



February 17, 2016

All ARTF Donors

Dear ARTF Donors:

**Subject: Fiscal Year 1393 Audit Reports of Afghanistan Reconstruction Trust Fund
(ARTF)-Financed Activities**

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 1393 (year ended Dec 21, 2014).

I. Audit Process

All ARTF projects are audited annually by the Supreme Audit Office (SAO) of Afghanistan with technical assistance from an international audit firm (S.N. Nanda Chartered Accountants, India for FY1393). 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 under the investment window which are reported as ineligible by the auditors are fully recovered by presentation of justifying documentation or repaid to the ARTF. Ineligible expenditures under the Recurrent Cost Window are resolved through the Monitoring Agent reviews. Discussions with the government counterparts are still underway for FY1393 audit findings but we nevertheless would like to share with you the initial findings from the audit reports.

II. Audit Results - Investment Projects

Audit reports covering 28 grants of ARTF investment operations, presented in 23 audited financial statements¹ for FY 1393, were received. These were reviewed 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 the 23 audit reports had unqualified (clean) audit opinions for FY1393, compared to 21 out of 25 audit reports for FY1392. Eight (8) audit reports for FY1393 were delayed, however the delay was due to a security incident in May 2015 that was beyond the control of the Ministry of Finance (MoF), SAO or the line ministries.

A comparative analysis for the last 5 fiscal years is presented in Table 1 below.

¹ Five projects out of the 23 ARTF projects each have two grants attached to them.

Table 1 – Comparative Analysis of FY1389-1393 Audit Results

ARTF Investment Project Audit Results FY 1393									
FY	# of Audit Reports Received	# of Reports Received on Time	Months Elapsed after Due Date	# of Unqualified Audit Reports	FY Total Expenditures in US\$ (millions)	Ineligible Expenditures		Unsubstantiated/ Questionable expenditures	
						In US\$ (millions) approx. ²	In % of total	In US\$ (millions) approx.	In % of total
1393	23	15	1.3 ³	21	584	2.93	0.50	1.388	0.240
1392	25	24	0.5	21	523	2.20	0.42	0.019	0.004
1391	22	17	1	20	397	2.50	0.60	0.283	.070
1390	21	10	5	20	321	0	0	0.783	.240
1389	21	20	1	18	402	0.90	0.20	0.060	.010

The FY1393 audit related issues have been communicated to the relevant line ministries and the Bank is following up to ensure resolution. The Bank has due internal processes to address and resolve ineligible expenditures in a timely manner, and it is anticipated that all ineligible and questionable expenditures will be resolved by June 30, 2016.

III. Audit Results - Recurrent Cost Window

The auditors indicate that the financial statements present fairly the receipts and payments under the trust fund in the year. However, there is a qualification in the opinion (limitation in scope) because the auditors could not visit seven⁴ of the provinces due to security reasons. Because the visits were determined by external circumstances, and were not the result of a risk-based sample the auditors therefore reserve judgment on the expenditures in these provinces. These expenditures represent 7.7 percent (US\$114.44 million) of the total recurrent expenditures that were submitted.

Fortunately, the ARTF Monitoring Agent that provides independent verification of the recurrent cost expenditures, was able to conduct site visits to all but two⁵ provinces (one of these two provinces was one of the seven not covered by the auditors). Consequently, only two provinces were not subject to independent on-site verification (Paktika and Nooristan)⁶.

The auditors did find ineligible expenditures of US\$ 3.09 million which is less than 1% of total expenditures, and significantly less than that identified by the Monitoring Agent. Therefore, it can be concluded that the amount of ineligible expenditures identified by the auditors have already been considered as ineligible, and not reimbursed under the ARTF Recurrent Cost Window.

² Some of the ineligible expenditures and expenditures for which supporting documents were not provided were reported in AFN. An exchange rate of 57 AFN to 1 USD has been used to convert the figures to USD.

³ Out of 8 audit reports that were delayed – 3 were delayed by two days, and 5 were delayed by more than a month.

⁴ Ghazni, Kunarha, Nooristan, Sar-e-pul, Zabul, Badghis and Farah.

⁵ Paktika and Nooristan

⁶ Source – Monitoring Agent Annual Management Report for FY1393

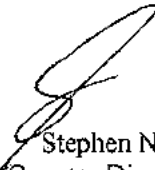
IV. Conclusion

Recurrent Cost Window- The auditors also prepared a Management Letter for the FY 1393 audits which sets out their findings. The principle recommendation is to address ineligibility under the Recurrent Cost Window in particular that related to lack of supporting documents, expenditures inconsistent with rules and decrees, and failure to comply with procurement procedures. Part of the measures to address ineligible expenditures under the Recurrent Cost Window include the Monitoring Agent providing detailed monthly ineligibility reports to the MoF for follow up and also conducting workshops for the line ministries.

Investment Projects- On the investment projects, there is a need to improve internal controls and internal audit. While the line ministries do not have robust arrangements for internal audit, the internal audit for Bank funded/administered investment projects is now carried out through the Internal Audit department of the MoF. This arrangement was put in place in FY1393. The internal audits along with recommendations coming from the annual audits, and Bank supervision contribute to strengthening the internal controls, and positive results are visible progressively year after year.

For any questions relating to the ARTF investment projects or the Recurrent Cost Window, please contact the ARTF Coordinator: [REDACTED]

Sincerely,



Stephen N. Ndegwa
Acting Country Director for Afghanistan
South Asia Region

Cc. [REDACTED]

Annex 1

S.No.	Project ID	Project Name	ARTF Grants	Related grants	Total Payments as per FS	Audit Opinion	Unsubstantiated expenditures	
							Ineligible expenditures	E.g. USD
1.	P089040	Afghanistan: Strengthening Higher Education Program	92544	IDA H162, H592	1,864,581	Unqualified	-	128,656
2.	P102573	Afghanistan Skills Development Project	93854	IDA H352	3,517,460	Unqualified	-	-
3.	P103343	National Emergency Rural Access Project	95297	IDA H344, H636	6,920,412	Unqualified	-	-
4.	P106259	Afghanistan - Second Education Quality Improvement Program	93962	IDA H354	14,056,850	Unqualified	58,096.14	135,142
5.	P110407	AF Rural Enterprise Development Program	98045	IDA H531	8,621,770	Unqualified	-	13,120
6.	P111943	Afghanistan Power System Development Project	93513	None	13,897,932	Qualified	299,399	-
7.	P117103	National Solidarity Program III	98459	IDA H603	258,275,450	Unqualified	7,303.98	304,960.70
8.	P118028	AF: ARTF-2nd Judicial Reform Project	12533, 11825	None	4,250,062	Unqualified	-	241,782
9.	P120397	Afghanistan Agricultural Inputs Project	15003, 99595	None	2,725,467	Unqualified	-	-
10.	P120398	AF On-Farm Water Management	99074, 96991	None	9,868,015	Unqualified	14,161.32	-
11.	P120427	Public Financial Management Reform II	10024	None	14,056,850	Unqualified	-	311,470.42
12.	P122235	AF Irrigation Restoration and Development Project	12029	IDA H681	18,960,580	Unqualified	-	176,073
13.	P123845	Afghanistan Capacity Building for Results Facility	11447	None	6,252,569	Unqualified	-	-
14.	P125597	Kabul Municipal Development Program	17016, 14211	None	13,246,786	Unqualified	-	2,702.95

15.	P125961	Afghanistan Rural Access Project	13093	IDA H792	78,494,968	Unqualified	-	37,948
16.	P129663	Afghanistan: System Enhancement for Health Action in Transition Project	15005	IDA H829, HRBF 95691	86,920,960	Unqualified	-	28,152.61
17.	P132742	Afghanistan - Second Skills Development Project	13393	IDA H834	10,265,726	Unqualified	-	-
18.	P132944	Naghlu Hydropower Rehabilitation Project	14861	None	164,257	Unqualified	-	-
19.	P143841	Afghanistan: National Horticulture and Livestock Productivity Project	13820	None	17,955,820	Qualified	2,553,240	-
20.	P145443	Afghanistan Resource Corridor Project	14845	None	912,259	Unqualified	-	8,211
21.	P146015	Non-Formal Approach to Training Education and Jobs in Afghanistan Project	16354	None	443,934	Unqualified	-	-
22.	P146184	Higher Education Development Project	15577	None	2,468,768	Unqualified	-	-
23.	P131864	Kabul Urban Transport Efficiency Improvement Project	17061	None	10,164,409	Unqualified	1,840.23	-
TOTAL					584,305,885		2,934,041	1,388,218