



MEMORANDUM

DATE: January 22, 2020

TO: USAID/Pakistan Mission Director, Julie A. Koenen

FROM: USAID OIG Asia Regional Office Audit Director, James C. Charlifue /s/

SUBJECT: Financial Audit of Indus Basin SME Investments Limited's Management of the Pakistan Private Investment Initiative Project, Cooperative Agreement AID-391-A-14-00001, January 1 to December 31, 2017 (5-391-20-011-R)

This memorandum transmits the final audit report on the Pakistan Private Investment Initiative Project managed by Indus Basin SME Investments Limited (Indus Basin). Indus Basin contracted with the independent certified public accounting firm of Horwath Hussain Chaudhury & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. generally accepted government auditing standards and USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients.¹ However, 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 Indus Basin'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 recipient's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate the recipient's internal controls; (3) determine whether the recipient complied with agreement terms, and applicable laws and regulations; and (4) determine whether the recipient has taken corrective actions on prior audit report recommendations. To answer the audit objectives, the audit firm examined the fund accountability statement and supporting

¹ On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and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 USAID/Pakistan adopted the entire OIG rescinded Guidelines and named them USAID Guidelines (applicable for USAID/Pakistan audits), which were to be used until the new USAID Guidance is developed and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

documentation; evaluated the effectiveness of the design and operation of the internal control system; tested recipient's compliance with agreement terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The mission confirmed that the recipient does not operate on a cost-sharing approach. The audit covered project revenues and costs of \$5,468,358 and \$5,468,355, respectively, from January 1 to December 31, 2017.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the award for the period audited. The audit firm did not identify any questioned costs or material weaknesses in internal control. The audit firm noted four material instances of noncompliance related to (1) portfolio performance reports not submitted quarterly to USAID, (2) semi-annual portfolio reviews not held, (3) security plan not developed and submitted to USAID, and (4) notice of USAID/Pakistan's anti-fraud hotline not posted. The audit firm also issued a management letter to the recipient identifying other internal control matters. Finally, prior audit recommendations were not satisfactorily addressed; thus, they were reported again in the current management letter.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We presented these issues and suggestions in a memorandum to the mission's controller, dated January 22, 2020.

To address the issues identified in the report, we recommend that the mission:

Recommendation 1. Verify that Indus Basin SME Investments Limited corrects the four material instances of noncompliance detailed on pages 16 and 18-19 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decision. 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