



MEMORANDUM

DATE: April 16, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

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

SUBJECT: Financial Audit of Rural Support Programmes Network Under Multiple USAID Awards in Pakistan, 2015-2016 (5-391-18-016-R)

This memorandum transmits the subject final audit report. The Rural Support Programmes Network (RSPN) contracted the independent certified public accounting firm of Khalid Majid Rehman to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

Khalid Majid Rehman stated that it performed its audit in accordance with GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. Khalid Majid Rehman is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the recipient'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 RSPN's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate RSPN's internal controls; (3) determine whether RSPN complied with agreement terms and applicable laws and regulations; and (4) determine whether RSPN has taken corrective actions on prior audit report recommendations. To answer the audit objectives, Khalid Majid Rehman reviewed project documents and procedures; examined the fund accountability statement; reviewed and documented the internal control systems; and tested compliance with agreement terms and applicable laws and regulations. RSPN manages six projects, and is the prime

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. This contracted audit, however, was initiated before that date and follows the 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.

recipient for two projects (Tahafuz-II and ASP) and a subrecipient for four projects (HCP, MCHIP, SGAFP, HSSP).³ The audit covered project revenues and costs of \$7,223,733 and \$6,911,288, for the period audited. Of the total \$6,911,288 project costs, \$3,349,619 were incurred by subrecipients National Rural Support Programme (NRSP), Sindh Rural Support Organisation (SRSO), and Thardeep Rural Development Programme (TRDP) and were audited by other audit firms whose reports have been furnished to Khalid Majid Rehman. The auditor's opinion in so far as it relates to the \$3,349,619 subrecipient costs is based solely on the reports of the other audit firms.

Khalid Majid Rehman concluded that, except for the effects of the questioned costs totaling \$622 (ineligible), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the agreements for the period audited. The questioned costs pertained to sales tax paid by subrecipient NRSP amounting to \$540 and the associated indirect costs amounting to \$82. Since this amount has been identified in the NRSP audit report as a questioned cost and OIG considered this issue in its memorandum transmitting the NRSP report (Audit Report No. G-391-17-033-R), we are excluding this amount, together with the associated indirect costs, from our questioned cost recommendation in this memorandum.

The audit firm did not identify any significant deficiencies or material weaknesses in internal control. On the other hand, the audit firm identified one material instance of noncompliance associated with the ineligible questioned costs in the FAS. This finding has been identified in the subrecipient NRSP audit report as a material instance of noncompliance (Audit Report No. G-391-17-033-R). However, OIG did not make a recommendation for this finding in its memorandum transmitting the NRSP report; thus, we are making a recommendation for corrective action in this memorandum.

In Annexure 2, the audit firm presented extracts of the management letter issued to subrecipient NRSP and an extract of the finding issued to subrecipient SRSO. OIG considered the NRSP management letter in its memorandum transmitting the NRSP report (Audit Report No. G-391-17-033-R); thus, we are not making a recommendation for corrective action in this memorandum. For the SRSO finding, this has been identified in the SRSO audit report as a significant deficiency in internal control. However, Khalid Majid Rehman did not identify this finding as a significant deficiency in internal control in the RSPN report. Hence, we are making a recommendation for corrective action. The significant deficiency in internal control pertained to payments totaling \$1,901 (or PKR197,467) without adequate documentation for the HCP project. Also, the \$1,901 of inadequately supported payments should have been identified as questioned costs (unsupported) in the fund accountability statement. Accordingly, we are making a questioned cost recommendation.

³ Three projects were subjected to annual financial audits covering the period from July 1, 2015 to June 30, 2016 (Building Resilience through Community Based Disaster Risk Management in the Sindh Province of Pakistan [Tahafuz-II; the only project funded by OFDA], Health Communication Project [HCP], Maternal and Newborn Child Health [MCHIP]). On the other hand, three projects were subjected to closeout audits (Assessment and Strengthening Program [ASP], Small Grants and Ambassador's Fund Program [SGAFP], and JSI Health Systems Strengthening Project [HSSP]) covering the period from July 1, 2015 to November 30, 2016, April 15, 2016, and September 30, 2016, respectively.

In addition, in its management letter, the audit firm identified one other internal control matter. Based on our review of the audit firm's description of the issue, we consider the issue to be a material instance of noncompliance; hence, we are making a recommendation for corrective action. The material instance of noncompliance pertained to previous year's expenditures charged to the fund accountability statement of 2015-2016.

On the review of cost-sharing contributions, which are required under the MCHIP project, the audit firm reported that RSPN contributed \$15,419 during the period reviewed. The audit firm did not report any questioned cost-sharing contributions. Further, the audit firm reported that (1) the OIG recommendation in the prior year audit report had been addressed and (2) RSPN did not have a USAID-authorized provisional indirect cost rate.

Finally, in Annexures 3, 4, and 5, the audit firm discussed the results of the closeout audit procedures it performed for the ASP, HSSP and SGAFP projects. The audit firm reported that (1) 60 percent of the assets procured with the ASP project funds have been disposed in accordance with the disposition plan approved by USAID and 40 percent of the assets were transferred to the auditor general of Pakistan as approved by USAID; (2) no assets were procured with the HSSP project funds; and (3) all assets procured with the SGAFP project funds have been disposed in accordance with the terms of the agreement.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated April 16, 2018.

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

Recommendation 1. Determine the allowability of \$1,901 in questioned costs (unsupported) as discussed on page 2 of this memorandum and further detailed in Finding 1 (for subrecipient Sindh Rural Support Organisation) on pages 50–51 of the audit report, and recover any amount that is unallowable.

Recommendation 2. Verify that the Rural Support Programmes Network corrects the one significant deficiency in internal control as discussed on page 2 of this memorandum and further detailed in Finding 1 (for subrecipient Sindh Rural Support Organisation) on pages 50–51 of the audit report.

Recommendation 3. Verify that the Rural Support Programmes Network corrects the two material instances of noncompliance as discussed on pages 2 and 3 of this memorandum and further detailed in Annexure 1 (for subrecipient National Rural Support Programme) on pages 45–46 of the audit report and Observation 1 on page 60 of the management letter.

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