial governments as well as public enterprises, and carries out audits of funds provided to the Afghan government by external donors. This report assesses: (1) the CAO's current capability and performance in fulfilling its mandate, (2) the assistance provided by the international community to strengthen the internal capacity of the CAO, and (3) the assistance provided by the U. S. Government to strengthen the CAO's internal capacity. This report is part of a series of audits SIGAR is conducting to address U.S. efforts to combat corruption and strengthen the rule of law in Afghanistan. SIGAR conducted this performance audit in Kabul, Afghanistan, and in Washington, D.C., from December 2009 to April 2010 in accordance with generally accepted government auditing standards.

### What SIGAR Found

The CAO's current legislative framework is weak, does not provide the CAO with sufficient independence or authority to serve effectively as Afghanistan's Supreme Audit Institution, and results in conflicting responsibilities, particularly with regard to Afghanistan's Ministry of Finance. The CAO's current legislative framework does not provide the CAO with budgetary or operational independence from the executive branch, and this lack of independence interferes with the CAO's planning, reviewing, and reporting processes. In addition, the CAO's enabling legislation does not provide the CAO with the authority to require audited entities to report on actions taken in response to CAO recommendations, or demand access to necessary documents, officials, and premises. Further, current legislation does not require the CAO to report to the National Assembly or to publicly release its audit reports. In late 2009, an international working group submitted revisions to a draft audit law to the Ministry of Justice (MoJ) that addressed many of these limitations. However, the MoJ's February 2010 version of the draft new law did not include many of the group's substantive revisions.

Despite significant assistance from the international community—almost exclusively from the World Bank—the CAO continues to suffer from severe internal capacity constraints, including a lack of qualified auditors. In addition, while the CAO has formally adopted the standards of the International Organization of Supreme Audit Institutions, the CAO relies on international advisors and contracted auditors to ensure that some of its audits comply with those standards. Moreover, although the U.S. Agency for International Development has provided the CAO with a limited amount of assistance, that assistance has been aimed at allowing a few, select CAO management and staff personnel to attend conferences.

### What SIGAR Recommends

To strengthen the CAO's capability and capacity, SIGAR recommends that the U.S. Ambassador to Afghanistan: (1) urge the Afghan government to enact legislation providing the CAO with sufficient independence and authority to fulfill its responsibilities in accordance with internationally recognized audit standards, and (2) develop and implement a capacity development plan for the CAO, in cooperation with the CAO and international stakeholders, as part of the U.S. Government's Anti-Corruption Strategy for Afghanistan. In consideration of issues such as CAO's independence and authority, such a plan should include the identification of funding sources and donor responsibilities for capacity development and training; use of existing training possibilities within the U.S. government; and the appointment of expert audit mentors and advisors.

In response to a draft of this audit report, the U.S. Embassy Kabul and the USAID Mission to Afghanistan concurred with SIGAR's findings and recommendations, and outlined planned actions to address each of the recommendations.

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## ABBREVIATIONS

|         |   |
|---------|---|
| ANDS    | Afghanistan National Development Strategy                       |
| ARTF    | Afghanistan Reconstruction Trust Fund                           |
| CAO     | Control and Audit Office  |
| CLRWG   | Criminal Law Reform Working Group                               |
| GAO     | United States Government Accountability Office                  |
| GIRoA   | Government of the Islamic Republic of Afghanistan               |
| IARCSC  | Independent Administrative Reforms and Civil Service Commission |
| INTOSAI | International Organization of Supreme Audit Institutions        |
| MoF     | Ministry of Finance   |
| MoJ     | Ministry of Justice   |
| SAI     | Supreme Audit Institution                                       |
| SIGAR   | Special Inspector General for Afghanistan Reconstruction        |
| UNODC   | United Nations Office on Drugs and Crime                        |
| USAID   | United States Agency for International Development              |



## **Afghanistan's Control and Audit Office Requires Operational and Budgetary Independence, Enhanced Authority, and Focused International Assistance to Effectively Prevent and Detect Corruption**

Corruption in Afghanistan is widely considered to be a systemic, entrenched, and pervasive problem that threatens public finances, legal order, social and economic prosperity, and national security. For example, in Transparency International's 2009 Corruption Perception Index, Afghanistan was ranked 179<sup>th</sup> out of 180 countries, making it—by that standard—the second most corrupt country in the world.<sup>1</sup> In addition, a recent survey of 12 Afghan provinces by the United Nations Office on Drugs and Crime (UNODC) found that the average Afghan is more concerned about corruption (59 percent) than insecurity (54 percent) or unemployment (52 percent).<sup>2</sup> Thirty years of conflict have weakened state institutions, while the sheer size of international security and development assistance has increased Afghanistan's vulnerability to corruption. This presents a risk that could negate the efforts of the international community and the Government of the Islamic Republic of Afghanistan (GIROA) to establish a sound institutional basis for good governance in Afghanistan.

Strengthening the capacity of GIROA to develop and implement expressed commitments to combat corruption is an operational principle of the U.S. Government's draft Anti-Corruption Strategy for Afghanistan, and GIROA has several ministerial level departments and offices with a direct, prescribed role in combating corruption. The Control and Audit Office (CAO), a central agency that reports directly to the President, should serve an important role in preventing and detecting corruption. As Afghanistan's Supreme Audit Institution (SAI), the CAO is uniquely positioned to fight corruption across GIROA due to its purview over the whole of GIROA operations and funds; SAIs play a vital role in holding governments to account for the stewardship of public funds and in helping to ensure the transparency of government operations.

This report is part of a series of audits by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to address U.S. efforts to combat corruption and strengthen the rule of law in Afghanistan. It (1) examines the capabilities and performance of the CAO, (2) assesses the assistance provided by the international community to strengthen the internal capacity of the CAO, and (3) assesses the assistance provided by the U. S. Government to strengthen the CAO's internal capacity. To accomplish these objectives, we reviewed relevant U.S., Afghan, and international laws, conventions, standards, and development strategies. We also interviewed CAO leadership, advisors, and department

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<sup>1</sup> The Corruption Perceptions Index is based on 13 independent surveys given to countries throughout the world, and indicates the perceived level of public-sector corruption in a country/territory. However, not all surveys include all countries. The index's stated confidence range indicates the reliability of the scores, and that—allowing for a margin of error—we can be 90 percent confident that the true score for Afghanistan lies within this range. According to the index, the most corrupt country in the world is Somalia.

<sup>2</sup> UNODC, *Corruption in Afghanistan: Bribery as Reported by the Victims*, January 2010.

heads, as well as representatives of U.S. agencies and international organizations. We conducted our work in Kabul, Afghanistan, and Washington, D.C., from December 2009 to April 2010 in accordance with generally accepted government auditing standards. A discussion of our scope and methodology is included in appendix I.

## **BACKGROUND**

The 1981 Control and Audit Law directs for the CAO to organize the audit and control affairs of public properties. Today, the CAO has audit authority over state entities within the central and provincial governments as well as public enterprises, and has a core budget of approximately \$1.35 million.<sup>3</sup> Key objectives of the CAO are:

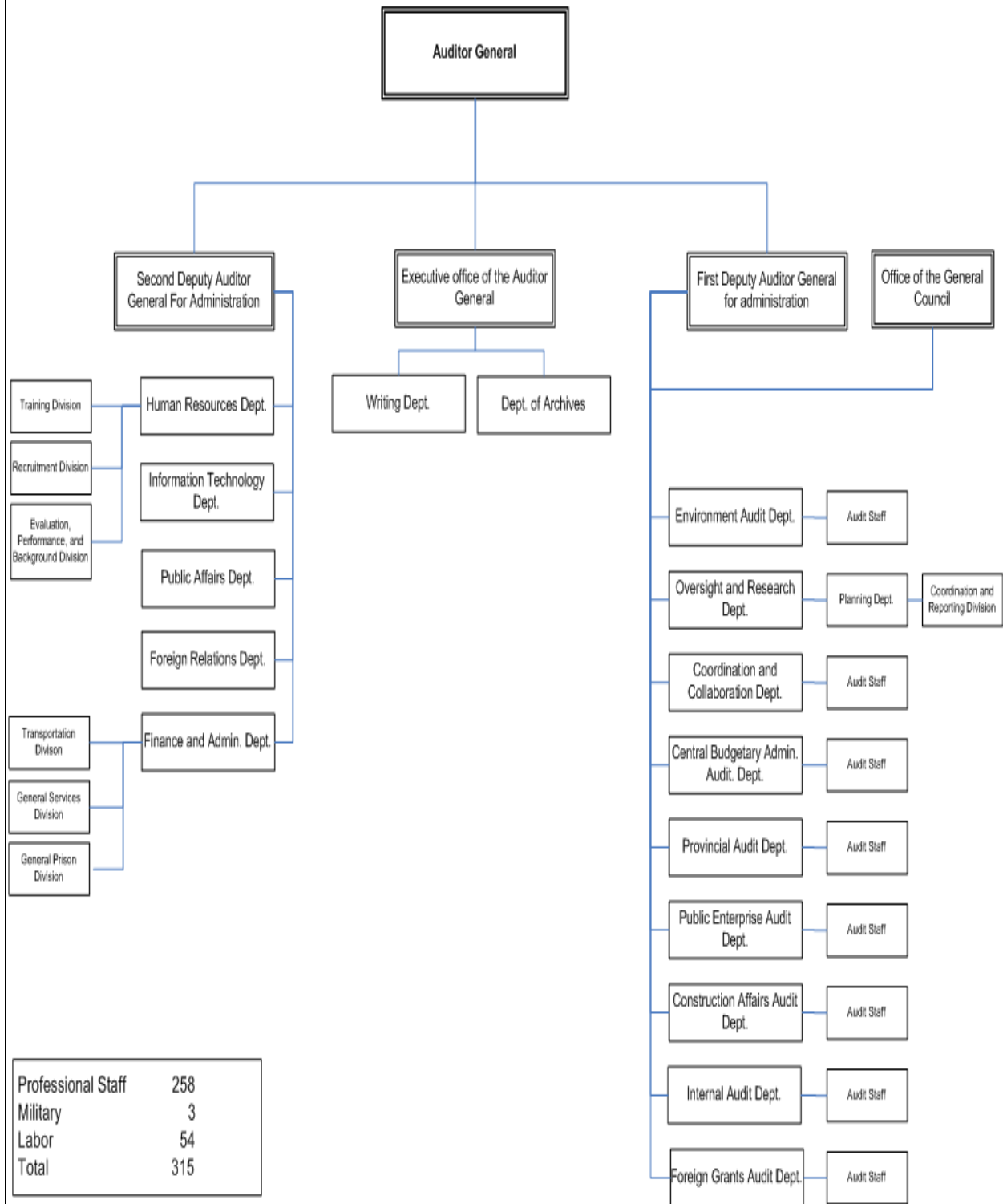
- to protect public funds and take action against errors, irregularities, and misuse of public property;
- to prevent illegal expenditures;
- to review the systems of control over government receipts and payments;
- to identify fraud and ensure that accused individuals are brought to justice;
- to identify shortfalls in the government budget; and
- to guarantee the accuracy of aid and grants provided by donor countries. Appendix IV provides information on the basic structure of the CAO's budget.

As of March 2010, the CAO has a total staff of 313 employees. The CAO is authorized 315 positions; 258 are considered to be professional staff, 54 are classified as administrative or general support staff, and three are military personnel. Figure 1 depicts the organizational structure of the CAO.

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<sup>3</sup> CAO's core budget refers to that part of the CAO's budget that is derived exclusively from domestic resources.

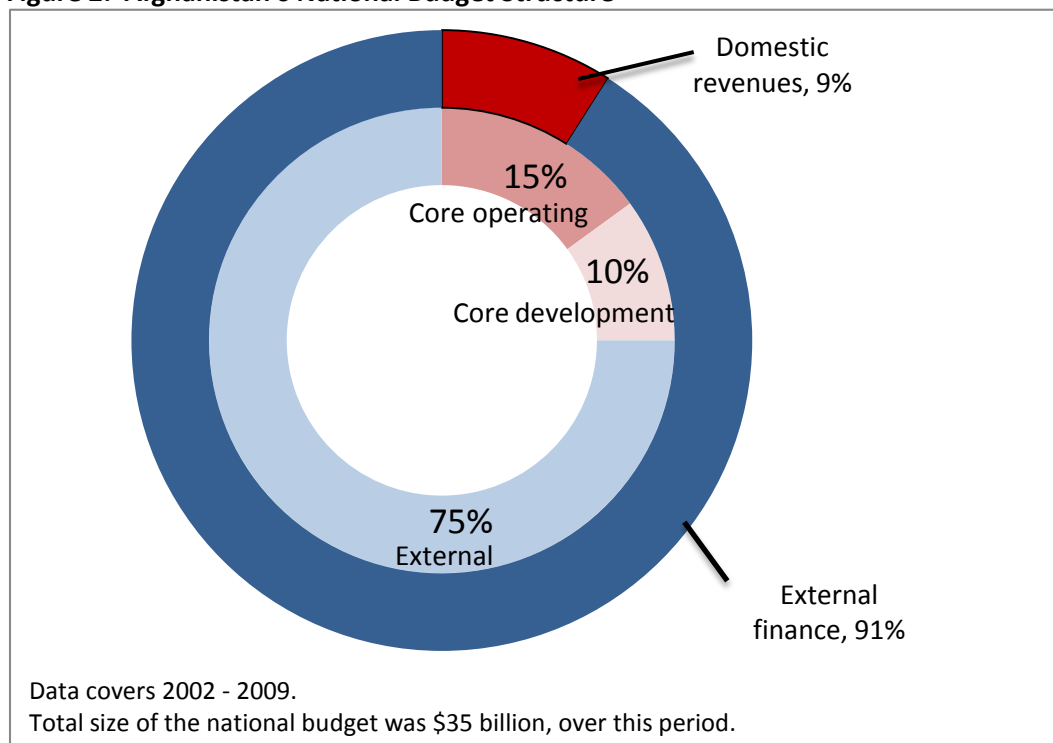
**Figure 1: Control and Audit Office Organizational Chart**



Source: SIGAR analysis of CAO information.

External auditing is the primary responsibility of the CAO. Currently, the CAO focuses on assessing the financial reporting of GIRoA ministries and compliance with laws and regulations.<sup>4</sup> The CAO certifies the financial statements of the government and is responsible for carrying out the audit of GIRoA’s national budget, including the Afghanistan Reconstruction Trust Fund (ARTF).<sup>5</sup> The CAO has auditing authority over virtually all GIRoA monies, although the standard to which it is required to conduct audits varies. For example, the CAO is required to audit GIRoA’s core development budget—which is 100 percent donor-funded—in accordance with international standards, whereas audits of GIRoA’s core operating budget may be conducted in accordance with less demanding, historically accepted Afghan standards. Figure 2 depicts the basic structure of GIRoA’s total budget.

**Figure 2: Afghanistan’s National Budget Structure**



Source: U.S. Department of Treasury.

In addition, the CAO provides a degree of scrutiny to the internal audit function of GIRoA ministries. For example, 42 of GIRoA’s line ministries and agencies currently have internal audit departments, 40 of

<sup>4</sup> Due to capacity constraints, the CAO is not able to conduct performance audits. Performance auditing—also known as value for money auditing—is considered to be a critical activity in identifying corruption in government spending.

<sup>5</sup> The ARTF is a coordinated financing mechanism administered by the World Bank. It was set up in May 2002 to help meet Afghanistan’s priority expenditures such as physical reconstruction projects and salaries for civil servants.

which are registered with, and ultimately responsible to, the CAO.<sup>6</sup> Those internal audit departments that are registered with the CAO must submit their annual audit plans to the CAO for approval, and send audit reports to the CAO for comment and quality check at the same time reports are sent to the associated minister for review. The CAO also provides ministerial internal audit departments with audit guidelines and invites staff from these departments to attend training events whenever available.

Since 2002, GIRoA and the CAO have made progress in establishing a functioning public accountability system. The external audit function of the CAO has emerged as an important link in the overall public accountability framework, particularly with its reports on donor funds and its annual audit of the government's financial statement (the Qatia). CAO's work is having some direct, positive effects on GIRoA operations. For example, as a result of the audits conducted during Solar Year 1388, the Director of the Public Enterprise Audit Department stated that his department alone has identified approximately 830 million Afghanis (approximately \$17.5 million) that should be returned to GIRoA from various public enterprises.<sup>7</sup> Of this amount, 330 million Afghanis (approximately \$6.9 million) have already been returned to GIRoA as of January 6, 2010. However, these achievements have been obtained with a high degree of direct donor assistance, including the use of contracted auditors, and significant systemic weaknesses remain in the comprehensiveness of the government audit function. The Afghanistan National Development Strategy (ANDS) has identified improving the performance of financial management services—public accountability—and capacity building as core to sound government operations.

### **CAO'S CURRENT LEGISLATIVE FRAMEWORK DOES NOT PROVIDE CAO WITH SUFFICIENT INDEPENDENCE OR AUTHORITY, AND RESULTS IN CONFLICTING RESPONSIBILITIES**

The CAO's original legislative framework is weak, does not provide the CAO with sufficient independence or authority, and results in conflicting responsibilities.<sup>8</sup> The CAO believes that legislative reform and effective implementation is critical, and for the past several years it has been assisting the Afghan Legislature in drafting a new National Audit Law. The adequacies of the laws that govern any SAI are crucial to ensuring that the SAI has the powers and independence to fulfill its role and mandate. According to the International Organization of Supreme Audit Institutions (INTOSAI), a strong statutory framework for an SAI is one that:

- Ensures independence and accountability;
- Clearly identifies its role, mandate, and approach;
- Allows comprehensive access rights;

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<sup>6</sup> The Attorney General Office's Internal Audit Department and the Supreme Court's Internal Audit Department are the two internal audit departments not registered with the CAO.

<sup>7</sup> Solar Year 1388 equates to March 21, 2009, to March 20, 2010, in the Western Gregorian calendar.

<sup>8</sup> This is similar to what we found in our recent report on the capabilities and performance of Afghanistan's High Office of Oversight, SIGAR Audit-10-2, *Afghanistan's High Office of Oversight Needs Significantly Strengthened Authority, Independence, and Donor Support to Become an Effective Anti-Corruption Institution*, December 16, 2009.

- Defines reporting requirements;
- Defines responsibilities towards employees; and
- Places duties of collaboration with other relevant organizations.

In late 2009, the CAO—with significant assistance from the international community—drafted a new audit law, which is now under review by the Ministry of Justice (MoJ).<sup>9</sup> According to several international stakeholders, the draft of the new audit law submitted to the MoJ contained revisions that, if passed, would provide the CAO with the independence, authority, mandate, and requirements to enable the CAO to serve effectively as Afghanistan’s SAI. However, a copy of MoJ’s draft of the new audit law obtained by SIGAR in February 2010 may not provide the CAO with sufficient independence or authority, as it did not include many of these important, substantive revisions.

### **The CAO Lacks Budgetary and Operational Independence from the Executive Branch**

The CAO lacks both budgetary and operational independence from GIRoA’s executive branch. In February 2009, the United Nations and the INTOSAI recognized the importance of independent and professional SAIs as a fundamental prerequisite for effective government audit and the prevention of fraud, corruption, and mismanagement. Moreover, only an SAI that is independent of the executive branch can deliver added value in helping to solve major challenges such as corruption. However, the CAO’s current authorizing legislation does not provide the CAO with the requisite independence to be an effective SAI. According to the World Bank, all of the core principles of SAI independence—established by INTOSAI—are only partially, if at all, met by the CAO’s current legislative and administrative framework. With regard to organizational independence, the U.S. Government Accountability Office’s (GAO) Generally Accepted Government Auditing Standards stipulate that government oversight organizations are generally presumed to be organizationally independent if—among other things—the head of the organization is elected or directly appointed or confirmed by a legislative body, is subject to removal by a legislative body, reports to a legislative body, and is accountable to a legislative body.<sup>10</sup> While it is clear that both international standards and established best practices—as recognized by INTOSAI and GAO, respectively—highlight the importance of an SAI’s organizational independence, the CAO’s current legislative framework allowed the Afghan President to appoint the current Auditor General by Presidential Decree in 2002, and the Auditor General now serves at the leisure of the President.

CAO’s reviews are subject to executive interference due to its lack of independence. This lack of independence presents opportunities for the executive branch to limit reviews, scale back findings, and

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<sup>9</sup> International stakeholders assisting the CAO in providing the MoJ with revisions to the draft National Audit Law include the United Nations’ Assistance Mission in Afghanistan, UNODC, the European Police Mission in Afghanistan, the Afghanistan Justice Sector Support Program, the United States Department of Justice, the International Trade Administration, and the British Embassy in Afghanistan. Afghan stakeholders assisting the CAO in providing the MoJ with revisions to the draft National Audit Law, include the Attorney General’s Office, Ministry of Interior, and Afghan Independent Human Rights Commission.

<sup>10</sup> The U.S. GAO is the SAI of the United States and a member of INTOSAI. GAO’s *Generally Accepted Government Auditing Standards* are widely recognized as best practices for the field of government auditing.

reduce candor in reporting. For example, according to recent interviews with CAO officials and similarly noted in a March 2009 United States Agency for International Development (USAID) funded assessment of corruption in Afghanistan, there has been ongoing interference by the executive branch in setting audit schedules.<sup>11</sup> Furthermore, Afghanistan's Auditor General stated that the CAO has been unwilling to take on audits that could be politically sensitive or may be turned down by the Office of the President. The USAID-funded assessment adds that issues resulting from CAO's lack of independence have been a factor in international donors choosing not to provide the level of support needed to professionalize and modernize CAO operations.

Additionally, the Ministry of Finance (MoF) directly approves, administers, and executes the CAO's budget on a quarterly basis. The current budgeting process has hindered the CAO's ability to conduct long-term planning because the CAO cannot be assured of its funding levels from quarter to quarter.

### **The CAO Lacks the Authority Necessary to Effectively Carry Out Its Mandate**

CAO's enabling legislation does not provide the CAO with the authority to (1) require audited entities to report on actions taken in response to CAO recommendations, (2) demand access to necessary documents, officials, and premises, or (3) require the CAO to report to the National Assembly or to publicly release its audit reports. The environment for an effective SAI requires willingness on the part of the executive branch to accept and respond to external scrutiny, and to ensure that corrective action is taken. According to Afghanistan's Auditor General, there is no real determination across GIRoA leadership to fight corruption, and CAO's reports often go unimplemented and unenforced. He also stated that the CAO does not have the authority to require GIRoA line ministries or the Attorney General's Office to reply or take action on report recommendations or corruption referrals.<sup>12</sup> As a result, members of CAO management staff asserted that the Afghan Attorney General's Office has reported back on the progress of only a small percentage of cases CAO has referred to that office. According to the Director of the CAO's Public Enterprises Audit Department, his department alone has referred 40 cases of corruption, fraud, and/or theft to the Attorney General's Office, but the Attorney General has only acted on 5 of those cases. The Director added that several of these "pending" 35 referrals involve high-ranking government officials and may involve the Afghan equivalent of millions of dollars. According to figures provided to SIGAR by the CAO, during a period covering the Afghan Solar Years 1382 to part of 1388, out of 160 cases referred to the Attorney General, 96 of the cases have been put on hold by that office.<sup>13</sup>

Officials from the Afghan Attorney General's Office refuted the CAO's claim that their office does not act on or report back to the CAO on the progress of cases. One official from the Attorney General's office asserted to SIGAR that every development in every case referred by the CAO is communicated to the CAO, whether the case is followed up or set aside for insufficient evidence. He added that his office

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<sup>11</sup> USAID, *Assessment of Corruption in Afghanistan*, March 2009.

<sup>12</sup> When a CAO audit uncovers instances of corruption, fraud, or theft, they report these cases to the Attorney General's Office for review.

<sup>13</sup> Covering the period March 21, 2003, through August 2009 in the Western Gregorian calendar.

strives to complete action on every case within 2 months. According to figures provided by the Attorney General's Office, in the period from Afghan Solar Years 1384 to 1387, the Attorney General received 109 cases from the CAO.<sup>14</sup> Of these, 102 cases were completed through legal procedures while 7 are still under investigation.

Additionally, SAIs can fulfill their roles objectively and independently only if certain operational conditions are met, including transparency of process and results and full, unrestricted access to necessary information. The CAO indicated that ministries suffer from a lack of technical capacity, and further cited numerous occasions when ministries could not locate requested documents or refused to provide CAO auditors with requested documents or access. CAO management informed SIGAR that departments and ministries under audit are often non-responsive and do not take action on CAO's recommendations, largely because the CAO does not have the legislative authority to compel them to do so. For example, one audit conducted by CAO (with international technical assistance) of 31 development projects administered and financed by the World Bank reported issues such as significant delays in the delivery of financial statements, non-submission of Financial Monitoring Reports, deficiencies in internal controls for identifying and controlling all valid transactions, and inadequate follow-up action by line ministries on previous audit observations and recommendations.<sup>15</sup>

Finally, upon the completion of an audit, the CAO is only required to release its reports to the Office of the President and the Ministry of Parliamentary Affairs; the CAO is not required by law to provide its audit reports to the public or National Assembly.<sup>16</sup> Once the Office of the President has received an audit report, it is the President's prerogative whether to disclose the report to the National Assembly. It is widely accepted that the timely public release of audit reports—usually on a webpage for convenience of access and low distribution costs—helps to strengthen accountability and is a key component to the effective functioning of an SAI.

### **The Ministry of Finance and CAO Have Conflicting Responsibilities**

According to INTOSAI, a strong statutory framework for an effective SAI is one that clearly identifies its role, mandate, and approach. According to USAID and the CAO, there is a lack of clarity in existing laws on the specific roles, responsibilities, and authorities of the CAO and the MoF with respect to internal auditing. Specifically, in 2005, the Afghan National Assembly passed the Public Finance and Expenditures Management Law, which complicated the CAO's statutory framework and created a direct conflict between the responsibilities of the CAO and the MoF. Article 61 of the Public Finance and Expenditures Management Law created a fundamental conflict between the responsibilities of the CAO and the MoF, by giving the MoF's Internal Audit Department the authority to conduct audits of the finances of all GIRA ministries. The CAO has maintained that the MoF does not have oversight responsibility over other ministries' internal audit departments. The MoF Internal Audit Department has

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<sup>14</sup> Covering the period March 21, 2005, through March 20, 2009, in the Western Gregorian calendar.

<sup>15</sup> This audit was conducted in accordance with the standards prescribed by INTOSAI and International Standards of Auditing of the International Federation of Accountants.

<sup>16</sup> While not required by law, the Auditor General does—on occasion, and at his discretion—provide reports to the National Assembly.

argued that the CAO is responsible for external audits only and that the MoF is responsible for internal audits.

Following the passage of the Public Finance and Expenditures Management Law , the CAO recommended to the President that the conflict be addressed and remedied. President Karzai agreed and established a commission under the chairmanship of the MoJ to address the conflict; the commission contained representatives from the CAO, MoF, the High Office of Oversight, the Supreme Court, and the Independent Administrative Reform and Civil Service Commission (IARCSC). After two meetings, the Commission decided that Article 61 should be changed or removed and that external audit and internal audit oversight is the exclusive purview of the CAO. MoJ was subsequently charged with taking the action required to remedy the legislative conflict. However, in 2009 the MoJ ruled in favor of the MoF because Article 61 was never amended or superseded by another law. Therefore, the Internal Audit Department of the MoF has jurisdiction over financial audits of all the ministries.<sup>17</sup> Nevertheless, legal experts stated that any new National Audit Law must explicitly address the conflict. As a result of this and other political conflicts, the MoF has refused to allow CAO auditors to conduct work in the ministry. In mid-December 2009, the President decreed that the CAO has the right to audit the MoF, although the CAO has not yet assigned an audit team to do so due to capacity constraints. According to the CAO, it intends to re-start audit work at the MoF in 2 to 3 months.

### **MoJ's Latest Version of Draft National Audit Law Does Not Include Significant Revisions Recommended by an International Working Group**

In December 2009, the MoJ requested the Criminal Law Reform Working Group (CLRWG), chaired by the UNODC, to review Afghanistan's draft National Audit Law. To date, however, the MoJ has not accepted many of the group's important, substantive revisions that resulted from CLRWG's review. The CLRWG proposed significant revisions to the draft that, in its unanimous opinion, would provide the CAO with the independence and authority required to function as Afghanistan's SAI. For example, the CLRWG proposed provisions that, in accordance with international standards for organizational independence, the Auditor General submit audit reports to the National Assembly and that the Auditor General may be subject to dismissal by the majority of two-thirds votes of present and voting members of both Houses of the National Assembly. In addition, according to legal experts from one international organization involved in the CLRWG, the CLRWG's recommended revisions more forcefully codify the right of the CAO to require action and access on the part of line ministries.

However, in February 2010, SIGAR obtained a copy of MoJ's current draft of the National Audit Law, which removed many of the CLRWG's suggested provisions, including those calling for the submission of audit reports to the National Assembly and making the Auditor General subject to joint dismissal by the National Assembly. Although MoJ has not issued a final draft of the law for National Assembly or

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<sup>17</sup> Parliament recently instructed MoF to recommend changes to Article 61; however, MoF did not submit any of the requested recommendations.

Presidential consideration, UNODC legal experts expressed their opinion to SIGAR that the MoJ version of the draft law will not provide the CAO with sufficient independence and authority.<sup>18</sup>

## **DESPITE INTERNATIONAL ASSISTANCE, THE CAO HAS SEVERE INTERNAL CAPACITY CONSTRAINTS**

The CAO has severe internal capacity constraints and relies heavily on support from foreign consultants and advisors. The CAO's staff lack specialization and training—particularly in the areas of professional standards, English language, and computer skills—resulting in CAO's inability to independently conduct audits that meet international standards.<sup>19</sup>

### **The CAO Has Significant Human Resource Challenges**

CAO's difficulty in building internal capacity begins with the overall absence of qualified accountants and auditors among Afghan nationals; there simply is not a tradition in Afghanistan of public accounting or auditing. Recruits with modern accounting and auditing educational backgrounds are generally unavailable within the CAO.<sup>20</sup> There are ongoing efforts on the part of some international organizations to enhance Afghanistan's accounting and auditing capacity by providing basic education and training to Afghans—including CAO staff—thereby providing a more robust applicant pool from which the CAO may draw talent. For example, the Association of Chartered Certified Accountants is working with Afghan partners to train and certify Afghans as Certified Accounting Technicians-1; Certified Accounting Technicians-1 is the lowest certification offered by the association. In July 2008, the association certified its first group of Afghans.<sup>21</sup> CAO officials stated that, to date, no CAO employee has completed the program and only two auditors have participated in it, one of whom has already left the CAO for a more lucrative position with another organization. One major obstacle to participation in the association's program is that—while it is free for CAO employees—participation requires excellent English language skills because the classes and all associated materials are presented in English.

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<sup>18</sup> As with any legislation, the draft is unimportant if the final draft is substantively different or if the legislation is never introduced or signed.

<sup>19</sup> By capacity, we mean the skills, knowledge, and ways of working that make an organization or entity effective. According to INTOSAI, capacity constraints may include scarce resources, low staff skills, lack of independence, and underdeveloped public financial management systems within the country—for example, inadequate accounting systems, limited financial statements, and a lack of familiarity with international accounting and auditing standards.

<sup>20</sup> Approximately 60 percent of CAO's professional staff currently have a bachelor's degree; the majority have degrees in law or economics.

<sup>21</sup> The Association of Chartered Certified Accountants program meets international standards and normally takes 3 years to complete.

Additional external training opportunities for current CAO staff include those offered by INTOSAI and the World Bank. The CAO has participated in some of these opportunities. For example, in 2008, the World Bank instituted an Audit Training Program in Afghanistan to train audit organizations in techniques and methods that are in accordance with international standards; however, the CAO only sent 12 of its staff to the training, which disappointed the World Bank sponsors, who had hoped for greater participation. In addition, according to CAO management, many of these external training programs require individual SAIs to pay costs associated with attendance, and the CAO is not sufficiently funded to send staff. In addition to external training, the CAO itself is implementing a departmental and staff strengthening program, and staff training is a component of CAO's Strategic Plan. Nevertheless, according to a World Bank assessment on vulnerabilities to corruption, substantial progress especially in training and competency development is still needed to more closely align the CAO with international practices.<sup>22</sup>

Internal capacity building is also complicated by the fact that the CAO is required to use the Afghan IARCSC, and associated salary scales, to fill vacancies. This process hampers the CAO's ability to independently determine those candidates with the highest cumulative qualifications because the IARCSC uses a standardized test of candidates—who are deemed to be qualified—to determine the best qualified candidate. The IARCSC selects the applicant with the highest score for appointment. Once an appointment is recommended, the CAO develops three screening sheets: a "health" sheet, a security screening sheet, and a qualification verification sheet. Based on the outcome of these sheets, the CAO may accept or reject the appointee. According to the CAO, the IARCSC appointee, who received the highest score on a standardized test and passed CAO's screening, may not be the best overall candidate because of the combination of skills required to be a successful auditor.

USAID, CAO, and international organizations have all recognized that the current GIROA/IARCSC civil service pay scale is unrealistic for attracting and retaining skilled professional employees. CAO staff salaries are subject to IARCSC's guidelines, and the IARCSC's salary scales are too low to attract new recruits who possess the requisite qualifications and experience. As a result, entry-level auditors typically lack education, experience, English language, or technical/professional training. Accounting and auditing specialists need significant and relevant academic training and practical experience, and candidates for employment—who meet CAO's employment criteria—generally receive offers with higher salaries from other employers. For example, the auditors contracted by CAO to conduct audits of Afghanistan's development budget earn between \$6,000-\$10,000 per month, whereas the highest paid audit staff within the CAO earn \$200 per month. Such salary concerns also result in high attrition rates; qualified and trained auditors often leave the CAO to pursue more lucrative careers in non-governmental organizations.

### **CAO Relies on International Advisors and Contracted Auditors to Conduct Its Audit Work and Ensure Compliance with INTOSAI Standards**

Adoption of international standards for accounting and auditing provides the basis for competent financial reporting and transparency. While the CAO has formally adopted INTOSAI standards, the CAO lacks the capacity necessary to conduct audits in accordance with these standards and relies on

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<sup>22</sup> World Bank, *Summaries of Vulnerabilities Corruption Assessment*, May 2009.

international advisors and contracted auditors to ensure that some of its audits comply with those standards. In addition, it is widely recognized that INTOSAI standards are too general to provide adequate guidance and need the support of more robust and detailed standards, such as the International Federation of Accountants' International Audit and Assurance Standards Board's International Standards on Auditing. The International Federation of Accountants' standards are needed to provide effective guidance and improve the audit work of staff. Furthermore, the application of international standards requires significant capacities, particularly in terms of professional competence, organizational independence, and adequate resources and systems. The CAO and international stakeholders note that CAO's current staff requires professional, English language, and computer training; the CAO lacks organizational and budgetary independence; the CAO's current staffing authorization does not provide sufficient staff to meet demand; and the CAO lacks modernized systems. The CAO is unable to independently conduct audits in accordance with international standards and is wholly reliant on international consultants and advisors to conduct audits that meet such standards.

Because the CAO's capacity is weak (with its focus limited to basic financial and compliance audits), the CAO has had to contract with international auditing firms—currently PKF International—using World Bank funds provided under the Public Financial Management Reform Project to conduct required audits of donor funds in accordance with international standards.<sup>23</sup> In the opinion of the World Bank, reforms are most urgently required in the areas of merit-based recruitment, technical and professional training, English language, computer skills, and performance evaluation. Unless Afghanistan and its international partners are able to create a program to ensure a sustainable and capable internal capacity in public accountability, the CAO will continue to depend on foreign expertise and assistance. This dependency renders the CAO, and Afghanistan, vulnerable to reductions in aid that could cripple the CAO, hamper external auditing and public accountability within GIRoA, and weaken the government's ability to combat corruption.

The CAO is required to audit all of the funds associated with Afghanistan's development budget, and these audits must be of a high quality and in compliance with international standards. To conduct audits of donor funds in accordance with international standards—particularly those provided by the World Bank through the ARTF—the CAO depends on the assistance, direction, advice, and technological and operational support provided by international stakeholders, particularly the World Bank. At the present time, the World Bank supports a team of five international advisors to the CAO plus an additional team of six international auditors contracted by PKF International. Without these consultants, the CAO would not be able to effectively audit development budget monies or mitigate the risk of corrupt practices related to their disbursement and execution. International stakeholders have noted repeatedly that there is an urgent need for these consultants and advisors to work with Afghan counterparts, and build the CAO's internal capacity to, eventually, take over these functions. However, capacity development within the CAO has been limited and has not been the focus of assistance.

The CAO is receiving considerable assistance from international stakeholders, most notably the World Bank, whose assistance now accounts for approximately 66 percent of CAO's total budget and 80 percent of the CAO's development budget. Since 2004, the World Bank has provided approximately \$13.3 million to the CAO. The World Bank is currently providing assistance through the Afghanistan

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<sup>23</sup> PKF International is an international group of independent, autonomous firms of auditors, accountants, and business advisors. The particular group contracted by the CAO is PKF-London.

Public Financial Management Reform Project, which is scheduled to run from May 2007 through December 2010. This program is expected to provide approximately \$7.3 million—of the \$13.3 million—over this period. Since 2004, World Bank assistance has nearly doubled the CAO’s core budget.<sup>24</sup> To a great extent, the World Bank is providing the CAO with this funding to ensure that the CAO can conduct the required audits of Afghanistan’s development budget and all donor funds provided to GIRoA through the ARTF in accordance with international standards.

The two primary development objectives of the Public Financial Management Reform Project are to develop an efficient and effective public financial management system and to develop the human resource capacity of the Ministry of Finance and the CAO to ensure better operation of public financial management. Nevertheless, internal capacity development has not been the focus of World Bank assistance. The World Bank and the CAO have used the vast majority of these funds to support a contractual arrangement with PKF International. Under this arrangement, PKF conducts the audits of Afghanistan’s development budget. While PKF is contractually obligated to conduct its development budget audits jointly with CAO staff, the current practice does not develop the internal capacity within the CAO to conduct these audits independently. For example, PKF auditors have allowed CAO auditors to collaborate with them and observe their methodologies. However, CAO auditors only participate in the fieldwork/data collection portion of the audits and they are not exposed to either the planning or writing phases. According to World Bank and CAO officials, the major focus of World Bank assistance to the CAO has been to ensure that these mandated audits are conducted in accordance with international standards, not on building the capacity of the CAO to conduct them independently.<sup>25</sup>

In addition to the assistance provided by the World Bank, the United Nations, through the United Nations’ Development Program, has also provided the CAO with limited direct assistance to support the CAO’s efforts to build internal capacity. For example, the United Nations’ Development Program has provided some coaching, advisory services, and training. Nonetheless, the current degree of direct donor assistance is not considered to be a sustainable situation in the long term and the Auditor General of Afghanistan has noted that building the internal capacity of the CAO is vital to ensuring the political stability of GIRoA and strengthening GIRoA’s legitimacy. Table 1 provides a description of the type, amount, duration, and objectives of international assistance to the CAO over recent years.

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<sup>24</sup> The CAO’s core budget is roughly \$1.35 million annually, while the World Bank has provided approximately \$2 million annually. Under the World Bank’s current assistance program, the Afghanistan Public Financial Management Project, the World Bank plans to provide \$7.3 million in direct assistance to the CAO; the project’s total budget is \$33.4 million.

<sup>25</sup> Moving ahead—for the period December 2010 through 2013—the World Bank is planning to implement a follow-on Public Financial Management Reform Project to continue to provide technical assistance. This project will be included in the ARTF (SY) 1389 investment window. The project components are expected to include—among others—provincial public financial management, internal audit capacity building, and a CAO capacity building plan. Nonetheless, given the current level and focus of international assistance to the CAO, there is a belief within the CAO that—without U.S. and international support focused at internal capacity development—the status quo will remain for the foreseeable future.

**Table 1: International Assistance to the CAO, 2004 to 2010**

| Donor  | Type of Assistance   | Cost and Duration of Assistance <sup>a</sup>  | Overall Objective(s) of Assistance  |
|--|--|---|---|
| The World Bank   | Direct Operational Support   | \$13.3 million since 2004; \$7.3 million of which is provided under the current Afghanistan Public Financial Management Reform Project, scheduled to run from 29 May 2007 through 31 December 2010. | <p>Primary objective: To ensure that all donor funding—provided through either IDA Grants or ARTF—is audited to a high standard.</p> <p>Secondary objective: To provide audit advisors and experts. (Under the current project, roughly \$4 million is used for direct audit support to fund the contractual arrangement with PKF International, \$2 million is used to provide the CAO with operational advisors, and \$1 million for infrastructure and technological upgrades.</p> |
| United Nations Development Program Accountability and Transparency Program     | Provision of a Fraud and Corruption Detection Technical Specialist | Approximately \$276,157 per year (the position was filled between 20 December 2009 and 6 January 2010 and is a 12-month appointment with a possible extension up to 18 months.                      | To provide policy advice to CAO's senior management, develop the capacity of CAO staff to prevent and detect fraud and corruption, and manage and coordinate interactions between the program and CAO.  |
| United Nations' Development Program Capacity for Afghan Public Service Project | Coaching, Advisory Services, Training                              | Cost of support is unknown, between January 2007 and June 2009. <sup>b</sup>  | Coaching on INTOSAI auditing standards and performance auditing; advisory services in preparation of Strategic Development Plan and training needs assessments; performance audit training for some staff in India.   |

Source: SIGAR analysis of information and data from various international stakeholders.

Notes: On March 8, 2010, SIGAR learned that Afghanistan's Auditor General signed a Memorandum of Understanding with India's Supreme Audit Institution; the Auditor General signed this Memorandum of Understanding during a visit to India in the first week of March 2010. According to the Auditor General, this Memorandum of Understanding stipulates that the Indian SAI will provide assistance for training both within Afghanistan and at the Indian SAI.

<sup>a</sup> Assistance amounts are approximated.

<sup>b</sup> United Nations' Development Program Capacity for Afghan Public Service Project total budget for the duration of its existence was approximately \$7.7 million.

## US SUPPORT TO THE CAO HAS BEEN LIMITED

USAID is the only U.S. agency that has provided any direct support to the CAO, and, to date, such support has been modest and has funded conference and training attendance for a limited number of CAO staff. Table 2 provides a description of the type, amount, duration, and purpose of USAID assistance to the CAO over recent years:

**Table 2: USAID Direct Assistance to the CAO, 2007 to 2010**

| Type of Assistance    | Host Organization  | Cost and Duration of Assistance <sup>a</sup> | Purpose of Assistance   |
|-----------------------|--|--|---|
| Conference Attendance | Economic Cooperation Organization of Supreme Audit Institutions Conference in Turkey | \$3,562, October 22 – October 28, 2009       | Allow CAO AG and one staff member to attend a conference in Turkey  |
| Training Attendance   | India’s Supreme Audit Institution  | \$85,247, February 15 – March 1, 2009        | Allow CAO AG and seven professional staff to attend training related to strengthening the capacity of the CAO |
| Conference Attendance | INTOSAI Meeting in Qatar   | \$13,127, January 23 – January 29, 2009      | Allow CAO AG and two auditors to attend the INTOSAI conference in Qatar                                       |
| Conference Attendance | International Congress of Supreme Audit Institutions Conference in Mexico City       | \$10,536, November 3 – November 12, 2007     | Allow CAO AG and one advisor to attend a conference in Mexico City  |

Source: SIGAR analysis of USAID data.

Notes: USAID’s Capacity Development Program also contracted with several advisors between 2007 and 2009 (the end of fiscal year 2009) at a rate of \$518 to \$638 per day to provide internal audit support to ten GIRoA agencies and ministries, one of which was the CAO; no advisor was directly assigned to the CAO.

<sup>a</sup> The total cost of direct assistance to the CAO was \$112,472 from November 2007 – January 2010.

In addition to the efforts described above, USAID has engaged in informal discussions with the GAO regarding possible assistance in training CAO staff on professional and technical standards, and international requirements.<sup>26</sup> To date, no such assistance has been provided. In December 2009, GAO officials stated that participation in its International Auditor Fellowship Program is the primary way in which GAO could provide support to the CAO because GAO does not have the dedicated funding or available staff necessary to provide in-country mentors to the CAO.<sup>27</sup>

<sup>26</sup> USAID has often helped fund training and capacity development for international SAIs.

<sup>27</sup> GAO’s International Fellowship Program is its primary capacity-building program. While there is no cost for participation in the program, participating countries are expected to pay travel and living expenses for the duration of the 4½-month program that are estimated to be more than \$28,000 per participant.

USAID Afghanistan's 2009 assessment of the CAO stated that the CAO lacks the capacity to perform audits of USAID funds in accordance with international and USAID requirements. International stakeholders have made similar findings. According to USAID, international stakeholders, and CAO management, the CAO lacks the technical and professional capabilities (as discussed in previous sections) to effectively perform this critical function. USAID has indicated that it would be willing to provide funding for CAO staff to attend training events in other countries to expand their technical and professional capabilities. The GAO's International Auditor Fellowship Program is one such training opportunity in which USAID and CAO have expressed interest in sending CAO staff. GAO's program, however, requires participants to have a certain proficiency in English, and the CAO has not yet nominated any candidates who meet this requirement.<sup>28</sup>

In addition, USAID's Office of Inspector General works with SAIs in many developing countries to expand their capabilities and provides training in cost principles and fraud awareness. Before an SAI can conduct audits of USAID monies, it must have both professional capability and independence. As resources permit, USAID's Office of Inspector General provides training to SAIs in conducting financial audits of USAID funds in accordance with USAID guidelines and U.S. government auditing standards. This training helps build capacity within SAIs to enhance their ability to audit all public funds. USAID's Office of Inspector General currently has agreements to provide this training in 21 countries. However, USAID's Office of Inspector General has not conducted such training in Afghanistan, citing the need for more resident auditors to conduct the training.<sup>29</sup> CAO's lack of independence is also an issue that may need addressed before the USAID Office of Inspector General provides the CAO with training; although, according to USAID's Office of Inspector General, the possibility of providing future training to the CAO has not been ruled out.

The majority (over 82 percent) of USAID mission in Afghanistan's projects and programs are currently implemented through USAID direct contracts and grants. Thus, funds provided under these instruments do not flow through GIRoA's financial management system. However, USAID intends to significantly increase the amount of aid provided directly to, and implemented by, GIRoA. USAID's Office of Financial Management recently noted the necessity of providing technical assistance to the CAO to allow GIRoA to meet USAID requirements and properly discharge its financial oversight responsibilities, stating, the CAO needs more than the limited support previously provided under USAID's Capacity Development Project.<sup>30</sup> The U.S. government's draft Anti-Corruption Strategy for Afghanistan, the Final Declaration of the Paris Conference, and the UN Convention against Corruption all state the commitment of GIRoA and the international community to undertake professional audits, including joint audits, of programs

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<sup>28</sup> GIRoA has nominated one candidate, from the Ministry of Defense's Inspector General's Office, to participate in GAO's program; however, that individual was unable to meet the program's English language requirement.

<sup>29</sup> On October 26, 2008, USAID's Office of Inspector General conducted a half-day training exercise in Kabul for 35 employees of various GIRoA ministries and departments, including the Ministries of Finance, Public Health, Rural Rehabilitation and Development, Education, Communication and Information Technology, and the Control and Audit Office. The training provided an overview of USAID's Office of Inspector General's recipient-contracted audit program.

<sup>30</sup> USAID Afghanistan, HC-306-09-02, *Report on the Assessment of the Capability of the Ministry of Finance, Da Afghanistan Bank, and the Control and Audit Office in Regard to Managing Direct Donor Assistance*, July 27, 2009.

financed through Afghanistan's core and external budgets, and to strengthen government capacity for audit and financial accountability. The U.S. government has also committed to assist the Afghan government in implementing programs designed to improve the transparency and accountability of Afghan government institutions, reduce corrupt practices, and improve financial oversight, all of which fall directly under the responsibility of the CAO. In addition, USAID's Economic Growth and Governance Initiative directly links Afghanistan's weak audit capacity with governmental corruption. Nevertheless, USAID officials stated that USAID has not yet developed concrete plans for any direct, sustained assistance to the CAO. While USAID's Office of Financial Management is presently drafting a Management Control Strategy for the oversight of USAID direct funding to GIRoA, the extent to which this strategy will address assistance to the CAO is unclear.

## **CONCLUSIONS**

At the January 2010 London Conference on Afghanistan, the United States and other donors pledged to increase the proportion of development aid delivered through the Afghan government to 50 percent in the next 2 years. This support depends on the Afghan government making progress in several areas, including strengthening its public financial systems, improving budget execution, and reducing corruption. As a result of the funds and assistance provided to GIRoA, the U.S. government has a vested interest in supporting Afghan institutions that can provide the checks and balances necessary to ensure the accountability and responsiveness of the government to its people. Key anti-corruption bodies such as the CAO need to be reinforced to hold GIRoA accountable to the people of Afghanistan. Strengthening the CAO's capability and capacity would contribute to enhanced transparency and reduced corruption in Afghanistan. However, building capability and capacity within the CAO depends largely on the CAO operating under a legislative framework that provides independence and appropriate powers. In conjunction with legislative reforms, the international community must provide sustainable assistance that is focused on the capacity development of Afghanistan's audit professionals. Supporting an independent and capable CAO will increase public visibility into the operations of GIRoA, promote transparency and accountability, and empower citizens to demand real change. Further, a strong demand for good public sector auditing is necessary if the CAO is to make a meaningful impact; however, this requires willingness on the part of GIRoA's executive branch to accept, support, and respond to external scrutiny over its management of public funds and to ensure that corrective actions—recommended by the CAO—are taken, where appropriate. Further, for the CAO to make an impact and to secure public support and a belief in the government's dedication to take effective action in GIRoA's fight against corruption, audit reports not deemed law enforcement or national security sensitive, need to be made available to the public.

## RECOMMENDATIONS

To strengthen the CAO's capability and capacity, SIGAR is making the following two recommendations:

1. To help enable the CAO to become an effective supreme auditing institution, SIGAR recommends that the U.S. Ambassador to Afghanistan urge the Afghan government to enact legislation providing the CAO with sufficient independence and authority to fulfill its responsibilities in accordance with internationally recognized audit standards.
2. To help build the sustainable internal capacity of the CAO, SIGAR recommends that the U.S. Ambassador to Afghanistan oversee the development and implementation of a capacity development plan for the CAO, in cooperation with the CAO and international stakeholders, as part of the U.S. government's Anti-Corruption Strategy for Afghanistan. In consideration of the issues concerning CAO independence and authority, such a plan should include the identification of funding sources and donor responsibilities for capacity development and training; utilization of existing training possibilities within the U.S. government; and the appointment of expert audit mentors and advisors.

## COMMENTS

The U.S. Embassy Kabul and the USAID Mission in Afghanistan provided written comments on a draft of this report. Those comments are included in Appendix II. The Embassy's Coordinating Director for Development and Economic Affairs and the USAID Mission Director concurred with the report's findings and recommendations, and noted that an independent and well-functioning Supreme Audit Institution in Afghanistan is in the best interest of GIRoA and the U.S. Government. In their comments, they outlined actions they would take to address the report's recommendations, including:

- Addressing the need for legislation that would provide the CAO with the necessary independence and authority to fulfill its responsibilities by including this issue in at least one meeting with the international community by April 30, 2010; and
- Working with the CAO, GIRoA stakeholders, and international donors to formulate and implement a capacity development plan for the CAO by June 30, 2010.

The CAO also provided written comments on a draft of this report. These comments are included in Appendix III. The CAO concurred with the report's findings and recommendations, emphasizing the need for legislative reform, functional and operational independence, and capacity development, so it can better enhance the accountability and transparency of GIRoA through unbiased and credible reporting.

SIGAR also provided a draft of this report to the World Bank and shared relevant sections of the report with both the USAID Office of Inspector General and the U.S. Government Accountability Office. SIGAR incorporated their technical comments as appropriate.

## APPENDIX I: SCOPE AND METHODOLOGY

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To assess the capabilities and performance of the CAO in fulfilling its mandate, we reviewed relevant U.S., Afghan, and international laws, conventions, standards, and development strategies, as well as relevant reports, guidance, and standards issued by U.S. government agencies, international organizations, and the CAO. We interviewed CAO leadership, advisors and department heads, as well as officials at the Afghan Ministry of Education and Afghan Attorney General's Office.

To identify assistance provided by the United States and other donors to strengthen the CAO's institutional development, we interviewed and received documentation from officials at U.S. government agencies and international organizations, including USAID; the Government Accountability Office; the World Bank; UNODC; the European Police Mission to Afghanistan; the United Nations Development Program; the Embassy of the United Kingdom in Afghanistan; INTOSAI; and the Asian Organization of Supreme Audit Institutions.

To assess the effectiveness of U.S. assistance to the CAO, we used information obtained through the documents and interviews described above and developed conclusions based on that evidence. After identifying gaps in the CAO legislative framework and operational shortcomings, we compared those findings with the provision of U.S. assistance to determine whether that assistance might effectively assist the CAO in filling those gaps and overcoming the shortcomings.

This report is part of a series of SIGAR audits addressing U.S. efforts to combat corruption and strengthen the rule of law. We conducted work in Kabul, Afghanistan and Washington, D.C. from December 2009 to April 2010 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was conducted by the Office of the Special Inspector General for Afghanistan Reconstruction under the authority of Public Law No. 110-181, and the Inspector General Act of 1978, as amended.

**APPENDIX II: COMMENTS FROM THE U.S. EMBASSY KABUL AND USAID MISSION IN AFGHANISTAN**

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*Embassy of the United States of America*  
**Kabul, Afghanistan**

**UNCLASSIFIED**  
**INFORMATION MEMORANDUM**

April 2, 2010

**TO:** John Brummet, Assistant Inspector General for Audits

**FROM:** CDDEA – Ambassador E. Anthony Wayne   
USAID Mission Director – William Frej

**SUBJECT:** Capacity Building Plan for Control and Audit Office of Afghanistan pursuant to SIGAR Audit-10-8 Anti Corruption/Control and Audit Office of Afghanistan

**BACKGROUND**

The U.S. Embassy welcomes the comprehensive draft report by the Special Investigator General for Afghanistan Reconstruction (SIGAR) on the subject audit. We appreciate the opportunity to comment on its findings and recommendations.

The Embassy concurs with the report's finding regarding the need for an independent and well functioning Supreme Audit Institution in Afghanistan as being in the best interest of the GIROA and the U.S. Government. Independence is a prerequisite to providing effective oversight. Based on the U.S. government plans to increase the level of direct assistance to the GIROA, it is necessary for the Control Audit Office (CAO) to have both the authority and capacity to carry out its mandate in accordance with international standards. In addition, the building of the capacity of the CAO is also in line with the Paris Declaration on Aid Effectiveness issued in March 2005 and the Accra Agenda for Action signed in September 2008.

SIGAR Report Recommendations and U.S. Embassy Response

The Embassy supports each recommendations of the draft report and is pleased to provide detailed responses to each.

**Recommendation:** To help enable the CAO to become an effective supreme auditing institution and to build the sustainable internal capacity of CAO, SIGAR recommends the U.S. Ambassador to Afghanistan urge the Afghan government to enact legislation providing the CAO with sufficient independence and authority to fulfill its responsibilities in accordance with internationally recognized audit standards.

**Embassy Response:** The Embassy concurs with this recommendation. By April 30<sup>th</sup> 2010 the Ambassador or his designee will include this issue in at least one meeting in the ongoing dialogue noted above.

**Recommendation:** To help enable the CAO to become an effective supreme auditing institution and to build the sustainable internal capacity of CAO, SIGAR recommends that the U.S. Ambassador to Afghanistan oversee the development and implementation of a capacity development plan for the CAO as part of the U.S. government's Anti-Corruption Strategy for Afghanistan and in cooperation with the CAO and international providers of assistance to the CAO. In consideration of the issues concerning CAO independence and authority, such a plan should include the development of key areas of focus in coordination with the World Bank and other international stakeholders; the identification of funding sources for capacity development and training opportunities; utilization of existing training possibilities within the U.S. government; and the appointment of expert audit mentors and advisors.

**Embassy Response:** The Embassy concurs with this recommendation. In cooperation with the CAO and the current international providers of assistance to the CAO, USAID will work with CAO and other relevant GIRA/donors to formulate and implement a capacity development plan for the CAO. Upon identification of the key focus areas and depending on the identified needs and availability of resources, the plan may include identification of capacity development and training opportunities, utilization of existing training possibilities within the U.S. government and/or the appointment of expert audit mentors and advisors. This capacity development plan will be completed by June 30, 2010.

**APPENDIX III: COMMENTS FROM AFGHANISTAN'S CONTROL AND AUDIT OFFICE**



**Islamic Republic of Afghanistan  
Control & Audit Office**

9-1-1389  $\frac{30}{17}$

To,  
**John Brummet**  
Assistant Inspector General for Audits  
Office of the Special Inspector General for Afghanistan Reconstruction  
Subject: Draft Report on Control & Audit Office

March 28, 2010

**Dear Mr. Brummet**

I am happy after going through the draft of your report that reflects the correct picture of my office and the needs of this office to play effective role in establishing public financial management system in accordance with international standards and practices.

I also take this opportunity to emphasize upon few important issues that is vital for effective functioning of CAO and to strengthen transparency and accountability in the Government of Afghanistan. These are as follows:

1. Control & Audit Office is the supreme audit institution of Afghanistan but its mandate and functioning is based on an Audit Law of about 20 years back. The current law does not recognize the current form of Governance and the mandate to audit is too narrow. It disregards will and aspiration of the people who has the right to know about the utilization of their money from an independent source. The new law needs to be legislated immediately that will give CAO independence in its functioning and its report can be discussed in the National Assembly. It is important to have financial oversight over executive to be exercised by National Assembly. In this regard, Control & Audit Office must audit independently of the operations and transactions of executive and submit its report directly to National Assembly. This arrangement must be established at the earliest to check on fraud & corruption that is discussed by the international community and donors time and time again. To combat corruption, it is important to have various agencies within executive but the role of National Assembly in coordination with CAO is absolutely necessary. It can not only audit the functioning of these anti-

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## Islamic Republic of Afghanistan Control & Audit Office

corruption agencies but will also provide evidence to many corruption related cases that it may find during audit. Exercising parliamentary control over executive especially over financial matters is most important aspect of public financial management system. Control & Audit Office as a supreme audit institution can only support National Assembly in this regard. Hence, Government of Afghanistan and international community must work to legislate a new audit law that will provide CAO with necessary functional and operational independence and to submit its report directly to National Assembly.

2. Control & Audit Office has the mandate to audit all the public offices and can examine all the documents. Its audit directly finds various financial errors and malpractices, but its mere presence also deters many to commit any financial wrongs as they are afraid of being caught by CAO. The capacity development of CAO is badly needed to make the auditors well trained in using all the modern tools and techniques to perform its work efficiently and effectively. It will help reducing corruption, directly as well as indirectly, and providing unbiased and credible assurance to all important stakeholders in Afghanistan.

I hope that your report will be well appreciated by the decision making body and concrete steps would be taken in this regard.

Yours sincerely

(Mohammad Sharif 'Sharifi')

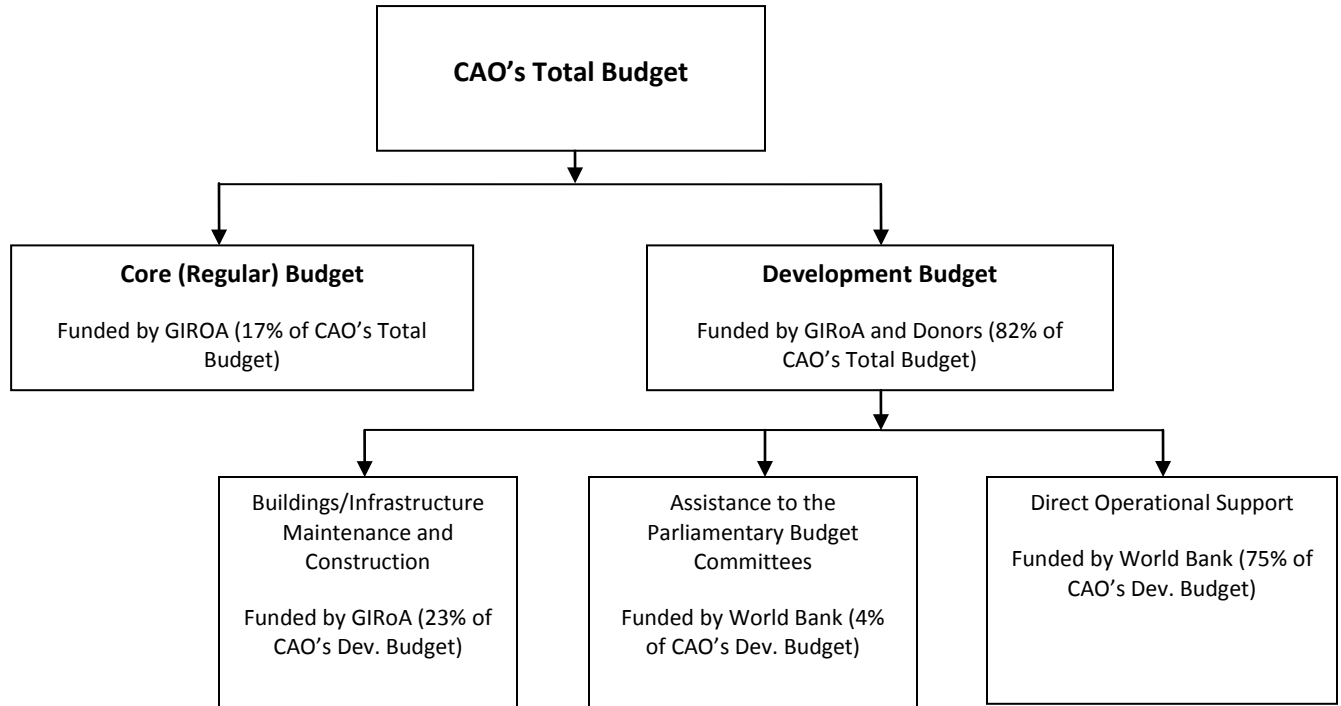
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## APPENDIX IV: CAO'S BUDGET STRUCTURE

Figure 1 provides information on the basic structure of the CAO's budget. Specifically, the CAO's total budget is divided into two categories, CAO's core (regular) budget and the CAO's development budget. While the CAO's core budget is funded by GIROA, the preponderance of CAO's development budget is funded by the World Bank, aimed at direct operational support, and supports the CAO's contractual arrangement with PKF International.

**Figure 1: CAO's Budget Structure**



**Source: SIGAR analysis of CAO data.**

Note: The percentages depicted in Figure 1 are approximations based on figures provided by the CAO. Currency conversions and rounding may result in percentages that do not add to 100 percent.

(This report was conducted under the project code SIGAR-019A).

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