

**AFGHANISTAN EXTRACTIVE
INDUSTRIES TRANSPARENCY
INITIATIVE (AEITI)**

**AFGHANISTAN SECOND EITI RECONCILIATION REPORT
1389**



October 2012

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TERMS AND ABBREVIATIONS:

TERMS	DEFINITION
EITI	<i>Extractive Industries Transparency Initiative</i>
GOIRA	<i>Government of Islamic Republic of Afghanistan</i>
GA	<i>Government Agencies</i>
EIE	<i>Extractive Industry Entities</i>
SC	<i>Social Contributions</i>
LTO	<i>Large Taxpayer Office</i>
STO	<i>Small Taxpayer Office</i>
MOM	<i>Ministry of Mines</i>
MOF	<i>Ministry of Finance</i>
MTO	<i>Medium Taxpayer Office</i>
MSG	<i>Multi Stakeholder Group</i>
Extractive Industry Entities	<i>Refers to mining, construction and other extractive entities involved in the Afghanistan EITI Reconciliation process</i>
Government Agencies	<i>Refers to GOIRA agencies involved in the Afghanistan EITI Reconciliation process</i>
Independent Reconciler	<i>The Firm that is independent from Extractive Industry Entities and Government Agencies and is engaged to perform the Independent Reconciliation</i>
Independent Reconciliation	<i>Reconciliation between Extractive Industry Entities payments and Government Agencies receipts undertaken by an independent firm</i>
Reporting Template	<i>Templates provided to Extractive Industry Entities and Government Agencies to report payments/receipts</i>

EXECUTIVE SUMMARY

Afghanistan announced its intent to implement the EITI in March 2009, and became an EITI Candidate country on 10 February 2010.

On 16 March 2009 the Government of Islamic Republic of Afghanistan (GOIRA) announced its endorsement of the principles of EITI, after which all remaining EITI sign-up indicators were entirely implemented to become EITI candidate country that was officially endorsed by the International EITI Board at its meeting in Oslo in February 2010. GOIRA has requested that the donor community provides immediate technical and financial support to develop good governance and accountability mechanisms in Extractive Industries Sector via effective EITI implementation process in Afghanistan. For this purpose the AEITI (Afghanistan Extractive Industries Transparency Initiative) Secretariat was established within the Ministry of Finance in July 2010 to take the lead of EITI implementation in Afghanistan.

In Afghanistan, the extractive (mining, oil & gas) sector is expected to contribute a significant and growing proportion of Government revenues for country's development. In light of this, GOIRA has fully committed to EITI implementation to ensure that all payments and receipts in the extractive industry are made in an effective and transparent manner. To ensure that the long-term objective is achieved, GOIRA started with producing the first and second National reconciliation reports that required the services of an independent audit firm to collect, collate and reconcile all material payments made by relevant extractive companies and revenues received by the Government in accordance with the AEITI Reporting Template for 1387, 1388 (21 March 2008 – 20 March 2010) and 1389 (21 March 2010 – 20 March 2011) fiscal years respectively. The first AEITI Reconciliation Report was signed on 26 July 2012.

In following the EITI standard, GOIRA commits to publish all payments of taxes, royalties and fees it has received from its extractive sector. Equally, extractive companies operating in Afghanistan should publish what they have paid to GOIRA. Overseen by a multi-stakeholder group with representatives from the Government, companies and civil society, these figures are then reconciled and published in the AEITI Report.

The deadline for the Islamic Republic of Afghanistan to implement the EITI standards and undergo the EITI Validation in order to become an "EITI Compliant" country is 9 August 2012. According to the country Work Plan, the procurement process of hiring Validation Company was started in the beginning of 2012. But unfortunately, none of EITI accredited companies expressed their interest for carrying out the commitment. Therefore the issue was shared with AEITI Multi-stakeholder Group; and the EITI International Secretariat was officially informed about the situation. The AEITI Secretariat is now looking for a company to do the job. As soon as the Validation Company is hired, AEITI implementation assessment process will take place.

OBJECTIVE OF THE REPORT AND SCOPE OF WORK

The assignment was performed according to the Terms of Reference (TOR) prepared and issued by the Afghanistan EITI Secretariat. The assignment consists of two parts: the first and the second reconciliation reports. First reconciliation report, covering years 1387 and 1388, was presented on 29 May 2012 at the multilateral report dissemination meeting organised by the Afghanistan Extractive Industries Transparency Initiative (AEITI) Secretariat in Kabul. The first version contained significant differences, which have been discussed during the meeting and investigated afterwards. Subsequent investigation resulted in clarification of the major part of discrepancies, which have been eliminated. All adjustments to the preliminary report are substantiated by appropriate explanation and relevant supporting documents. The First Report was issued on 26 July 2012. The present, Second Report, covers the data for year 1389. The number of Entities for the fiscal year 1389 was six according to the TOR.

Objective:

The objective of the Reconciler was to collect, review and reconcile the payments made to the Government Agencies by the extractive industry entities and revenues received by the Government Agencies from those entities to ensure that the payments made by the Entities are fully received by the Government.

Accounting policy:

The cash basis of accounting was used for the Reconciliation of the actual amounts paid by extractive industry entities and received by the Government Agencies for year 1389.

Currency:

The reporting currency is Afghani (AFS).

Materiality Thresholds:

According to AEITI Multi Stakeholder Group the *Materiality Threshold* has been determined as follows: All mining companies, regardless of whether they are state-owned or private or whether they pay non-tax or tax or both, whose annual payments to the Government equal or exceed **7.5 million Afghanis** must be reconciled. If a company carries out both construction and extraction activities and its annual non-tax payment to the Government equals or exceeds **7.5 million Afghanis** it must also be reconciled.

The Stages of Reconciliation process of Afghanistan EITI:

There were several stages during the Reconciliation process divided into separate parts. Those stages were underlined in the Terms of Reference (Annex 4).

1. Inception stage

This is the initial stage of collecting information:

- Obtain a clear understanding of the operations;
- Conduct an analysis to put the assignment into the right perspective;
- Collect data on payments made by the Mining Companies, and the benefits received by the Government through the Revenue Agencies and disbursements made to the communities within the operational areas of the mines.

2. Reconciliation stage:

This stage is the main thrust of the assignment. The activities undertaken at this stage included the following:

- Document review;
- Collecting, collating and analysing data from extractive sector payments and Government receipts;
- Data aggregation and reconciliation.

3. Feedback Stage:

The activities under this stage are as follows:

- Recommendations made in the final report;
- Comments and questions at the validation seminar which have been incorporated in the report;
- Dissemination of report to the general public.

**THE COMMITTEE ON THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE
OF THE REPUBLIC OF AFGHANISTAN
YEAR 1389**

Participants:

No	Extractive Industry Entities	1389
1	North Coal Enterprise (NCE)	✓
2	Mesraq Sharq	✓
3	Wens Logistic	-
4	Afghan Invest Company (AIC)	✓
5	MCC-JCL Aynak Minerals (MCC)	✓
6	Brotheran Khoshak	✓

We have prepared the table showing the main activities of the Entities participating in the Reconciliation process

No	Company Name	Company Establishment Date	Location		Mine Product
			Province	District	
1	AIC	18-Feb-06	Baghlan	Pulkhumri	Coal
					Cement
2	MCC		Logar	Logar	Copper
3	Brotheran Khoshak	17-Jul-06	Hirat	Sabzak (Musjid Chubi)	Coal
4	Mesraq Sharq	29-Jun-08	Samangan	Roy Do Hab	Coal
5	Wens Logistic	08-May-05	Takhar	Kalfagan	Salt
				Chal	Salt
				Namak Ab	Salt
6	NCE	Re-established 2007	Northern Region of Afghanistan		Coal

MINING INDUSTRY IN AFGHANISTAN:

Afghanistan is endowed with widespread natural resources, including extensive deposits of natural gas, petroleum, coal, copper, silver, gold, cobalt, chromite, talc, barites, sulphur, lead, zinc, iron ore, salt, rare earth elements, and precious and semiprecious stones. Unfortunately, ongoing instability in certain areas of the country, remote and rugged terrain, and an inadequate infrastructure and transportation network have hampered improving and developing the mining sector, and there have been few serious attempts to further explore or exploit them. The first significant investment in the mining sector is expected to commence soon, with the development of the Aynak copper deposit in east-central Afghanistan.

(Ref - <http://www.state.gov/r/pa/ei/bgn/5380.htm>)

COAL

Afghanistan has moderate to potentially abundant coal resources. The majority deposit of resources was observed in the Northeast and Northwest parts of Afghanistan. Coal has been used for a long time in Afghanistan to powering the small industry. Nowadays we could count nine coal field and more than 42 coal occurrences in the Country. The coal-bearing area occupies about 35 thousand square kilometres extending as a discontinuous belt for more than 700 kilometres from the North to west of the country.

The main and crucial factors limiting widespread use of coal are rugged terrain, lack of transportation networks, and the absence of industrial infrastructure.

Coal deposits, as any other mineral are considered the property of the State of Afghanistan. The main player in the Coal industry is the North Coal Enterprise and Afghanistan Investment Company which has been subdivided into two different division of production (Cement and Coal).

One of the main focuses of developing the mining sector was to determine the quality, quantity, and distribution of coal throughout Afghanistan, develop the area extent of coal deposits, and quantify coal resources on a regional and national level. It was conducted in close cooperation with MOM as well as other governmental and nongovernmental stakeholders to assure that the Afghanistan coal mining sector can be developed in a safe, sustainable, environmentally rational and economically sound way.

SALT

Takhar province, in north-eastern Afghanistan is known as for a large quantity of salt stones. Three active salt mines in the province have a declared annual production volume of 75,000 tons.

Wens Logistics operates the three active salt deposits. It has 10 years extraction license.

(Ref. – Reclusive Resources Afghanistan's Mineral Wealth and the Imperative of Formalisation and Transparency – Baseline Study Report)

DESCRIPTION OF THE METHODOLOGY:

We have adopted the methodology which was underlined in the Inception Report. This methodology was applied when preparing the First Reconciliation Report.

Our approach was to ensure that there would be continuous communication and interaction with the Extractive Industry Entities and Government Agencies and all other stakeholders through regular consultations. This process ensured all concerns and queries had been addressed at the earliest possible time and that the objectives of the Independent Reconciliation had taken central stage. Our report included only commentary on the factual information received from the Extractive Industry Entities and Government Agencies.

Our strategy and planning

- At the planning stage we have discussed the extent of our authority, responsibility, deadlines, deliverables, costs and coordination and liaised with the body responsible for dealing with us.

Control and coordination

- Our control procedures were based on using reliable procedures and document templates, coordination of aims, tasks, deadlines and responsibilities combined with thorough planning.

Problem solving

- Any problems or issues, arising during the course of the engagement have been carefully dealt with. The engagement involved efficient interaction between every member of the Moore Stephens Azerbaijan team and regular reporting of the examination results.

The main roles of the Independent Reconciler have included the following key tasks:

- ***DISTRIBUTION OF REPORTING TEMPLATES:*** This task has entailed ensuring all Extractive Industry Entities and Government Agencies who were required to complete the Reporting Templates were aware of their requirements and had the final Reporting Template on hand. It was agreed that a letter from the AEITI Secretary accompany the distribution of the Reporting Templates.
- ***FOLLOW UP TASKS WITH EXTRACTIVE INDUSTRY ENTITIES AND AGENCIES INVOLVED:*** This task entailed communicating with the Extractive Industry Entities and Government Agencies involved ensuring any queries are clarified and the deadlines are adhered to.
 - Once we received confirmation from the AEITI Secretariat that the Reporting Templates had been distributed to all the Extractive Industry Entities and Government Agencies, we requested a list of key contact details to commence our follow up exercise.
 - Our initial follow up exercise ensured that the Reporting Templates had been received. If not, we highlighted this to the AEITI Secretariat to ensure the Reporting Template is distributed to the Extractive Industry Entities and Government Agencies who had not received it.
- ***COLLECTION OF DATA:*** This task involved collecting completed Reporting Templates and supporting documentation.
 - Prior to the set deadline, we agreed the dates with the Extractive Industry Entities and Government Agencies to request the Reporting Template. In addition, we asked AEITI Secretariat to update them of the status, to assist us to remind the Extractive Industry Entities and Government Agencies of the importance of providing us with the Reporting Templates.
 - In order to prevent the delay of the process and to ensure our Final Report will be published within the required timeline, we commenced the reconciliation process with the limited information in our possession whilst together with AEITI Secretariat we continued to follow up the non-respondents.

- **Payments of Entities**

We received the Reports from the Entities where all the payments were stated. The Reporting Templates were prepared by EITI Afghanistan and covered all types of payments. We prepared technical guidelines of the terms of filling the Reports and included the Inception Report thereto. The workshop was organised by Afghanistan EITI Secretariat to explain and give suggestions for the preparation and filling of Reports.
- **Receipt of Government**

We received the Reports from different Government Agencies:

 - Ministry of Mines;
 - Ministry of Finance (Revenue and Customs Department);
 - Other Government Agencies.
- ***FINDINGS AND DISCREPANCIES:*** This task entailed compiling all the information provided by the Extractive Industry Entities and Government Agencies involved and identifying areas that did not reconcile.
 - In order to facilitate our analysis of the completed Reporting Templates, we developed a database for each of the Extractive Industry Entities that set out all payment streams on the Reporting Template and the expected Government Agency recipient of the revenue.
 - As soon as we received the information from the Extractive Industry Entities and Government Agencies, the payments and receipts have been added into the database for our further analysis.
 - After obtaining all the information we compared the payments and receipts from the Extractive Industry Entities and Government Agencies to identify any discrepancies on relevant payment/revenue streams.
- ***DISCREPANCIES:*** As soon as the discrepancies have been identified, we contacted the Extractive Industry Entities and Government Agencies involved for additional information/clarification to enable us to reconcile these discrepancies.
 - Using the database, we highlighted what additional information we required in order to reconcile any identified discrepancies.
 - We provided explanation to all Extractive Industry Entities and Government Agencies that provided us with the necessary supporting documentation and requested them to submit this additional information to us so that the discrepancies identified can be reconciled.
 - In circumstances where the documentation was irrelevant to allow us to reconcile the discrepancies, we requested provision of further evidence.
 - If additional supporting documents were irrelevant or no initial/further supporting documentation could have been provided, we concluded that the reconciliation and the discrepancies be highlighted as “undetermined/unexplained discrepancies”.

RESULTS AND DISCREPANCIES:

RESULTS OF YEAR 1389

in AFS

Amount reported by Government Agencies	Amount reported by Extractive Industry Entities	Discrepancies	Adjusted amount (GA*)	Adjusted amount (Entities)	Unresolved Discrepancies
1,068,641,007	1,141,107,790	(72,466,783)	2,668,753	1,418,472	(68,379,558)

There were six Extractive Industry Entities during the year 1389. We have reconciled the data's of five out of six. Wens Logistics did not provide the Reports and we have not reconciled the information related to that Entity. Neither has it participated in the 1387/1388 reconciliation process.

For fiscal year 1389, the Government Agencies have received the amount of **AFS 1,068,641,007** whereas the Extractive Industry Entities recorded the amount of **AFS 1,141,107,790** in their Reports. We have adjusted the Discrepancies according to the Documentation provided by the Entities and Government Agencies. The total unresolved difference between the stated amounts was **AFS 68,379,558**. According to the Reports, the Government has received and recorded less revenue than reported by the Entities.

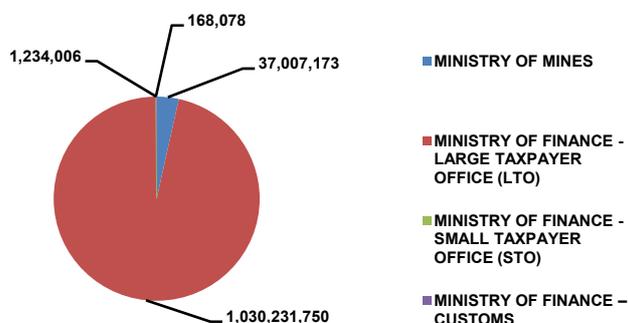
Name of Government Agency	Results of the year ended 1389 (by Government Agencies)					
	Government Agency	Entities	Discrepancies	Adjusted amount (GA*)	Adjusted amount (Entities)	Unresolved discrepancy
MINISTRY OF MINES	37,007,173	37,903,154	(895,981)	(3,005,966)	(4,682,922)	(8,584,869)
MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)	1,030,231,750	1,095,089,746	(64,857,996)	3,280,000	4,463,437	(57,114,559)
MINISTRY OF FINANCE - SMALL TAXPAYER OFFICE (STO)	168,078	4,200,754	(4,032,676)	2,394,719	1,637,957	-
MINISTRY OF FINANCE – CUSTOMS	1,234,006	-	1,234,006	-	-	1,234,006
OTHER GOVERNMENT AGENCIES	-	3,914,136	(3,914,136)	-	-	(3,914,136)
TOTAL	1,068,641,007	1,141,107,790	(72,466,783)	2,668,753	1,418,472	(68,379,558)

*GA - Government Agency

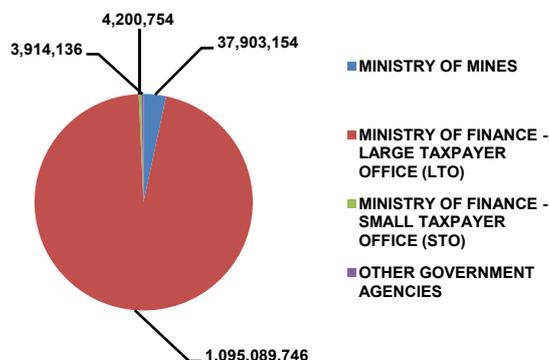
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YEAR 1389**

Below is the graph showing the movement of revenues received and payments done by Entities to Government Agencies during the year 1389:

Government Agency 1389



Extractive Industry Entities 1389

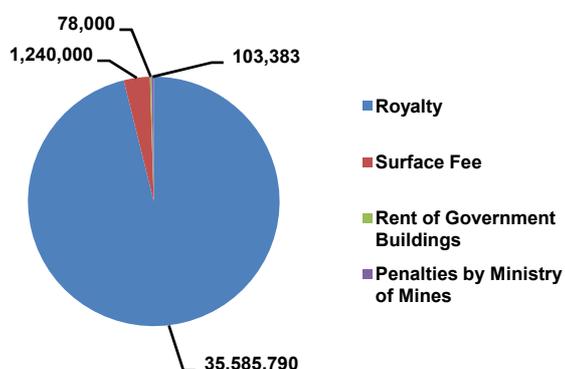


We have reconciled the information provided by both parts of the Reconciliation Process. We have prepared the schedule by category of Payments by Government Agencies separately.

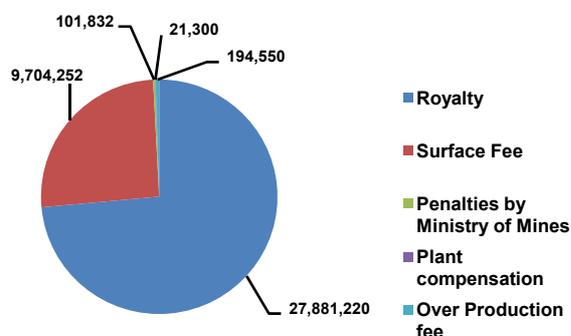
MINISTRY OF MINES (MOM)

Category of payments	Government Agencies	Entities	Discrepancies	Adjusted amount (GA)	Adjusted amount (Entities)	Unresolved Discrepancy
Royalty	35,585,790	27,881,220	7,704,570	(3,005,966)	(4,590,125)	108,479
Surface Fee	1,240,000	9,704,252	(8,464,252)	-	(13,248)	(8,477,500)
Rent of Government Buildings	78,000	-	78,000	-	(78,000)	-
Penalties	103,383	101,832	1,551	-	(1,549)	2
Over Production Fee	-	194,550	(194,550)	-	-	(194,550)
Plant compensation	-	21,300	(21,300)	-	-	(21,300)
Total	37,007,173	37,903,154	(895,981)	(3,005,966)	(4,682,922)	(8,584,869)

Revenues of MOM



Payments to MOM



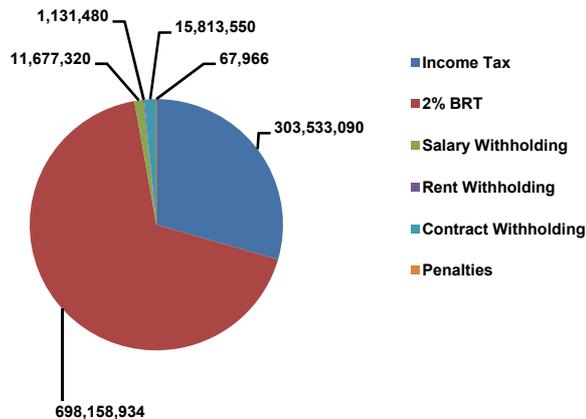
**THE COMMITTEE ON THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE
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YEAR 1389**

Main differences occurred in the categories “Surface fee”, “Over Production Fee” and “Royalty”. Detailed information concerning those differences has been mentioned in individual tables separately by Entities below (**Annex 2**).

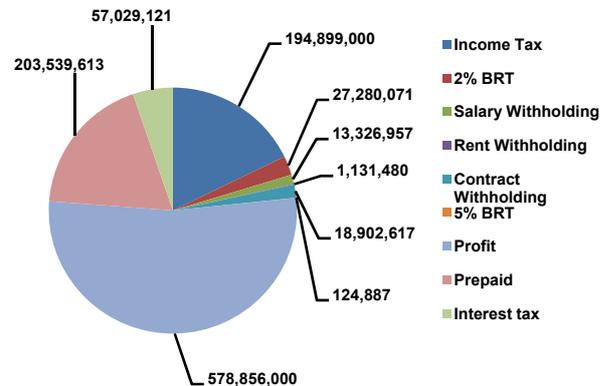
**MINISTRY OF FINANCE, REVENUE DEPARTMENT
LARGE TAXPAYER OFFICE (LTO)**

Category of payments	Government Agencies	Entities	Discrepancies	Adjusted amount (GA)	Adjusted amount (Entities)	Unresolved Discrepancy
Income Tax	303,382,500	194,899,000	108,483,500	(108,483,500)	-	-
2% BRT	698,158,934	27,280,071	670,878,863	(674,037,000)	3,158,137	-
Salary Withholding	11,677,320	13,326,957	(1,649,637)	2,630,000	1,093,068	2,073,431
Rent Withholding	1,131,480	1,131,480	-	-	-	-
Contract Withholding	15,813,550	18,902,617	(3,089,067)	650,000	235,881	(2,203,186)
Penalties	67,966	-	67,966	-	(23,649)	44,317
5% BRT	-	124,887	(124,887)	124,887	-	-
Profit	-	578,856,000	(578,856,000)	578,856,000	-	-
Prepaid	-	203,539,613	(203,539,613)	203,539,613	-	-
Interest tax	-	57,029,121	(57,029,121)	-	-	(57,029,121)
Total	1,030,231,750	1,095,089,746	(64,857,996)	3,280,000	4,463,437	(57,114,559)

Revenues of MOF - (LTO)



Payment to MOF - (LTO)



Differences are present in the majority of categories of payments. Detailed information concerning those differences is set forth in individual tables, separately for each Entity, below in **Annex 2**.

**THE COMMITTEE ON THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE
OF THE REPUBLIC OF AFGHANISTAN
YEAR 1389**

**MINISTRY OF FINANCE, REVENUE DEPARTMENT
SMALL TAXPAYER OFFICE (STO)**

Category of payments	Government Agencies	Entities	Discrepancy	Adjusted amount (GA)	Adjusted amount (Entities)	Unresolved Discrepancy
Income Tax	150,590	3,880,651	(3,730,061)	2,333,547	1,396,514	-
2% BRT	-	316,609	(316,609)	78,000	238,609	-
Salary Withholding	-	2,006	(2,006)	660	1,346	-
Penalties	-	1,488	(1,488)	-	1,488	-
5% BRT	17,488	-	17,488	(17,488)	-	-
Total	168,078	4,200,754	(4,032,676)	2,394,719	1,637,957	-

MOF – CUSTOMS DEPARTMENT

Category of payments	Government Agencies	Entities	Discrepancy	Adjusted amount (GA)	Adjusted amount (Entities)	Unresolved Discrepancy
Import duties	252,851	-	252,851	-	-	252,851
Fixed Taxes	696,221	-	696,221	-	-	696,221
BRT	278,516	-	278,516	-	-	278,516
Other fees	6,418	-	6,418	-	-	6,418
Total	1,234,006	-	1,234,006	-	-	1,234,006

The Entities have not recorded amounts of certain Payments. Detailed information concerning those differences has been set forth in individual tables separately for each Entity - (**Annex 2**).

OTHER GOVERNMENT AGENCIES

Category of payments	Government Agencies	Entities	Discrepancy	Adjusted amount (GA)	Adjusted amount (Entities)	Unresolved Discrepancy
1% Municipality	-	3,890,136	3,890,136	-	-	3,890,136
Foreign permits	-	24,000	24,000	-	-	24,000
Total	-	3,914,136	3,914,136	-	-	3,914,136

COMMENTS AND RECOMMENDATIONS

BECOMING AN EITI COMPLIANT COUNTRY

The Islamic Republic of Afghanistan will be granted the EITI Compliant status only upon the recognition by the EITI International Board that the country meets all the EITI Requirements. To obtain the EITI Compliant status, Afghanistan must undertake the EITI Validation, which provides an independent evaluation of the progress achieved, defines what actions are needed to enhance the EITI implementation process, and, ultimately, is considered to be an indispensable component of the international standards of EITI. The Validation must be completed within 2.5 years after being recognised as a candidate country. Thus, as mentioned above, for Afghanistan the deadline is 9 August 2012. This exercise must be conducted by an independent Validator. The Validator is to be appointed based on the criteria described in the EITI Validation Guide.

According to the 2011 edition of the EITI Rules one of the conditions for obtaining and retaining compliant status is the publishing of a public report on the regular (annual) basis. The report has to cover the prior year activities, describe the progress with the implementation of EITI Rules and include the recommendations provided by the Validator and the status of implementation thereof. Although the Rules do not prescribe concrete detailed requirements, it is advisable that the MSG investigates innovative ways of rationalising the introduction of EITI to enhance the completeness of EITI reporting and public understanding of revenues. This, in its turn, will promote high standards of transparency and responsibility in the public life, Government and business activities.

TIMING OF THE RECONCILIATION EXERCISE AND PERIOD OF APPOINTMENT OF RECONCILER

In the light of the above-stated, the current reconciliation report is being produced more than 3 years after Afghanistan announced its intent to implement the EITI in March 2009, and more than 2 years after Afghanistan became an EITI Candidate country on 10 February 2010. We understand that it was the first time adoption of EITI reconciliation procedures in Afghanistan and there were inevitable problems with filling the reports.

Recommendation

- We believe that in the future it would be more effective to carry out the reporting and reconciliation process and publish the annual report within maximum 9 months of the year end. This would ensure a better participation of both extractive companies and Government Agencies and provide more up-to-date information to stakeholders. Also tax regimes can change over time and can confuse the reporting.
- We recommend appointing person responsible for dealing with the responsible persons of extractive companies to reconcile the amounts paid and received. It is advisable to complete the reconciliation process prior to the external reconciliation. It will reduce the number of unresolved discrepancies at the initial stage.
- We recommend replacing the paper-based accounting by more effective and efficient computerised accounting information systems (AIS), which will trigger the development of the appropriate transparent reporting system.
- We recommend organising even more seminars and training for the participants of the reconciliation process. The purpose of training should be related to the modern accounting and reporting systems based on the international standards.

ENSURING ALL RELEVANT EXTRACTIVE COMPANIES REPORT / COMMON DATABASE OF PARTICIPANTS

EITI Requirement 11 stipulates for the Government to ensure that all relevant extractive companies report. EITI reporting applies to all extractive companies operating in Afghanistan.

During the reconciliation process we observed that one extractive company – Wens Logistics – did not submit its reporting package either for the 1387/1388 or 1389 reconciliation. Besides that, there might be extractive companies that are left outside the EITI process altogether.

Recommendation

- Therefore, we recommend that the Government utilises its regulatory powers to make it compulsory that all the extractive companies report according to the EITI Criteria and utilise the agreed reporting templates. In the future, where legally and technically feasible, automated on-line disclosure of extractive revenues and payments by the Government and extractive companies on a continuous basis can be considered. Such continuous reporting could be an integral part of the EITI process.
- We also recommend that, following the first and second reconciliation exercises, the AEITI Secretariat creates a database of participants. The Secretariat should then liaise with the Governmental bodies to ensure it obtains adequate information regularly and updates its database accordingly. To this end, we believe it is vital that any new entrants to the extractive sector are registered with the AEITI Secretariat as part of the process before or at the same time as they obtain their operating licence. A quarterly review with the Governmental bodies of the list of extractive companies licensed to operate in the sector is recommended.

SUPPORTING DATA

The instructions sent out with the reporting templates to extractive companies indicated that when compiling their templates, extractive companies should provide schedules showing a breakdown of all amounts included. Although many extractive companies provided these schedules, it would appear that one entrant was not diligent in complying with this requirement.

Recommendation

- We recommend a review of the procedures for communicating in particular with those who do not comply with the EITI rules. A regular compulsory briefing or training seminar for the newcomers might be an option.

INFORMATION ON THE REPORTING TEMPLATE:

The information in the Reporting Template includes relevant details on each payment and the recipient of the relevant payment from the extractive industry entities. We have provided brief information concerning the main types of payments (Annex 3). We have received all the reports with the signature of responsible persons. All the reports have been stamped and indicated the dates of filling.

Recommendation

- Key deadlines should be highlighted along with the key contact persons of the Independent Reconciler and AEITI Secretariat.

WORKSHOPS:

AEITI Secretariat has organised several Workshops dedicated to Reconciliation Process. During the workshops the main tasks were to explain to the Parties of the Reconciliation Process how to fill the Reporting Templates. The main purpose of the Workshop held on 2 April 2012 was concerning the Reporting Template simplification, casting light on the Reconciliation Process, with the Government representatives, Civil Society and Private Sectors. The objective of the workshop was to provide supplementary information for effective understanding of participants during reconciliation. There were 20 participants from different Entities and Government Agencies. The AEITI background information, reporting templates, necessary steps in reconciliation process were explained and discussed. This enabled the participants to have the maximum understanding of the upcoming reconciliation reporting procedures.

Recommendation

- It is useful to document the Workshop discussions and resend the Memorandum of Discussion to all the Parties that attended the Workshops.
- The timing of the reconciliation and individual deadlines should be agreed with all the Extractive Industry Entities and Government Agencies in order to ensure that the reconciliation process is undertaken at a time suitable for all the Parties. It will be helpful to draw attention of the Parties submission deadlines specifically.
- Questions and answers should be accommodated throughout the workshops to identify and address potential issues.

REPORTING BASED ON AUDITED FIGURES AND/OR CERTIFICATION OF REPORTING TEMPLATES BY EXTERNAL (INDEPENDENT) AUDITORS

The EITI Validation Guide sets forth the requirement that the Government ensures that the extractive companies' reports are based on the audited accounts (EITI Requirements/Validation Grid Indicators 12 & 13). Therefore, we would like to emphasise that during the Validation process, the Validator examines whether the Government ensured that the data submitted by the extractive companies had been audited.

- It is highly recommended that the audits of the extractive companies are carried out according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). The audits should be conducted by the reputable internationally recognised firms of auditors. We understand that for the purposes of this Reconciliation, the extractive companies have not subjected their reports to a specific audit, neither have their accounts been subjected to the general audit procedures in accordance with ISA. Therefore, we recommend that the GOIRA agrees a plan with the extractive companies to achieve this task against a fixed deadline. We recommend providing only audited amounts in the reports submitted by both, the Government Agencies and the extractive companies. The extractive companies can either have their general accounts audited and extract the EITI related numbers therefrom, or subject their EITI reporting templates to a special examination and certification by the independent auditors. We understand that the financial statements prepared in conformance with the International Financial Reporting Standards (IFRS) are prepared under the accrual basis of accounting, whereas the EITI reporting is carried out under the cash basis. Therefore, in practice this process might be implemented by the extractive companies obtaining from their external auditors a separate opinion stating that the information they report under EITI is derived from and/or consistent with their general purpose audited financial statements. This could be a special procedure request added to the terms of reference addressed to the external auditors. The external auditors could easily relate the cash basis information to the audited accrual basis records. With regard to the Government Agencies, it is recommended that the reliable and auditable data is presented to Afghanistan's Supreme Audit Institution, the Control and Audit Office (CAO), and subjected to an audit/examination in accordance with the internationally recognised government auditing standards (such as the International Standards of Supreme Audit Institutions (ISSAI) promulgated by the International Organization of Supreme Audit Institutions (INTOSAI)). It will be efficient to attach auditor confirmation letters and/or audited accounts to the reports mentioned above.

CONCLUSIONS:

We have collected initial Reports during the period from 10 to 25 April 2012. We have received all the Report except from one Entity - Wens Logistics. After submission procedure, we have analysed and reviewed the information provided to identify unresolved discrepancies. We have performed the Reconciliation process and steps mentioned and stated in the Inception Report which we have provided to AEITI at the end of March 2012. We noted numerous discrepancies between the payment templates originally submitted by extractive companies and the records held by the Government Agencies.

With regard to year 1389, heretofore, we were unable to follow up and resolve a substantial number of differences that arose. Although, we anticipate that following the dissemination procedure we will be able to pursue the major portion of non reconciled amounts by obtaining responses to our enquiries and inspecting supporting documents.

We make the following summary observations:

- Heretofore there exists the overall net aggregate discrepancy of **AFS 68,379,558** for year 1389.

Recommendation

- AEITI Multi Stakeholder Group should continue working with the Extractive Industry Entities and Government Agencies to address all unresolved discrepancies highlighted in our report. This will allow AEITI Multi Stakeholder Group conclude on the reasons for the discrepancies, in case we are not able to reconcile these due to the lack of adherence to deadlines by the Extractive Industry Entities and Government Agencies and insufficient supporting documentation being provided.
- A report on the conclusion of the investigation should be issued to the Extractive Industry Entities and Government Agencies that highlights to them the common reasons for discrepancies and action plans to address them. The report should also include the type of evidence that was used to resolve the discrepancies as this information would prove invaluable to the presentation orientation and the information pack discussed earlier. The report should also be furnished to the Independent Reconciler who would be expected to perform the next Independent Reconciliation to orientate them regarding the potential challenges early in the reconciliation.

We have made a number of other recommendations for improvements in the reconciliation process which are set out above.

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ANNEXES

Annex 1: List of entities and Government departments:

Extractive Industry Entities:

For year 1389
Wens logistics company
AIC (Afghan investment company)
Khoshak brothers (Beradaran Khoshak)
MJAM MCC-JCL Aynak Minerals Company Ltd
Northern Coal Enterprise
Mesaq Sharq

Government Departments:

- Ministry of Mines;
- Ministry of Finance – Revenue Department – LTO (Large Taxpayer Office);
- Ministry of Finance - Revenue Department – STO (Small Taxpayer Office);
- Ministry of Finance – Customs Department;
- Other Government Departments, if applicable.

Annex 2: Reconciliation by Entities for the year 1389:

**MJAM MCC-JCL AYNAK MINERALS
COMPANY LTD**

in AFS

Government Agencies	Government Agencies	Entity	Discrepancies	Adjusted amount (GA)	Adjusted amount (Entity)	Unresolved Discrepancies	Notes
MINISTRY OF MINES	-	8,498,800	(8,498,800)	-	-	(8,498,800)	1
Surface fee	-	8,477,500	(8,477,500)	-	-	(8,477,500)	
Plant compensation	-	21,300	(21,300)	-	-	(21,300)	
MINISTRY OF FINANCE – LARGE TAXPAYER OFFICE (LTO)	28,389,951	85,578,499	(57,188,548)	-	-	(57,188,548)	2
Salary Withholding	11,523,391	9,488,279	2,035,112	-	-	2,035,112	
Rent Withholding	1,131,480	1,131,480	-	-	-	-	
Contract Withholding	15,735,080	17,929,619	(2,194,539)	-	-	(2,194,539)	
Interest Tax	-	57,029,121	(57,029,121)	-	-	(57,029,121)	
MINISTRY OF FINANCE - CUSTOMS	362,258	-	362,258	-	-	362,258	3
Import duties	24,340	-	24,340	-	-	24,340	
Fix taxes	325,422	-	325,422	-	-	325,422	
BRT	6,478	-	6,478	-	-	6,478	
Other fees	6,018	-	6,018	-	-	6,018	
OTHER GOVERNMENT AGENCIES	-	-	-	-	-	-	
TOTAL	28,752,209	94,077,299	65,325,090	-	-	65,325,090	

Note 1: Surface Fee and Plant Compensation

- The amount of **Surface Fee** has not been recorded by the Ministry of Mines. The amount of discrepancy was **AFS 8,477,500**.
- The amount of **Plant Compensation** has not been recorded by the Ministry of Mines. The amount of discrepancy was **AFS 21,300**.

Note 2: Salary Withholding and Contract Withholding

- The amount of **Salary Withholding** was understated by MJAM MCC-JCL Aynak Minerals Company for **AFS 2,035,112**.
- The amount of **Contract Withholding** was overstated by MJAM MCC-JCL Aynak Minerals Company for **AFS 2,194,539**.
- The amount of payment related to **Interest Tax** was not recorded by the Ministry of Finance (LTO). The amount of discrepancy was **AFS 57,029,121**.

Note 3: Import duties, Fix Taxes, BRT and Other fees

- The amount of payments related to the Customs department of the Ministry of Finance was not reported by MJAM MCC-JCL Aynak Minerals Company. The total amount of difference was **AFS 362,258**.

The differences between the Sources mentioned in the Notes above have not been cleared at this stage and, are, therefore reported as unresolved differences.

Annex 2: Reconciliation by Entities for the year 1389:

Northern Coal Enterprise

in AFS

Government Agencies	Government Agencies	Entity	Discrepancies	Adjusted amount (GA)	Adjusted amount (Entity)	Unresolved Discrepancies	Notes
MINISTRY OF MINES	-	-	-	-	-	-	
MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)	1,000,382,500	1,003,662,500	(3,280,000)	3,280,000	-	-	
Income Tax	303,382,500	194,899,000	108,483,500	(108,483,500)	-	-	
2% BRT	697,000,000	22,963,000	674,037,000	(674,037,000)	-	-	
Salary Withholding	-	2,630,000	(2,630,000)	2,630,000	-	-	
Contract Withholding	-	650,000	(650,000)	650,000	-	-	
5% BRT	-	124,887	(124,887)	124,887	-	-	
Profit	-	578,856,000	(578,856,000)	578,856,000	-	-	
Prepaid	-	203,539,613	(203,539,613)	203,539,613	-	-	
MINISTRY OF FINANCE - CUSTOMS	-	-	-	-	-	-	
OTHER GOVERNMENT AGENCIES	-	3,890,136	(3,890,136)	-	-	(3,890,136)	1
1% Municipality	-	3,890,136	(3,890,136)	-	-	(3,890,136)	
TOTAL	1,000,382,500	1,007,552,636	(7,170,136)	3,280,000	-	(3,890,136)	

Note 1: 1% Municipality

- The difference appeared in the category of payments related to Other Government Agencies. It was in the amount of **AFS 3,890,136** that related to **1% Municipality**.

There were several meetings organised by the AEITI secretariat. The discrepancies that appeared at the initial stage have been adjusted after the meetings. We have obtained the evidence from both parties.

The differences between the Sources mentioned in the Notes above have not been cleared at this stage and, are, therefore reported as unresolved differences.

Annex 2: Reconciliation by Entities for the year 1389:

Khoshak Brothers

in AFS

Government Agencies	Government Agencies	Entity	Discrepancies	Adjusted amount (GA)	Adjusted amount (Entity)	Unresolved Discrepancies	Notes
MINISTRY OF MINES	24,166,200	21,272,550	2,893,650	(3,088,200)	-	(194,550)	1
Royalty	23,088,200	20,078,000	3,010,200	(3,088,200)	78,000	-	
Surface Fee	1,000,000	1,000,000	-	-	-	-	
Rent of Government Buildings	78,000	-	78,000	-	(78,000)	-	
Over Production Fee	-	194,550	(194,550)	-	-	(194,550)	
MINISTRY OF FINANCE - SMALL TAXPAYER OFFICE (STO)	150,590	3,849,058	(3,698,468)	2,254,883	1,443,585	-	
Income Tax	150,590	3,849,058	(3,698,468)	2,254,883	1,443,585	-	
MINISTRY OF FINANCE – CUSTOMS	240,302	-	240,302	-	-	240,302	2
Import Duties	90,872	-	90,872	-	-	90,872	
Fixed Taxes	74,515	-	74,515	-	-	74,515	
BRT	74,515	-	74,515	-	-	74,515	
other fees	400	-	400	-	-	400	
OTHER GOVERNMENT AGENCIES	-	-	-	-	-	-	
TOTAL	24,557,092	25,121,608	(564,516)	(833,317)	1,443,585	(45,752)	

Note 1: Royalty, Rent of Government Building and Over Production Fee

- The amount of payment related to **Over Production Fee** was not recorded in the Report provided by the Ministry of Mines. The Entity has recorded the amount related to this category as **AFS 194,550**.

Note 2: Import duties, Fixed Taxes and Other fees

- The amount of payments related to the Customs department of Ministry of Finance was not reported by Khoshak Brothers. The total amount of difference was **AFS 240,302**.

There were several meetings organised by the AEITI secretariat. The discrepancies that appeared at the initial stage have been adjusted after the meetings. We have obtained the evidence from both parties.

The differences between the Sources mentioned in the Notes above have not been cleared at this stage and, are, therefore reported as unresolved differences.

Annex 2: The reconciliation process by Entities for the year 1389:

MESQA SHARQ

in AFS

Government Agencies	Government Agencies	Entity	Discrepancies	Adjusted amount (GA)	Adjusted amount (Entity)	Unresolved Discrepancies	Notes
MINISTRY OF MINES	11,200,588	6,504,198	4,696,390	(13,468)	(4,682,922)	-	
Royalty	10,857,205	6,175,614	4,681,591	(13,468)	(4,668,125)	(2)	
Surface Fee	240,000	226,752	13,248	-	(13,248)	-	
Penalties by Ministry of Mines	103,383	101,832	1,551	-	(1,549)	2	
MINISTRY OF FINANCE - SMALL TAXPAYER OFFICE (STO)	17,488	351,696	(334,208)	139,836	194,372	-	
Income Tax	-	31,593	(31,593)	78,664	(47,071)	-	
2% BRT	-	316,609	(316,609)	78,000	238,609	-	
Salary Withholding	-	2,006	(2,006)	660	1,346	-	
Penalties	-	1,488	(1,488)	-	1,488	-	
Other Payment (STO)	17,488	-	17,488	(17,488)	-	-	
MINISTRY OF FINANCE – CUSTOMS	-	-	-	-	-	-	
OTHER GOVERNMENT AGENCIES	-	24,000	(24,000)	-	24,000	-	
Foreign Permit	-	24,000	(24,000)	-	24,000	-	
TOTAL	11,218,076	6,879,894	4,338,182	126,368	4,464,550	-	

There were several meetings organised by the AEITI secretariat. The discrepancies that appeared at the initial stage have been adjusted after the meetings. We have obtained the evidence from both parties.

Annex 2: The reconciliation process by Entities for the year 1389:

Afghan Investment Company

in AFS

Government Agencies	Government Agencies	Entity	Discrepancies	Adjusted amount (GA)	Adjusted amount (Entity)	Unresolved Discrepancies	Notes
MINISTRY OF MINES	1,640,385	1,627,606	12,779	95,702	-	108,481	1
Royalty	1,640,385	1,627,606	12,779	95,702	-	108,481	
MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)	1,459,299	5,848,747	(4,389,448)	-	4,463,437	73,989	2
2% BRT	1,158,934	4,317,071	(3,158,137)	-	3,158,137		
Salary Withholding	153,929	1,208,678	(1,054,749)	-	1,093,068	38,319	
Contract Withholding	78,470	322,998	(244,528)	-	235,881	(8,647)	
Penalties	67,966	-	67,966	-	(23,649)	44,317	
MINISTRY OF FINANCE – CUSTOMS	631,446	-	631,446	-	-	631,446	3
Import Duties	137,639	-	137,639	-	-	137,639	
Fixed Taxes	296,284	-	296,284	-	-	296,284	
BRT	197,523	-	197,523	-	-	197,523	
TOTAL	3,731,130	7,476,353	(3,745,223)	95,702	4,463,437	813,916	

Note 1: Royalty

- The amount of **Royalty** was understated by Afghan Investment Company for **AFS 108,481**.

Note 2: 2% BRT, Salary Withholding, Rent Withholding and Contract Withholding

- The amount of **2 % BRT** was understated by the Entity for **AFS 73,989**.
- The amount of **Salary Withholding** was overstated by the Entity for **AFS 38,319**.
- The amount of **Penalties** was understated by the Entity for **AFS 44,317**.
- The amount of **Contract Withholding** was overstated by the Entity for **AFS 8,647**.

Note 3: Import duties, Fixed Taxes and BRT

- The amount of payments related to the Customs department of Ministry of Finance was not reported by Afghan Investment Company. The total amount of difference was **AFS 631,446**.

There were several meetings organised by the AEITI secretariat. The discrepancies that appeared at the initial stage have been adjusted after the meetings. We have obtained the evidence from both parties.

Those differences between the Sources which were mentioned in Notes above have not been cleared at this stage and we have mentioned them as unresolved difference.

Annex 3: Description of payments

No	Type of payment in the Reporting forms	Name of GA	Description of Payment
1	Royalty	MOM	Royalty, also known as private sector taxes, is a payment for the use of natural resources. Royalties are collected by the MOM and paid to the State Treasury.
2	Surface fee	MOM	Surface rents are collected by the Mining Cadastre Department and paid to the State Treasury. "Surface Rent" means the fees of the demarcated area of the Mining Contract the payment conditions and duration of which shall be established in the Mining Regulations.
3	Lease Government Land	MOM	The amount of lease which the entity should pay to Government if they use the Government land for any purposes.
4	Rent of Government Buildings	MOM	According to the Legislation Article 59 concerning the Income Tax Law, it is stated that all the Entities who have rental payments for the rent of houses or other buildings that are used for business purposes are required to withhold rental payments if the monthly amount is more than 10,000 Afghani.
5	License Fee	MOM	The fees paid to the Government for the commencement of exploration or for the retention of a license or concession, or for the leasing of license or concession area.
6	Permitting Fee	MOM	The entities should pay permitting fee if they have exploitation activities. It should be conducted in accordance with existing geological maps and shall not proceed without legally required permits and certifications issued by the relevant Government authorities that include but are not limited to environment, social protection and health and safety.
7	Bid Fee	MOM	The Mineral Right is obtained through bidding process and, as of law, the bidding procedures, duration, the terms and conditions, and other related issues of bids shall be provided in the approval of the authorised body. The Bidder, either personally or through its duly authorised representative, can request for an Exploitation License application which shall be accepted only upon payment of the required Bid fees and Bid bonds to the Ministry of Mines. The Bid fee for an Exploitation License is equivalent to 5,000 USD in Afghani.
8	Premium and Bonuses	MOM	Bonuses to be paid to the state by the company for delegation and transfer of extractive rights, discovery of additional mineral reserves, etc.
9	Penalties	MOM	Where the entities are in violation of mine safety requirements, a penalty may be levied in accordance with Health and Safety Regulations.
10	Income tax	MOF	The tax imposed on the income from Afghan sources of all persons, corporations, limited liability companies, and other entities whether in Afghanistan or abroad, and on the foreign income of residents of Afghanistan in accordance with this Law and its regulations. The percentage of Income tax to be paid is 20%.

No	Type of payment from the Reporting forms	Name of GA	Description of Payments
11	2% BRT	MOF	BRT (Business Receipt Tax). (1) The business receipt tax is imposed on the business activities of limited liability companies, corporations, general partnerships and organisations. (2) Natural and legal persons deriving 100,000 Afghanis or more income per month from providing taxable services.
12	Salary Withholding	MOF	The amount of taxes payable if the number of employees is two or more. The organisations are required to withhold tax from their employees' salaries and wages.
13	Rent Withholding	MOF	The prepayment of landlords' income tax. The legal entities conducting Business in the territory of Afghanistan at the rented property are required to withhold this tax. The landlord is responsible for reporting rental income in his annual income tax declaration and paying tax annually at appropriate rates depending on entity type. Payments of rent for buildings and houses which are rented to legal entities or individuals and are used for business purposes or offices where the monthly rent is more than 15,000 Afghanis are subject to a 20% income tax.
14	Contract Withholding	MOF	According to Article 72 of the income tax law 2009, the Entities and individuals providing supplies, materials and services and conducting construction under contract are subject to tax withholding from gross amount payable to the contractor.
15	Dividends	MOF	The dividends paid to the host Government by the entities in accordance with the participating interest owned by the state in the reporting company.
16	Penalties	MOF	Where a taxpayer has failed to pay their tax liability by the due date, the person is subject to additional income tax of 0.10% of the tax due, per day.
17	5% BRT	MOF	5% Business Receipts Tax (BRT) is imposed on gross receipts of all types of income of corporation and limited liability companies and individuals whose income is more than AFS 750,000 monthly (Article 66)
18	Profit	MOF	Profit is paid by State Owned Enterprise to relevant Government Agencies
19	Export Duties	MOF	Customs duties Import and export business, as well as those businesses, which have to import goods and materials for the purpose of use in their business.
20	Import Duties	MOF	Fixed tax on import (Article 70) The Entity importing goods are subject to pay the fixed tax including custom duties of the imported goods.
21	Fixed Taxes	MOF	There are different kinds of fixed taxes in lieu of income tax imposed on certain business and transaction types. The following fixed taxes are addressed by chapter 11 of the Legislation: <ul style="list-style-type: none"> • Fixed tax on import • Fixed tax on the transport of goods or passengers for business purposes • Fixed taxes of contractors • Fixed taxes on exhibitions • Fixed taxes on small businesses

№	Type of payment from the Reporting forms	Name of GA	Description of Payments
22	BRT	MOF	All entities and individuals have to pay the BRT if the amount of gross receipt is higher than the amount of AFS 750,000 per quarter. There are three rates for business receipts tax: 2%, 5%, 10%.
23	Other Fees	MOF	There are some payments which are out of the Legislation. Those payments are related to the Airport Departure fee which is AFS 500 for international departures and AFS 50 for domestic departures. The rates are according to the internal agreement in the Ministry of Finance.