



MEMORANDUM

DATE: February 24, 2020

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

FROM: USAID OIG Asia Regional Office Acting Audit Director, Abdoulaye Gueye /s/

SUBJECT: Financial Audit of the Financial Markets Development Program in Pakistan Managed by The Pragma Corporation, Contract AID-391-C-15-00013, March 1, 2016, to December 31, 2017 (5-391-20-004-N)

This memorandum transmits the final audit report on the Financial Markets Development Program in Pakistan managed by The Pragma Corporation (Pragma). USAID/Pakistan contracted with the independent certified public accounting firm of Horwath Hussain Chaudhury & Co. Lahore to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. generally accepted government auditing standards. 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 Pragma's fund accountability statement (FAS); the effectiveness of its internal control; or its compliance with the contract, laws, and regulations.¹

The audit objectives were to (1) express an opinion on whether the FAS for the period audited was presented fairly, in all material respects; (2) evaluate Pragma's internal controls; (3) determine whether Pragma complied with contract terms and applicable laws and regulations; (4) determine whether Pragma has taken corrective actions on prior audit report recommendations; and (5) address the mission's specific concerns such as those that relate to Pragma's policies on accounting, procurement, conflict of interest, human resources, and the implementation of these policies. To answer the audit objectives, the audit firm examined the FAS and supporting documentation; evaluated the effectiveness of the design and operation of the internal controls; tested compliance with contract terms and applicable laws and

¹ 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.

regulations; and performed procedures to address the mission's specific concerns. The audit firm noted that there was no prior audit of the project. The audit covered project revenues and costs incurred of \$4,618,785 each from March 1, 2016 to December 31, 2017.

The audit firm concluded that except for the effects of the questioned costs amounting to \$2,988,074 (ineligible), the FAS presented fairly, in all material respects, project revenues and costs under the contract for the period audited. The questioned costs pertain to labor and procurement costs based on the policies and procedures that were not formally approved by Pragma's Board of Directors - \$2,115,692, exchange loss not covered by the approved budget - \$6,711, fuel costs of a company vehicle that is not utilizing an official vehicle logbook - \$1,366, and indirect costs associated with the questioned costs - \$864,305.

The audit firm identified one material weakness in internal controls related to the questioned costs in the FAS, and one material instance of noncompliance. Because the project has ended and the mission has no existing or planned awards with Pragma, we are not making any recommendations on these procedural findings. However, we suggest that the mission review and consider the findings in conjunction with any future award to the contractor. The audit firm also issued a management letter to the contractor identifying other internal control matters.

During our desk review, we noted issues that the audit firm should address in future audit reports. We presented these issues in a memorandum to the controller dated February 24, 2020.

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

Recommendation 1. Determine the allowability of \$2,988,074 in questioned costs (ineligible) identified in the report on the fund accountability statement on page 9 and fund accountability statement on page 11 and detailed on pages 17–24 of the audit report, and recover any amount that is unallowable.

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