



## MEMORANDUM

**DATE:** April 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 the Gomal Zam Dam Command Area Development Project in Pakistan Managed by the Government of Khyber Pakhtunkhwa, Agriculture, Livestock, and Cooperatives Department, Grant 39I-DOA-GZDCADP-001-001, July 1, 2017, to June 30, 2018 (5-39I-20-027-R)

This memorandum transmits the final audit report on the Gomal Zam Dam Command Area Development Project in Pakistan managed by the Government of Khyber Pakhtunkhwa, Agriculture, Livestock, and Cooperatives Department. The audit was conducted by the Auditor General of Pakistan (Auditor General). The Auditor General stated that it performed its audit in accordance with international standards of supreme audit institutions issued by the International Organization of Supreme Audit Institutions (INTOSAI).<sup>1</sup> The Auditor General is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the grantee's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether the grantee's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate the grantee's internal controls; and (3) determine whether the grantee complied

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<sup>1</sup> The Memorandum of Understanding (MOU) between USAID and the Auditor General requires that the audit be conducted in accordance with generally accepted government auditing standards (GAGAS) or the financial audit manual and the guidelines developed by the Auditor General. In December 2016, USAID OIG stopped signing MOUs with the Supreme Audit Institutions (SAIs), recognizing the Agency's role to impose requirements on its implementing host government entities as a management function. This audit, however, followed that same MOU between USAID and the Auditor General.

<sup>2</sup> We reviewed the Auditor General'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.

with agreement terms and applicable laws and regulations (including cost-sharing contributions). To answer the audit objectives, the Auditor General examined the fund accountability statement and its supporting documents; evaluated the grantee's internal controls relevant to the project; and tested compliance with agreement terms and applicable laws and regulations. The audit covered project revenues and costs of \$1,922,000 and \$1,283,000, respectively, from July 1, 2017, to June 30, 2018.

The Auditor General concluded that the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the agreement for the period audited. The Auditor General did not identify any questioned costs, material weaknesses in internal control, or material instances of noncompliance.

Regarding the review of cost-sharing contributions which is required under the agreement, the Auditor General reported that the grantee contributed \$1,304,000 for the period audited. The Auditor General identified questioned cost-sharing contributions of \$899,200 in Note 1 to the cost-sharing contributions schedule related to (1) project allowances paid not permitted in the project policy - \$4,200 (Finding 4.1.1, page 23); (2) additional charge allowances paid not permitted in the PC-I Form of the project<sup>3</sup> or not adequately approved - \$3,100 (Finding 4.1.2, pages 23-24); (3) sales tax on services incurred not recovered from the contractors as required - \$38,200 (Finding 4.2.1, pages 24-25); (4) expenditures charged under the Government of Pakistan's (GOP) cash contributions exceeded the approved GOP's cash contribution budget - \$851,000 (Finding 4.2.2, page 25); (5) conveyance and house rent allowances paid above the rates permitted in the policy - \$1,600 (Finding 4.2.3, page 26); and (6) professional tax and disable person rehabilitation fees on services paid not recovered from the contractors as required - \$1,100 (Finding 4.2.4, page 26). The Auditor General also issued a management letter to the grantee identifying seven internal control matters/instances of noncompliance. Six findings were associated with the ineligible questioned cost-sharing contributions of \$899,200.

During our desk review, we noted issues that the Auditor General will need to address in future audit reports. We presented these issues in a memorandum to the mission's controller dated April 29, 2020.

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

**Recommendation 1.** Determine the allowability of \$899,200 in questioned cost-sharing contributions (ineligible) identified on pages 11 and 20 and further detailed on pages 23-27 of the report and recover any amount that is unallowable.

We ask that you provide written notification of actions planned or taken to reach a 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

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<sup>3</sup> The PC-I Form certifies that the project proposal was prepared by a grantee based on the instructions provided by the Planning Commission.

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