



MEMORANDUM

DATE: September 19, 2019

TO: USAID/Pakistan Mission Director, Julie Koenen

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

SUBJECT: Financial Audit of the Pakistan Outreach and Communication Activity Project Managed by M&C Saatchi World Services LLP, Contract AID-391-C-15-00014, January 1 to December 31, 2017 (5-391-19-056-R)

This memorandum transmits the final audit report on the Pakistan Outreach and Communication Activity project. M&C Saatchi World Services LLP (M&C) contracted with the independent certified public accounting firm of Rafaqat Babar and 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 Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients.¹

Rafaqat Babar and Co. 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. Rafaqat Babar and Co. 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.²

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. USAID/Pakistan adopted the entire OIG rescinded Guidelines and referred to as "USAID Guidelines" (applicable to USAID/Pakistan audits), which were used until the new USAID Guidance was issued in March 2019. The contract statement of work referred to these same guidelines as USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients.

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.

The audit objectives were to (1) express an opinion on whether M&C's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate M&C's internal controls; (3) determine whether M&C complied with contract terms and applicable laws and regulations; and (4) determine if M&C had taken adequate corrective actions on prior audit recommendations. To answer the audit objectives, Razaqat Babar and Co. reviewed project documents and procedures; examined the fund accountability statement; evaluated the recipient's internal controls relevant to the project; tested compliance with contract terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The audit covered project revenues and costs of \$3,442,148 and \$3,288,416, respectively, from January 1 to December 31, 2017.

Razaqat Babar and Co. concluded that, except for the effect of the questioned costs totaling \$555,072 (\$142,904 ineligible and \$412,168 unsupported), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the contract for the period audited. The ineligible questioned costs pertained to (1) prepaid rent reported as an expense and charged to the project – \$42,576; and (2) sales taxes claimed from USAID but not paid to tax authorities – \$100,328. The unsupported questioned costs pertained to (1) expenses not supported with documentation to show that complete procurement cycle was followed – \$58,588; (2) salaries not supported with documentation pertaining to recruitment of key personnel – \$200,159; and (3) payment to a vendor claimed under staff costs without documents to support vendor's incurred staff costs – \$153,421. For item 2 above under ineligible questioned costs, we are not making a questioned costs recommendation because M&C subsequently paid the tax authorities an amount of \$41,229 and returned to USAID the remaining amount of \$59,099 through an invoice adjustment.

The audit firm identified one material weakness in internal control and eleven material instances of noncompliance. Since the project had ended and USAID/Pakistan does not have existing or planned awards with the recipient, we are not making any procedural recommendations. The audit firm also issued a management letter to M&C identifying two other internal control matters.

Finally, the audit firm reported that (1) the contract did not require cost-sharing contributions; (2) M&C did not have a USAID-authorized provisional indirect cost rate; and (3) prior audit recommendations had been addressed except for three findings that were reported again in the current year audit report.

During our desk review, we noted a few 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.

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

Recommendation 1. Determine the allowability of \$454,744 in questioned costs (\$555,072 less \$100,328; \$42,576 ineligible and \$412,168 unsupported) discussed on page 2 of this memorandum and detailed in Findings 1, 5, 8, and 10 on pages 41–56 of the audit report and recover any amount that is unallowable.

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.

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