



## MEMORANDUM

**DATE:** February 5, 2019

**TO:** USAID/Pakistan Mission Director, Jerry Bisson

**FROM:** Office of Inspector General/Asia Regional Office Audit Director,  
Matthew Rathgeber /s/

**SUBJECT:** Financial Audit of the National University of Sciences and Technology Under Two  
USAID Programs in Pakistan, July 1, 2016, to June 30, 2017 (5-391-19-013-R)

This memorandum transmits the final audit report on the two USAID programs managed by the National University of Sciences and Technology (NUST). NUST contracted the independent certified public accounting firm of Nasir Javaid Maqsood Imran to conduct the audit. The contract required the audit firm to perform the audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

Nasir Javaid Maqsood Imran stated that it performed its audit in accordance with U.S. GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. Nasir Javaid Maqsood Imran is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the recipient's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. The mission, however, asked the auditors in its contract to follow the Guidelines, and this contracted audit followed those Guidelines.

<sup>2</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit objectives were to (1) express an opinion on whether NUST's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate NUST's internal controls; (3) determine whether NUST complied with award terms and applicable laws and regulations; and (4) determine whether NUST has taken corrective actions on prior audit recommendations. To answer the audit objectives, Nasir Javaid Maqsood Imran examined the documentation supporting the financial transactions; performed procedures to evaluate the control environment, the adequacy of accounting systems, and control procedures; determined compliance with agreement requirements and applicable laws and regulations; and followed up on the status of issues identified in the prior audit report. The audit covered project revenues and costs of \$3,369,597 and \$3,313,247, respectively, from July 1, 2016, to June 30, 2017.<sup>3</sup>

Nasir Javaid Maqsood Imran concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreements for the period audited. The audit firm did not identify any questioned costs or significant deficiencies or material weaknesses in internal control. However, the audit firm identified material instances of noncompliance; thus, we are making a recommendation for corrective action. These pertained to (1) not performing the required pre-audit of the fund expenses for the period from October to February 2017 amounting to \$1,340,741;<sup>4</sup> (2) selecting exchange program student participants without a quorum of selection panel members; and (3) internal auditors not maintaining a register for all certified and authorized claims.

In its management letter, the audit firm identified five other internal control matters or immaterial instances of noncompliance. Based on the audit firm's description of the issues, we consider one issue to be a material instance of noncompliance; thus, we are making a recommendation for corrective action. This pertained to the noncompliance with agreement requirement to hire one key personnel responsible for leading areas in project administration and procurement.

For the prior audit findings, four of the seven findings had not been satisfactorily addressed. The four unresolved findings were not reported in the current audit report; however, we are not making a recommendation since in the management decisions in the prior audit, the mission indicated that appropriate corrective actions had been taken or would be taken on these four findings. Furthermore, NUST has no cost-sharing requirement or approved indirect cost rate in the agreement.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated February 5, 2019.

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<sup>3</sup> The two NUST programs subjected to annual financial audits covering the period from July 1, 2016 to June 30, 2017 were U.S.-Pakistan Center for Advance Studies in Energy (U.S.-PCAS-EN) program for which NUST was the prime recipient and Merit and Needs Based Scholarship Program (MNBSB) for which NUST was a subrecipient.

<sup>4</sup> The audit firm reported that \$1,340,741 was not questioned because appropriate supporting evidences were available for relevance and accuracy of costs incurred.

To address the issues identified in the report, we recommend that USAID/Pakistan:

**Recommendation 1.** Verify that National University of Sciences and Technology corrects the four material instances of noncompliance discussed on page 2 of this memorandum and detailed on section 7.2 on pages 29–31 and on Issue 4 in the management letter on page 39 of the report.

We ask that you provide written notification of actions planned or taken to reach a management decision. We appreciate the assistance extended during the engagement.

The OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) (“commercial or financial information obtained from a person that is privileged or confidential”).

Attachment: a/s