

INDEPENDENT AUDITOR'S REPORT

TO:

Fuel and Liquid Gas Enterprise (FLGE)

We were engaged to audit the accompanying financial statements of **Fuel and Liquid Gas Enterprise** (here-in-after referred to as "**FLGE**"), which comprise the balance sheet as at Hoot 29, 1381 (March 20, 2003) and the related income statement for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs). This responsibility includes: designing, implementing and maintaining internal control relevant to preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Because of the matters described in the Basis for Disclaimer of Opinion Paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion:

- (1) The accompanying financial statements do not include these components: (a). Statement of cash flows, (b). statement of changes in equity and (c). Notes, comprising a summary of significant accounting policies and other explanatory information. These components are required by the International Accounting Standard 1 *Presentation of Financial Statements* to enable the readers of the financial statements to understand the cash flows, investment introduced by the investors and its utilization by FLGE and the impact of different financial transactions on the financial statements. These components were also required by the Audit Services Contract # MoCI/994 which we have signed with FLGE on June 02, 2009

- (2) We have not been provided comparatives figures i.e. balances or financial statements for the year ended Hoot 29, 1380 (March 20, 2002) whether audited or unaudited.
- (3) We have found that many of the ledgers were pencil written which can easily be changed and therefore cannot be considered as authenticated documents from the auditor's point of view.
- (4) According to the management of FLGE, all fixed assets have been included in the accompanying financial statements on the basis of valuation of fixed assets carried out in the year 1376. We have not been provided with a copy of the Valuation Report to ascertain the validity of the balances appearing in the accompanying balance sheet on account of fixed assets.
- (5) Fixed assets register has not been maintained to enable us to ascertain the ownership, custody and control, and existence of the assets appearing in the accompanying financial statements.
- (6) Deletion from fixed assets appearing in the schedule provided by the management of FLGE is Afghanis. 14,404,583/- while in the ledger it is Afghanis. 15,228,229/-.
- (7) In the consolidated ledger, some assets with a total amount of Afghanis. 923,610/- have been credited twice i.e. once against Residential Buildings and once against Tankers.
- (8) In the ledger of fixed assets carrying code # 01-1, the following differences were observed:

Sr. #	Particulars	Account Code	Deletion/Adjustment as per Summarized Ledger Page (Afghanis.)	Deletion/Adjustment as per Detailed Ledger Page (Afghanis.)
1.	Residential Buildings	01-1-2	923,610	Nil
2.	Stores	01-1-6	2,707,824	2,802,824

- (9) As per the requirements of "International Accounting Standard (IAS) 16 (Property, Plant and Equipment)", depreciation should be provided on consistent basis from year to year so as to spread the cost of asset over its useful and the benefits derived. We were not provided with the policy, rates of depreciation and the working of opening balance of Accumulated depreciation (فرسایش جايداد ها) amounting to Afghanis. 2,124,259/- and Depreciation expense (استهلاك) for the year amounting to Afghanis. 2,894,969/-

(10) In the consolidated ledger, for the following provincial offices, Accumulated depreciation (فرسایش جايداد ها) was not available while in the schedules provided by the management of FLGE, there are balances for fixed assets in these provinces.

- (a). FLGE Kandahar
- (b). FLGE Parwan
- (c). FLGE Nangarhar
- (d). FLGE Pul-e-Khumri
- (e). FLGE Paktia
- (f). FLGE Paktika
- (g). FLGE Head Office
- (h). FLGE Head Office Gas

Furthermore, depreciation expense for the year 1381 was available only for the following provinces:

Sr. #	Name of Province	Depreciation Expense (Afghanis.)
1.	FLGE Hairatan	110,932
2.	FLGE Sher Khan Bander	112,627
3.	FLGE Herat	2,606,306
4.	FLGE Kabul Branch	65,104
Total		2,894,969

(11) We were not provided with the stock register. Furthermore, we were not provided with physical stock take report as at Hoot 29, 1381. In the absence of stock balances as at Hamal 01, 1381, stock received and issued during the year and balance as at Hoot 29, 1381, we were unable to verify stock balance amounting to Afghanis. 118,391,661/- appearing in the accompanying financial statements.

(12) In the accompanying balance sheet, balance for Stock in trade (حساب امتعه موجود ذ خاير) is amounting to Afghanis. 118,391,661/- while in the ledger it is Afghanis. 116,394,858/- resulting in difference of Afghanis. 1,996,803/-.

(13) In case of FLGE Hairatan, stock appearing in the trial balance is held for third parties and FLGE has no ownership of that stock. This stock is valued at Afghni 1/kg and a liability has been created equal to the stock held. This practice has inflated assets and liabilities.

Furthermore, in case of such stock, stock items held at store named as “New Store”, it was observed that the stock as per trial balance is different from the stock report provided by management. Detail is given below:

Store Name	Item Stored	Balance as per Trial Balance	Balance as per Stock Report	Difference
New Store	Diesel	43,747,791 Kgs @ Afghani 1/Kg	4,382,139 Kgs @ Afghani 1/Kg	39,365,652 Kgs.

Moreover we were not provided with any documentary evidence to support the basis for valuation of stock at Afghani 1/Kg.

- (14) Bank balance as per accompanying balance sheet is Afghanis 93,178,132/- while as per schedule provided by management it is Afghanis 105,441,281/- which is the net balance of total bank balance of Afghanis 186,241,189/- and negative bank balance of FLGE Herat amounting to Afghanis 80,799,908/- . Details are given below:

Sr. #	Name of FLGE Office	Bank Balance as per Schedule provided (Afghanis)
1	Kabul Branch	19,639,187
2	Sher Khan Bander	562,413
3	Paktia	229,302
4	Kandahar	115,640,122
5	Hairatan	2,977,837
6	Balkh	14,174,459
7	Head Office	24,470,482
8	Pul-e-Khumri	609,605
9	Nangarhar	7,331,044
10	Parwan	43,023
11	Paktika	563,715
12	Herat	(80,799,908)
Total		105,261,281

In the trial balance of FLGE Herat there is a negative bank balance of Afghanis 80,799,908/, while positive opening bank balance of Afghanis 90,501,675/- has not been taken in the trial balance.

We were not provided with the justifiable reasons for the above differences in bank balances.

- (15) Further to the abovementioned No. (14), Bank balance as per schedule provided by management is different from that of balances as per individual trial balances. Details are as given below:

Sr. #	Name of FLGE Office	Bank Balance as per Schedule provided (Afghanis) (1)	Bank Balance as per Trial (Afghanis) (2)	Difference (Afghanis) (1) – (2)
1	Kabul Branch	19,639,187	19,675,017	(53,830)
2	Sher Khan Bander	562,413	562,413	-
3	Paktia	229,302	229,302	-
4	Kandahar	115,640,122	115,460,122	180,000
5	Hairatan	2,977,837	2,977,837	-
6	Balkh	14,174,459	14,174,745	(286)
7	Head Office	24,470,482	47,796,034	(23,325,552)
8	Pul-e-Khumri	609,605	609,605	-
9	Nangarhar	7,331,044	12,284,297	(4,953,253)
10	Parwan	43,023	43,023	-
11	Paktika	563,715	563,715	-
12	Heart	(80,799,908)	(82,743,350)	(1,943,442)
Total		105,441,281	110,014,300	(26,191,479)

- (16) Confirmation letters were circulated to all banks as per list provided by management at FLGE Head Office. We have received response only for some banks confirming total bank balances up to 118,354,528/- which is 63.6% of total bank balance of Afghanis 186,061,281/- (excluding effect of negative balance of FLGE Herat). Keeping in view, week accounting and internal control system, we were unable to satisfy ourselves as to the existence and valuation of the remaining bank balances (i.e. 36.4%). Furthermore, in case of FLGE Hairatan (DAB Bank Account Number 177901), we were not provided with a reconciliation of the difference between the bank balance as per ledger (Afghanis. 2,689,906/-) and the bank balance as per bank confirmation Afghanis. 67,651/-
- (17) We were not provided with the detailed calculation of balance amounting to Afghanis. 62,164,804/- appearing in the accompanying financial statements on account of exchange differences (تسعیر دالر به افغانی).

- (18) We were not provided with the list of debtors along with opening balances, activities during the year under audit and the closing balances amounting to Afghani. 456,370,646/- (ری او لای تابلط) and Afghani. 33,040,769/- (طلبات سایر طلبات) appearing on the face of the accompanying balance sheet. Furthermore, we were not provided with the basis on which bad and doubtful receivables amounting to Afghani. 2,886,765/- were calculated and accounted for.
- (19) We were not provided with the basis on which provision for Obsolete assets (حساب اتلاف) amounting to Afghani. 44,499,813/- has been created.
- (20) We were not provided with the nature, breakup, calculation and other details of Accumulated Loss (وجوه جذب شده) amounting to Afghani. 91,723,600/- appearing in the accompanying balance sheet.
- (21) Capital Fund amounting to Afghani. 260,326,327/- (سرمایه ثابت) is net effect of fixed assets amounting to Afghani. 265,345,555/- and accumulated depreciation amounting to Afghani. 5,019,228/-. In the absence of fixed assets valuation report or audited financial statements for previous year, we were unable to verify amounts for fixed assets, accumulated depreciation and the resulting capital fund. Moreover accumulated depreciation and depreciation expense for the year have not been calculated on the basis of uniform rates and for all the provinces.
- (22) We were not provided with the details in respect of Working capital (سرمایه دورانی) amounting to Afghani. 7,181,701/- with respect to its opening balance, addition/deletion during the year under audit and closing balance and basis used in valuation including engineer report and other documentary evidences.
- (23) We have not been provided with the list of persons/parties from whom securities have been kept along with opening balances, activities during the year under review and closing balances amounting to Afghani. 5,019,943/- (پس اندازها) and Afghani. 3,362,788/- (تضمین ها) appearing on the face of the accompanying balance sheet.
- (24) We were unable to verify Afghani. 27,926,666/- appearing on the face of the accompanying balance sheet on account of Accounts/Amounts in transit (حساب بین راه) as no details were provided to us.
- (25) We were not provided with the details (except mixed ledger) of opening balances payable, imposition of income and other taxes (صکوک و مالیہ) on periodical basis, their payment to government treasury and the closing balances payable. Similarly we were not provided with the details (except mixed ledger) in respect of opening balances payable, deduction of withholding taxes from salaries, contractors etc, payment into government treasury and the closing balances payable.

- (26) We were not provided with employee wise details (except mixed ledger) of opening balances payable, total deduction of Pension (تقاعد) for the year, amount transferred to Pension fund, payments to employees and balance payable at the end of the year.
- (27) We were not provided with the list of creditors along with their opening balances payable, activities during the year under audit and their closing balances payable amounting to Afghanis.410,386,410/- (دیون از موسسات و اشخاص) and Afghanis.14,222,601/- (سایر دیون) appearing on the face of the accompanying balance sheet.
- (28) After consolidation, inter-office balances should be netted off, while in the accompanying balance sheet there is a balance of Afghanis.140,084,055/- under the head of inter office accounts (حساب بین نمیندگی ها). We were not provided with any explanation by the management to justify this inter-office balance. Furthermore, we were not provided with Inter-office reconciliation.
- (29) We were not provided with the details and breakup of Funds payable (حساب فندها) along with their opening balances, activities during the year under audit and closing balances amounting to Afghanis.30,296,098/-.
- (30) We were not provided with the rate, nature, calculation, breakup, details along with opening balances, activities during the year and closing balances of Payable to Government (مکلفیت های تادیاتی) amounting to Afghanis.201,322,305/- appearing in the accompanying financial statements.
- (31) Revenues amounting to Afghanis.129,119,625/- appearing on the face of the accompanying Profit and Loss Account is the resultant figure after deducting from it a debit balance amounting to Afghanis.224,989,564/- which is 63.54% of total revenue (Debit Balance: Afghanis.224,989,564/- and Credit Balance Afghanis.354,109,189/-). We were not provided with the details of this debit balance.
- Furthermore the credit balance of Afghanis.354,109,189/- has been arrived after deducting from it an amount of Afghanis.291,831,275/-, which was arrived by netting off Afghanis. 561,625,049/- (Debit) from Afghanis.269,793,774/- (Credit) deducted from total revenue. We were even not provided with the details of these figures.
- (32) We were not provided with the detailed calculation of revenue amounting to Afghanis.14,633,667/- related to FLGE Head Office appearing in the ledger.
- (33) FLGE Hairatan has charged 2% commission on all stock held for third parties. We found that during the year 1381 total stock received was 159,077,211 Kgs and no commission income from stock is appearing in the trial balance. Total commission lost due to this practice is 3,181,544 Kgs. We were not provided with any justifiable reason for this finding.

- (34) List of rates for the sale of Petroleum Oil and Lubricants (POL), Gas and other items approved by government has not been provided so as to verify the amounts on account of revenue from sale.

Disclaimer of Opinion

Because of the significance of matters described in Basis for Disclaimer of Opinion Paragraph above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the accompanying financial statements for the year ended Hoot 29, 1381 (March 20, 2003).

KABUL

Date:

AVAIS HYDER LIAQUAT NAUMAN

CHARTERED ACCOUNTANTS

Please refer Balance Sheet as a separate file

Please refer Income Statement as a separate file