

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.

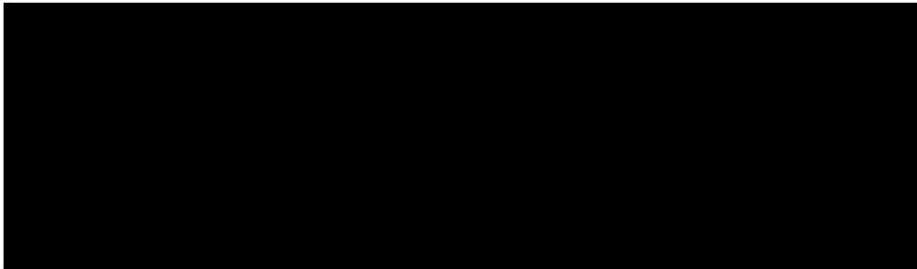
For any questions relating to the ARTF investment operations or recurrent cost, please contact ARTF Coordinator: [REDACTED]

Sincerely,

A handwritten signature in blue ink that reads "Robert J. Saum". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Robert J. Saum
Country Director for Afghanistan
South Asia Region

cc:

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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		