

June 16, 2019

All ARTF Donors

Dear ARTF Donors:

Subject: Fiscal Year 1396 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 and management letters of the ARTF-financed recurrent and investment operations for the Fiscal Year (FY) 1396 (year ended December 21, 2017).

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 or individual international consultants supported by local audit officers. As an integral part of its supervision of the ARTF-financed activities, the Bank's task teams 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.

II. Audit Results – Investment Projects

Audit reports covering 29 ARTF grants, presented in 25 audited financial statements¹ for FY1396 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 25 audit reports had unqualified (clean) audit opinions for FY1396. All the audit reports for FY1396 were received before the extended deadline of December 15, 2018. The original deadline of June 21, 2018 was extended on the request of SAO due to delays in hiring of consultants.

The external auditors reported 302 audit observations in 25 management letters. The observations were communicated to the relevant line ministries through formal audit review letters. Over the past months, the Bank's task teams organized review meetings with the projects and auditors to agree actions for resolution of the audit observations. The Bank's task teams have received responses along with supporting documents from the projects for all key observations and are following up to ensure resolution of all audit observations as per the agreed timelines.

¹ Four out of 25 ARTF projects each have two grants attached to them.

Table 1 - FY1392-1396 Audit Results (Excluding Recurrent Cost Window)

FY	No. of Audit Reports Received	No. of Reports Received on Time	No. of Unqualified Audit Reports	FY Total Expenditure	Ineligible Expenditures		Unsubstantiated/Questionable Expenditures	
				in US\$ (Millions)	In US\$ (millions) approx.	In % of Total	In US\$ (millions) approx.	In % of Total
1396	25	25	25	453	0	0	2.5	0.55
1395	22	22	22	478	0.022	0.004	7.645	1.599
1394	20	20	18	564	0.304	0.05	0.198	0.035
1393	23	15	21	584	2.93	0.50	1.388	0.240
1392	25	24	21	523	2.20	0.42	0.019	0.004

III. Audit Results – Recurrent Cost Window

The auditors expressed an unqualified opinion stating that the financial statements present fairly the receipts and payments under the trust fund for the year. The auditors covered 10 provinces beside the central ministries and one independent office covering 13% of the total operating expenditures.

The auditors reported ineligible expenditures of US\$ 1.88 million that did not meet the eligibility requirements for the reimbursement of ARTF Recurrent Cost Window. The reported ineligible expenditures had earlier been identified by the ARTF Monitoring Agent. Therefore, the amount of ineligible expenditures reported by the auditors had already been considered ineligible, and therefore not reimbursed under the ARTF Recurrent Cost Window.

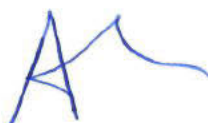
IV. Conclusions

Overall, the quality of audit reports was assessed Satisfactory; however, the SAO is still dependent on consultants to complete audits. Part of the focus of the ongoing Fiscal Performance Improvement Support Project is to build the SAO's capacity over the next three years to independently conduct audits of ARTF financed operations.

To strengthen the overall control environment of ARTF projects, the Bank and Government have jointly developed a comprehensive Financial Management Manual (FMM) that is being implemented starting with the current fiscal year. To facilitate the FMM implementation, a week-long training course has been developed and is being delivered in batches to all government financial management and project staff involved in implementation of ARTF projects. The Bank has also expanded the ARTF Monitoring Agent's scope of work to conduct internal control assessments of the investment projects and increased the number of investment projects monitored by the ARTF Supervisory Agent.

For any questions or clarifications, please contact the ARTF Coordinator; [REDACTED]

Sincerely,



Abdoulaye Seck
Acting Country Director for Afghanistan
South Asia Region

Cc:



Annex: ARTF Investment Projects Audit Results Summary – FY 1396

S. No.	Project ID	Project	ARTF Grant No.	IDA Grant No.	Expenditure as per Financial Statements	Audit Opinion	Ineligible Expenditures EQ. USD	Unsubstantiated Expenditures EQ. USD
1	P110407	AF Rural Enterprise Development Program	3502	H5310	3,834,679	Unqualified	-	12,120
2	P111943	Afghanistan Power System Development Project	93513	-	1,642,107	Unqualified	-	599,427
3	P117103	National Solidarity Program III	98459	H-603AF	16,900,000	Unqualified	-	55,066
4	P118028	AF: ARTF-2nd Judicial Reform Project	12533 11825	-	5,095,930	Unqualified	-	-
5	P120397	Afghanistan Agricultural Inputs Project (AAIP)	15003, 99595	-	6,910,643	Unqualified	-	5,780
6	P120398	AF On-Farm Water Management (OFWM)	99074, 96991	-	13,428,247	Unqualified	-	2,306
7	P120427	Public Financial Management Reform II	10024	-	19,661,272	Unqualified	-	-
8	P122235	AF Irrigation Restoration and Development Project	12029	H6810	15,769,194	Unqualified	-	1,609
9	P125597	Kabul Municipal Development Program	17016 14211	-	22,357,243	Unqualified	-	366,323
10	P125961	Afghanistan Rural Access Project	13093	H7920	33,237,852	Unqualified	-	-
11	P129663	System Enhancement for Health Action in Transition Project	15005	H8290, HRBF 956911	140,320,604	Unqualified	-	-
12	P131864	Kabul Urban Transport Efficiency Improvement Project	17061	-	11,142,336	Unqualified	-	-
13	P143841	Afghanistan: National Horticulture and Livestock Productivity Project	13820	-	32,493,772	Unqualified	-	-
14	P146184	Higher Education Development Project	15577	-	9,145,367	Unqualified	-	25,314
15	P147147	Urban Development Support Project	A3425	D1909	1,116,771	Unqualified	-	3,108
16	P156225	Support to the Afghanistan Independent Land Authority	A1898	-	204,389	Unqualified	-	-
17	P156894	Afghanistan Digital CASA Project	21327	-	99,161	Unqualified	-	-
18	P157035	Afghanistan Technical Assistance Facility	A2839	-	890,229	Unqualified	-	472
19	P158768	Public-Private Partnerships and Public Investment Advisory Project	14845	-	562,206	Unqualified	-	-
20	P160567	Citizens Charter Afghanistan Project	A03827	D1390	64,617,429	Unqualified	-	1,332,066

S. No.	Project ID	Project	ARTF Grant No.	IDA Grant No.	Expenditure as per Financial Statements	Audit Opinion	Ineligible Expenditure EQ. USD	Unsubstantiated Expenditure EQ. USD
21	P106259	Second Education Quality Improvement Program	93962	H3540	29,138,825	Unqualified	-	13,467
22	P123845	Afghanistan Capacity Building for Results Facility (CBR)	11447	-	17,709,011	Unqualified	-	-
23	P131228	DABS Planning and Capacity Support	A2026	-	154,587	Unqualified	-	74,952
24	P132944	Naghlu Hydropower Rehabilitation Project	14861	-	5,499,431	Unqualified	-	-
25	P146015	Non-Formal Approach to Training Education and Jobs in Afghanistan Project	16354	-	1,336,744	Unqualified	-	-
Total					453,268,029			2,492,010