



MEMORANDUM

DATE: May 6, 2019

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: USAID OIG Asia Regional Office Audit Director, Matthew Rathgeber /s/

SUBJECT: Closeout Audit of the Construction at National University of Science and Technology in Islamabad Managed by Izhar Construction (Private) Limited, Contract AID-391-I-12-00002 Task Order 391-TO-14-00006, July 1, 2016, to April 15, 2017 (5-391-19-028-R)

This memorandum transmits the final audit report on the construction at National University of Science and Technology in Islamabad. Izhar Construction (Private) Limited (Izhar) contracted with the independent certified public accounting firm of UHY Hassan Naeem and Co., Chartered Accountants (UHY) to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients.¹

The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on Izhar's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited was presented fairly, in all material respects;

¹On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and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. USAID/Pakistan adopted the entire OIG rescinded Guidelines and named them USAID Guidelines (applicable for USAID/Pakistan audits), which were to be used until the new USAID Guidance is developed and published. The audit contract referred to these same guidelines as USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients (USAID Guidelines).

² 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.

(2) evaluate Izhar's internal controls; (3) determine whether Izhar complied with award terms and applicable laws and regulations; and (4) determine whether Izhar has taken corrective actions on prior audit report recommendations. To answer the audit objectives, the audit firm examined the fund accountability statement and supporting documentation; evaluated Izhar's internal control systems; tested compliance with contract terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered project revenues and costs of \$2,245,936 and \$2,288,258, respectively, from July 1, 2016, to April 15, 2017.

The audit firm concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited. The audit firm identified \$661 in ineligible questioned costs and an instance of material noncompliance. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that mission determine the allowability of the \$661 in questioned costs and recover any amount determined to be unallowable. In addition, because the project has ended and there are no current awards with the recipient, we are not making any procedural recommendation for the identified instance of material noncompliance.

The audit firm also issued a management letter to Izhar dated April 9, 2018 identifying other internal control matters and nonmaterial instances of noncompliance.

During our desk review, we noted several minor issues which the audit firm will need to address in future audit reports. We presented these issues in a memo to the controller, dated May 6, 2019.

Given the above results of the audit, we are not making any recommendation for inclusion in USAID's Consolidated Audit and Compliance Tracking System. We appreciate the assistance extended during the engagement.

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