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# Public Financial Management Roadmap

Government of Afghanistan - Ministry of Finance

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## Introduction

At the London Conference in January 2010, the Government of Afghanistan and its development partners agreed to work together to increase assistance to Afghanistan through the central budget to 50% over the next two years. This commitment represents a critical shift in financing for development. To ensure effective utilization of these resources, Government agreed to present credible plans in the Kabul Conference for further strengthening Public Financial Management systems, reducing the risk of corruption, improving budget execution, developing a financing strategy for development and improvements in Government's capacity to deliver.

This Public Financial Management Action Plan will set out how the Government intends to strengthen the ability of Government to effectively design and implement programming while demonstrating the highest standards of transparency and accountability. It is focused on three key aims: Strengthening the Budget in driving effective delivery of key priority outcomes; Improving Budget Execution; and Increasing Accountability and Transparency. A key cross-cutting theme – critical in the implementation of all of these goals – is increasing the capacity of line-ministries to implement programs effectively and efficiently.

The Government aims to measure the successful implementation of these aims through three key indicators by July 2011:

1. Medium-term fiscal framework (MTFF) has been strengthened to better forecast, plan and prioritize both expenditures and domestic revenues, to assist working towards fiscal sustainability.
2. Budget execution has increased by 10-20% annually over the medium-term (compared to the amount of executed budget for the previous year) through focused capacity development in planning and procurement practices at the provincial level and in line ministries.
3. Afghanistan's rating in the Open Budget Index has improved to 30% for 1390 by improving communication across Government bodies, as well as with civil society organizations, improved resources for both internal and external audit, and increased use of financial reporting through AFMIS.

This Public Finance Management Roadmap will not work in isolation. It should be reviewed and implemented in close coordination with other Government plans presented at the Kabul Conference to deliver effective and sustainable development outcomes. Government is committing to implement ANDS priorities effectively through key bankable programs; it will set out plans to improve overall governance, reduce corruption, as well as more effective financial assistance; and it will implement social and economic reforms that will provide an overall framework for improving development outcomes. These reforms will cover specific areas that are also important for overall better financial management but fall outside the scope of this paper; such as sustainable increases in and management of domestic revenue collection; improved financial oversight of public enterprises and their restructuring; and better cash management and control systems.

Preparation of this document was led by the Deputy Minister for Finance involving his line departments (Budget, Treasury and Fiscal Policy Unit); colleagues from the Internal Audit Department and Procurement Policy Unit in the Ministry of Finance; and

representatives from the Control and Audit Office. Several workshops were held to identify and analyze recent successes, remaining bottlenecks and solutions, drawing on practical day-to-day experiences, as well as previous analytical studies. Experts from the International Monetary Fund and World Bank were closely consulted, as well as key partner governments such as the United States and the United Kingdom. To ensure the roadmap also addresses the bottlenecks, capacity and resource needs of the line ministries, the detailed analysis of the PFM experts in the ANDS priority clusters contributed to and verified the recommendations of this roadmap.

## **Strengths of the Afghan Public Financial Management System**

Analysis supporting the development of this Public Financial Management Roadmap identified the following strengths in the Afghan Government system which provides a solid basis for continued reform.

**Legal Framework:** The Public Financial Management and Expenditure Law (PFMEL) of 2005 and Procurement Law of 2008 establish the legal basis for continued reform. Operations of Local Government Municipalities fall under the Municipal Law of 2000. The key gap is modern legislation on the conduct of external audit, which will be addressed shortly with passage of a new Audit Law.

**Information and Management Systems:** The Afghanistan Financial Management Information System (AFMIS) is now available in all primary budgetary units in Kabul and in all provincial mustofiat (the final connection to Nuristan Province was achieved in June 2010). Additional functionality has been included in the Donor Assistance Database (DAD) to provide online update facilities to donors. A debt management system has been implemented supporting quarterly debt reporting. Projects have commenced to implement the State Budget Planning System (SBPS) and a Procurement Management Information System. Development in financial services systems have aided improvement in Government banking and payments – over half of government employees receive their salary through a transfer to their account with one of four selected licensed commercial banks, and most non-salary payments are transacted through a direct transfer to the supplier's bank account.

**Annual Budgeting within a Medium-Term Fiscal Framework:** A solid framework has been established for deliberating and formulating an annual budget within the boundaries of medium-term fiscal policy and the available fiscal envelope. An Annual Budget Calendar has been implemented and budgetary units are familiar with working to this Calendar for budget submissions. The most significant budget units are preparing budget submissions following a program-based approach, linking resource requests to priority Government policy outcomes.

**Accounting and Financial Reporting:** Since 1384, the Audited Annual Appropriation Statements of the Government (Qatia) have been submitted to Parliament within six months of the end of fiscal year, in accordance with the PFMEL. Central Government Financial Statements are published each month within 25 days of month end. All bank accounts are reconciled regularly, and budgetary units reconcile their revenues and expenditures monthly with the records of the Ministry of Finance. The Chart of Accounts incorporates International Monetary Fund Government Finance Statistics (GFS) classifications, including the United Nations Statistics Division Classifications of the Functions of Government (COFOG). Following the appointment of an IMF GFS

Correspondent in early 2010, Afghanistan has submitted IMF High Frequency reports and has been included in the IMF International Finance Statistics publication since March 2010.

## **Weaknesses of the Afghan Public Financial Management System**

Analysis also concluded that reforms must redress the following weaknesses.

**Capacity:** The principal barrier to reform is capacity. Experienced civil servants are being rapidly introduced to new technologies in a transforming work environment. Those who have had the benefit of a modern technical education often have limited work experience. Afghans with both technical skills and work experience tend to take up positions with higher salaries and easier working conditions in the private sector, donors and non-government organizations. Capacity constraints are particularly pronounced in provincial administrations. In addition to the competence of staff, capacity is limited in terms of numbers of employees. Less than 2% of the Afghan population is estimated to work in the public sector, which is relatively low even for low-income countries, so administrative reform must not burden staff members involved in frontline service delivery. A specific section on “Capacity” is at the end of this summary document. Reform activities to address capacity constraints are an essential foundation to achieving sustained Public Finance reform.

**Incomplete Coverage:** Afghanistan’s public finance systems only cover funds provided through the National Core Budget. It is estimated, however, that only around 30% of the funds provided by donors in support of the Government are channeled through the core budget. There are significant gaps in reporting by donors on their directly executed projects (hence 30% is only an estimate). This spending outside Government systems undermines efforts to channel resources towards the highest priority needs, distorts estimates of fiscal sustainability and weakens internal controls around public expenditures. Of particular concern are the off-budget resources being provided to the security sector. Dual strategies are required to encourage donors to provide funds through Afghan Government systems (as reflected in the London Communiqué) and to ensure useful and timely information is provided on funds that remain outside Government systems.

**Overly Optimistic Plans / Poor Short-Term Forecasts:** There is bias toward optimism in budgeting and implementation plans, with levels of activity scheduled beyond what can reasonably be accomplished in a given time period. To some extent, this is due to barriers to effective implementation of projects, such as poor project preparation and planning or inordinate amounts of time taken in the conduct of procurement processes. Cases are known, however, where Budgetary Units have requested all of the resources required for a multi-year project in the first year of the project (contributing to low execution rates in the development budget). Accuracy of short-term forecasts is also poor - an obstacle for effective cash management and responsive reallocation of resources within the annual budget cycle.

**Coordination / Communication:** The implementation of reforms in public financial management has suffered in the past from a lack of coordination. Different actors in Government have led reform agendas without the necessary consultation with other Government stakeholders. As a result, policy implementation has sometimes been

piecemeal and reactive rather than carefully planned and managed. This consolidated road map is in itself a step toward improved coordination that must continue during the course of carrying out the roadmap activities.

A key element of improved coordination will be improved communication. Greater attention must be paid to ensuring those whose work is impacted by reforms understand the rationale, following accepted best practice for implementing reform and change. Procedural guidance and instructions must also be improved to ensure the finance function across the Government has access to useful reference material in the workplace. In addition to improved communication across Government, it is also necessary to enhance communication with external stakeholders, both regarding the implementation of reform and for dissemination of timely information about the use of resources for service delivery and the financial position of the Government.

**Provinces:** While the expansion of AFMIS into all provincial mustofiats has improved communications between Ministry of Finance and its provincial offices, significant issues remain in the budgetary and financial relations between headquarter budget units and their provincial offices. Alongside concerns over staff capacity in provinces, coordination and communication issues are prominent – in terms of change and reform, but also in terms of the interaction of provincial officials in the annual budget cycle. Provincial officials report insufficient consultation by headquarters offices during budget formulation and untimely notice of budgetary allocations. The methods for allocation of budgets across provincial offices by many budgetary units are opaque. This is exacerbated by incomplete coverage of the public finance system. Finally, insecurity in many areas limits the effectiveness of the public financial management system; for example, planned audits in provinces are cancelled due to security problems in locations where primary evidentiary records or assets are held.

## **Key Themes for strengthened Public Financial Management**

The Public Financial Management (PFM) Roadmap focuses on the three key themes. Under each theme are three to four reform areas requiring priority attention have been identified.

### **1. Strengthening the Budget in Driving Effective Delivery of Key Priority Outcomes**

01. **Aid Management** will be improved by the creation and publication of a comprehensive budget that includes both on and off budget programming, presenting a consolidated picture of spending in Afghanistan to citizens and donors alike. Reforms to the DAD and the donor financial review (DFR) will be undertaken as an enabler of this effort.
02. **Medium-Term Fiscal Strategy:** improvements in the medium-term fiscal strategy will provide a better platform for analysis of Afghanistan's aim of fiscal sustainability. It will be strengthened to include the recurrent costs of development projects (to the extent that this information is provided by line ministries and is affordable), security sector expenditures, and other fiscal pressures. This data will be combined with more reliable forecasts of donor assistance through the DFR. The improved MTFF will be gradually transformed into a Medium-Term Budget Framework (MTBF) that will be used to create hard budget ceilings, and to effectively reprioritize spending according to national priorities.
03. **Program Budgeting** will be fully implemented in 1390 in a simplified form with the strong backing of the Cabinet and improved communications across

the Government, improving the Government's ability to measure outputs against realistic and reportable performance measurement targets. Gradually, the budget will be presented (and eventually appropriated) on a program basis, starting from the unified budget presentation to the budget committee of the Cabinet for the purpose of budget hearings for budget 1390.

## **2. Improving Budget Execution**

01. **Provincial Budgeting** – Improved service delivery to the people of Afghanistan, within budgeted fiscal resources, is the planned result of improving budget execution. Moving to increased transparency in how provincial allocations are made and involvement of local entities to identify, plan, budget, and implement programs is important to improved budget execution. To support effective sub-national governance and improve transparency and predictability in resource allocation, MoF will work to improve the capacity, communication and involvement of provincial authorities in effective budget planning and project implementation. It will facilitate consultations on provincial budget allocations with line ministries in eighteen provinces in 1390; training programs for mustofiats will be conducted for all provinces; and needs based allocations will be piloted with Ministry of Education in four provinces.
02. **Procurement** – Any delay in procurement is a key factor in slow rates of development budget execution. Ineligibility statistics from the Afghanistan Reconstruction Trust Fund (ARTF) Monitoring Agent revealed a lack of compliance with procurement procedures in line ministries. Procurement reform will start in key line ministries, and expand to all other Government institutions in the medium-term. Reforms will ensure ministries are structured for effective procurement and are efficiently adhering to the revised legal framework, including delegating authority over the key stages in the procurement process to appropriate levels.
03. **Performance Monitoring** – All budget submissions will incorporate both financial and non-financial performance targets. The ten ministries and agencies piloting program budgeting will be required to prepare quarterly reports in 1389; in 1390 this will be extended to all budgetary units. This information will be reported to the Cabinet and will be used to identify necessary interventions including more effective and realistic budget allocations.  
MoF has also introduced the requirement for all line ministries to submit their monthly financial plans at the beginning of the year. Budget sectors are then preparing execution reports of ministries and these are compared with their financial plan, with justification sought on any significant variations.
04. **Other areas of budget execution** are also targeted for reform in the detailed action plan, for example cash flow management and salary distribution.

## **3. Increasing Accountability and Transparency**

01. **Communications** –

- provide timely public expenditure information across the government and to improve regular reports on public expenditures.
02. **Internal Audit** – Audits within Government ministries are important for improving efficiency and reducing corruption. Ministry of Finance Internal Audit Department will conduct internal audits on a risk management basis across the Government, reviewing the institutional arrangements, methodologies and procedures. Where deficiencies are found, specific, targeted interventions to close loopholes and increase capacity will be implemented.
  03. **External Audit** – independence, both in reporting and mandate, will be firmly established in the Control and Audit Office (CAO) by a new Audit Law. A public accounts committee will be established in the National Assembly that will ensure external scrutiny and follow-up to CAO the reports. In line with its new mandate, CAO will undertake a comprehensive capacity development and expansion program in 1389.

A summary of the key aspects of the Public Financial Management Road Map is set out below.



## 1. Strengthening the Budget in driving effective delivery of key priority outcomes

S/N	Reform Objective	Actions and timing
1.01	<p><b>Aid Management</b></p> <p>In response to Government commitments in the Kabul Conference, donors will present their individual plans in annual donor portfolio reviews to increase assistance through Government systems to 50% in two years.</p> <p>A comprehensive budget will be presented for 1390 that includes off-budget donor programs that meet Government's criteria for effective financial assistance.</p> <p>A consultative and reformed Donor Financial Review (DFR) will verify financing to National Priorities for the budget 1390, with a new focus on clearer presentation of Government priorities, bankable programs to be financed, and medium-term forecasts for support.</p> <p>[The consultative DFR process will agree frameworks for Monitoring and Reporting on</p>	

S/N	Reform Objective	Actions and timing
1.02	<p data-bbox="263 264 949 302"><b>Medium-Term Fiscal Strategy</b></p> <p data-bbox="263 309 949 436">Medium Term Fiscal Framework (MTFF) is revised twice yearly to reflect the dynamic Afghan economy and changing fiscal circumstances.</p> <p data-bbox="263 470 949 604">Pre-budget Statement is approved by the Cabinet and published. This will include a realistic Medium-Term Budget Framework (MTBF).</p> <p data-bbox="263 638 949 772">The MTBF includes 'hard' budget ceilings for each Ministry, based upon revenue estimates and donor's commitments to fund specific priorities.</p> <p data-bbox="263 806 949 840">The MTBF/MTFF also includes:</p> <ul data-bbox="263 846 949 1310" style="list-style-type: none"> <li>- Estimates of future recurrent cost implications of existing development projects.</li> <li>- Estimates of security sector expenditures and security related fiscal pressures.</li> <li>- Improved estimates of medium term forecasts of donor revenues derived from the DFR.</li> <li>- Improved domestic revenue estimates including forecast receipts from the Mining sector.</li> <li>- Updated estimates of other fiscal pressures such as the Pay &amp; Grading reform and pension liabilities.</li> </ul>	<p data-bbox="965 309 1409 369">MTFF will be published in both the Pre-Budget Statement and the Budget Statement.</p> <p data-bbox="965 403 1409 571">The MTBF Pre-Budget Report will be released before the end of September 2010, which will include the approved budget ceilings for each budgetary unit (consequently included in the Budget Circular No 2).</p> <p data-bbox="965 604 1409 772">For 1390 Budget, the MTFF will include line ministries' three year forward estimates, which will includes projections of the future operational and maintenance cost implications of the approved development projects</p> <p data-bbox="965 806 1409 940">By March 2011, the FPU will work towards the MTFF including projection of revenues from the mining sector. Sensitivity analysis on domestic revenue projections will also be conducted.</p> <p data-bbox="965 974 1409 1142">Progressive increase in Government funding required for expanded security forces will be assessed and discussed, with the aim that the 1390 Budget Process is supported by an agreement with donors on this.</p> <p data-bbox="965 1209 1409 1344">Timely and accurate information from donors on their activities outside the Core Budget is necessary to the improve medium-term fiscal strategy.</p> <p data-bbox="965 1377 1409 1478">Update projections of existing fiscal pressures and costs new reforms not allocated to the budgets of specific line ministries.</p>

S/N	Reform Objective	Actions and timing
1.03	<p><b>Program Budgeting</b></p> <p>Key stakeholders understand the rationale of the Program Budget approach and therefore promote the reform.</p> <p>Service-oriented Budget Committee hearings take into account:</p> <ul style="list-style-type: none"> <li>- previous year achievements and future output/services targets</li> <li>- ability of ministry to implement budget (previous years' budget execution);</li> <li>- quality of project documents and plans; and</li> <li>- availability of donor funding.</li> </ul> <p>The positive impact of spending initiatives on the poorest of the Afghan population is highlighted in Budget submissions.</p> <p>Parliament is regularly informed about performance of the line ministries' programs.</p> <p>Budget submissions are in a single program-based format, and include realistic and reportable performance measurement targets aligned to the ANDS results framework.</p> <p>A model for integrating the budget functions of operating and development budgets in line ministries implemented.</p>	<p>The first phase of the Program Budget Communications Strategy will target stakeholders in Government, including Line Ministries, Cabinet and Provincial Officials. The communications strategy will then be expanded to also focus on Parliament and Civil Society groups.</p> <p>The Ministry of Finance will on a pilot basis introduce pro-poor expenditure tracking within the Ministry of Education and Ministry of Labor, Social Affairs, Martyrs and Disabled for the 1390 Budget. In addition, within the next three years the Ministry of Finance will introduce pro-poor expenditure tracking and reporting for all other key ministries and Government agencies in order to improve pro-poor spending within the Budget.</p> <p>All line ministries submit a single Program-Based Budget Submission for 1390, including performance targets. Performance against targets will be reported to the Cabinet, and will be used as inputs for the budget process for 1390.</p> <p>For the 1390 Budget Process, it is planned to present a single program-based submission to the Budget Committee of the Cabinet, although both traditional and program based statements will be included in the National Budget document.</p> <p>The timing for presentation of only program-based appropriation statements to Parliament will depend upon donor's willingness to provide funds on a programmatic basis as opposed to for specific projects.</p>

## 2. Improve Budget Execution

S/N	Reform Objective	Actions and timing
2.01	<p><b>Provincial Budgeting</b></p> <p>The fiscal arrangements of associated with a more defined role of provincial administrators in the Public Finance Management framework will be comprehensively assessed. This assessment will identify immediate term reforms (e.g. delegation of authority) that</p>	

S/N	Reform Objective	Actions and timing
<b>2.02</b>	<b>Procurement</b>	
	Transparent, value-for-money procurement supports budget execution.	The Procurement Appeals Review Committee established in 1386 will operate during 1389 in accordance with the Appeal and Review Manual amended during 1388 to comply with the revised Procurement Law.
	Operations and Project Planning include planning for Procurement exercises.	
	Assessment of policy outcomes includes monitoring of procurement impact on service delivery.	Institutional restructuring to support procurement practice will be introduced in five to seven Line Ministries and in six Provinces during 1389. This process revises the Organizational structure and the terms of reference for Procurement staff to enable efficient procurement practice within the legal framework. Institutional restructuring will eventually be carried out across all Budgetary Units.
	Procurement staff understands and complies with efficient procedures for public procurement – as such, the ratio of eligible expenditures as monitored by the ARTF Monitoring Agent improves by at least 2% annually from 1389 to 1390 onwards.	
	Procurement systems enable procurement staff to identify reliable and trustworthy suppliers.	Through a procurement certification process, procurement conduct in seven) line ministries will be reviewed during 1389. Ministries achieving certification will no longer be required to use the Procurement Agent Afghanistan Reconstruction and Development Services (ARDS); those not certified will be targeted for training and capacity building. Procurement Certification will eventually be carried out across all Budgetary Units.
	Suppliers: <ul style="list-style-type: none"> <li>▪ have confidence in open and fair procurement systems that minimize bidding costs; and</li> <li>▪ are paid in accordance with the contract,</li> </ul> and therefore offer competitive prices and terms to Government.	A total of 600 Government officials will be trained in public procurement practice during 1389 – so far in 1389, 30 public officials from line ministries have already received basic procurement training. For continued professional development, procurement training will be an ongoing activity.
		The Procurement Management Information System (MIS) piloted in three line ministries during 1388 will be extended to seven line ministries during 1389.
		During 1389, a combined project will be established with staff from Treasury, Budget and the Procurement Policy Unit to assess options for establishing a fully integrated purchasing and asset registration information system.

S/N	Reform Objective	Actions and timing
2.03	<p><b>Performance Monitoring</b></p> <p>Line ministry budget submissions incorporate simple performance targets linked to funding requests.</p> <p>Performance against specified targets is analyzed, and consolidated reports include financial and non-financial performance information, are released regularly.</p> <p>Line ministries submit detailed financial plans that incorporate resultant cash flows from procurement plans.</p> <p>Actual financial performances against financial plans are initially monitored regularly and then, in the medium-term, forward allocations are systematically linked to financial performance.</p> <p>Established targets for pro-poor/poverty related public expenditures are regularly reported against.</p>	<p>[All line ministries' budget submissions included simple performance targets during 1389 for the 1390 budget.]</p> <p>Quarterly reports on financial and non-financial performance will be required from all 19 program budget pilot line ministries during 1389, with a focus on obtaining timely and complete information from ten key line ministries. During 1390, the focus will extend to 19 key line ministries, with all ministries to be providing regular, timely and accurate reporting during 1391.</p> <p>Quarterly reports will be analyzed to identify necessary interventions to improve the effectiveness and realism of budget allocations.</p> <p>A consolidated quarterly performance report will be presented to Cabinet starting in 1389 – with the completeness of this report improving during 1390 and 1391.</p> <p>The definition of pro-poor / poverty related expenditures has been finalized, and the first data on these expenditures was recently compiled. For the budget 1389, Ministry of Finance will track the pro-poor expenditures on the operating budget [estimated at 25% of non-security operating budget spending], whilst the definitions of pro-poor expenditures are further developed for future years. Regular reporting on pro-poor / poverty-related expenditures will be in the ANDS Annual report.</p> <p>A Quarterly Fiscal Bulletin will be published each quarter within 45 days of the end of the quarter. Performance Information will be incorporated in the Quarterly Fiscal Bulletin during 1389, with a semi-annual report to Parliament produced from 1390 onwards.</p> <p>In-year budget management will incorporate information on the obligations of the Government in 1390. The 1392 Budget Preparation process will use information on obligations arising from multi-year contracts. Effective control will be exercised by ensuring expenditure commitments of do not exceed approved allotment. As allotments will be based on cash plans, this will also serve to ensure smooth payment operations of the Government.</p>

### 3. Increase Accountability and Transparency

S/N	Reform Objective	Actions and timing
3.01	<p><b>Effective communication</b></p> <p>Ministry of Finance staff are involved and consulted early on reform plans.</p> <p>Also, where reforms are planned in other sectors, the Ministry of Finance is consulted early in the planning process so that a full assessment of the fiscal impacts is carried out.</p> <p>Line ministry and provincial officials are aware of the rationale for reforms and how these will support improved service delivery to citizens before being introduced to the technical aspects.</p> <p>Parliament is kept informed of the reform process and its implications. Parliament understands how the needs of Afghan people translate into budgetary allocations.</p> <p>Improved communications with external parties is supported through publication and dissemination of regular reports prepared in improved formats.</p> <p>Engagement of civil society organizations in the Budget Preparation and Expenditure improves.</p> <p>Improved guidance and instructions are available on budget and financial management procedures.</p>	<p>Presentation for all staff of Ministry of Finance on the reform program following the Kabul Conference in July 2010.</p> <p>A communications strategy for the Ministry of Finance will be developed by autumn 2010 and implemented to support the implementation and effective communication of the reforms.</p> <p>During 1389:</p> <ul style="list-style-type: none"> <li>- a revised accounting manual will be released by the Treasury Department, and</li> <li>- a simplified and integrated budget manual and instructions will be released by the Budget Department.</li> </ul> <p>During 1389, a broad training program will be delivered in line ministries and provincial administrations on the use of AFMIS information for Budget and Financial Management.</p> <p>During 1389, monthly financial statements will include expanded information on Appropriation, Allotment and Projects.</p> <p>Improvements in presentation of National Budget Statements will be introduced for the 1389 and 1390 statements, including improved performance information and clearer descriptions of projects.</p> <p>Regular monthly meetings with representatives of the key information systems to improve coordination and strengthen the integration and access of information.</p>

S/N	Reform Objective	Actions and timing
3.02	<p><b>Internal Audit</b></p> <p>Effective internal audit is conducted across the Government on a risk-management basis.</p> <p>Internal Audit provides assurance on:</p> <ul style="list-style-type: none"> <li>- level of compliance with established Government laws, policies, procedures and plans (including behavioral and ethical expectations);</li> <li>- soundness, adequacy and application of accounting, financial and other controls that form the Internal Control Framework for Public Financial Management in Afghanistan;</li> <li>- economical, effective and efficient use of resources;</li> <li>- effectiveness with which assets are accounted for and safeguarded; and</li> <li>- integrity and reliability of financial and operational information produced by the Departments.</li> </ul> <p>Issues identified in Internal Audit Reports are followed up and used to shape the agenda for ongoing reform and capacity building.</p> <p>Responsibility for internal audit of line ministries will be harmonized.</p>	<p>Risk based <b>internal audits</b> of four key Ministries will be conducted by the Ministry of Finance Internal Audit in 1389, while Ministries' own institutional arrangements, methodologies and procedures for internal audit will be strengthened.</p> <p>Ministry of Finance Internal Audit Department will hire auditors to conduct internal audits in four Line-Ministries (Ministry of Public Health, Ministry of Transport and Civil Aviation, Ministry of Rural Reconstruction and Development and Ministry of Energy and Water) by March 2011 and in the seven largest Line-Ministries by September 2011.</p> <p>Institutional arrangements, methodologies and procedures for Internal Audit will be reviewed in these Ministries. As part of these reviews, Internal Audit staff capacity will be assessed, and targeted training programs carried out to build their capacity and qualifications as required.</p>



S/N	Reform Objective	Actions and timing
<b>3.03</b>	<b>External Audit</b>	
	<p>A new Audit Law firmly establishes the Control and Audit Office as an external auditor, independent in reporting and mandate, as the Supreme Audit Institution of Afghanistan.</p>	<p>External Audit, independent both in reporting and mandate, will be firmly established in the Control and Audit Office (CAO) during 1389.</p>
	<p>The National Assembly examines a significant number of the Auditor General's reports.</p>	<p>The new Audit Law will be enacted during 1389.</p>
	<p>Audit Staff are provided opportunities for continued Professional Development.</p>	<p>A Public Accounts Committee is established to exercise oversight and discussion of Audit Reports.</p>
	<p>External Audit provides Compliance audit reports giving assurance that rules and regulations are being followed in utilizing resources, and activities are being carried out in an appropriate manner.</p>	<p>1389: External Audit is to be conducted in 946 organizations: 206 in Kabul, 726 in Provinces, 14 overseas and Qatia (Appropriation Statements) audit and Special Audits by the order of the President.</p>
	<p>Money is being spent in a judicious manner and economy, efficiency and effectiveness is observed in activities.</p>	<p>In 1390 and 1391, the audit scope will be extended by 7% based upon the previous years' plan.</p>
	<p>Assurance is provided to stakeholders - including National Assembly, donors, international community and the public at large - by expressing an opinion on financial statements</p>	<p>Improving the skills of auditors and increasing the number of auditors strengthens capacity. During 1389, a program of training on professional audit, use of information technology, English and Civil Service will be delivered to 200 auditors.</p>
	<p>Cases of frauds &amp; corruption detected are referred to the Attorney General for investigation and further action.</p>	<p>Audits will be carried out each year on the performance of specific projects and financial statements audits of grants and loans as required by donors.</p>
		<p>In 1389, modernized facilities for the CAO will be commissioned. In 1390, five zone branches of the CAO will be established.</p>

## Reforms to improve Capacity of the Line-Ministries

Capacity of Government officials is a key constraint to the pace of reform. Capacity Development will be supported through:

- **Scheduling:** Reforms will be scheduled carefully so that the extent of change is manageable in central government, line ministries and in provinces. Increased attention will be paid to communicating the rationale for reforms.
- **Standardized Line Ministry Capacity Assessments:** to cover Planning and Finance, Procurement, Project Implementation, Project Management and Internal Audit - will identify gaps in the ability of staff to carry out their duties in the new environment, and receive direct budget support. These assessments will support targeted capacity development initiatives and training.
- **Capacity development programs** necessary to support the implementation of priority programming on the key PFM aspects, in the Ministry of Finance, CAO and in the Line Ministries will be undertaken. Training Programs will aim to identify competent Line Ministry staff best able to train and support their colleagues. This program will be based upon standardized ministerial assessments to assure consistency in outputs of capacity development programs across Government.
- **Technical Assistance:** The existing network of technical assistance across Government, including the Provincial Reconstruction Teams (PRTs), will be leveraged to support ongoing reform. Additional requirements for technical assistance will be assessed carefully to ensure capacity is developed through such programs, as opposed to providing capacity substitution. The primary vehicle for this support will be the Afghan Civilian Technical Assistance Program (CTAP); however, where appropriate, existing capacity development programs within line ministries could be strengthened, or other bi-lateral assistance arranged.
- **Improved Program Design** with an emphasis on implementation is a key priority and will be supported by experienced program designers working within the cluster process. Focus will be on ensuring sufficient analytical and feasibility work when programs are designed, including program costing, budgeting and cash forecasting, to create robust basis for implementation. The Ministry of Finance will facilitate increased engagement between related ministries and from donors with comparative advantage in priority sectors. Where necessary, ministries will restructure program implementation units that will be located in Line-Ministries to enable effective implementation, including using contract staff and special arrangements such as float accounts where necessary in the key national programs the short-term The goal of this restructuring will be to increase program management while building and retaining Afghan capacity.
- **Guidance:** Government officials will have access to improved guidance manuals in their offices with a revised Accounting Manual and a Budget Manual to be released during 1389. Improved guidance will also enable external parties to improve their understanding of Afghan Government procedures.
- **Information Systems:** Effective use of information systems and management information is key to achieving reform objectives. Continual training on existing information systems such as AFMIS will be delivered across Government. Access to information systems will be expanded, with additional sites provided access to the Procurement Management Information System (MIS), and either the State Budget Preparation System (SBPS) or Budget Planning and Expenditure Tracking Database (BPET). The focus of information systems training will shift from the technical

operation of systems to the analysis and use of both financial and non-financial information to support decision-making. Options for seamless integration of systems used in various public financial management functions will be considered with the aim of establishing integration projects for implementation in the medium-term. A specific area of budget execution – Information Systems is included to show activities targeting effective use of Information Systems.

- **Incentives:** The payment of financial incentives to retain existing capacity or support skills development will be considered on a case-by-case basis. Financial incentives will be offered only when these have a clear link to attainment and job performance, and where these do not represent an unsustainable creep in salary scales for particular functions. Government will also propose a harmonized salary scale for donor funded salaries and civil service positions in the Government to create a basis for a well-qualified and sustainable workforce.