

June 3, 2021

All ARTF Donors

Dear ARTF Donors:

***Subject: Fiscal Year 1398 Audit Reports of Projects Financed by  
the Afghanistan Reconstruction Trust Fund (ARTF)***

The World Bank has concluded its review of the audit reports and management letters of the ARTF-financed operations for the Fiscal Year 1398 (FY 1398, year ended December 21, 2019). This letter describes the audit process, summarizes the audit findings, provides a comparative analysis of the FY 1398 audit with immediate prior four fiscal years, and attaches a list of audit opinions for ARTF-financed investment projects that are active in FY 1398.

**I. Audit Process**

All ARTF investment projects are audited annually by the Supreme Audit Office (SAO) of the Islamic Republic of Afghanistan with technical assistance from international audit consultants. The original deadline for SAO to submit audit reports was June 21, 2020, six months after FY 1398 concluded. The World Bank extended the audit report submission deadline to September 21, 2020, because of the COVID-19 lockdowns and travel restrictions that delayed the audit fieldwork. Apart from these delays, other audit activities were unaffected by COVID-19. All audit reports were received within the extended deadline.

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. The team discusses the auditors' observations with the government counterparts, agrees and follows the corrective actions, and resolves key audit findings. These measures can include seeking a refund for ineligible expenditures, if identified.

**II. Audit Results – Recurrent Cost Window**

Recurrent Cost Window (RCW) disbursements for FY 1398 included expenditure reimbursement of ARTF Recurrent and Capital Costs (ARTF RCC) investment project and tranche payments of the Incentive Program Development Policy Grant (IP-DPG), a development policy operation. The ARTF third-party monitoring agent (TPMA) reviewed expenditure eligibility for each withdrawal application made by the Government before disbursements were made. Supreme Audit Office auditors then reviewed the financial statements of ARTF RCC after the close of the fiscal year.

The SAO auditors reported that the FY 1398 statements present fairly the receipts and payments under the trust fund for the year. The auditors have verified expenditure in 14 provinces besides the central ministries with an overall coverage of 26.9% of the total operating expenditure. The SAO has reported ineligible expenditures totaling US\$ 8.5 million that did not meet the

eligibility requirements for the reimbursement of the ARTF RCC. In its earlier review of transactions for the same period, the ARTF TPMA identified ineligible expenditures totaling US\$ 19.5 million. It can therefore be concluded that the amount of ineligible expenditures identified by the auditors had already been considered as ineligible, and not reimbursed under the ARTF RCC.

The ARTF RCC investment project closed in December 2020, leaving the annual IP-DPG development policy operation as the sole remaining project providing financing through the ARTF RCW. Bank policy does not require annual financial statement audits of development policy operations. Therefore, SAO will not conduct audits of RCW projects in future years, and this is the last annual audit letter that will report the results of RCW investment project audits. In line with the ARTF's enhanced fiduciary control framework, however, the ARTF TPMA will continue to monitor the civilian recurrent expenditure and report quarterly on the results of its monitoring.

### **III. Audit Results – Investment Projects**

Audit reports covering 31 grants of ARTF investment operations, presented in 26 audited financial statements<sup>1</sup> for FY1398, 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.

The external auditors have given 25 unqualified (clean) audit opinions and 1 qualified audit opinion for FY 1398. The external auditors reported 230 audit observations in 26 management letters. The observations were communicated to the relevant line ministries through formal audit review 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 the resolution of the audit observations. The Bank team has received responses along with supporting documents for all key observations. Most of the observations have been fully addressed, and the Bank team is reviewing the remaining responses. The Bank is following up to ensure the resolution of all audit observations as per the agreed timelines.

Initially, the SAO issued six qualified audit opinions because project teams did not provide all documents and additional materials required to support the audit. As part of the review process, the Bank team facilitated coordination among the project teams, ministries, MoF, and SAO to address the documentation gaps that had initially resulted in audit qualifications. Follow-up by Bank teams ensured that five project teams eventually provided the full evidence to address auditors' questions and to avoid qualifications in the final results. Based on the review of evidence provided, the SAO issued revised audit opinion letters for the five projects with unqualified (clean) audit opinion. The auditors issued a qualified audit opinion for one remaining project, the Fiscal Performance Improvement Support Project (FSP). The auditors view an FSP expenditure of US\$ 26,400 from the IDA grant as not fully compliant with the conditions established in the applicable grant agreement. The Bank has requested MoF to substantiate the expenditure eligibility by June 30, 2021, or the Bank may consider declaring the amount as an ineligible expenditure.

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

**Table 1 - Comparative Analysis of FY1394-1398 Audit Results**

ARTF Investment Projects Audit Results FY1398 – Excluding RCW									
FY	# of Audit Report Received	# of Report Received on Time <sup>1</sup>	Months Elapsed after Due Date	# of Unqualified Audit Reports	FY Total Expenditures in US\$ (Millions)	Ineligible Expenditures <sup>2</sup>		Unsubstantiated/ Questionable Expenditures	
						In US\$ (millions) approx.	In % of Total	In US\$ (millions) approx.	In % of Total
1398	26	26	0	25	525	0.026	0.005	1.23	0.23
1397	28	28	0	26	411	0	0	16.5	3.98
1396	25	25	0	25	453	0	0	2.5	0.55
1395	22	22	0	22	478	0.022	0.004	7.645	1.599
1394	20	20	0	18	564	0.304	0.05	0.198	0.035

#### IV. Conclusions

Overall, the quality of audit reports was assessed as Satisfactory; however, the SAO remains dependent on international technical assistance to complete ARTF audits. The ARTF-financed Fiscal Performance Improvement Support Project (December 2017-December 2022) includes an activity that aims to build the SAO's capacity independently to conduct these audits. The SAO has prepared a transition plan to train a pool of 30 auditors over a period of 3 years to independently conduct ARTF audits. In parallel, the number of international consultants is gradually reduced and from the year 2022 the audits would be conducted without international consultants.

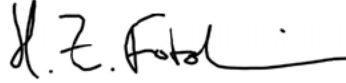
In addition, to strengthen the overall control environment of ARTF projects, the WB has implemented several initiatives under the umbrella of the enhanced fiduciary control framework supported by the ARTF Anti-Corruption and Results Monitoring Action Program (ACReMAP) window that aim to improve financial management under ARTF-financed projects, enhance the quality of projects' expenditure documentation, and improve implementation of audit recommendations. One such measure was first introduced in the last audit cycle. The Bank and SAO have agreed annually to conduct an independent third-party quality assurance review of selected annual ARTF project audits conducted by SAO. The review's overall objectives are to assess whether audit opinions expressed by the SAO were supported by evidence gathered from the work performed and whether the audits had been conducted effectively and efficiently and in compliance with the International Organization of Supreme Audit Institutions (INTOSAI)-established standards. The Bank and SAO are in discussion with the ARTF (TPMA) to conduct the quality assurance review of FY1398 during Q3-Q4 of 2021. Once completed, the FY1398 audit quality assurance review will be shared with ARTF donors.

1 Five projects out of 26 ARTF projects each have two grants attached to them.

2 The exchange rate used to convert AFN to US\$: US\$1=AFN78.

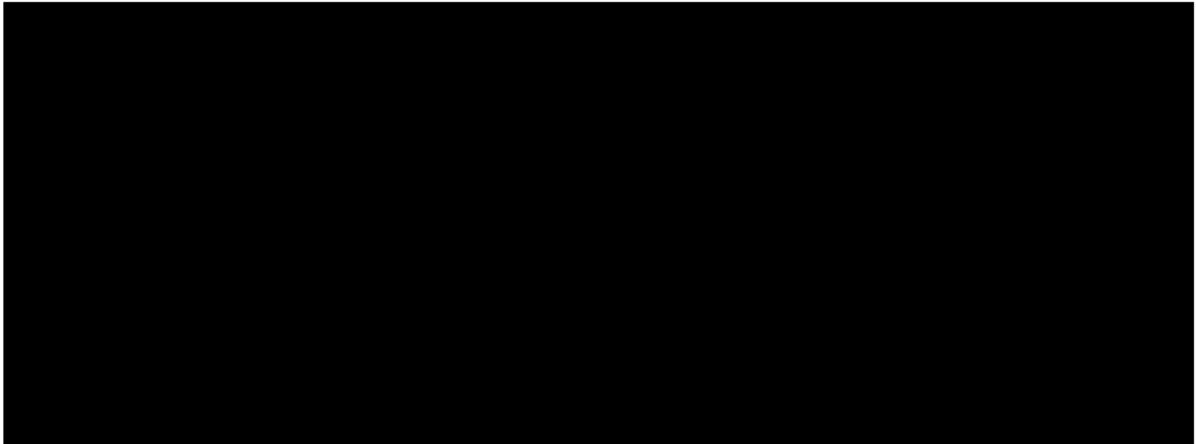
We welcome donors to direct any questions relating to the ARTF portfolio, including questions regarding this audit summary letter, to the ARTF team.

Sincerely,



Homa-Zahra Fotouhi  
Acting Country Director for Afghanistan  
South Asia Region

Cc:



## Annex: ARTF Investment Projects Audit Results Summary – FY 1398

S. No	Project ID	Project Name	ARTF Grant No.	IDA Grant No.	Audit Opinion	No. of Observations	Reported Expenditures	Ineligible Expenditures	Questionable Expenditures
1	P120397	Afghanistan Agricultural Inputs Project	15003, 99595	-	Unqualified	12	7,349,346	-	-
2	P120398	AF On-Farm Water Management	99074, 96991	-	Unqualified	11	8,083,273	-	-
3	P122235	AF Irrigation Restoration and Development Project	12029	H6810	Unqualified	9	23,288,965	-	-
4	P123845	Afghanistan Capacity Building for Results Facility	11447	-	Unqualified	2	7,134,957	-	-
5	P125597	Kabul Municipal Development Program	17016 14211	-	Unqualified	11	11,461,610	-	-
6	P125961	Afghanistan Rural Access Project	13093	H7920	Unqualified	7	46,024,955	-	-
7	P129663	System Enhancement for Health Action in Transition	15005	-	Unqualified	2	12,089,117	-	-
8	P131228	DABS Planning Capacity and Support Project	A2026	-	Unqualified	5	2,086,490	-	-
9	P131864	Kabul Urban Transport Efficiency Improvement Project	17061	-	Unqualified	5	13,820,774	-	-
10	P132944	Naghlu Hydro Power Rehabilitation Project	A1691 14861	-	Unqualified	6	2,727,984	-	-
11	P143841	National Horticulture and Livestock Productivity Project	13820	-	Unqualified	10	25,718,275	-	65,274
12	P146184	Higher Education Development Project	15577	-	Unqualified	17	9,032,621	-	4,916
13	P147147	Urban Development Support Project	A3425	D1910- AF	Unqualified	7	2,454,150	-	141,180

14	P149410	CASA-1000 Community Support Program	17012	-	Unqualified	8	634,012	-	12,167
15	P156225	Support to Afghan Land Authority Project	A1898	-	Unqualified	14	3,089,825	-	-
16	P158768	Afghanistan First Public Private Partnership Project	A7087	D2840	Unqualified	8	2,223,991	-	-
17	P159378	Education Quality Reform in Afghanistan	A8009	D3810	Unqualified	11	63,363,270	-	-
18	P159655	Fiscal Performance Improvement Support Project	A6272	D2630	Qualified	9	11,657,425	26,400	32,497
19	P160567	Citizens' Charter Afghanistan Project	A3827	D1390, D2130	Unqualified	24	123,728,603	-	976,825
20	P161728	Afghanistan Placing Labor Abroad and Connecting to Employment Domestically (PLACED) Project	A8312	-	Unqualified	5	410,448	-	-
21	P163267	Women's Economic Empowerment National Priority Program	A5400	-	Unqualified	12	199,644	-	-
22	P164443	Women Economic Empowerment and Rural Development Project	A8443	D3840	Unqualified	12	4,358,677	-	-
23	P166978	TAGHIR	A9123	D4130	Unqualified	7	10,185,137	-	-
24	P160615	Afghanistan Sehatmandi Project	A7113 A7314	D2850	Unqualified	6	133,127,288	-	-
25	P160619	Cities Investment Program	A9089	D4140	Unqualified	4	56,633	-	-
26	P166127	EZ-KAR Project	A9092	D4160	Unqualified	6	823,726	-	-