



## MEMORANDUM

**DATE:** June 11, 2021

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

**FROM:** USAID OIG Asia Regional Office Deputy Assistant Inspector General for Audit, Christine M. Byrne /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 391-DOA-GZDCADP-001-001, July 1, 2019, to June 30, 2020 (5-391-21-030-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.<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 (FAS); 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 FAS for the period audited was presented fairly, in all material respects; (2) evaluate the grantee's internal controls; (3) determine whether the grantee complied with award terms and applicable laws and regulations (including cost-sharing contributions); and (4) determine corrective actions on prior audit report recommendations. To answer the audit objectives, the Auditor General examined the FAS and its supporting documents, evaluated the grantee's internal controls over its financial reporting, and tested compliance with award terms and applicable laws and regulations. The audit covered project revenues and costs of \$2,047,268<sup>3</sup> and \$1,965,004, respectively, from July 1, 2019 to June 30, 2020.

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<sup>1</sup> The international standards of supreme audit institutions were issued by the International Organization of Supreme Audit Institutions.

<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.

<sup>3</sup> The FAS reported total revenue of \$2,388,000 that included the prior year fund balance. The revenue amount in this memorandum was obtained from page 18 of the audit report, *i.e.*, column on releases from USAID during the year converted to U.S. Dollars at the rate \$1: Rs162.648.

The Auditor General concluded that the FAS 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, the Auditor General reported that the grantee contributed \$572,248<sup>4</sup> for the period audited. In the review report on the cost-sharing schedule (CSS), the Auditor General questioned a total of \$28,197<sup>5</sup> or Rs4,586,222 in cost-sharing contributions (ineligible) related to three findings in the management letter. Specifically, the findings pertained to (1) loss incurred from accepting a rate higher than the lowest bidder for security services - \$8,841 or Rs1,437,960 (Finding 4.4.2, page 34); (2) withholding tax deducted for consultant fees was lower than the prescribed rate - \$14,141 or Rs2,300,000 (Finding 4.2.3, page 35); and (3) deputation allowance improperly paid to staff - \$5,215 or Rs848,262 (Finding 4.2.4, page 36). The audit report also indicated that the prior audit report had not been discussed in the meeting with the recipient’s responsible committee. Thus, the Auditor General could not assess the status of prior audit findings.

In the management letter, the Auditor General identified 11 findings, 9 of which have questioned costs implications. Specifically, three findings were associated with ineligible questioned cost-sharing contributions totaling \$28,197 discussed above. The Auditor General identified one finding that although it did not pertain to expenditures in the FAS, it was related to a penalty not imposed on contractors for delayed completion of work amounting to \$168,316 or Rs27,376,275 (Finding 4.1.2, page 31). We are making a questioned cost recommendation to the mission on this penalty.

Further, four findings involved monetary effects totaling \$1,250,424 or Rs203,379,027 that should have been identified as ineligible questioned costs in the FAS. Accordingly, we are making a recommendation for the mission to determine the allowability and recovery, as appropriate, of these questioned costs. The details of the findings and the associated questioned costs are summarized in Table I.

**Table I. Summary of Questioned Costs (Ineligible) Related to Expenditures in the FAS**

Finding Description		Rs	\$	Finding and Page Numbers	
1	Loss from accepting a rate higher than the lowest bidder for consultancy services	21,714,587	133,507	4.2.1	33
2	Costs in the revised contract agreement exceeded the approved revised costs	122,334,440	752,142	4.3.1	37
3	Costs for the same activities were charged twice against two separate line items in the consultancy agreement	55,080,000	338,645	4.3.2	38

<sup>4</sup> The CSS presented a rounded-off value of \$0.572 million. Total cost-sharing contributions presented in this memorandum were obtained from page 18 of the report, i.e., columns on releases from “ADP” (Annual Development Program) and “Farmer” share during the year converted to US. Dollars at the rate \$1: Rs162.648.

<sup>5</sup> The review report on the CSS incorrectly reported questioned costs of \$45,000 instead of \$28,197.

4	Unauthorized extension of consultancy agreement for COVID-19 mobilization activities	4,250,000	26,130	4.3.3	39
<b>TOTAL QUESTIONED COSTS</b>		203,379,027	1,250,424		

Further, in Finding 4.4.1 of the management letter, the Auditor General noted that procurement of construction works was not in accordance with rules and procedures. The finding indicated that the project management paid a cumulative amount of Rs429,399,000 or \$2,640,051 as of June 2020 to various construction contractors. Although this amount included payments made in prior periods, we are making a questioned cost recommendation to the mission on these payments.

There are several issues that the mission and the Auditor General will need to address in future audit reports. We also have a suggestion to the mission. We provided these issues and suggestion in a memorandum to the mission controller dated June 11, 2021.

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

**Recommendation 1.** Determine the allowability of \$28,197 in questioned cost-sharing contributions (ineligible) as detailed in Findings 4.4.2, 4.2.3, and 4.2.4 on pages 34-37 of the report, and recover any amount that is unallowable.

**Recommendation 2.** Determine the allowability of \$168,316 (ineligible) in questioned amounts related to the penalty not imposed to contractors on delayed completion of work as detailed in Finding 4.1.2 on pages 31-32 of the report, and recover any amount that is unallowable.

**Recommendation 3.** Determine the allowability of \$1,250,424 (ineligible) in questioned costs as detailed in Table 1 on page 2 of this memorandum, and recover any amount that is unallowable.

**Recommendation 4.** Determine the allowability of \$2,640,051 (ineligible) in questioned amounts related to cumulative payments as of June 2020 to various contractors on construction works that were not in accordance with rules and procedures as detailed in Finding 4.4.1 on pages 40-41 of the report, and recover any amount that is unallowable.

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

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Attachment: a/s