



## MEMORANDUM

**DATE:** September 19, 2019

**TO:** USAID/Pakistan Mission Director, Julie A. Koenen

**FROM:** USAID OIG Asia Regional Office Audit Assistant Director, Emily Gardiner /s/

**SUBJECT:** Financial Audit of the Satpara Development Project Managed by Aga Khan Foundation (Pakistan), Cooperative Agreement AID-391-A-12-00002, January 1 to December 31, 2017 (5-391-19-055-R)

This memorandum transmits the final audit report on the Satpara Development project. Aga Khan Foundation (Pakistan) (AKF) contracted with the independent certified public accounting firm EY Ford Rhodes 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.<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 recipient'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 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 whether AKF has taken corrective actions on

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 On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

prior audit report recommendations. To answer the audit objectives, the audit firm examined the fund accountability statement; evaluated the internal control system and assessed all related risks; tested compliance with agreement terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered project revenues and costs of \$1,420,437 and \$2,338,936 respectively, from January 1 to December 31, 2017.

EY Ford Rhodes concluded that the fund accountability statement presented fairly in all material respects, project revenues and costs incurred under the agreement for the period audited. However, the audit firm identified ineligible questioned costs of \$97. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the mission determine the allowability of the \$97 in ineligible questioned costs and recover any amount determined to be unallowable.

The audit firm did not identify any material weaknesses in internal control or material instances of noncompliance. The audit firm also issued a management letter to the recipient identifying three nonmaterial instances of noncompliance.

Finally, the audit firm reported that (1) the agreement did not require cost-sharing contributions; (2) AKF did not have a USAID-authorized provisional indirect cost rate; and (3) the prior audit recommendation had not been satisfactorily addressed and was reported in the current period as an issue in the 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 September 19, 2019.

Given the above results of the audit, we are not making any recommendations. 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