AFGHANISTAN RECONSTRUCTION TRUST FUND

INCENTIVE PROGRAM FY1394-96 (2015-2017)

ADMINISTRATOR'S SECOND TECHNICAL REVIEW

MARCH 15, 2016

Preamble

1. The Incentive Program (IP) 2015-2017, part of the Recurrent Cost Window (RCW) of the ARTF, is a three-year, rolling operation supporting a series of economic policy reforms deemed critical to achieving greater fiscal self-reliance. The IP incentivizes achievements of results and timely implementation of reforms to improve domestic revenue mobilization, expenditure management and growth prospects.

2. The overall financing envelope of the Incentive Program 2015 – 2017 is $ 900 million and represents the financing ceiling. Incentive funds can be accessed through three complementary facilities: (i) the structural reform facility; (ii) the revenue matching grant facility; and (iii) the operations and maintenance (O&M) facility. Annual allocations to the program are only indicative and can vary from actual disbursements depending on program performance. Detailed information on each of these facilities, description of the structural benchmarks, and timetables are contained in the Memorandum of Understanding (MoU) from September 6, 2015.

Table 1: Indicative Allocation through the Recurrent Cost Window and the IP (US$ Million)

	Allocation		
	2015	**2016**	**2017**
Baseline ARTF RC support	**$125**	**$100**	**$75**
ARTF IP	**$275**	**$300**	**$325**
Structural Benchmarks	$200	$225	$250
Revenue Matching Grant	$75	$75	$75
O&M Facility	Float/balance	Float/balance	Float/balance
Total ARTF RCW	**$400**	**$400**	**$400**

3. This is the second technical review of the 2015 – 17 program undertaken by the World Bank as Administrator. Part I of this review discusses the Afghanistan's macroeconomic and fiscal environment to contextualize the reforms and the budget support under the IP. Part II describes progress on revenue mobilization and collection. Part III assesses progress on the O&M facility. Part IV provides an assessment of progress on the ten FY1394 structural reform benchmarks based on the evidence provided. Part V concludes with the recommendation to the ARTF management committee regarding disbursement of the IP.

Part I: Assessment of Macro-Fiscal Policy Framework

4. More frequent incidences of violence and high levels of political uncertainty continue to affect Afghanistan economic growth. In 2015 the country experienced only marginal growth at around 1.5 percent (est.). Domestic demand remains weak, with no signs of a pick-up in private consumption and investment. The number of new firm registration –a proxy for business activities -- indicate only a marginal increase in new investment activities in 2015, but it remains significantly below the levels of 2012-2013.

5. Agriculture, which is the second largest contributor to GDP growth after services, declined by an estimated 2 percent in 2015. With population growth estimated at 3 percent per year (UNDESA, 2015) and 45 percent of the poor relying on agriculture for their livelihood, sluggish GDP growth and a decline in agriculture production puts continuous pressure on poverty, which stood at 39.1 percent in 2013-2014.

6. Inflation dropped into negative territory in 2015. Consumer prices declined by 1.5 percent due to lower global commodity prices and consumption. As most consumer goods are imported in Afghanistan, global prices of food and commodities exert significant impact on local prices. In addition, weakening of domestic demand in 2015 led to lower prices for locally-supplied goods and services, including housing and telecommunications.

7. The exchange rate strongly depreciated by 7 percent against the US dollar in 2015. Likely reason for the deprecation are (i.) a decline in foreign aid inflows (security and civilian) , (ii.) growing uncertainty around the political and security environment that may have led to lower confidence in the Afghani and (iii.) larger capital outflows associated with increased out-migration. The pass-through on consumer prices was partly offset by declining global food and fuel prices. Imports amount to around 40 percent of GDP and to have a large impact on domestic prices through imported inflation.

8. Improvements in revenue collection, more realistic budgeting and restraints on expenditures helped to balance the budget in 2015. Revenues which had dropped by 8.5 percent in nominal terms in 2014 increased by 22 percent in 2015. In percent of GDP, domestic revenues rebounded to 10.6 percent, after a significant decline to 8.7 percent in 2014. The government also continued to exercise prudent expenditure controls in 2015 and increased budget expenditures only slightly from 26.2 percent in 2014 to 27.7 percent.

9. The medium-term outlook points towards a slow recovery. Growth is projected at 1.9 percent in 2016, assuming adjustment in domestic consumption and investment. However, a further deterioration in the security environment could weaken growth prospects for the country. Prices are projected to rebound to 3 percent in 2016 up from -1.5 percent last year. For the most part, increases in consumer prices in 2016 are expected to be driven by the exchange rate depreciation that took place in the second half of 2015. The exchange rate is expected to stabilize in 2016.

10. The increase in domestic revenues last year, as well as low budget deficit, helped to rebuild the cash reserves in 2016, and the government started the fiscal year with a strong cash position. Domestic revenues are projected to increase by around 9 percent this year. Total expenditures are expected to increase by 2 percentage points of GDP, inclusive of expenditures carried forward from last year. The budget deficit (incl. grants) is projected to further narrow to 0.9 percent of GDP[1].The fiscal outlook will remain sensitive to even marginal changes in revenue collection or grant receipts.

11. The second review of the IMF Staff-Monitored Program (SMP) was conducted in March 2016. The IMF Staff concluded that the program performance has been satisfactory, with all end-December 2015 quantitative targets met and significant progress on structural benchmarks, including in the financial sector area. This paves the way for a new financial program in 2016. Discussions on a new program may start in April, 2016.

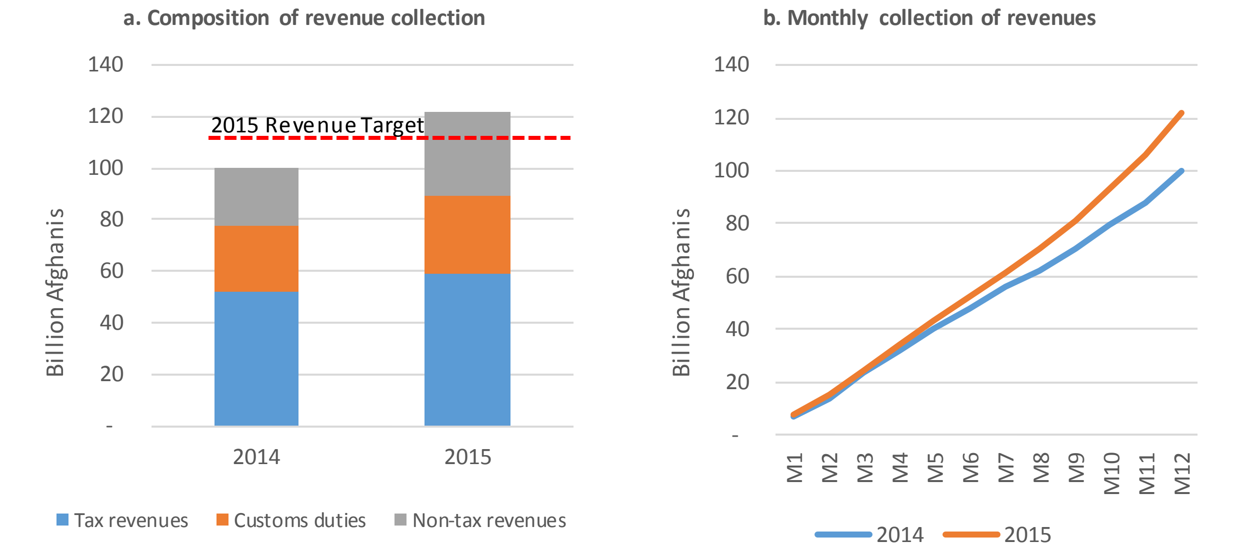
Part I: Progress on Revenue Mobilization and Collection

12. The Revenue Matching Grant (RMG) Scheme under the IP provides an incentive for improved performance in revenue mobilization and collection. It is anchored in the annual revenue targets agreed in advance between the Ministry of Finance and the International Monetary Fund (IMF). Revenue growth over the previous program year triggers incentive funds which are calibrated at the annual indicative allocation, i.e. full achievement of the target would trigger a disbursement of $75 million (100% of the annual indicative allocation). Disbursements increase proportionally to revenue growth towards the revenue target, i.e. if actual revenues amount to X percent of revenue growth required to reach the target, the same percentage of RMG allocated funds will be disbursed. Given performance, the RMG can disburse beyond the indicative allocation.

13. **Revenue collection in FY 1394 (2015):** Actual revenue collection in 2015 reached Afs 122.3 billion, representing 22 percent growth over last year's revenue (Afs 100.1 billion). Increases took place across all sources of revenue, including tax, customs duties, and non-tax revenues. The positive trend in revenue collection is the result of several factors including improved tax collection, the implementation of a series of tax measures as well as nominal growth in imports. The tax measures - increase of the business receipts tax rate from 2 percent to 4 percent, the introduction of a 10-percent telecommunications tax on mobile phone top-ups, increase of fuel fee from Afs 1 per liter to Afs 2 per liter, and an increase in the overflight fees for Afghanistan's airspace – accounted for roughly 1/4 of revenue growth. The nominal increase in imports and improvements in the collection of customs contributed to around 1/3 of revenue growth. A notable 40.6 percent of the total increase in revenue stems from the collection of arrears, mainly owed by state-owned corporations.

[1] A deficit in this order of magnitude can be considered benign and may mask an actual surplus. MoF follows a cash-accounting approach in its budget which records revenues/disbursement when they are actually received/disbursed by the treasury while payment obligations are recorded when they occur. This typically leads to deficit towards the end of the year when fiscal accounts are closed.

Figure 1: Trends in Revenue Collection



Sources: Ministry of Finance

14. **Incentives Payments under Revenue Matching Grant (RMG):** Actual revenue collection of Afs 122.3 billion in 2015 exceeded the revenue target of Afs 114.3 billion. This means that <u>revenue growth</u> over-reached the target by 56%. Based on the RMG formula, this qualifies for disbursement of $117.4 million in incentive funds (156% of the annual indicative allocation). The initial disbursement of $34.2 million which was endorsed by the IP Working Group in November 2015 will be deducted. This leaves a balance of $84.4 million for disbursement of the 2015 RMG.

15. **Revenue Target for 2016.** The revenue targets for 2016 will be negotiated during the preparation of the new IMF-supported program and will be confirmed during the 3rd Quarter of 2016. The Ministry of Finances internal revenue target is set at Afs 131 billion. Current projections, however, see revenues growing to Afs 132.5 billion this year. Revenue targets may therefore be revised upwards later this FY.

Part II: Operations and Maintenance Performance in 1394

16. The Operation & Maintenance Facility (OMF) aims at improving the operation and maintenance of public assets in key areas such as education, health, and rural/urban infrastructure and, thus, enhancing their sustainability. To this end, the O&M facility incentivizes increases in O&M spending. The facility refunds incremental O&M civilian spending above a pre-determined baseline (which is sensitive to revenue growth) and provides an additional incentive of $0.5 on each the dollar of incremental spending to reward improved O&M management.

17. **Trends in O&M spending:** Total operations and maintenance spending by civilian Government entities[2] amounted to Afs 17.4 billion in 2015, representing an increase of 9.3 percent over 2014 levels (Afs 16.3 billion). This is a reversal in the trend for O&M spending which has been declining since 2013. While the 2015 budget plan indicated O&M spending at Afs 15.5 billion, current projections by MoF see O&M spending increase to Afs 19 billion (assuming continued revenue growth).

18. Notwithstanding this very positive development, the Administrator remains concerned about the trends in O&M spending relative to other spending categories which appear to grow faster (table 2). More specifically, there is a risk that the O&M facility might disburse against adverse (relative) developments in O&M spending in 2016. The administrator therefore proposes to adjust the baseline formula and to increase the threshold for access to incentive funds. The Administrator has commenced discussions with MoF to this end.

19. MoF staff will complement this review with a more granular assessment of O&M spending, including a presentation on progress in O&M management, which will be presented at the technical review meeting.

Table 2: Trends in O&M Spending

	2011	2012	2013	2014	2015	2016 (proj.)	2016 (base)
Total core expenditures	199,182	252,512	278,339	300,996	318,798	368,724	368,724
Discretionary civilian spending	79,164	94,548	97,251	100,868	110,348	126,674	126,674
Recurrent	149,385	181,054	198,021	228,339	235,889	271,913	271,913
Civilian O&M	18,076	20,057	18,019	16,307	17,345	19,000	16,582
Domestic revenues	99,396	108,940	109,367	100,071	122,350	133,362	133,362
In billion AFN	18.1	20.1	18.0	16.3	17.3	19.0	16.6
In percent of total spending	9.1	7.9	6.5	5.4	5.4	5.2	4.5
In percent of discretionary spending	22.8	21.2	18.5	16.2	15.7	15.0	13.1
In percent of recurrent spending	12.1	11.1	9.1	7.1	7.4	7.0	6.1
In percent of revenues	18.2	18.4	16.5	16.3	14.2	14.2	12.4

20. **Incentives Payments under the OMF:** Total operations and maintenance spending by civilian Government entities amounted to Afs 17.4 billion in 2015, representing an increase of 9.3 percent over 2014 levels (Afs 16.3 billion) and a 16 percent increase over the O&M baseline for 2015 (Afs 14.9 billion). This qualifies for disbursements through the OMF in the amount of $59.7 million.

[2] Represents expenditures recorded under Code 22 for all public institutions excluding Ministry of Defense, Ministry of Interior, Presidential Protection Office, National Security Council, and General Directorate of National Security.

Part II: Performance Assessment of Structural Reform Benchmarks

21. **Performance assessment of FY1394 benchmarks:** The last technical review (November 15, 2015) indicated that seven 2015 structural benchmarks were pending completion. The Matrix in Annex 1 provides a detailed assessment of all pending FY1394 structural benchmarks. Based on the evidence received up to March 1, 2016, the administrator's technical review assesses that only one of the pending 1394 benchmarks was achieved until March 1, 2016.

22. **External Audit (#10):** Evidence for the completion of the benchmarks was furnished on January 18, 2016. The assessment by the administrator indicates that

    (i.) the framework and methodology for performance audits prepared by the Supreme Audit Office (SAO) is in line with the INTOSAI and ASOSAI auditing standards for public entities and covers all relevant aspects of a performance audit.

    (ii.) the SAO prepared a report which includes audit findings of three years from FY1390 to FY1392. The report has been shared with the President Office and Parliament on January 17 and 18, 2106 respectively, three weeks after the due date of December 31, 2015. The report includes the status of all outstanding audit observations from which compliance can be inferred, however the audit recommendations and their compliance are not explicitly stated. A letter detailing performance audit follow up mechanism has been dispatched to the line ministries and other government entities on January 13, 2016 after the due date of December 31, 2015.

23. The Administrator concludes that the IP trigger has been substantially completed. However, the Administrator encourages the SAO to consider following-up with an improved presentation of the report to the President and Parliament that better highlights outstanding audit findings and compliance of audit recommendations in order to draw more high-level attention to need for audit follow-up.

24. **Incentive Payments under the Structural Reform Scheme:** The completion of the 2015 benchmark for external audit (#10) qualifies for incentive payments in the amount of $ 17.8 million. The delay was less than 3 weeks. A discount does therefore not apply.

25. **Follow-up on FY1395 benchmarks**: Most of the 2016 benchmarks are in early stages of implementation and it is too early to provide a detailed report. However, discussions with the authorities indicated that two benchmarks may require adjustments:

    - **Electronic Payments Systems (Trigger 8)**: Delays in the implementation of the IDA-financed FSRR – Project and related procurement related constraints outside of the control of DAB are expected to slow the roll-out of the ATS. This will affect the technical viability of achieving the 2016 and 2017 benchmarks in a timely fashion.

- **Revenue Administration Reforms (Trigger 3)**: The second sub-trigger for 2016 and 2017 appears to be misaligned with the current implementation plan for the ARD reforms and the level of external assistance which ARD will be receiving over the next 20 months. Technically the achievement of these do not seem feasible even with the provision of additional external assistance.

26. The Administrator will discuss with DAB and ARD proposals for benchmark adjustment to make sure that the achievement of benchmarks remains realistic and that authorities continue to remain engaged. The proposals will be submitted to the IP Working Group for review shortly after the Second Review Meeting. Program adjustments are part of the regular IP process and are an important element to ensuring the incentive compatibility of the program.

Part V: Administrator's Recommendations

27. As of March 1, 2016 disbursements of the 1394 – 1396 IP have totaled $ 93.6 million, representing 9.6 percent of the total IP allocation (table 2).

28. **As a result of the 2nd Technical Review, the Administrator recommends to the ARTF Management Committee to disburse US$ 160.7 million** in incentive funds out of the ARTF Incentive Program allocations. This recommendation is based on the following:

    - 83.2 US$ million for surpassing the 1394 revenue target.
    - 59.7 US$ million under the O&M facility
    - 17.8 US$ million for achieving the benchmarks for external audit (#10).

    Disbursements following the 2nd technical review will increase the disbursement ratio of the Incentive Program to 28.2 percent.

Table 2: Disbursement through the Recurrent Cost Window and the IP as of Feb 2016 (US$ Million)

	Disbursements	
	2015 (1st Review)	2016 (2nd Review)
ARTF IP		
Structural Benchmarks	60.6	17.8
Revenue Matching Grant	33	83.2
O&M Facility	0	59.7
Total ARTF RCW	**93.6**	**160.7**
IP Disbursement in % of Total (accum.):	**9.6**	**28.2**
Remaining IP Balance	**806.4**	**645.7**

29. **Program adjustments**: The Administrator recommends to adjust the level of ambitiousness of the IP 2016 and 2017 with respect to the benchmarks # 3 (revenue administration) and # 8 (electronic payment systems) as well as to the baseline of the OMF to ensure that benchmarks remains viable and incentive compatible. Jointly with the Ministry of Finance, the Administrator will develop proposals for changes and share them with the ARTF IP Working Group for review and discussion over the first week of April.

Annex 1: Scorecard and Progress Report on FY1394 Benchmarks –Status as of March 1, 2016

Goal 1: Increasing fiscal revenue by enhancing tax potential, improving compliance and reducing leakages		
1394 Benchmarks	**1394 Evidence**	**Progress**
(1) Customs HR Reforms: The Cabinet approves a comprehensive a HR reform policy for ACD. The policy will allow ACD to develop a roadmap for the establishment of a new HR platform and will provide authority to ACD to conduct an HR review, take HR actions on existing customs staff, introduce a transparent and competitive recruitment process, determine hiring and commissioning requirements as well as to deploy performance management and related remuneration packages.	**(1)** Copy of cabinet approved HR policy, copy of minutes reflecting the relevant cabinet decision, and copy of the HR reform plan.	**Achieved November 2015.**
(2) Customs Enforcement: The Cabinet approves the establishment of a Preventive and Enforcement wing within ACD with powers of search, investigation and arrest throughout Customs territory.	**(2)** Copy of minutes reflecting the relevant cabinet decision.	**Achieved November 2015.**
(3) Tax Administration: Re-Organization and Modernization: (i.) ARD fully rolls-out SIGTAS to the five most populated province, and introduces risk-based compliance audits in all tax payer's offices in Kabul. (ii.) The Cabinet approves a plan for the re-organization and re-structuring of ARD, including the proposal, policy procedures and a new organization structure. The re-organization aims at providing the ARD with more autonomy in decision making, reducing the fragmentation of ARD functions across ARD HQ and provincial tax offices, and at strengthening relevant reporting lines.	**(3)** (i.) Copies of provincial SIGTAS reports; reports of the audit committee indicating details on the selection and results of the audits. (ii.) Copy of the cabinet-approved restructuring plan and copy of relevant minutes recording the decision.	**Delayed**. The authorities submitted evidence for verification of the completion of the first part of the benchmark. The Administrator's assessment confirms that the first part of the benchmark has been met. The Administrator also assessed the draft ARD reorganization and restructuring plan and found that it is in line with international good practices of tax administration (annex 2). However, the plan is still pending Cabinet approval. ARD expects to submit the reorganization plan to the Cabinet during March.
(4) Tax Policy: (i.) As part of the revenue measures agreed with the IMF under the SMP, MoF decrees the introduction of a mobile telecommunication top-up fee, an increase in the Business Receipt Tax and an increase in the fuel and toll fees. (ii.) MoF establishes and the cabinet authorizes an	(i.) Copies of the gazetted decrees and satisfactory review by IMF staff, (ii.) copy of cabinet approved procedure and committee's ToR and minutes of cabinet decision	**Delayed.** The decree on the revenue measures was issued and gazette. The measures were implemented in 4Q2015 and have contributed to the improved revenue performance in 2015. Concerns of the parliament have been addressed even though the telecommunication top-up fee continuous to remerge as a topic of a parliamentary discussion. The measures will likely continue to show a positive impact on revenue collection in 2016.

inter-Ministerial and inter-departmental committee for tax policy. The main function of the committee, which may have a flexible structure, should review, discuss and advise on all major tax policy proposals in a time-bound manner prior to approval by cabinet and ensure that all relevant stakeholders are consulted.		The ToR/ procedure for the new tax policy is in preparation. A draft was shared and discussed with the Administrator. MoF expect to finalize the ToR/procedure shortly.
Goal 2: Mobilizing revenue by improving conditions for private-sector-led growth		
1394 Benchmarks	**1394 Evidence**	**Progress**
(5) Land Administration and Management. The Cabinet approves the new land management law. The new law will include provisions that moves land titling from a court-based to an administrative system, improves security of tenure for various land users (incl. communities, women and private investors), as well as strengthens rights and mechanisms for the restitution of public and private land.	Copy of cabinet approved Land Management Law and copy of minutes reflecting the relevant cabinet decision.	**Delayed.** The land management law has been finalized and presented for discussion to the legal sub-committee of the cabinet. The draft law is in the pipeline for presentation to cabinet. The laws are still being reviewed by the Legislative Committee of the Cabinet. ARAZI is expected to present the new law on land management and law on land acquisition to Cabinet for approval during March 2016.
(6) Doing Business Reforms: The Cabinet approves a road map which includes a description of all required institutional and regulatory changes for the establishment of a unified business registration system which provides the right to invest, trade and conduct usual business activities to the license holders as well delineates the roles, ownership and management responsibilities of MOCI and AISA in relation to business registration and licensing.	Copy of the roadmap and Minutes of the Cabinet meeting / Presidential decree for establishment of the unified business registration system.	**Delayed**. Discussions on the road map are still on-going and there does not yet seem to be a full convergence of opinions on the future of the business registration and licensing system. A high-level decision on this matter would be required at this point and is pending. The Administrator has provided comments on two competing proposals from AISA and MOCI respectively on licensing reforms. Both proposals have been presented to the High Council of Investment in February. The discussion indicates that views are consolidating towards moving the responsibilities over investment licensing to MoCI and merge with the existing trade business registration system. A final decision is, however, pending. .

Goal 3: improving the efficiency, accountability and transparency of public spending

1394 Benchmarks	1394 Evidence	Progress
(7) Sustainability of Pension and Social Benefits: i) MoF and MoLSAMD conduct a review of the pension and social benefits system which lays out the fiscal implications of the current pension schemes (Civil Servants, Security, Martyrs & Disabled) with recommendations on how to ensure that pensions and social transfers remain fiscally sustainable in the future. The findings of the review will be presented to the President, the Council of Ministers as well as the Cabinet. ii) MOLSAMD has introduced biometric verification / proof of life for the public pension beneficiaries registered in the PMIS.	**(7)** (i) Minutes of meeting of the Cabinet, Council of Ministers and President. (ii) WB field visit report certifying the integration of the biometric verification module with the Pension MIS and banks verification systems.	**Delayed.** (i.) MoF shared a draft analysis of the fiscal implications of the current pension schemes for civil servants and security personnel in September 2015. The financial projections in the report show results that are consistent with that of earlier projections by the World Bank. Also, the degree of fiscal position improvement appears to be in line with the realities of how much decrease in generosity of the pension system could be pursued in the near future given the political economy of pension reform. Recommendations on harmonizing pension rules for the civil service and security personnel as means of establishing a uniform platform for pension provision and separating the financial flows of the pension system in distinct government pension fund are also supported by the assessment. However, the administrator also found that recommendations were overall not far reaching enough. More specifically, the administrator is of the opinion that, if implemented, the changes would not significantly lower the fiscal burden of the pension system. In order to achieve true improvements in fiscal sustainability the administrator encourages to consider the following changes: (i) gradually adjust the retirement age to changing life expectancy, (ii) reduce the pension accrual rate such that adequate old-age income replacement will be consistent with longer active life trajectories, (iii) introducing a maximum pension lower than the active individual salary reflecting lower income needs in retirement, (iv) introducing an average wage measure in the benefit formula, which represents the wage profile of the entire active life period, and (v) offer lump sum pension benefit payment options at a value discounted compared to the expected value of continuous pension payments. ii) The procurement of IT services introducing the biometric verification was delayed. As of March 1, 2016 MoLSAMD contracted a firm implementing the biometric verification / proof of life function and procured the related hardware. Associated software is being developed. Both, the hardware and the software are expected to be installed by the end of March 2016, and the biometric verification / proof of life functions are expected to be operational by early April 2016.
(8) Electronic Payment Systems: DAB issues a clear and transparent regulatory framework for payment system providers (PSP) and payment system operators (PSO) and issues an appropriate license to the Afghanistan Payments System (APS)	**(8)** Copy of the regulation issued by DAB for payment system providers and payment system operators; (ii) Copy of the license issued to Afghanistan Payments System (APS).	**Delayed.** The draft regulations for or payment system providers and payment system operators have been shared with the Administrator for review and have been subsequently approved by the DAB authorities on February 28, 2016. The licenses to the Afghanistan Payments System (APS) will be issued within the next 2-3 months.
(9) Fiscal Deconcentration and Provincial Budgeting: (i.) The Cabinet approves the Provincial Budgeting Policy, allowing budget allocation of discretionary resources to provinces, based on clearly defined norms (developed by central line ministries) and in consideration of the capacity of the receiving Ministries	**(9)**(i) Minutes of the Cabinet meeting that approves the Provincial Budgeting Policy; (ii) Letter issued by MoF establishing	**Achieved November 2015.**

as well as overall fiscal space. (ii.) MoF establishes a Fiscal Deconcentration Working Group that oversees the implementation of the provincial budgeting policy.	the Fiscal Deconcentration Working Group.	
(10) External Audit: (i) The Supreme Audit Office (SAO) develops and agrees on a framework and methodology for Performance Audits in line with INTOSAI Auditing Standards. (ii.) SAO prepares and presents a report to Parliament and President on the status of outstanding audit observations and compliance with the audit recommendations of the least three years by each line ministry and government department. With assistance of the Ministry of Finance, SAO notifies an audit follow-up mechanism requiring the line ministries to implement the agreed audit recommendations.	**(10) (** i.) Copy of the framework/guidelines issued for Performance Audits. (ii.) Copies of audit report and notification letter from SAO to Line Ministries.	**Achieved**. After reviewing the evidence provided on the progress of achieving the IP triggers for external audit, the Administrator concludes that both the IP sub-triggers have been substantially completed/achieved (annex 3). As was agreed, the Supreme Audit Office (SAO) has developed a framework and methodology for the performance audit in line with the INTOSAI and ASOSAI auditing standards for public entities. Towards achievement of the second IP trigger of the external audit, the SAO has prepared a report which includes findings of three years from FY1390 to FY1392. The report has been shared with the President Office and Parliament on January 17 and 18, 2106 respectively after the due date of December 31, 2015. The report includes the status of all outstanding audit observations from which compliance can be inferred, however the audit recommendations and their compliance are not explicitly stated. A letter detailing performance audit follow up mechanism has been dispatched to the line ministries and other government entities on January 13, 2016 after the due date of December 31, 2015. Going forward SAO office should consider drafting report to the President and Parliament in a way to reflect both outstanding audit findings and compliance of audit recommendations to draw the attention of the top government authorities to exert greater pressure, if required, for the implementation of audit recommendations.