



## MEMORANDUM

**DATE:** October 18, 2019

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

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

**SUBJECT:** Closeout Audit of the Small Grants and Ambassador's Fund Program in Pakistan Managed by the National Rural Support Program, Contract 391-C-00-10-01189-00, July 1, 2017, to November 30, 2018 (5-391-20-003-R)

This memorandum transmits the final audit report on the Small Grants and Ambassador's Fund Program managed by the National Rural Support Program (NRSP). NRSP contracted with the independent certified public accounting firm of Naveed Zafar Ashfaq Jaffery & 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.<sup>1</sup> However, it 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 report and the conclusions expressed in it. We do not express an opinion on NRSP's fund accountability statement; the effectiveness of its internal control; or its compliance with the contract, laws, and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate NRSP's internal controls; (3) determine whether NRSP complied with award terms (including cost-sharing contributions, if applicable) and applicable laws and regulations; and (4) determine whether NRSP has taken corrective actions on prior audit report recommendations. To answer

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 On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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 USAID/Pakistan adopted the entire OIG rescinded Guidelines and referred to it as "USAID Guidelines" (applicable to USAID/Pakistan audits), which were used until the new USAID Guidance was issued in March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

<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.

the audit objectives, the audit firm examined the fund accountability statement and supporting documentation; evaluated the effectiveness of the design and operation of the internal controls; conducted tests of NRSP's compliance with certain provisions of the contract; and assessed the status of prior audit report recommendations. The audit firm noted that the contract did not require cost-sharing contributions. The audit covered revenues and costs incurred of \$5,970,317 and \$6,614,517, respectively, from July 1, 2017 to November 30, 2018.

The audit firm concluded that, except for the effect of questioned costs amounting to \$1,719 (ineligible), the fund accountability statement presented fairly, in all material respects, program revenues and costs under the contract for the period audited. 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 \$1,719 in questioned costs and recover any amount determined to be unallowable.

The audit firm did not identify any material weaknesses in internal control. However, it reported two material instances of noncompliance. Since the project has ended and USAID/Pakistan does not have existing or planned awards with NRSP, we are not making any procedural recommendations. The audit firm also issued a management letter to the recipient identifying two other internal control matters and a nonmaterial instance of noncompliance. Finally, the audit firm reported that the four prior audit findings have been resolved.

During our desk review, we noted a few minor issues that the audit firm should address in future audit reports. We presented these issues in a memorandum to the controller dated October 18, 2019.

Given the above results of the audit, we are not making any recommendation for inclusion in USAID's Consolidated Audit and Compliance Tracking System. 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