



All ARTF Donors

March 14, 2013

**Re: Solar Year 1390 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 Solar Year (SY) 1390 ending March 20, 2012.

***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 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 SY1390 audit findings but we nevertheless would like to share with you the initial findings from the audit reports although the share of unqualified audit opinions improved.

As can be seen in the analysis below, implementing agencies' compliance with financial and procurement provisions of the ARTF Grant Agreements deteriorated from SY 1389 in terms of timely submission of audit reports.

***Audit Results - Investment Projects***

Audit reports covering 23 grants of ARTF investment operations, presented in 21 audited financial statements for SY 1390, 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 20 out of 21 audit reports came with unqualified (clean) audit opinions<sup>1</sup>, compared to 18 out of 21 for SY 1389. Audit reports timeliness deteriorated in SY 1390 compared to SY1389. This is a result of the late mobilization of SN Nanda and its coordination difficulties with the MoF to obtain timely responses to findings and with the World Bank on provisions of the Audit Terms of Reference.

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<sup>1</sup> The Power Development Project, TF 93513, had a qualified opinion as the auditor was unable to verify the payments made to supervision and management consultant towards salary and reimbursements to the extent of AUD 97,124 due to lack of supporting documents.

Solar Year	# of Audit Reports Recd	# of Reports received on time	Months elapsed after due date	# of Unqualified Audit Reports	Solar Year Total Expenditures in US\$ (millions)	Ineligible Expenditures		Supporting documents not provided	
						In US\$ (millions)	In % of total	In US\$ (millions)	In % of total
1390	21	10	5	22	321	0	0	.783	.24
1389	21	20	1	18	402	0.9	0.2	0.06	0.01
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

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

In SY 1390, the Government submitted to the World Bank for reimbursement under the ARTF Recurrent Cost Trust Fund a total of US\$ 895 million of non-security recurrent expenditures (US\$ 598 million for salaries and US\$ 297 million for Operations and Maintenance). The contribution approved by the ARTF Management Committee for SY 1390 was US\$ 200 million relating entirely to the base amount as no incentive under the ARTF Recurrent Cost Incentive Program was granted. In SY 1390 the Bank disbursed US\$ 176.6 million comprising US\$ 26.6 million relating to SY 1389 expenditures and US\$ 150 million for SY 1390 expenditures. A balance of US \$50 million relating to SY 1390 expenditures was disbursed after the year-end but against the SY 1390 ARTF recurrent cost contribution.

Despite the adverse security situation in most provinces the auditors made extraordinary efforts and managed to visit 20 of the 34 provinces. The 20 provinces visited by the auditors represent 85.7% of total provincial expenditures. 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 the other provinces, which represent (US\$ 161 million) 14.3 % of total recurrent expenditures submitted, that is of US \$895.6 million civilian recurrent costs incurred and subject to monitoring.

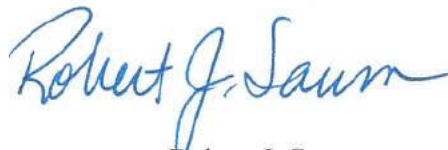
Fortunately, the ARTF Monitoring Agent, who provides independent verification of the recurrent cost expenditures, was able to conduct site visits to all but 6 provinces (which were six of the same not covered by the auditors) consequently only six provinces were not subject to independent verification (Ghazni, Pakikta, Nooristan, Daykundi, Uruzgan, Zabul and Ghor) which together represented only 4.2 % of SY 1390's total civilian recurrent costs.

The auditors did find ineligible expenditures of US\$ 6.3 million, that is less than 1 % of submitted expenditures, of this amount, 45 % related to salaries for security forces which were included in non-security department expenditures, 29% related to exceptions to following agreed procurement procedures and 12% related to expenditures pending sufficient supporting documentation. These ineligible expenditures found by the auditors have already been recovered by substituting these with eligible expenditures.

The auditors also prepared a Management Letter for the SY 1390 audits which sets out their findings. The principal recommendation is for the Government to improve accountability arrangements and to improve internal audit. These activities are considered in the reform plans of the Government.

For any other 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.

