MEMORANDUM

DATE: June 20, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: Acting Regional Inspector General/Manila, Michael Hutchinson /s/

SUBJECT: Financial Audit of the Merit and Need-Based Scholarship Program Phases-I and II in Pakistan Managed by the Higher Education Commission, Agreements 391-G-00-05-01023-00 and 391-G-00-05-01023-12, respectively, July 1, 2016, to June 30, 2017 (5-391-18-020-R)

This memorandum transmits the final audit report on the Merit and Need-Based Scholarship Program Phases-I and II in Pakistan managed by the Higher Education Commission. The audit was conducted by the Auditor General of Pakistan (Auditor General). The "Memorandum of Understanding Between the United States Agency for International Development and the Auditor General of Pakistan" requires that the audit be conducted in accordance with generally accepted government auditing standards or the financial audit manual and the guidelines developed by the Auditor General.

The Auditor General stated that it performed its audit in accordance with GAGAS. It did not disclose the scope limitations that it did not fully comply with GAGAS pertaining to having a continuing professional education program and external quality control reviews. However, the mission confirmed that the Auditor General is not in full compliance with GAGAS on having a continuing professional education program and external quality control reviews. The Auditor General also stated that it performed its audit in accordance with international standards of supreme audit institutions issued by the International Organization of Supreme Audit Institutions (INTOSAI).[1] The Auditor General is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the Higher Education

[1] GAGAS 2.19 allows auditors to use GAGAS in conjunction with professional standards issued by other authoritative bodies.

Commission'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 the grantee's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate the grantee's internal controls; and (3) determine whether the grantee complied with agreement terms and applicable laws and regulations. To answer the audit objectives, the Auditor General reviewed program documents and procedures; examined the fund accountability statement including revenues received from USAID and costs incurred during the period; reviewed the internal control systems; and tested compliance with agreement terms and applicable laws and regulations. The audit covered program revenues and costs of $4,774,609 and $4,782,897, respectively, from July 1, 2016, to June 30, 2017.

The Auditor General concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreements for the period audited. The Auditor General did not identify any questioned costs, or significant deficiencies or material weaknesses in internal control. However, in the report on compliance, the Auditor General indicated that it noted certain material instances of noncompliance that were reported in the management letter. In its management letter, the Auditor General identified four issues. Based on our review of the Auditor General's description of the issues, we consider two issues to be material instances of noncompliance; hence, we are making a recommendation for corrective action. The material instances of noncompliance pertained to (1) salary expenses in the fund accountability statement exceeded by $6,368 or Rs. 666,856 the supporting documents (Observation 5.1.1)[3] and (2) the grantee's not maintaining a stock register and inventory of physical assets of the program (Observation 5.2.1). For item 1, the $6,368 excess expenditure should have been identified as questioned costs (unsupported) in the fund accountability statement. Accordingly, we are including these questioned costs in Recommendation 1 below. Further, Item 2 was a prior audit recommendation that had not been satisfactorily addressed; thus, was again reported in the current period management letter, and is covered by Recommendation No. 2 below.

The cost-sharing information was not reported in the current period because (1) for Phase-I, the required cost-sharing contributions were met in earlier years of the program and (2) for Phase-II, the required cost-sharing contributions amounting to $5,775,000 (based on the life-of-project budget) were defined in Project Implementation Letter (PIL) No. 2 (which was signed after the period audited).

[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] The Auditor General inadvertently reported an excess expenditure of Rs. 1,666,856 instead of Rs. 666,856. The mission confirmed that this was a typographical error.

The completion date of Phase-1 was moved from March 31, 2016 to June 30, 2017. [4] This extension allowed for continuity in payment of the operational expenses out of the Phase-I leftover funds. Further, in answer to our inquiry, the mission explained that a closeout audit of Phase-1 is not necessary since Phases-I and II were interlinked and related to each other, and the mission is in the process of executing an arrangement which would allow the use of Phase-I leftover funds for scholarship payments under Phase-II. Nonetheless, in accordance with section IV.B.12 (page 7) of the statement of work, we suggest that the mission ensure that the grantee (1) has disposed of the assets procured under Phase-I according to the terms of the agreement, and (2) has returned any excess cash of Phase-I to USAID.

To address the issues identified in the report and discussed in this memorandum, we recommend that USAID:

Recommendation 1: Determine the allowability of $6,368 in questioned costs (unsupported) discussed on page 2 of this memorandum and detailed in Observations 5.1.1 on page 19 of the report, and recover any amount that is unallowable.

Recommendation 2. Verify that the Higher Education Commission corrects the two material instances of noncompliance discussed on page 2 of this memorandum and detailed in Observations 5.1.1 and 5.2.1 on pages 19–21 of the report.

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

[4] The mission advised the grantee in its August 5, 2016 letter that USAID unilaterally extended the completion date of Phase-I (as specified in PIL No. 14) until the approval of PIL No. 2 of Phase-II (which occurred in August 2017), or to June 30, 2017, whichever comes first.