

September 8, 2013

All ARTF Donors

**Re: Fiscal Year 1391 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 1391 (period March 20 to December 20, 2012)<sup>1</sup>.

*Audit Process*

All ARTF projects are audited annually by the Supreme Audit Office (SAO) of Afghanistan with technical assistance of the 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 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 FY1391 audit findings but we nevertheless would like to share with you the findings from the audit reports.

*Audit Results - Investment Projects*

Audit reports covering 25 grants of ARTF investment operations, presented in 22 audited financial statements for FY 1391, 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 20 out of 22 audit reports came with unqualified (clean) audit opinions<sup>2</sup>, compared to 20 out of 21 for Fiscal Year 1390 (see Table 1). Audit report timeliness improved in FY 1391 compared to SY1390, as 17 of 22 audits were received on time in FY 1391 compared to 10 of 21 in FY 1390. The improvement over FY 1390 resulted

<sup>1</sup> 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 had a reduced period of nine months.

<sup>2</sup> The qualifications related to the following: First, the audit report on the Strengthening Health Activities for the Rural Poor Project (SHARP) (TF 96362) was qualified because US\$2,487,186.00 of expenditures incurred under the project, relating to the HIV-AIDS project (H 3280), incurred after the HIV-AIDS project closing date. The World Bank had provided explicit agreement to fund these expenditures under SHARP. The Ministry of Finance and the World Bank have requested the auditor to reconsider his view. Second, since the Second Public Financial Management Reform Project (TF 10024) finances activities implemented by the auditor (SAO) his report contains a qualification relating to these expenditures for which he cannot give an independent opinion.

primarily from having the technical assistance firm which supports the project audits mobilized on a timely basis which was not the case in FY 1390.

Fiscal year	# of Audit Reports Recd	# 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
1391	22	17	1	20	397	2.6	0.7	.283	.07
1390	21	10	5	20	321	0	0	.783	.24
1389	21	20	1	18	402	0.9	0.2	.06	.01
1388	16	16	0	16	245	0	0	0	0
1387	14	0	4	8	276	3.4	1.2	3.2	1.2
1386	10	0	9	7	226	7.3	3.2	8.5	3.8
1385	15	0	3	3	239	27.0	11.3	16.6	6.9

\*\* In millions of US\$

#### *Audit Results - Recurrent Cost Trust Fund*

In FY 1391, the Government submitted to the World Bank for reimbursement under the ARTF Recurrent Cost Trust Fund a total of US\$ 989 million of non-security recurrent expenditures (US\$ 617 million for salaries and US\$ 372 million for other recurrent expenditure). The ceiling approved and transferred to the trust fund for FY 1391 to fund a portion of the recurrent costs was US\$ 225 million, comprising a baseline amount of US\$ 175 million and US\$ 50 million under the ARTF Recurrent Cost Incentive Program. In FY 1391, the Bank disbursed US\$ 225 million comprising US\$ 50 million relating to FY 1390 expenditures submitted in FY 1391 and US\$ 175 million for the FY 1391 baseline. A balance of US \$50 million remained in the trust fund relating to the advance for the Incentive Program; of this balance US\$ 29.3 million was awarded in line with the results of technical reviews and disbursed in FY 1392.

The audit report for the Recurrent Cost Trust Fund was received on time. In this report auditors indicate that the financial statements present fairly the receipts and payments for the year. There is, however, a qualification in the opinion because, due to restrictions on their movement for security reasons, the auditors excluded 10 of the provinces from their samples and therefore reserve judgment on these expenditures which represent 8.4 % (US\$ 83.40 million) of total recurrent expenditures submitted.

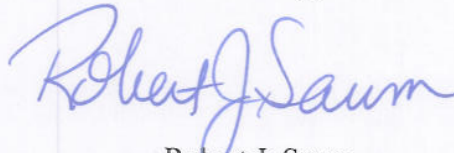
Fortunately, the ARTF Monitoring Agent, who provides independent verification of the recurrent cost expenditures, was able to conduct site visits to all but 4 provinces (which were 4 of the 10 not covered by the auditors) consequently only 4 provinces were not subject to independent on-site verification (Paktika, Nooristan, Daykundi and Farah) which together represented only 5.9 % of SY 1391's total civilian recurrent costs.

The auditors did find ineligible expenditures of US\$ 6.7 million that is less than 1% of submitted expenditures. Given that the Monitoring Agent, based on its monitoring and estimation of total ineligibles, reduced from submitted expenditures an amount of ineligible expenditures far greater than what the auditors found, it can be concluded that there has already been recovery of these items.

The auditors also prepared a Management Letter for the FY 1391 audits which sets out their findings. The principal recommendation is to address the rising rate of ineligibility under the Recurrent Cost Trust Fund while on the investment projects there is a need to improve accountability arrangements and to improve internal audit. These activities are considered in the reform plans of the Government.

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

Sincerely,



Robert J. Saum  
Country Director for Afghanistan  
South Asia Region

- Cc. H.E. Dr. Omar Zakhiwal, Minister of Finance  
H.E. Dr. Mustafa Mastoor, Deputy Minister of Finance  
Mr. Khalid Payanda, Adviser to the Minister of Finance  
Mr. Masood Kamal, Director General of Budget, Ministry of Finance  
Mr. Omar Bougara, Executive Director, The World Bank  
Mr. Samiullah Ibrahimi, Advisor to Executive Director, The World Bank

Bcc: Saum, Pachamuthu, Cholst, Fallesen, Whiskey, (SAC01); Fily Sissoko, Sisk, Narayan, Ahmadzai, Anantha (SARFM).