



OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

MEMORANDUM

DATE: September 8, 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 Khyber Pakhtunkhwa Reconstruction Program in Pakistan Managed by the Provincial Reconstruction Rehabilitation and Settlement Authority, Provincial Disaster Management Authority, Agreement 391-011, July 1, 2020, to June 30, 2021 (5-391-22-026-R)

This memorandum transmits the final audit report on the Khyber Pakhtunkhwa Reconstruction Program in Pakistan managed by the Provincial Reconstruction Rehabilitation and Settlement Authority, Provincial Disaster Management Authority, Government of Khyber Pakhtunkhwa (the recipient), for the period from July 1, 2020, to June 30, 2021. The Auditor General of Pakistan (Auditor General) conducted this audit. The Auditor General stated it performed its audit in accordance with International Standards of Supreme Audit Institutions. The Auditor General is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the recipient'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 recipient's schedule of expenditures 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 grant terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine the status of prior year audit recommendations. The audit covered project receipts and disbursements amounting to \$6.752 million and \$7.377 million, respectively, during the audited period.

¹ We reviewed the Audit 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 schedule of expenditures presented fairly, in all material respects, project revenues, costs incurred, and reimbursed for the period audited. The Auditor General did not identify any questioned costs, material weaknesses in internal control, or material instances of noncompliance. Regarding the review of cost-sharing contributions, the Auditor General reported that the recipient contributed \$7,681,137 for the period audited or a cumulative total contribution of \$57,317,837. The Auditor General did not report any questioned cost-sharing contributions. Regarding prior audit recommendations, the Auditor General reported that the recipient addressed only 11 of the 117 recommendations.

In its management letter, the Auditor General identified 23 findings, of which 15 involved monetary effects totaling \$1,739,712. Accordingly, we recommend that USAID Pakistan determine the allowability of and recover, as appropriate, these questioned costs. The details of the findings and the associated questioned costs are summarized below (Table I).

Table I: Questioned Costs by Audit Finding Number

No	Findings Description	Ineligible Costs		Unsupported Costs		Finding No	Page No
		Pakistan Rupee (Rs)	US Dollar (\$)*	Pakistan Rupee (Rs)	US Dollar (\$)*		
1	Awarding of school construction supervision contract in violation of procurement rules	12,510,000	78,992			4.1.1	29
2	Irregular awarding of a contract to the second lowest bidder	49,416,000	304,073			4.1.2	30
3	Irregular awarding of a contract in violation of bidding requirements	8,395,000	51,657			4.1.3	31
4	Loss due to not imposing contractual liquidated damages on the contractor for significant school construction delays			106,111,000	670,013	4.1.4	32
5	Unsupported payment made to contractors for stones used in construction			1,474,658	9,311	4.1.5	33
6	Unaccounted material extracted during dismantling			1,139,797	7,197	4.1.7	35
7	Loss due to not imposing contractual liquidated damages on contractors for road construction delays			11,582,000	71,538	4.1.8	36

No	Findings Description	Ineligible Costs		Unsupported Costs		Finding No	Page No
		Pakistan Rupee (Rs)	US Dollar (\$)*	Pakistan Rupee (Rs)	US Dollar (\$)*		
8	Noncompliance with procurement regulations for the bid solicitation	9,600,000	62,130			4.2.1	37
9	Payment to a contractor without third-party inspection of procured goods as required by the agreement	61,786,000	371,129			4.2.3	38
10	Payment for furniture with reduced quantity and quality that was not in compliance with contract specifications	10,897,000	65,455			4.2.4	39
11	Loss due to not imposing contractual liquidated damages for delayed delivery of furniture	499,000	2,997			4.2.5	40
12	Loss due to not imposing contractual liquidated damages for delayed delivery of hospital equipment	1,404,000	9,086			4.2.6	41
13	Non remittance of interest earned to USAID as required by Pakistan Enhanced Partnership Agreement	1,201,440	7,559			4.3.5	46
14	Nonrecovery of losses from the previous contractor who failed to fulfill contractual obligations	723,212	4,548			4.3.7	47
15	Funds released for procurement remained unutilized at the end of the audited period			4,000,000	24,027	4.3.8	48
	Subtotal	Rs156,431,652	\$957,626	Rs124,307,455	\$782,086		
Total Questioned Costs \$1,739,712 (\$957,626 ineligible costs and \$782,086 unsupported costs)							

* Conversion rates used were provided on page 11 of the audit report, except for Item 13 (Finding 4.3.5) in this table, where we used the rate of Rs158.94 per USD.

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

Recommendation I. Determine the allowability of \$1,739,712 in questioned costs (\$957,626 ineligible and \$782,086 unsupported) as detailed in findings 4.1.1 to 4.1.5, 4.1.7, 4.1.8, 4.2.1, 4.2.3 to 4.2.6, 4.3.5, 4.3.7 and 4.3.8 on pages 29 to 48 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”).