MEMORANDUM

DATE: May 22, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: Regional Inspector General/Manila, Matthew Rathgeber /s/

SUBJECT: Financial Audit of the Merit and Need-Based Scholarship Program Phase-II in Pakistan Managed by the Higher Education Commission, Agreement 391-G-00-04-01023-12, July 1, 2015, to June 30, 2016 (5-391-18-019-R)

This memorandum transmits the final audit report on the Merit and Need-Based Scholarship Program Phase-II in Pakistan managed by the Higher Education Commission. The audit was conducted by the Auditor General of Pakistan (Auditor General). The "Memorandum of Understanding Between the United States Agency for International Development and the Auditor General of Pakistan" requires that the audit be conducted in accordance with generally accepted government auditing standards or the financial audit manual and the guidelines developed by the Auditor General.

The Auditor General stated that it performed its audit in accordance with international standards of supreme audit institutions issued by the International Organization of Supreme Audit Institutions (INTOSAI). The Auditor General is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the Higher Education Commission's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.[1]

The audit objectives were to (1) express an opinion on whether the grantee's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate the grantee's internal controls; and (3) determine whether the grantee complied with agreement terms and applicable laws and regulations. To answer the audit objectives, the

[1] We reviewed the Auditor General'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.

Auditor General reviewed program documents and procedures; examined the fund accountability statement including revenues received from USAID and costs incurred during the period; reviewed the internal control systems; and tested compliance with agreement terms and applicable laws and regulations. The audit covered program revenues and costs of $3,377,914 and $3,234,107, respectively, from July 1, 2015, to June 30, 2016.

The Auditor General concluded that except for the possible effects of the grantee's (1) not disclosing in the financial statements the expenditures incurred based on the account titles as prescribed in the cost sheet of the PC-1 Form of the project,[2] (2) not reflecting the in-kind contributions made by the Government of Pakistan and identifying their appropriate value in the financial statements, (3) not providing to the auditors the record and information regarding the contributions made by the Government of Pakistan, and (4) not recording equipment and inventories and identifying their appropriate value in the financial statements, the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited. Nonetheless, (1) for item 1, the fund accountability statement included expenses under the account title "Scholarship Fund" only because according to the grantee, USAID has signed Program Implementation Letter (PIL) No. 1 and Amendment No. 1 in order to release funds for scholarship payments only; other account title expenditures will be used after signing of PIL No. 2 (which occurred after the period audited); (2) for items 2 and 3, the cost-sharing information was not reported in the current period since according to the mission, the required cost-sharing contributions for Phase II amounting to $5,775,000 (based on the life-of-project budget) were defined in PIL No. 2 (which was signed after the period audited); and (3) for item 4, a note to the fund accountability statement indicated that all assets are initially expensed out and will be capitalized on the closure of the program.

The Auditor General did not identify any questioned costs, significant deficiencies or material weaknesses in internal control, or material instances of noncompliance. In its management letter, the Auditor General identified six other internal control matters and immaterial instances of noncompliance. Based on our review of the descriptions of the issues, we consider four issues to be material instances of noncompliance; hence, we are making a recommendation for corrective action. The material instances of noncompliance pertained to the grantee's (1) not furnishing to the Auditor General the requested records (Observation 4.1.2), (2) not maintaining separate bank accounts for phases I and 2 of the program (Observation 4.1.3), (3) not maintaining a stock register and inventory of physical assets of the program (Observation 4.3.1), and (4) not conducting physical verification of stores and stocks (Observation 4.4.3). For item 1, the requested records needed for the audit were subsequently provided to the Auditor General. Finally, this is the first audit of the Phase-II of the program.

To address the issues identified in the report and discussed in this memorandum, we recommend that USAID:

[2] The PC-1 Form shows the project proposal prepared by a grantee based on the instructions provided by the Planning Commission.

Recommendation 1. Verify that the Higher Education Commission corrects the four material instances of noncompliance discussed on page 2 of this memorandum and detailed in Observations 4.1.2, 4.1.3, 4.3.1, and 4.4.3 on pages 22–25 of the report.

We ask that you provide written notification of actions planned or taken to reach management decisions. We appreciate the assistance extended to audit staff 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