



## MEMORANDUM

**DATE:** November 17, 2020

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

**FROM:** USAID OIG Asia Regional Office USDH NFA Coordinator, James C. Charlifue/s/

**SUBJECT:** Financial Audit of Indus Basin SME Investments Limited's Management of the Pakistan Private Investment Initiative Project, Cooperative Agreement AID-391-A-14-00001, January 1 to December 31, 2019 (5-391-21-007-R)

This memorandum transmits the final audit report on the Pakistan Private Investment Initiative Project managed by Indus Basin SME Investments Limited (Indus Basin). Indus Basin contracted with the independent certified public accounting firm of Crowe Hussain Chaudhury & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards and the USAID Financial Audit Guide for Foreign Organizations. 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 the recipient's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

The audit objectives were to: (1) express an opinion on whether Indus Basin's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate Indus Basin's internal controls; (3) determine whether Indus Basin complied with agreement terms, and applicable laws and regulations; and (4) determine whether Indus Basin has taken corrective actions on prior audit report recommendations. To answer 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 control system; tested compliance with agreement terms and applicable laws and regulations; and assessed the status of prior audit report recommendations. The audit covered project revenues and costs of \$815,785 and \$970,743, respectively, from January 1 to December 31, 2019<sup>2</sup>.

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<sup>1</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.

<sup>2</sup> The revenue and costs include dividends amounting to \$107,654 received on an investment and transferred to USAID.

Crowe Hussain Chaudhury & Co. concluded that the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred and reimbursed under the agreement for the period audited. The audit firm did not identify any questioned costs or material weaknesses in internal control. However, it identified a material instance of noncompliance pertaining to not holding in-person semi-annual portfolio reviews. The audit firm also issued a management letter to the recipient identifying a nonmaterial instance of noncompliance. Finally, the audit firm reported that a prior audit finding was not satisfactorily addressed; thus, it was reported again as a finding in the current management letter.

During our desk review, we noted issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the mission's controller dated November 17, 2020.

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

**Recommendation 1.** Verify that the Indus Basin SME Investments Limited corrects the material instance of noncompliance detailed in Finding 1 on page 18 of the report.

We ask that you provide your written notification of actions planned or taken to reach a management decision.

The 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