

June 21, 2018

All ARTF Donors

Dear ARTF Donors:

***Subject: Fiscal Year 1395 Audit Reports of Afghanistan Reconstruction Trust Fund (ARTF) –  
Financed Projects***

The World Bank has concluded its review of the audit reports on the financial statements of the ARTF-financed recurrent and investment operations for the Fiscal Year 1395 (year ended December 21, 2016).

**I. Audit Process**

All ARTF projects are audited annually by the Supreme Audit Office (SAO) of the Islamic Republic of Afghanistan with technical assistance from an international audit firm. 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 and management letters, discuss the auditors' observations with the government counterparts and follow-up on the corrective actions and resolution of key audit findings including refund of any ineligible expenditures. In addition to the external audit, the Recurrent Cost Window (RCW) Monitoring Agent provides another level of review of the expenditures pertaining to the Recurrent Cost Window.

**II. Audit Results – Investment Projects**

Audit reports covering 25 grants of ARTF investment operations, presented in 21 audited financial statements<sup>1</sup> for FY1395 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.

All 21 audit reports had unqualified (clean) audit opinions for FY1395, compared to 18 out of 20 audit reports for FY1394. All the audit reports for FY1395 were received before the extended deadline of August 30, 2017. A comparative analysis for the last 5 fiscal years is presented in Table 1 below.

The external auditors reported 236 audit observations in 21 management letters. The observations were communicated to the relevant line ministries through formal letters. Over the past months, the Bank team organized a series of audit report review meetings with the projects and auditors to agree on actions for resolution of the audit observations. The Bank team has received satisfactory

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<sup>1</sup> Four projects out of 22 ARTF projects each have two grants attached to them.

responses along with supporting documents for all key observations. The Bank is following up to ensure resolution of all audit observations as per the agreed timelines.

**Table 1 - Comparative Analysis of FY1391-1395 Audit Results**

ARTF Investment Projects Audit Results FY1395 – Excluding RCW									
FY	# of Audit Report Received	# of Report 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.	In % of Total	In US\$ (millions) approx.	In % of Total
1395	21	21	0	21	470	0.022	0.004	7.645	1.625
1394	20	20	0	18	564	0.304	0.050	0.198	0.035
1393	23	15	1.3	21	584	2.930	0.500	1.388	0.240
1392	25	24	0.5	21	523	2.200	0.420	0.019	0.004
1391	22	17	1	20	397	2.500	0.600	0.283	0.070

### III. Audit Results – Recurrent Cost Window

The auditors reported that the financial statements present fairly the receipts and payments under the trust fund for the year. The auditors have covered 20 provinces beside the central ministries and one independent office with overall coverage of 73% of total operating expenditures.

The SAO has reported recurrent government ineligible expenditures totaling US\$ 18.47 million whereas, the ARTF Monitoring Agent has identified ineligible recurrent expenditures totaling US\$ 343<sup>2</sup> million. As the ineligible expenditures reported by the external auditors are significantly less than those identified by the Monitoring Agent, it can therefore 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.

### IV. Conclusions

Overall, the quality of audit reports was assessed as Satisfactory; however, the SAO is dependent on international technical assistance to complete ARTF audits. As such the focus of new public financial management reforms project (“the Fiscal Performance Support Improvement Project”) is to build the SAO’s capacity to independently conduct these audits in next three years.

To strengthen the overall control environment of ARTF projects, the Bank has developed a comprehensive Financial Management Manual and training modules for the project financial management (FM) staff. During the next 6 months, training will be provided to roll out the new FM Manual from 2019 onwards. The Bank is also expanding the scope of work of the ARTF RCW Monitoring Agent and Investment Window Supervisory Agent to ensure more coverage of RCW and ARTF funded investment projects.

<sup>1</sup> Some of the ineligible expenditures and expenditures for which supporting documents were not provided were reported in AFN. An exchange rate of 67 AFN to 1 USD has been used to convert the figures to USD.

<sup>2</sup> Source - Monitoring Agent Annual Management Report for FY1395

Monitoring Agent and Investment Window Supervisory Agent to ensure more coverage of RCW and ARTF funded investment projects.

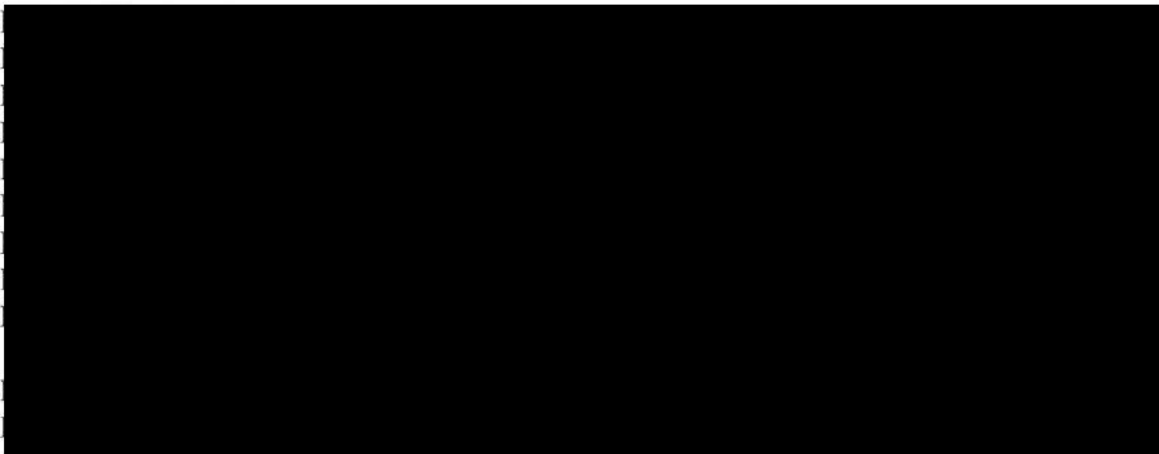
For any questions relating to the ARTF investment projects or the Recurrent Cost Window, please contact the ARTF Coordinator; [REDACTED]

Sincerely,



Abdoulaye Seck  
Acting Country Director for Afghanistan  
South Asia Region

Cc.



ARTF Donors

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June 21, 2018

Bcc: Afghanistan CMU, Kabul FM Team

Institutional filing: WBDocs



**Annex: ARTF Projects Audit Results Summary – FY 1395**

S. No.	Project ID	Project Name	ARTF Grant No.	IDA Grant No.	Expenditure as per Financial Statements	Audit Opinion	Ineligible Expenditure		Unsubstantiated Expenditure	
							Eq. USD	Eq. USD	Eq. USD	Eq. USD
1	P106259	Afghanistan - Second Education Quality Improvement Program	93962	H3540	45,462,749	Unqualified	-	-	-	-
2	P110407	AF Rural Enterprise Development Program	98045	H5310	3,396,212	Unqualified	-	-	85,729	-
3	P111943	Afghanistan Power System Development Project	93513	None	1,158,557	Unqualified	-	-	-	-
4	P117103	National Solidarity Program III	98459	H6030	102,779,540	Unqualified	-	-	819,921	-
5	P118028	AF: ARTF-2nd Judicial Reform Project	12533, 11825	None	6,092,486	Unqualified	-	-	450,885	-
6	P120397	Afghanistan Agricultural Inputs Project	15003, 99595	None	6,910,643	Unqualified	-	-	955,607	-
7	P120398	AF On-Farm Water Management	99074, 96991	None	5,230,288	Unqualified	-	-	-	-
8	P120427	Public Financial Management Reform II	10024	None	19,322,599	Unqualified	-	-	3,320,605	-
9	P122235	AF Irrigation Restoration and Development Project	12029	H6810	20,105,348	Unqualified	-	-	-	-
10	P123845	Afghanistan Capacity Building for Results Facility	11447	None	10,096,446	Unqualified	-	-	-	-
11	P125597	Kabul Municipal Development Program	17016, 14211	None	11,616,002	Unqualified	-	-	-	-
12	P125961	Afghanistan Rural Access Project	13093	H7920	60,740,299	Unqualified	-	-	1,104,133	-
13	P129663		15005	H8290,	126,929,507	Unqualified	-	-	-	-

		System Enhancement for Health		HRBF 95691					
14	P132944	Naghlu Hydropower Rehabilitation Project	14861	None	2,748,344	Unqualified	-	-	-
15	P143841	National Horticulture and Livestock Productivity Project	13820	None	26,333,745	Unqualified	-	908,483	-
16	P145443	Afghanistan Resource Corridor Project	14845	None	226,001	Unqualified	-	-	-
17	P146015	Non-Formal Approach to Training Education and Jobs in Afghanistan Project	16354	None	3,766,218	Unqualified	-	-	-
18	P146184	Higher Education Development Project	TFA0730	None	3,863,326	Unqualified	-	-	-
19	P131864	Kabul Urban Transport Efficiency Improvement Project	17061	None	13,435,095	Unqualified	-	-	-
20	P157035	Afghanistan Technical Assistance Facility	A2839	None	142,124	Unqualified	-	-	-
21	P131228	DABS Planning and Capacity Support Project	A2026	None	27,601	Unqualified	-	-	-
<b>TOTAL</b>					<b>470,383,130</b>		<b>21,981</b>	<b>7,645,363</b>	