



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: December 27, 2023

TO: USAD/Pakistan, Mission Director, Kate Somvongsiri

FROM: Asia Regional Office, Acting Audit Director, Esther Park /s/

SUBJECT: Financial Audit of the Purchase of Equipment and Machinery Project, Managed by the Government of Khyber Pakhtunkhwa in Pakistan, Grant 59 Project Implementation Letter 391-GOKP-MSP-001-001-19, for Fiscal Year Ended June 30, 2022 (5-391-24-006-R)

This memorandum transmits the final audit report on the Purchase of Equipment and Machinery project managed by the Local Government, Elections and Rural Development Department of the Government of Khyber Pakhtunkhwa in Pakistan under grant 59 project implementation letter 391-GOKP-MSP-001-001-19, for the fiscal year ended June 30, 2022. The audit was conducted by the Auditor General of Pakistan (Auditor General). The Auditor General stated it performed its audit in accordance with the 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 awardee's schedule of expenditures of USAID awards;¹ 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 schedule of expenditures of USAID awards for the period audited was presented fairly, in all material respects; (2) evaluate the internal controls; and (3) determine whether the awardee complied with award terms and applicable laws and regulations. To answer the audit objectives, the Auditor General performed the subject financial audit and said that it covered costs of \$2,268,944 for the fiscal year ending June 30, 2022.³

The Auditor General concluded that the schedule of expenditures of USAID awards presented

¹ The Auditor General referred to the schedule of expenditures as a fund accountability statement.

² 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.

³ Based on our desk review procedures, it came to our attention that the expenditures expressed in U.S. Dollar (USD) equivalent do not appear to reflect the prevailing exchange rate during the audit period. In addition, USAID/Pakistan noted that the awardee only incurred costs of \$1,273,129 equivalent to Pakistani Rupees (Rs.) 212,158,931 during the audit period. USAID reimbursed the awardee \$2,268,445 equivalent to Rs. 367,468,931, for costs that included those that the awardee incurred in the prior period.

fairly, in all material respects, program revenues and costs incurred under the award during the audited period. The Auditor General did not identify any questioned costs, material weaknesses in internal control, or material instances of noncompliance.

In the management letter, the Auditor General identified six audit findings that involve monetary effects totaling Rs. 356,890,235 (equivalent to \$2,137,067), which should have been identified as ineligible questioned costs in the 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. Part of the questioned costs pertain to costs that were incurred outside the audit period. The details of the findings and the associated questioned costs are disclosed in the below table.

Table I. Summary of Questioned Costs (Ineligible)

No.	Finding Description	Pakistani Rupees (Rs.)	USD (\$)	Finding Reference	Page Number
1	Irregular procurement due to contractor's false representation	13,575,000	81,287	4.1.1, 4.1.3 and 4.1.4*	17, 19, and 20
2	Failure to recover costs from imposing penalties due to late completion of work	13,097,000	78,425	4.1.2	18
3	Excess payment to suppliers due to failure to deduct stamp duties	2,201,235	13,181	4.1.5	20
4	Missing legal documents for equipment procurement	328,017,000	1,964,174	4.1.6	21
TOTAL QUESTIONED COSTS		356,890,235	2,137,067		

*Questioned costs in findings 4.1.3 and 4.1.4 are part of the total questioned amount in finding 4.1.1.

During our desk review, we noted an area for improvement which the Auditor General should address in its future audit reports. We presented this deficiency in a memorandum to the Controller dated December 27, 2023.

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

Recommendation 1. Determine the allowability of \$2,137,067 in ineligible questioned costs detailed on pages 17 to 21 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"). In addition, USAID OIG has determined that this transmittal memo and the enclosed report are not subject to notification and reporting requirements under Section 5274 of the National Defense Authorization Act".⁴

⁴ The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 Pub. L. No. 117-263, § 5274. Please direct related inquiries to oinotice_ndaa5274@usaid.gov.