

All ARTF Donors

September 30, 2014

Re: Fiscal Year 1392 Audit Reports of ARTF-financed Activities

Dear ARTF Donors:

The World Bank has now concluded its review of the audit reports on the financial statements of the ARTF-financed recurrent and investment operations for the Fiscal Year 1392 (period December 22, 2012 to December 21, 2013)¹.

Audit Process

All ARTF projects are audited annually by the Supreme Audit Office (SAO) of Afghanistan with technical assistance of the auditing firm S.N. Nanda C.A.s (India). As an integral part of its supervision of the ARTF-financed activities, the World Bank's Financial Management team and project task team leaders review the audit reports, discuss the auditors' observations with the government counterparts and follow-up on resolution of key issues. All uses of ARTF funds which are reported as ineligible by the auditors are fully recovered by presentation of justifying documentation or repaid to the ARTF. Discussions with the government counterparts are still underway for FY1392 audit findings; we nevertheless would like to share with you the findings from the audit reports.

Audit Results - Investment Projects

Audit reports covering 28 grants of ARTF investment operations, presented in 25 audited financial statements for FY 1392, were received and accepted by the World Bank as fulfilling the financial covenant 4.01 (b) of the respective ARTF Grant Agreements.

A total of 21 out of 25 audit reports came with unqualified (clean) audit opinions², compared to 20 out of 22 for Fiscal Year 1391 (see Table 1). Audit report timeliness improved in FY1392 compared to FY1391, as 24 of 25 audits were received on time in

¹ Afghanistan fiscal year was changed from the solar year (March 21-March 20) to cover the period December 21 to December 20. Due to this change, fiscal year 1391, the prior year in the financial statements, had a reduced period of nine months.

² The qualifications related to the following: The audit reports for the Horticulture and Livestock Productivity Project and the follow on National Horticulture and Livestock Productivity project were qualified on account of ineligible expenditures; these were the only two projects that had ineligible expenditures. The Second Public Financial Management Reform Project (TF 10024) had two audit reports, one for the expenditures related to activities implemented by SAO, and another for expenditures related to all other activities. As such, both the audit reports were qualified (limitation in scope) due to the fact that the SAO could not audit the expenditures related to their own component and similarly, the private auditors covered only the expenditures related to SAO component.

FY1392 compared to 17 of 22 in FY1391. Results for each project are given in the attachment.

| Fiscal year | # of Audit Reports Rec'd | # of Reports received on time | Months elapsed after due date | # of Unqualified Audit Reports | Total Expenditures in FY in US\$ (millions) | Ineligible Expenditures | | Supporting documents not provided | |
|-------------|--------------------------|-------------------------------|-------------------------------|--------------------------------|---------------------------------------------|-------------------------|-----------------|-----------------------------------|-----------------|
| | | | | | | US\$ ** | % of total exps | US\$ ** | % of total exps |
| 1392 | 25 | 24 | .5 | 21 | 523 | 2.2 | 0.4 | .019 | .004 |
| 1391 | 22 | 17 | 1 | 20 | 397 | 2.6 | 0.7 | .283 | .070 |
| 1390 | 21 | 10 | 5 | 20 | 321 | 0 | 0 | .783 | .240 |
| 1389 | 21 | 20 | 1 | 18 | 402 | 0.9 | 0.2 | .06 | .010 |
| 1388 | 16 | 16 | 0 | 16 | 245 | 0 | 0 | 0 | 0 |
| 1387 | 14 | 0 | 4 | 8 | 276 | 3.4 | 1.2 | 3.2 | 1.20 |
| 1386 | 10 | 0 | 9 | 7 | 226 | 7.3 | 3.2 | 8.5 | 3.80 |
| 1385 | 15 | 0 | 3 | 3 | 239 | 27.0 | 11.3 | 16.6 | 6.90 |

** Figures in millions

Audit Results - Recurrent Cost Trust Fund

The auditors indicated that the financial statements present fairly the receipts and payments for the trust fund in the year. There is however a qualification in the opinion because the auditors could not visit 6 of the provinces for security reasons. Because the visits were determined by the external circumstance and were not the result of a risk-based sample the auditors therefore reserve judgment on the expenditures in these provinces, which represent (US\$ 80.57 million) 7% of total recurrent expenditures submitted.

Fortunately, the ARTF Monitoring Agent, who provides independent verification of the recurrent cost expenditures, was able to conduct site visits to all provinces except Nooristan and Patika consequently only these provinces were not subject to independent on-site verification which together represented less than 1 % of SY 1392's total civilian recurrent costs.

The auditors did find ineligible expenditures of US\$ 4.5 million, which is less than 1 % of submitted expenditures. However, given that the Monitoring Agent, based on its results, inferred an amount of US\$ 375.6 million of ineligible expenditures in the total expenditures submitted, which was reduced from the amount submitted to arrive at eligible expenditures, it can be concluded that the amount of ineligible expenditures found by the auditors have already been considered as ineligible in the submissions.

The auditors also prepared a Management Letter for the FY 1392 audits which sets out their findings on control deficiencies. The principal recommendation is for the Government to address the rising rate of ineligibility in particular that related to lack of supporting documents and excess payments of food allowances, as well the failure to comply with procurement procedures.

For any questions relating to the ARTF investment operations or recurrent cost, please contact ARTF Coordinator: Ditte Fallesen email: dfallesen@worldbank.org

Sincerely,



Robert J. Saum
Country Director for Afghanistan
South Asia Region

cc: H.E. Hazart Omar Zakhilwal, Minister of Finance, Ministry of Finance
Dr. Mustafa Mastoor, Deputy Minister for Finance, Ministry of Finance
Mr. Khalid Payanda, Adviser to the Minister, Ministry of Finance
Mr. Zia-Ur-Rahman Haleemi, DG Budget, Ministry of Finance
Mr. Moheb Jabarkhail, Aid Coordination Specialist, Ministry of Finance
Mr. Omar Bougara, Executive Director for Afghanistan, the World Bank
Mr. Samiullah Ibrahim, Advisor to Executive Director, the World Bank

| SI # | Project ID | Project Name | ARTF Grant/s | Related grants | Total Payments per FS | Audit Opinion | Ineligible expenditures (US\$) | Unsubstantiated expenditures (US\$) | Procurement Issues (Yes/No) | Internal Control Issues (Yes/No) |
|----------------------------------------------------------|---------------------|-------------------------------------------------------------------------|-----------------|---------------------------------------------------------------------|-----------------------|---------------|--------------------------------|-------------------------------------|-----------------------------|----------------------------------|
| 1 | P083908 | Emergency Power Rehabilitation Project | 54718 | IDA 3933 | 8,183,509 | Unqualified | 0 | 0 | No | No |
| 2 | P089040 | Afghanistan: Strengthening Higher Education Program | 92544 | IDA H162, H592 | 7,514,488 | Unqualified | 0 | 0 | No | Yes |
| 3 | P098256 | Afghanistan: Horticulture and Livestock Productivity Project | 91885 | IDA H226 | 5,720,325 | Qualified | 1,001,985 | 0 | Yes | Yes |
| 4 | P102288/ P117103 | Afghanistan: Emergency National Solidarity Project II & III | 90205, 98459 | IDA H603, JSDF grants 92433 & 92435, & other bilateral grants | 243,872,370 | Unqualified | 0 | 0 | Yes | Yes |
| 5 | P102573 | Afghanistan Skills Development Project (ASDP) | 93854 | IDA H952 | 4,323,849 | Unqualified | 0 | 0 | No | Yes |
| 6 | P103943 | National Emergency Rural Access Project | 95297 | IDA H344, H636 | 37,794,986 | Unqualified | 0 | 0 | No | No |
| 7 | P106259 | Afghanistan - Second Education Quality Improvement Program | 96962 | IDA H354 | 55,377,315 | Unqualified | 0 | 0 | Yes | Yes |
| 8 | P106654 | ARTF - Kabul-Aybak/Mazar-e-Sharif Power Project | 91120 | None | 7,984,728 | Unqualified | 0 | 0 | No | Yes |
| 9 | P110407 | Afghanistan Rural Enterprise Development Project | 98045 | IDA H531 | 6,431,395 | Unqualified | 0 | 580 | No | Yes |
| 10 | P111943 | Afghanistan Power System Development Project | 93513 | None | 13,432,263 | Unqualified | 0 | 0 | No | Yes |
| 11 | P112097 | Technical Assistance for Water-sector Capacity Building | 93657 | None | 1,809,900 | Unqualified | 0 | 5,067 | Yes | Yes |
| 12 | P112446 | Strengthening Health Activities for the Rural Poor (SHARP) | 96362 | IDA H469, H581 | 32,530,071 | Unqualified | 0 | 0 | Yes | Yes |
| 13 | P118028 | ARTF - Justice service Delivery Project | 12533, 11825 | None | 3,436,820 | Unqualified | 0 | 14,182 | Yes | Yes |
| 14 | P120397 | Afghanistan: Agricultural Inputs Project (AAIP) | 99595, 15003 | None | 1,550,520 | Unqualified | 0 | 0 | No | Yes |
| 15 | P120398 | On-Farm Water Management (OFWM) | 99074, 96991 | None | 7,049,907 | Unqualified | 0 | 0 | No | Yes |
| 16 | P120427 | Public Financial Management Reform II | 10024 | None | 17,724,630 | Qualified | 0 | 0 | Yes | Yes |
| 17 | P120427 | Public Financial Management Reform II | 10024 | None | | Qualified | | | | |
| 18 | P122235 | Irrigation Restoration and Development Project | 12029 | IDA H681 | 19,253,369 | Unqualified | 0 | 0 | Yes | Yes |
| 19 | P123845 | Afghanistan Capacity Building for results facility (CBR) | 11447 | None | 3,786,946 | Unqualified | 0 | 0 | No | Yes |
| 20 | P125961 | Afghanistan Rural Access Project | 13093 | IDA H792 | 17,271,677 | Unqualified | 0 | 0 | 0 | Yes |
| 21 | P129663 | Afghanistan Systems Enhancement for Health Action in Transition Project | 15005 | IDA H829, HR8F 95691 | 16,884,223 | Unqualified | 0 | 0 | Yes | Yes |
| 22 | P131864 | Kabul Urban Transport Efficiency Improvement Project | 17061 | None | 559,690 | Unqualified | 0 | 0 | Yes | Yes |
| 23 | P132742 | Afghanistan Second Skills Development Project (ASDP II) | 13393 | IDA H834 | 1,247,174 | Unqualified | 0 | 0 | No | Yes |
| 24 | P143841 | National Horticulture and Livestock Productivity Project | 13820 | None | 8,879,600 | Qualified | 1,234,868 | 0 | Yes | Yes |
| 25 | P145443 | Afghanistan Resource Corridor Project | 14845 | None | 245,774 | Unqualified | 0 | 0 | No | Yes |
| Total ineligible and unsubstantiated expenditures | | | | | | | 2,236,853 | 19,829 | | |