



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: July 13, 2022

TO: USAID/Pakistan Mission Director, Reed Jay Aeschliman

FROM: USAID OIG Deputy Assistant Inspector General for Audit, Christine M. Byrne /s/

SUBJECT: Financial Audit of the Project Management & Engineering Services for FATA Infrastructure Program in Pakistan Managed by the Government of Khyber Pakhtunkhwa, Grant I35 PIL 391–013–32, Fiscal Year Ending June 30, 2021 (5-391-22-019-R)

This memorandum transmits the final financial audit report on the Project Management & Engineering Services for FATA Infrastructure Program (the Project) in Pakistan, managed by the Planning and Development Department of the Government of Khyber Pakhtunkhwa (P&D Department) under Grant No. I35 PIL No. 391-013-32, for the fiscal year that ended June 30, 2021. The audit was conducted by the Auditor General of Pakistan (Auditor General). The Auditor General stated that it performed its audit in accordance with International Organization of Supreme Audit institutions' standards. The Auditor General is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the grantee's schedule of expenditures of USAID awards, the effectiveness of its internal control, or its compliance with the award, laws, and regulations.¹

The main audit objectives were to (1) express an opinion on whether the Project's schedule of expenditures of USAID awards for the period audited was presented fairly, in all material respects; (2) Assess P&D Department's internal controls; (3) determine whether P&D Department complied with relevant award terms, laws, and regulations and (4) follow-up on the status of prior- year recommendations. To answer the audit objectives, the Auditor General reported that it reviewed the Project's revenues and expenditures, assessed relevant internal controls, and tested compliance with applicable requirements. The audit examined the Project's revenues and costs of \$1,802,761 and \$1,771,750, respectively, for the fiscal year ending June 30, 2021.

¹ We reviewed the Auditor General's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify items that need clarification or issues that require management attention. Desk reviews are limited to review of the audit report itself and exclude 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 Auditor General concluded that the Project’s schedule of expenditures of USAID awards presented fairly, in all material respects, revenues and costs incurred for the audited period. The Auditor General did not identify any questioned costs, material weaknesses in internal control, or material instances of noncompliance. The Auditor General reported that it did not receive final comments on the audit recommendations from the Project’s management and could not assess the status of prior-year audit recommendations.

In the management letter, the Auditor General identified seven audit findings involving monetary effects totaling \$1,594,352 that should have been identified as ineligible questioned costs in the Project’s schedule of expenditures of USAID awards. Accordingly, we are making a recommendation for USAID/Pakistan to determine the allowability of and recover, as appropriate, these questioned costs. The details of the findings and the associated questioned costs are summarized in Table I.

Table I. Summary of Questioned Costs (Ineligible)

No	Finding Description	Pakistan Rupees (Rs)	USD (\$)	Finding Reference	Page Number
1	Irregular retention of consultant salaries	Rs. 104,591,520	\$650,798	4.1.1	20
2	Unauthorized payment of escalation charges	30,000,000	200,000	4.1.2	21
3	Loss due to non-recovery of sales tax on services	95,156,273	654,005	4.1.3	21
4	Loss due to erroneous deduction of income tax	8,545,811	53,152	4.1.4	23
5	Loss due to non-deduction of taxes	195,000	1,214	4.1.5	23
6	Irregular retention of payment due to a consultant	4,876,595	31,011	4.1.7	25
7	Overpayment in violation of contract	672,100	4,172	4.2	25
TOTAL QUESTIONED COSTS		Rs. 244,037,299	\$1,594,352		

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

Recommendation I. Determine the allowability of \$1,594,352 in questioned costs (ineligible) detailed in findings 4.1.1 to 4.1.5, 4.1.7, and 4.2 on pages 20 to 26 of the audit report and recover any amount that is unallowable.

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

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”).