



## MEMORANDUM

**DATE:** September 25, 2019

**TO:** USAID/Afghanistan, Acting Mission Director, Jeffery Cohen

**FROM:** USAID OIG Middle East and Eastern Europe (ME/EE) Regional Office, Audit Director, Thomanek David /s/

**SUBJECT:** Financial Audit of Fund Accountability Statement of American University of Afghanistan, Support of the American University of Afghanistan Project, Cooperative Agreement AID-306-A-13-00004, July 01, 2017 to June 30, 2018 (8-306-19-113-R)

This memorandum transmits the final report on the financial audit of fund accountability statement of American University of Afghanistan (AUAF), support of the American University of Afghanistan project, cooperative agreement AID-306-A-13-00004, for the period from July 01, 2017 to June 30, 2018. The AUAF contracted with the independent certified public accounting firm Rafaqat Babar & Co., to conduct the audit.

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards, except for not fulfilling the continuing professional education requirements and not participating in an external quality control program. The audit firm explained that they fully comply with the current mandatory program of Continuing Professional Development (CPD) offered by Institute of Chartered Accountants of Pakistan (ICAP) which mandates 40 CPD hours per year or 120 hours in a rolling period of 3 years. The audit firm further explained that quality control program is not offered by the professional organizations in Afghanistan and Pakistan, however they participate in the quality control review program of Institute of Chartered Accountants of Pakistan. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on AUAF fund accountability statement; the effectiveness of its internal control; or its compliance

with the award, laws, and regulations.<sup>1</sup>

The audit objectives were to: (1) determine if expenditures reported as incurred under the agreement, were in fact reasonable, allocable and allowable to the cooperative agreement; (2) express an opinion on fund accountability statement of the entity presents fairly, in all material respects, revenue received, cost incurred and reimbursed for the period audited; (3) evaluate and obtain sufficient understanding of the recipient's internal control; determine whether AUAF management complied, in all material respects, with the agreement terms and applicable laws and regulations related with USAID program; and (4) verify if appropriate steps have been taken to implement prior audit recommendations. To answer the audit objectives, the audit firm performed the subject audit that covered \$19,653,340 for the period from July 1, 2017, to June 30, 2018.

The audit firm expressed a modified opinion on the fund accountability statement of AUAF and questioned a total of \$223,571 (\$36,000, ineligible and \$187,571 unsupported). The auditor identified one material weakness related to lack of procurement supporting documents in internal control. The auditor did not identify any significant deficiency in internal control. The auditor also identified five material instances of noncompliance, related to: 1) lack of procurement documents; 2) lack of physical inventory & insurance cover for the assets; 3) not outsourcing of procurement process; 4) not implementing the attendance system; and 5) not outsourcing payroll system. The auditor did identify any finding on cost sharing/sharing contribution. The auditors also issued a management letter.

To address the issues identified in the audit report, we recommend that USAID/Afghanistan do the following.

**Recommendation 1.** Determine the allowability of \$223,571 in questioned costs (\$36,000 ineligible, \$187,571 unsupported) on page 45 to 49 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that the AUAF corrects the one instances of material weakness in internal control detailed on pages 46 & 47 of the audit report.

**Recommendation 3.** Verify that the AUAF correct the five instances of material noncompliance detailed on pages 45-47 and 50-54 of the audit report.

We ask that you provide your 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").

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<sup>1</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.