



MEMORANDUM

DATE: May 22, 2019

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: USAID OIG Asia Regional Office Audit Director, Matthew Rathgeber /s/

SUBJECT: Financial Audit of the Malakand Reconstruction and Recovery Program Assistance – Housing Cash Transfer in Pakistan Managed by the Provincial Reconstruction Rehabilitation & Settlement Authority, Government of Khyber Pakhtunkhwa, Grant 391-011, July 1, 2014, to June 30, 2015 (5-391-19-034-R)

This memorandum transmits the final audit report on the Malakand Reconstruction and Recovery Program Assistance – Housing Cash Transfer in Pakistan managed by the Provincial Reconstruction Rehabilitation & Settlement Authority (PaRRSA), Government of Khyber Pakhtunkhwa. 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 U.S. generally accepted government auditing standards (GAGAS) 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 requirements pertaining to continuing professional education and external quality control reviews. However, the mission confirmed that the Auditor General is not in full compliance with GAGAS continuing professional education program and external quality control review requirements. 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 PaRRSA’s fund accountability statement; the effectiveness of its internal control; or its compliance with the grant terms and applicable laws and regulations.¹

¹ 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.

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 grant terms and applicable laws and regulations. To answer the audit objectives, the Auditor General reviewed program documents and procedures; examined the fund accountability statement; reviewed the internal control system; and tested compliance with grant terms and applicable laws and regulations. The audit covered program revenues and disbursements of \$4,816,000² and \$2,221,000, respectively, from July 1, 2014, to June 30, 2015.

The Auditor General concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited. The Auditor General did not identify any questioned costs in the fund accountability statement; however, in the management letter (Finding 4.2.2), the Auditor General reported costs of \$2,221,000 pertaining to irregular and unauthorized expenditures without administrative approval. Accordingly, we are making a questioned cost recommendation to the mission on the entire disbursements of \$2,221,000 as ineligible. However, since the program has completed, we are not making any procedural recommendation.

The Auditor General did not identify any significant deficiencies or material weaknesses in internal control, or material instances of noncompliance. Also, in response to our inquiry, the mission confirmed that the grantee does not have a cost-sharing contribution requirement and provisional indirect cost rate in the agreement. Finally, three of the prior audit findings were reported again in the current audit management letter.

During our desk review, we noted some issues which the Auditor General will need to address in future audit reports. We presented these issues in a memorandum to the controller dated May 22, 2019.

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

Recommendation 1. Determine the allowability of \$2,221,000 in questioned costs (ineligible) discussed on page 2 of this memorandum and detailed in Finding 4.2.2 of the management letter on page 29 of the report, and recover any amount determined to be unallowable.

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

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

² No releases were made by USAID during the audit period. Program revenues represent closing balances as of June 30, 2014 which were surrendered to the finance department and released to PaRRSA during the audit period.

