



## MEMORANDUM

**DATE:** July 31, 2018

**TO:** USAID/Pakistan Mission Director, Jerry Bisson

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

**SUBJECT:** Financial Audit of the Satpara Development Project in Pakistan Managed by Aga Khan Foundation (Pakistan), Cooperative Agreement AID-391-A-12-00002, January 1 to December 31, 2016 (5-391-18-025-R)

This memorandum transmits the final audit report on the Satpara Development Project in Pakistan. The Aga Khan Foundation (Pakistan) (AKF) contracted the independent certified public accounting firm of EY Ford Rhodes 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.<sup>1</sup>

EY Ford Rhodes 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. EY Ford Rhodes is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the AKF's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether the AKF's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate AKF's internal controls; (3) determine whether AKF complied with agreement terms and applicable laws and regulations; and (4) determine if AKF has taken corrective actions on prior

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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 immediately after that date and follows the Guidelines.

<sup>2</sup> 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.

audit recommendations. To answer the audit objectives, EY Ford Rhodes 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 \$4,807,553 and \$4,471,149, respectively, from January 1 to December 31, 2016.

EY Ford Rhodes concluded that, except for the effects of the questioned costs totaling \$867 (ineligible), the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited. The questioned costs pertained to unallowable general sales tax paid on lodging and procurement of services. Since the amount of questioned costs is not considered significant, we are not making any recommendation on these questioned costs. However, we suggest that USAID/Pakistan determine the allowability of the \$867 in questioned costs and recover any amount determined to be unallowable.

EY Ford Rhodes did not identify any significant deficiencies or material weaknesses in internal control. However, it identified one material instance of noncompliance related to the questioned costs identified in the fund accountability statement.

Finally, the audit firm reported that (1) the agreement did not require cost-sharing contributions and (2) AKF did not have a USAID-authorized provisional indirect cost rate. Further, based on our review of the status of audit recommendations from the prior recipient-contracted audit report, two of the four recommendations had not been satisfactorily addressed and were again reported in the current period audit report or management letter.

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 July 31, 2018.

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

**Recommendation 1.** Verify that Aga Khan Foundation (Pakistan) corrects the material instance of noncompliance detailed in Finding 7.1 on pages 27-29 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)