



THE AFGHANISTAN RECONSTRUCTION TRUST FUND

Guidance Notes Series:

The ARTF Fiduciary Framework

1. What is Fiduciary Risk and Control?

The World Bank regulations require that all ARTF financing administered projects, follow the same fiduciary framework as International Development Association (IDA) to safeguard against the [fiduciary risks](#) of misuse, gross wastage and misreporting. This is accomplished through reliance on the fiduciary controls in the implementing agencies and in Ministry of Finance, the Bank's oversight and risk mitigation measures and third party monitoring; together these processes and procedures constitute the [fiduciary control framework](#).



2. What are the key fiduciary risks to ARTF funds?

There are four basic fiduciary risks which arise both under the Investment Window and Recurrent Cost Window of the ARTF; corruption contributes to all of these risks:

- Use of funds not reported (i.e., funds drawn but never accounted for);
- Use of funds not in accordance with intended purposes (i.e., not in line with the provisions of the legal agreement);
- Use of funds not following procurement guidelines;
- Use of funds for expenditures that do not meet the agreed fiduciary standards.

3. How does the ARTF fiduciary framework deal with these risks?

The World Bank employs a systematic approach, based on its public financial management system, to minimize the ARTF's exposure to fiduciary risk. This is done in two stages – project preparation and supervision phases:

- During the preparation stage, the focus is on assessment of the implementing agency to identify/ evaluate risks and to mitigate them through design of appropriate fiduciary and oversight arrangements that reduce the opportunity for loss through robust controls and enhanced transparency.
- During supervision stage, continuous assessment of fiduciary arrangements is done to ensure they are operating effectively as originally designed and to identify any need for change. If ineligible expenditures are identified, the onus is on the government to resolve it – either by refunding the amount or by providing substitute documentation for an equivalent amount of expenditures paid from government funds - within a reasonable period of time that is mutually agreed. If it is not resolved within the agreed timeline, the Bank may provide additional time for resolution or initiate remedial action.

FIDUCIARY CONTROL FRAMEWORK

Pillar 1

Set of Controls at the Project Implementing Agencies & Ministry of Finance



All operations use centralized arrangements for:



All operations are included in the mainstreamed national budget.

All payments are made ONLY under budget authorization

Pillar 2

Annual External Audit

1

Financial Statements prepared by the Ministry of Finance

2

Audit carried out by the Supreme Audit Office of Afghanistan
(With technical assistance from an international audit firm)

3

The audit covers reliability of the financial statements, and assessment of the control framework. The Bank assesses the audit results and recommends corrective action as necessary.

Pillar 3

Customized Controls & Oversight Arrangements

For specific projects built into the project design. These includes:

Community monitoring & individualized institutional oversight arrangements.

The oversight arrangements cover a broad spectrum of areas such as

financial management, in house Monitoring and Evaluation (M&E) arrangements, & community monitoring.

The contracted NGOs play a facilitating as well as oversight role. Example of the National Solidarity Program:

Controls instituted at various levels due to the very nature of the project – central, provincial and CDC levels.

Pillar 4

Bi Annual Supervision & Oversight by the World Bank

- ✓ Physical visits to project sites;
- ✓ Review of physical progress against disbursement performance;
- ✓ Review of audit results;
- ✓ Transaction review;
- ✓ Compliance with legal covenants;
- ✓ Procurement reviews;
- ✓ Discussion with clients;
- ✓ Agreement on remedial action to address bottlenecks;
- ✓ And more...

Carried out by:

Technical Task Team,
Safeguards,
Financial Management (FM)
& Procurement Teams

Pillar 5

Independent Verification carried out by a 3rd Party Monitoring Agent contracted by the World Bank

The Monitoring Agent for the Recurrent Cost Window:

The MA consists of a firm of professional auditors which continuously monitor recurrent cost transactions.

The Supervisory Agent for the Investment Window:

The Supervisory Agent (SA) monitors project execution at the field level, in particular focusing on asset verification and infrastructure quality assurance to establish that works in rural areas financed under the ARTF were built to specifications.

There are five levels of control in the ARTF fiduciary framework:

1. The first pillar is the set of controls employed by the project implementing agency and government, this includes government systems for budgeting, staffing, internal controls, funds flow (with segregated designated account for each trust fund to ensure segregation), accounting, reporting, record keeping and internal audit. In Afghanistan, all operations use centralized arrangements for budgeting, accounting, procurement and audit for which donor funded technical assistance is in place. This means all operations are mainstreamed through the government-wide systems wherein all receipts and expenditures are included in the national budget and subject to its controls on all the phases of the budget execution. Each project unit must include the project in its budget submission and execute the operation like any other budget line.

ARTF funded technical assistance is in place for budget preparation, procurement, treasury, internal audit and external audit which has ensured **better than average financial management performance** (PEFA, 2008). These arrangements ensure that payments are made only under budget authorizations, that there is adequate funding available in the donor loan or grant and payments go only to duly tax- registered vendors. **Procurement** across government is vetted by the centralized agency Afghanistan Reconstruction and Development Services (ARDS) for compliance with the law and grant agreements.

2. The second pillar is the annual external audit of all grants. Annual financial statements are prepared by the Ministry of Finance and the audit is carried out by the Supreme Audit Office of Afghanistan with technical assistance from an international audit firm. The audit covers reliability of the financial statements, and assessment of the control framework. The Bank assesses the audit results and recommends or takes action as necessary.

3. The third pillar of controls is customized controls and oversight arrangements for specific projects as built into the project design. This includes **community monitoring** and **individualized institutional oversight arrangements**. One example is the National Solidarity Program that has controls instituted at various levels due to the very nature of the project – central, provincial and Community Development Councils (CDC) levels. The contracted NGOs play a facilitating as well as oversight role. The oversight arrangements cover a broad spectrum of areas such as financial management, in house M&E arrangements, and community monitoring. Another example is the Education Quality Improvement Project where one of the M&E elements is the monitoring by school shuras.

4. The fourth pillar of controls is the World Bank supervision and oversight that is carried out by the technical task team as well as the FM and procurement teams on a bi-annual basis, in addition to continuous implementation support. This includes, but is not limited to, physical visits to project sites, review of physical progress against disbursement performance, review of audit results, transaction review, compliance with legal covenants, post procurement reviews, discussion with clients, agree on remedial action to address bottlenecks, etc.

5. The fifth pillar is additional controls carried out by third party monitoring agents who are responsible for independent verification. The security circumstances, low capacity in implementing agencies/ contractors and the weaknesses in internal audit call for independent verification and oversight over the use of funds. This comprises two agents contracted by the Bank:

a. **The Monitoring Agent** for the Recurrent Cost Window: The Monitoring Agent (MA) covers ex post review by a firm of professional auditors of the recurrent cost transactions;

b. **The Supervisory Agent** for the Investment Window: The Supervisory Agent (SA) covers monitoring project execution at the field level in particular focusing on asset verification and quality assurance to establish that works in rural areas financed under the ARTF were built to specifications.