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Observation No: 3
Audit area: Project Management
Issue title: Uncertainty regarding New Kabul Bank

Condition

We observed that around 83% of the police force salaries are paid through Electronic Fund Transfer (EFT) mechanism and as designated disbursement agent, police staffs have to maintain their bank accounts with New Kabul Bank. It is worth mentioning that there had been reports in early August 2010 about misappropriations and large financial losses in Kabul Bank, the operations of which have been taken over by the New Kabul Bank. No analysis of risks involved has been carried out and documented to continue maintaining accounts of police staffs in the New Kabul Bank.

Criteria

As per the requirements of Project documents, the Project under its consolidated 3 pillars' window has to cover the following prioritized components including but not limited to;

- Payment of police force remuneration.
- Payment of remuneration of uniformed personnel employed by the Central Prison Department (CPD).

Cause

Inadequate planning

Impact or risk

Uncertainty attached to New Kabul Bank due to takeover of operations of Kabul Bank may affect payment of salaries to Police and Central Prison Department (CPD).

Recommendation

We recommend that Project management should take appropriate steps and encourage Ministry of Finance to expand the banking base by awarding contracts to other banks operating in Afghanistan for payments of police force salaries in order to diversify the risks relating to payment of police remunerations through only one bank.

Priority

Medium

Management comments

The issue has been raised several times with MoF and LOTFA Steering Committee meeting, MoF assured smooth operations of Kabul Bank and in worst case they will come with alternative. Awarding of contract to other banks is MoF decision; however other banks have not yet expanded their branches on provincial and district level which is a gradual process and require resources based on the investment of commercial banks and authorization from DAB. Meanwhile, 4 banks were contracted initially for

the services of government employees, but only Azizi Bank was part of EFT initiation in Khost and Nanagarhar provinces while other banks were not able to provide banking services for police at provincial levels.

Responsible Manager

LOTFA Pillar I.

Expected Completion Date

N/A

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