



MEMORANDUM

DATE: February 4, 2019

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: Office of Inspector General/Asia Regional Office Audit Director,
Matthew Rathgeber /s/

SUBJECT: Financial Audit of the Al-Kasib Group of Engineering Services (AGES)
Consultants Under Multiple USAID Awards in Pakistan, For the Periods Ended
September 30, 2017 (5-391-19-012-R)

This memorandum transmits the final audit report of the AGES Consultants under multiple USAID awards. The AGES Consultants contracted the independent certified public accounting firm of Zeeshan Ali & Co. to conduct the audit. The contract required the audit firm to perform the audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

Zeeshan Ali & Co. stated that it performed its audit in accordance with U.S. GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. Zeeshan Ali & Co. is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the AGES Consultants' 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 AGES Consultants' fund accountability statement for the periods audited was presented fairly, in all material respects; (2) evaluate the AGES Consultants' internal controls; (3) determine whether the AGES Consultants complied with award terms and applicable laws and regulations; and (4) determine

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. The mission, however, asked the auditors in its contract to follow the Guidelines, and this contracted audit followed those 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.

whether the AGES Consultants has taken corrective actions on prior audit report recommendations. To answer the audit objectives, Zeeshan Ali & Co. examined the fund accountability statement and supporting documentation; evaluated the AGES Consultants' internal control systems; tested compliance with contract terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered program revenues and costs of \$1,372,572³ each—awards are under cost reimbursement basis—for the periods audited.

Zeeshan Ali & Co. concluded that, except for the effects of the questioned costs totaling \$761 (\$571 ineligible and \$190 unsupported), the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the contracts for the periods audited. Since the questioned costs did not meet the OIG's established threshold of \$1,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the mission determine the allowability of the \$761 in questioned costs and recover any amount determined to be unallowable.

The audit firm identified three material weaknesses in internal control, all of which were associated with the same questioned costs identified in the fund accountability statement: (1) personnel costs charged exceeded agreed level of effort—\$456 (ineligible; Finding 1); (2) required details not recorded in the vehicle travel log books—\$107 (unsupported; Finding 2) and office vehicle used to pick and drop off employees—\$115 (ineligible; Finding 2); and (3) sales tax exemption certificate not obtained—\$83 (unsupported; Finding 3). The audit firm also identified three material instances of noncompliance, all of which are associated with the same questioned costs reported as internal control findings; thus we are not making a separate recommendation on these three material noncompliance findings.

In its management letter, the audit firm identified four other internal control matters or nonmaterial instances of noncompliance. Based on our review of the audit firm's descriptions of the issues, we considered one issue to be a significant deficiency in internal control; hence, we are making a recommendation for corrective action. The significant deficiency pertained to the invoices submitted by the contractor to USAID which could not be reconciled with the contractor's books and records.

Furthermore, Zeeshan Ali & Co. reported that (1) the contracts did not require cost-sharing contributions; (2) the recipient has no USAID-authorized provisional indirect cost rate; and (3) three of the five prior audit findings were reported again in the current audit report and are covered by Recommendation I below.

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 February 4, 2019.

³ Two contracts were subjected to a financial audit: Construction, Monitoring & Evaluation Program (CMEP; Contract AID-391-C-12-00003) covering the period from September 1, 2016, to September 30, 2017 and Municipal Service Program (MSP-KP, Contract AID-391-C-17-00005) covering the period from April 26, 2017, to September 30, 2017 (first audit).

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

Recommendation I. Verify that Al-Kasib Group of Engineering Services (AGES) Consultants corrects the three material weaknesses in internal control identified in the report on internal control on pages 39–40 and detailed in Findings 1–3 on pages 47–50 of the audit report; and the one significant deficiency in internal control discussed on page 2 of this memorandum and detailed in Observation 3 of the management letter on page 58 of the audit report.

We ask that you provide written notification of actions planned or taken to reach a management decision. We appreciate the assistance extended 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