



MEMORANDUM

DATE: October 16, 2019

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

FROM: USAID OIG Asia Regional Office Audit Director, James C. Charlifue /s/

SUBJECT: Financial Audit of Halcrow Pakistan (Pvt) Limited Under Multiple USAID/Pakistan Task Orders, January 1 to December 31, 2017 (5-391-20-001-R)

This memorandum transmits the final audit report on the multiple task orders managed by Halcrow Pakistan (Pvt) Limited (Halcrow). Halcrow contracted with the independent certified public accounting firm of UHY Hassan Naeem & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients.¹ However, the audit firm did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. The audit firm is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on Halcrow's statement of costs incurred; the effectiveness of its internal control; or its compliance with the task orders, laws, and regulations.²

The audit objectives were to (1) express an opinion on whether Halcrow's statement of costs incurred for the period audited was presented fairly, in all material respects; (2) evaluate Halcrow's internal controls; (3) determine whether Halcrow complied with contract terms and applicable laws and regulations; and (4) determine whether Halcrow has taken corrective actions on prior audit report recommendations. To answer the audit objectives, UHY Hassan Naeem & Co. examined the statement of costs incurred and supporting documentation; evaluated the effectiveness of the design and operation of the internal controls; tested compliance with contract terms and applicable laws and regulations; and reviewed corrective

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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 USAID/Pakistan adopted the entire OIG rescinded Guidelines and named them USAID Guidelines (applicable for USAID/Pakistan audits), which were to be used until the new USAID Guidance is developed and published. The audit contract referred to these same guidelines as USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients (USAID 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.

actions taken on prior audit recommendations. The audit covered costs incurred of \$3,990,200 from January 1 to December 31, 2017.³

UHY Hassan Naeem & Co. concluded that the statement of costs incurred presented fairly, in all material respects, costs incurred under the task orders for the period audited. The audit firm did not identify any questioned costs or material weaknesses in internal control. The audit firm, however, reported a material instance of noncompliance pertaining to Halcrow's not paying sales tax to the local government, despite USAID/Pakistan's allowing this tax to be a reimbursable expense. The audit firm also identified an immaterial instance of noncompliance in the management letter. Finally, all of the prior audit findings were management letter issues.

During our desk review, we noted some issues that the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated October 16, 2019.

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

Recommendation I. Verify that Halcrow Pakistan (Pvt) Limited corrects the material instance of noncompliance identified in the report on compliance and detailed in Condition # II of the management letter.

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").

Attachment: a/s

³ The audit covered four task orders under Contract AID-391-1-11-00002—three for the period January 1 to December 31, 2017, and one for the period January 1 to its closeout in June 2, 2017. The task orders covered were: AID-391-TO-15-00005 (Independent Quality Assurance for USAID's Stabilization Program Activities in the Federally Administered Tribal Areas and Khyber Pakhtunkhwa); AID-391-TO-16-00001 (Monitoring and Milestone Verification of Waran Canal and Gomal Zam Dam Command Area Development Project in Khyber Pakhtunkhwa); AID-391-TO-16-00006 (Architectural & Engineering Services for the Construction of Schools in Sindh Stage II); and AID-391-TO-12-00010 (Water and Sanitation Improvement Project, Municipal Services Program, Town I) (Closeout).