



# OFFICE OF INSPECTOR GENERAL

---

## AUDIT OF USAID/PAKISTAN'S ASSESSMENT AND STRENGTHENING PROGRAM

AUDIT REPORT NO. G-391-12-009-P  
SEPTEMBER 30, 2012

ISLAMABAD, PAKISTAN



*Office of Inspector General*

September 30, 2012

**MEMORANDUM**

**TO:** USAID/Pakistan Mission Director, Jonathan M. Conly

**FROM:** Office of Inspector General/Pakistan Director, Joseph Farinella /s/

**SUBJECT:** Audit of USAID/Pakistan's Assessment and Strengthening Program  
(Report No. G-391-12-009-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered USAID/Pakistan's comments on the draft report and have included those comments in Appendix II.

The report contains three recommendations to help USAID/Pakistan improve various aspects of the program. USAID/Pakistan agreed with the recommendations. On the basis of the information provided by the mission in response to the draft report, we determined management decisions have been reached on Recommendations 1, 2, and 3. A determination of final action on the recommendations will be made by the Audit Performance Compliance Division when the mission completes planned corrective actions.

Thank you and your staff for the cooperation extended to us during this audit.

# CONTENTS

<b>Summary of Results</b> .....	1
<b>Audit Findings</b> .....	3
Program Did Not Meet Targets.....	3
Program Planning Was Insufficient.....	5
<b>Evaluation of Management Comments</b> .....	7
<b>Appendix I—Scope and Methodology</b> .....	9
<b>Appendix II—Management Comments</b> .....	11

## Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
ICAP	Institute of Chartered Accountants of Pakistan
LUMS	Lahore University of Management Sciences
NADRA	National Database and Registration Authority
OFM	Office of Financial Management
PAC	Public Accounts Committee
PMP	performance management plan
RSPN	Rural Support Programmes Network

# SUMMARY OF RESULTS

In September 2008, the United States endorsed the Accra Agenda for Action, a commitment by international donors to strengthen and use developing-country systems to the extent possible to carry out development activities. To implement an overall U.S. Government civilian strategy in accordance with the Accra Agenda, USAID/Pakistan launched the Assessment and Strengthening Program in October 2010. According to mission officials and mission documents, the goals of the program were to assist potential Pakistani implementing partners (1) increase capacity to manage and account for U.S. Government development assistance funds, (2) reduce the vulnerability of the funds to waste and misuse, and (3) increase speed and efficiency in getting USAID development resources to the intended beneficiaries. The main targets of the program were Pakistani organizations including Government of Pakistan organizations.

To achieve the program's goals, the mission awarded separate cooperative agreements to the Rural Support Programmes Network (RSPN), Lahore University of Management Sciences (LUMS), and Associates in Development totaling \$44 million. Each agreement covered the period October 10, 2010, to October 2015. As of May 31, 2012, cumulative obligations under the program totaled approximately \$13.4 million, and disbursements totaled \$5.3 million.

The implementers were to carry out preaward assessments; institutional capacity-building programs based on gaps identified in the assessments; and training in financial management, procurement, human resources administration, and monitoring and evaluation practices.

USAID's Office of Inspector General in Pakistan conducted this audit to determine whether USAID/Pakistan's Assessment and Strengthening Program has increased the capacity of local organizations and Government of Pakistan entities to manage USAID development assistance funds.

Between October 2010 and May 2012, the program initiated 38 institutional capacity-building programs, completed 5 preaward assessments, and carried out capacity-building activities. Activities for the governmental organizations included establishing planning documents, developing policies and procedures manuals, providing training classes to 278 participants, and completing 1 research project.

Still, there were problems:

- The program did not meet its first-year targets (page 3). Although 38 programs were in process as of May 2012, implementers had finished none of the 46 they set out to complete. According to the agreement signed by RSPN, it was supposed to complete 21 preaward assessments and 16 capacity-building programs for organizations in the first year. Instead, it completed five preaward assessments and did not complete any capacity-building programs. Associates in Development was to complete an estimated 30 capacity-building programs in the first year. However, no capacity-building programs were completed after a year and a half. As of May 2012, RSPN had 13 capacity-building programs in process, and Associates in Development had 25.
- Program planning was insufficient (page 5). The results framework and preliminary performance management plan (PMP) were not established until a year after the program

began, and the USAID/Pakistan office managing the program lacks experience designing, planning, and implementing programs that, like this one, seek to build capacity in areas other than finance.

The report recommends that USAID/Pakistan:

1. Implement a plan to identify key partner organizations that need capacity building to manage USAID-funded programs, and after determining the organizational weaknesses that need strengthening, develop budgets and time frames to accomplish this (page 5).
2. Revise the Assessment and Strengthening Program's results framework and PMP in collaboration with the program office to link results to USAID/Pakistan's Strategic Framework (page 6).
3. As part of its portfolio review of mission projects and programs, review and align the management and implementation of the Assessment and Strengthening Program with the mission-wide Strategic Framework, including the program, technical, and support offices that need to be involved (page 6).

Detailed findings appear in the following section. The audit scope and methodology are described in Appendix I. Full text of management comments appears in Appendix II, and our evaluation of management comments is included on page 7.

# AUDIT FINDINGS

## Program Did Not Meet Targets

According to USAID/Pakistan's request for applications to implement the Assessment and Strengthening Program, the program was to establish a mechanism that would enable USAID/Pakistan to work with local implementing partners and host-government entities, many of which have insufficient institutional capacity. Through the performance of preaward assessments, the program would specifically target those local organizations (key partners) that are considered essential to meeting USAID/Pakistan's goals but do not meet minimum standards for managing U.S. Government funds. The program would provide technical assistance required to manage USAID funds effectively.

To initiate the process of capacity building, the mission selects organizations considered key partners. The program then relies on RSPN to do preaward assessments to identify weaknesses in areas such as internal controls and transparency. Once preaward assessments are completed, RSPN and Associates in Development are expected, at the direction of USAID/Pakistan, to prepare and implement capacity-building plans for these key USAID partners. RSPN is also expected to conduct annual validations to evaluate whether partners that underwent capacity building continue to comply with the standards and procedures developed under the programs. LUMS was awarded a cooperative agreement to provide classroom training in financial management, procurement, human resources administration, and monitoring and evaluation to local partners that were new to USAID standards.

Results reported by the three cooperative agreement implementers have not met expectations, as shown in Table 1 and the text below.

**Table 1. Targets and Results for Completed Preaward Assessments and Capacity-Building Activities (audited)**

Phase	Implementer	12-Month Target October 2011	19-Month Result May 2012	In Process May 2012
Preaward assessment	RSPN	21	5	0
Capacity-building program	RSPN	16	0	13
	Associates in Development	30	0	25

LUMS conducted no capacity-building training classes until February 2012.

The program did not meet its targets mainly because of insufficient planning, as discussed in the next finding. In its planning documents, USAID/Pakistan did not identify the key partner organizations targeted for capacity building.

Because USAID/Pakistan did not identify which key partner organizations should receive strengthening, RSPN came up with its own list and estimated in its agreement that it would strengthen 103 organizations, throughout the program. RSPN officials could not provide auditors a basis for the estimate. Further, RSPN officials said the number proposed was likely not attainable.

For its part, Associates in Development identified in its agreement 150 organizations for capacity building under the program, but like RSPN it was unable to provide a basis for the estimate. Associates in Development officials also told auditors that building the capacity of this many organizations during the project was ambitious and likely unrealistic.

LUMS did not include any targets for its program. It relies on USAID/Pakistan to refer participants from key partner organizations that were new to USAID standards and required institutional capacity-building classes in specific areas.

Although the program was designed to build capacity in key partner organizations to better manage USAID-funded programs, some program activities deviated from the main purpose of building capacity, as noted below.

USAID/Pakistan directed RSPN and Associates in Development to do work for organizations that are not apt to be future implementers of USAID projects. The work did not include and was not guided by preaward assessments. Table 2 details the organizations and the activities that were outside the scope of the program's description.

**Table 2. Organizations and Activities Outside the Program Scope**

<b>Organizations Assisted</b>	<b>Activities</b>	<b>Estimated Costs (\$)</b>
National Database and Registration Authority (NADRA)	Surveying households affected by the July 2010 floods.	869,000
Public Accounts Committee (PAC)	Assessing business systems	60,000
Institute of Chartered Accountants of Pakistan (ICAP)	Drafting a memorandum of understanding to establish a strategic plan for the institute	100,000
<b>Total</b>		<b>1,029,000</b>

At the direction of the mission, RSPN performed surveys of households throughout 80 districts in Pakistan to verify the number of families affected by the July 2010 floods. NADRA provided RSPN's subcontractor a listing of households to survey. Discussions between USAID/Pakistan and RSPN to perform this activity started in April 2011, and the final surveys were completed in June 2012. Surveying households affected by the July 2010 floods did not build capacity in NADRA as described in the program description, nor did the mission modify the goals of the program to include this work.

PAC is a parliamentary organization whose role is to ensure accountability and transparency in the financial matters of the Government of Pakistan. According to Associates in Development, PAC submitted a letter to USAID/Pakistan in December 2011 asking for assistance in assessing its business systems. The mission directed Associates in Development to provide such assistance. Work started in February 2012 and is expected to run through December 2012. PAC was not identified as a key partner organization by the mission and will not be

implementing USAID-funded programs. Moreover, according to Mission Order 200.2, dated June 27, 2012, no assessments of Pakistani Government organizations are to be conducted unless there is a reasonable likelihood that an award will be made by USAID/Pakistan.

ICAP is a self-regulatory governing body that promotes corporate governance and regulates the accounting and auditing profession in Pakistan. According to Associates in Development officials, the agreement officer's representative for the program directed them on January 30, 2012, to establish a strategic plan for ICAP to help it reform educational and professional standards for its members. As of May 2012, Associates in Development was in the process of establishing a memorandum of understanding with ICAP to establish this plan. Yet ICAP is not a key partner organization that will be implementing USAID-funded programs. And while developing a strategic plan to reform educational and professional standards for chartered accountants may be beneficial, it is not building capacity under the terms of the program.

Because activities outside the program scope divert funds from building capacity in key partner organizations to manage USAID-funded programs, we make the following recommendation.

***Recommendation 1.*** *We recommend that USAID/Pakistan implement a plan to identify key partner organizations that need capacity building to manage USAID-funded programs, and after determining the organizational weaknesses that need strengthening, develop budgets and time frames to accomplish this.*

## **Program Planning Was Insufficient**

According to USAID's Automated Directives System (ADS) 201.3.8.3,<sup>\*</sup> teams must develop a results framework to represent relationships between results that are necessary and sufficient to achieve the desired outcome. The results framework must propose the indicators that will be used to measure results, and this information will be developed in the PMP. ADS 201.3.5 states that "in presenting a planned new [design objective] for Mission approval, the [design team] requires planners to submit to the mission a preliminary PMP with proposed performance indicators for the desired outcome." ADS 203.3.3.4 further states that "once the award is executed the project staff must complete the PMP, with relevant indicators and baseline data, within the first few months and before major project implementation actions get underway."

Although USAID/Pakistan's Office of Financial Management (OFM) established a results framework and a PMP for the program, the documents were not ready until October 2011, a year after the program began.

Without a results framework and a preliminary PMP at the design phase, and additionally without these a year into the program, it is difficult to define and measure results. The program did not:

- Establish a baseline at the start of the program for measuring change in capacity in key partner organizations.
- Determine performance indicators to measure increased effectiveness in managing USAID-funded programs by key partner organizations that received capacity-building assistance.

---

<sup>\*</sup> The September 1, 2008, version of this guidance was applicable when the program was implemented in October 2010.

- Establish benchmark indicators for tracking the sustainability of capacity-building programs completed.
- Establish the requirement for data reported to be accumulated and disaggregated by gender.

According to OFM officials, they did not complete the results framework and the PMP during the design phase because they believed doing so was not required, and they focused instead on making sure the program was approved and cooperative agreements were awarded. Also, in the auditors' opinion, OFM does not, nor is it expected to, have expertise in program design and planning. OFM typically does not develop results frameworks or PMPs, nor does it carry out functions associated with program design and planning. The mission's program office fulfills these functions. We believe that because the program office did not help develop a complete results framework and PMP, program planning fell short.

In June 2012, USAID/Pakistan completed a mission-wide Strategic Framework with four crosscutting objectives, one of which is to improve institutional capacity. Under this framework, the intermediate result of improving institutional capacity is specifically included as a crosscutting objective to be overseen by the program office. According to USAID/Pakistan documentation and discussions with mission officials, the Assessment and Strengthening Program is crosscutting. It is not restricted to financial management. For instance, the program also includes procurement, human resources administration, and monitoring and evaluation in its capacity-building activities. However, the program currently is the responsibility of OFM, whose main function is not to design, plan, and implement crosscutting capacity-building programs because those are not their main areas of expertise.

Under its mission-wide Strategic Framework, mission management specifically placed the crosscutting objective of improving institutional capacity under the purview of the program office, not under any individual technical or support office in the mission. This approach makes the program office responsible for ensuring a complete and final results framework and PMP for projects to manage and facilitate results monitoring and reporting. The program office can also logically act as the office to coordinate any needed inputs from the various technical and support offices, which in the case of the Assessment and Strengthening Program include financial management, procurement, human resources administration, and monitoring and evaluation. The mission is currently reviewing its entire portfolio to align its programs with the mission-wide Strategic Framework.

Without a results framework and a preliminary PMP at the design phase—much less 1 year into the implementing period—it is difficult to define and measure results. Therefore, we make the following recommendations.

***Recommendation 2.*** We recommend that USAID/Pakistan revise the Assessment and Strengthening Program's results framework and performance management plan in collaboration with the program office to link results to USAID/Pakistan's Strategic Framework.

***Recommendation 3.*** We recommend that USAID/Pakistan, as part of its portfolio review of mission projects and programs, review and align the management and implementation of the Assessment and Strengthening Program with the mission-wide Strategic Framework, including the program, technical, and support offices that need to be involved.

# EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan agreed with the three recommendations in the report.

On the basis of information provided by the mission in response to the draft report, we determined that management decisions have been reached on Recommendations 1, 2, and 3.

**Recommendation 1.** USAID/Pakistan agreed to implement a plan to identify key local organizations needing capacity building. The plan will include the potential organizations, target dates for preaward assessments, and capacity-building plans, as well as budgets and time frames to accomplish this. Preparing the plan will involve coordination among OFM, the program office, and other technical and support offices. This is to be completed by December 31, 2012, and will be updated on an ongoing basis. Accordingly, a management decision has been reached.

**Recommendation 2.** USAID/Pakistan agreed to work with the program office to revise the program's results framework and PMP, linking results with the mission Strategic Framework. Actions are to be completed by November 30, 2012. In addition, the mission plans to conduct performance evaluations of implementing partners that underwent preaward assessments and received capacity-building assistance. Accordingly, a management decision has been reached.

**Recommendation 3.** USAID/Pakistan agreed to align the management and implementation of the program with the mission-wide Strategic Framework. The mission will also review program documentation to ensure that it accurately reflects the mission's desired outcomes for program activities. Actions are to be completed by June 30, 2013. Accordingly, a management decision has been reached.

The mission also provided comments on the findings to share lessons learned from the program experience.

The mission agreed that the activities noted in the first finding were beyond those initially anticipated in the design of the program but remained within the original scope of the awards. As stated on page 4 of the report, these activities were not provided for in the program description, nor were the agreements amended to specifically include these activities.

After pointing out the difficulty of identifying all future partners over the 5-year program, the mission said it had provided reasonable estimates to RSPN and Associates in Development. As the report states on pages 3 and 4, RSPN and Associates in Development officials said that they estimated the number of organizations and that the targets were likely unattainable.

Regarding program planning, the mission agreed that the program did not have a results framework and PMP at the beginning of the activity. Given the urgency of implementing the mission's portfolio, coupled with the large increases in resources provided, USAID/Pakistan did not require results frameworks and PMPs at the time the program was approved. The mission

noted it is currently undertaking a rigorous review of all projects to ensure that they comply with ADS requirements.

The mission also stated that it would design the program differently now based on lessons it has learned during implementation. From now until the end date, it plans to review the program continuously and adjust it as needed.

The complete text of management comments is included in Appendix II.

# SCOPE AND METHODOLOGY

## Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Pakistan's Assessment and Strengthening Program has increased the capacity of local organizations and Government of Pakistan entities to manage USAID funds. No previous audits addressed the areas reviewed.

The audit covered the period October 12, 2010, through May 31, 2012. The program started on October 12, 2010, and is to end on October 11, 2015. As of May 31, 2012, USAID had spent \$5.3 million of the \$13.4 million obligated for the program. The audit focused on activities that could increase the capacity of key partner organizations to manage USAID-funded programs. The estimated cost of capacity-building projects reviewed was \$2,175,281.

We reviewed applicable laws and regulations, including ADS Chapters 201 and 203 and supplemental guidance. The audit relied on the following sources of evidence: the request for applications to implement the program; three cooperative agreement awards; the program budgets, annual portfolio reviews, annual operational plan results for 2011; and documentation maintained at the mission and at the implementers' offices in Islamabad and Lahore. We also interviewed officials representing the mission, implementers, and the Government of Pakistan.

Audit fieldwork was performed at the USAID/Pakistan mission and at the implementers' main program offices in Islamabad and Lahore from May 23 through July 26, 2012. In planning and performing the audit, the audit team assessed relevant controls used by the mission to manage and oversee the program. We reviewed the following controls:

- Project results framework
- PMPs
- Annual operational plan results for 2011
- Quarterly and annual reports
- Annual portfolio review
- Annual work plans
- Capacity-building activities and budgetary data

## Methodology

To answer the audit objective, the audit team interviewed officials with USAID/Pakistan, RSPN, Associates in Development, LUMS, the World Bank, and Pakistan's Controller General of Accounts. Additionally, through interviews, documentation reviews, and analysis of data on completed projects and approved budgets, the audit team:

- Obtained an understanding of the program's goals.
- Tested the program's compliance with the required financial and program reporting.
- Analyzed the program's accomplishments.
- Reviewed the adequacy of program design and planning.
- Identified the inefficiencies and ineffectiveness in program implementation.

# MANAGEMENT COMMENTS



**USAID**  
FROM THE AMERICAN PEOPLE

**PAKISTAN**

## MEMORANDUM

Date: September 26, 2012

To: Joseph Farinella  
Director OIG/Pakistan

From: Jonathan M Conly /s/  
Mission Director USAID/Pakistan

Subject: Management Comments on the Audit of USAID/Pakistan's Assessment and Strengthening Program (ASP)  
(Report No. G-391-12-xxx-P)

Reference: Draft Report No. G-391-12-xxx-P dated September xx, 2012

The USAID/Pakistan Mission would like to thank the RIG/Pakistan audit team for undertaking the audit of the Assessment Strengthening Program (ASP) and for their professionalism and diligence in carrying out this important analysis. ASP is a key component of the Mission's cross-cutting capacity building program and accountability strategy. It was designed to identify and manage the risks associated with the changes in USAID's programming policies, including the directive to shift 50% of our implementation from proven international contractors and grantees, to local entities, most of which did not have prior experience working with USAID. ASP has helped enable USAID/Pakistan to better manage the risk associated with providing approximately \$993.75 million to Pakistani implementing partners, including Government of Pakistan entities. The draft audit report's overall findings will assist the Mission in its continuous efforts to ensure programs are well managed, mitigate risks and are both relevant to the needs of the People of Pakistan, as well as furthering the U.S. Government's foreign assistance objectives.

This memorandum contains USAID/Pakistan's management response to the draft audit report. The Mission agrees with the three recommendations contained in the report, and we have provided our responses to those recommendations. We have also added additional information that is meant to give the report a broader context and to document some of the lessons learned from this project.

**RECOMMENDATION NO. 1:** *We recommend that USAID/Pakistan implement a plan to identify key partner organizations that need capacity building to manage USAID funded programs, and after determining the organizational weaknesses that need strengthening, develop budgets and timeframes to accomplish this.*

**MANAGEMENT RESPONSE TO AUDIT RECOMMENDATION NO. 1:**

The Mission concurs with the recommendation. The ASP program can benefit from the development of an implementation plan that identifies key local organizations that may directly or indirectly receive USAID funded awards or contribute to the overall fiduciary controls of USAID funded awards e.g. Supreme Audit Institute of Pakistan. As noted in the introductory paragraphs, at the initial stages of the ASP, the identification of potential implementing partners was a very fluid and dynamic process. From 2009 (project design stage) through 2011, USAID/Pakistan went through 3 extensive strategy shifts. The first was a shift to implement a greater percentage of the program through local entities (primarily Government of Pakistan). In fiscal year 2010, approximately 50% of USAID's programming was implemented through local partners. The second major strategic shift began in August, 2010 to enable the Mission to address the devastating 2010 floods. The third shift began in January 2011 with a significant redesign of Mission's strategy, led by senior Washington leadership. The final phase of that strategy revision in June 2011 resulted in a reduction of management units from over 175 to approximately 35. These three dramatic shifts made it very difficult to identify all the future partners for assistance funding, although the Mission made reasonable estimates and provided those to RSPN and AiD for their proposals. Now that the Mission has progressed into a more stable assistance environment, such a plan becomes more practical, as recommended above.

The Office of Financial Management will work with the Program Office, technical and other support offices to develop an implementation plan which will identify key local organizations that need capacity building. The plan will include the potential organizations, target dates for pre-award surveys (capacity assessments) and target dates for entities requiring individual capacity building plans to be developed. As individual capacity building plans are developed, estimated budgets and timelines for completion will be added in order to enable the Mission to better monitor progress. This implementation plan will be developed by December 31, 2012 and updated on an on-going basis.

Based on the actions identified above, the Mission requests RIG/Pakistan concurrence that a management decision has been reached and that the audit recommendation will be deemed closed when the Mission develops the implementation plan as described above.

**RECOMMENDATION NO. 2:** *We recommend that USAID/Pakistan revise the Assessment and Strengthening Program's Results Framework and Performance Management Plan in collaboration with Program Office to link results to USAID/Pakistan's Strategic Framework.*

**MANAGEMENT RESPONSE TO AUDIT RECOMMENDATION NO. 2:**

The Mission concurs with the recommendation, and agrees ASP needs to be closely linked to the Mission's Strategic Framework. The Mission acknowledges the initial Results Framework and PMP were not finalized and formally approved until October 2011, approximately one year after the activity began.

The revision of the ASPs Results Framework, Logframe and Performance Management Plan was initiated in close collaboration with the Program Office, as part of a Mission-wide exercise and is the first project in the Mission to be aligned with USAID/Pakistan's new Strategic Framework. The work will be completed by November 30, 2012. In order to determine the impact of ASP's work, the Mission proposes to conduct performance evaluations of implementing partners that have undergone an ASP assessment and received capacity building technical assistance. The first of these performance evaluations will take place by June 30, 2013.

Based on the actions identified above, the Mission requests RIG/Pakistan concurrence that a management decision has been reached and that the audit recommendation will be deemed closed when the Mission completes the revision of the ASP's Results Framework, Logframe, Performance Management Plan and at least one performance evaluation of an implementing partner that has undergone an assessment and received capacity building technical assistance.

**RECOMMENDATION NO. 3:** We recommend that USAID/Pakistan as part of its portfolio review of mission projects and programs, review and align the management and implementation of the Assessment and Strengthening Program with the mission wide Strategic Framework including the program, technical, and support offices that need to be involved.

### **MANAGEMENT RESPONSE TO AUDIT RECOMMENDATION NO. 3**

The Mission concurs with the recommendation. The Mission will, as part of its current portfolio review exercise, evaluate and align the continued implementation of the Assessment and Strengthening Program with the mission wide Strategic Framework. The Mission will also review the documentation for the ASP with the intent of amending it to ensure it accurately reflects the Missions desired outcomes for cross cutting capacity building of local entities and related Public Financial Management activities. These actions will be completed by June 30, 2013.

Based on the actions identified above, the Mission requests RIG/Pakistan concurrence that a management decision has been reached and that the audit recommendation will be deemed closed when the Mission completes the portfolio review and makes a determination based on the revision of the Results Framework and Performance Management Plan.

### **MISSION COMMENTS ON THE CONTENT OF THE DRAFT REPORT**

As the audit report explained, USAID/Pakistan is developing tools such as ASP to reach the goals of the Accra Agenda to strengthen and use developing country systems to the maximum extent possible. In order to share our lessons learned from the ASP experience, we offer the following comments.

#### **Program is Not Meeting Capacity Building Targets**

In late 2009, the Kerry-Lugar-Berman Bill encouraged the use of local entities, both public and private. At that time, USAID/Pakistan had little experience with host country systems, and the Pakistani public criticized those same systems as corrupt and ineffective. The Mission went through a very steep learning curve to better understand government systems and to simultaneously design and implementing a large complex program. As described above, the Mission's strategy went through three major revisions in less than 20 months. While the Mission wisely foresaw the need for the Assessment and Strengthening Program (ASP), it did not foresee: (1) three major changes in strategy, (2) an epic flood in 2010 that

covered an area the size of Britain and affected 20 million people, nor (3) the reduction of projects to less than 40. Despite these challenges, USAID/Pakistan used ASP to better understand complex federal, provincial and municipal government systems, meet the challenges of flood relief and recovery, to broaden capacity building to the actual needs of implementing entities, enabling the Mission to move US foreign assistance forward while managing the risks involved with the use of local entities.

The targets used in this audit were based on first year work plans (October 2010 – September 2011). The Mission agrees those targets were based upon assumptions that did not reflect the realities of implementation. Second year targets (October 2011 – September 2012) have been modified and are more aligned to the realities of the current program and strategy. The Mission will continue to better align project targets and activities.

The Mission's definition of capacity building (CB) activities has evolved substantially with experience. The Mission has learned through ASP experience that the need for capacity building is greater than originally planned, and the complexity and types of CB activities has grown substantially. The audit has correctly pointed out that many CB activities are in progress and not completed. This reflects our experience that capacity building is often a longer term effort and a more complex set of activities. The Mission has been pleased with the positive feedback received from project implementers, and we look forward to upcoming evaluations to document how ASP has implemented substantial capacity development for USAID/Pakistan's key partners. We believe interviews with beneficiaries and USAID technical teams will provide insight on how ASP is successfully increasing the speed and efficiency in getting USAID development resources to intended beneficiaries.

Mission experience in implementing its predominantly local partner strategy indicates that some partners may need CB assistance for up to 3 years. Completion of the CB plan within ASP may be one important end goal. But, the more important metric is success of the USAID/GOP program in providing benefits to Pakistan. Future evaluations will help document whether this important goal was supported by ASP.

The Mission also agrees with the audit observation that as the scope of capacity building has broadened substantially, we need to review the management of a larger, more complex set of ASP activities. That will require more offices within the Mission to participate, but will result in better support to implementing entities, both NGO and governments, and increase overall USAID program success.

The Mission agrees with the audit that some of the ASP activities noted in the finding were beyond those initially anticipated in the design of the program but remained within the original scope of the awards. However, the Mission believes that ASP's flexibility to meet evolving challenges is actually a strength of the program.

1. Following the devastating 2010 floods, the GOP asked international donors to contribute \$580 million to the GOP's Citizen Damage Compensation Program as a way to more quickly and equitably provide assistance to flood victims. With a desire to use the Accra Accord principles, the donors agreed, but with the stipulation that the beneficiary data base of the National Database and Registration Authority (NADRA) be verified by an independent audit organization. USAID's ASP (RSPN) was the only organization that could provide such broad services and respond quickly. RSPN assistance to the National Database and Registration Authority (NADRA) was provided to validate the District-level beneficiary lists, increasing the confidence of the donors that their funds would reach intended flood victims. The donors proceeded to donate \$580 million to this GOP program, including \$190 million from USAID. While this specific activity was not anticipated in

USAID's design of ASP, we believe flexible management is essential when donors and the host country need to respond to complex emergencies such as the 2010 floods.

2. The Public Accounts Committee (PAC) is an important parliamentary body and ensures accountability and transparency in the financial matters of the government. The PAC, which is comprised of distinguished and experienced parliamentarians, has the responsibility of oversight of the Executive. The PAC examines the appropriations granted by the National Assembly for the expenditure of the Government, the annual finance accounts of the Government, the report of the Auditor-General of Pakistan and such other matters as the Minister for Finance may refer to it.

The audit is correct that USAID/Pakistan did not originally plan to work with the PAC. However, the Mission learned that in order for the sceptical Pakistani population to gain more confidence in democratic institutions, those institutions needed to prove their worth and increase their capacity to provide appropriate governmental oversight to ensure the entities are well run, transparent and accountable to its citizens. Thus, the Mission, through ASP, provides capacity building assistance to the PAC, which plays a key role in oversight of USAID funds channelled through GOP entities. Capacity building activities have helped the PAC to better monitor audits prepared by the Supreme Audit Institute of Pakistan, which audits all USAID G2G programs. The Mission believes that this effort contributes to the goal of ensuring transparency and accountability in USAID funded projects.

3. The Institute of Chartered Accountants in Pakistan (ICAP) maintains the audit standards and overall integrity of the public accounting firms which the Mission relies upon to conduct recipient contracted audits and non-audit financial services. The non-audit financial services support the obligation and disbursement of hundreds of millions of dollars in U.S. Government funds. While not in the original scope of work of ASP, USAID/Pakistan believes that the capacity building activities with the ICAP contributes to the goal of ensuring transparency and accountability in USAID funded projects.

### **Program Is Not Sufficiently Planned**

The Mission readily agrees that the program did not have a Results Framework (RF) or Performance Management Plan (PMP) at the beginning of the activity. This was rectified during the first year of implementation. Given the urgency of implementing the Mission's portfolio coupled with the large increase in resources provided, USAID/Pakistan the Mission did not require RFs and PMPs at the time that ASP was approved. The Mission has been undergoing a rigorous review of all projects to ensure that they are in compliance with ADS requirements.

To design and implement programs through government systems has required that the Mission learn new techniques, invent new tools, and learn while implementing. We have learned a great deal. Although we would design ASP differently now based upon what we've learned, our best way forward is to continuously adjust the program based upon what we're learning. And we will need to continuously learn and adjust accordingly. For this reason, we have added this context to help convey our lessons learned to the USAID global audience.

**U.S. Agency for International Development**  
**Office of Inspector General**  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
Tel: 202-712-1150  
Fax: 202-216-3047  
**[www.usaid.gov/oig](http://www.usaid.gov/oig)**