



MEMORANDUM

DATE: January 29, 2020

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

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

SUBJECT: Financial Audit of University of Engineering and Technology, Peshawar Under Two USAID Awards in Pakistan, July 1, 2017, to June 30, 2018 (5-391-20-012-R)

This memorandum transmits the final audit report on the two USAID awards managed by the University of Engineering and Technology, Peshawar (UETP). UETP contracted with the independent certified public accounting firm of Zeeshan Ali & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹ 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 UETP's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

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

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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 USAID/Pakistan adopted the entire OIG rescinded Guidelines and referred to it as "USAID Guidelines" (applicable to USAID/Pakistan audits), which were used until the new USAID Guidance was issued in March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

documentation; evaluated the effectiveness of the design and operation of the internal control system; tested the recipient's compliance with agreement terms and applicable laws and regulations; and assessed the status of prior audit recommendations. The audit covered program revenues and costs of \$1,828,031 and \$3,530,076, respectively, for the year ended June 30, 2018.³

The audit firm concluded that except for the effects of the questioned costs totaling \$134,803 (\$131,656 ineligible and \$3,147 unsupported), the fund accountability statement presented fairly in all material respects, program revenues and costs incurred under the agreements for the period audited. The ineligible questioned costs pertained to (1) costs claimed in excess of budget—\$126,511, and (2) sales tax claimed from USAID—\$5,145. The unsupported questioned costs pertained to payments to consultants not supported with timesheets.

The audit firm identified five material weaknesses in internal controls, one was related to questioned costs and the other four were related to (1) financial authorities for approval of payments not defined in the financial manual; (2) approval from USAID not obtained for expenditures that exceeded the budget; (3) procurement manual not revised to include the applicable regulations on the use of single source consultancy; and (4) expenditures in liquidation report not reconciled with the ledger. In addition, although we are not making a recommendation for significant deficiencies noted in the report, we suggest that the mission determine if the recipient addressed the issues noted. The audit firm also identified five material instances of noncompliance, two were related to questioned costs and the other three were related to (1) required software not implemented; (2) PhD scholars not inducted; and (3) leveraging contributions record not maintained. The audit firm also issued a management letter to the recipient identifying internal control matters and nonmaterial instances of noncompliance. Finally, the audit firm reported that several prior audit recommendations were not satisfactorily addressed and thus, they were reported again in the current audit report.

During our desk review, we noted several issues that the audit firm will need to address in future audit reports. We presented these issues and suggestion in a memorandum to the mission's controller, dated January 29, 2020.

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

Recommendation 1. Determine the allowability of \$134,803 in questioned costs (\$131,656 ineligible and \$3,147 unsupported) on pages 40 and 42 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that University of Engineering and Technology, Peshawar corrects the five material weaknesses in internal control detailed on pages 49, 59, and 63-66 of the audit report.

³ The audit covers two awards: Cooperative Agreement AID-391-A-14-000007 (U.S. Pakistan Center for Advance Studies in Energy) and a subaward under Pak USAID Merit and Need Based Scholarship Program.

Recommendation 3. Verify that University of Engineering and Technology, Peshawar corrects the five instances of material noncompliance detailed on pages 52-53 and 74-76 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”).

Attachment: a/s