



OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

MEMORANDUM

DATE: May 29, 2025

TO: USAID/Pakistan, Mission Director, Kate Somvongsiri

FROM: Asia Regional Office, Audit Assistant Director, Rhonda M. Horried /s/

SUBJECT: Financial Audit of the Khyber Pakhtunkhwa Reconstruction Program in Pakistan Managed by the Provincial Reconstruction Rehabilitation and Settlement Authority, Provincial Disaster Management Authority, Agreement 39I-011, for the year ended June 30, 2024 (5-39I-25-042-R)

This memorandum transmits the final audit report on the Khyber Pakhtunkhwa Reconstruction Program in Pakistan managed by the Provincial Reconstruction Rehabilitation and Settlement Authority, Provincial Disaster Management Authority, Government of Khyber Pakhtunkhwa (the recipient), for the year ended June 30, 2024. The Auditor General of Pakistan (Auditor General) conducted this audit. The Auditor General stated it performed the audit in accordance with the International Standard of Supreme Audit Institutions. The Auditor General is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the awardee's schedule of expenditures of USAID awards; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

The audit objectives were to: (1) express an opinion on whether the schedule of expenditures of USAID awards for the period audited was presented fairly, in all material respects; (2) evaluate the recipient's internal controls related to the project; and (3) determine whether the recipient complied with award terms and applicable laws and regulations. To answer the audit objectives, the Auditor General conducted a financial audit that covered costs of \$1,366,000 for the audited period.

The Auditor General concluded that the schedule of expenditures of USAID awards presented fairly, in all material respects, project revenues and costs incurred under the award during the period audited. Auditor General did not identify any questioned costs, material weaknesses in internal control, or material instances of noncompliance.

¹ We reviewed the Auditor General's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify items that need clarification or issues that require management attention. Desk reviews are limited to review of the audit report itself and exclude review of the auditor's supporting workpapers; they are not designed to enable us to directly evaluate the quality of the audit performed.

In the management letter, the Auditor General identified nine audit findings that involve monetary effects totaling \$479,381 (equivalent to Rs. 79,577,110), which should have been identified as ineligible questioned costs in the schedule of expenditures of USAID awards. Accordingly, we are making a recommendation for USAID/Pakistan to determine the allowability of and recover, as appropriate, these questioned costs. The details of the findings and the associated questioned costs are disclosed in the table below.

Table I. Summary of Questioned Costs (Ineligible)

| No. | Finding Description | Pakistani Rupees (Rs.) | USD (\$) | Finding Reference | Page Number |
|-------------------------------|-------------------------------------------------------------------------------|------------------------|----------------|-------------------|-------------|
| 1 | Outstanding deposit from forfeited performance guarantee | 1,230,000 | 7,410 | 4.1.4 | 27-28 |
| 2 | Overpayment to suppliers due to non-deduction of income tax | 15,620,000 | 94,096 | 4.2.2 | 29 |
| 3 | Irregular payment of price adjustment | 10,445,000 | 62,922 | 4.2.5 | 31 |
| 4 | Inadmissible payment on account of consultancy charges | 665,000 | 4,006 | 4.2.6 | 31-32 |
| 5 | Failure to recover liquidated damage charges for the supplier's late delivery | 1,158,947 | 6,982 | 4.2.11 | 34-35 |
| 6 | Inadmissible payment of 8% location factor | 2,766,000 | 16,663 | 4.3.2 | 36 |
| 7 | Irregular payment on account of price adjustment | 30,919,000 | 186,259 | 4.3.3 | 36-37 |
| 8 | Failure to impose LD charges on contractors for delays | 15,300,163 | 92,170 | 4.3.4 | 37-38 |
| 9 | Failure to impose liquidated damages for the supplier's late delivery | 1,473,000 | 8,873 | 4.3.6 | 38-39 |
| TOTAL QUESTIONED COSTS | | 79,577,110 | 479,381 | | |

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

Recommendation 1. Determine the allowability of \$479,381 in ineligible questioned costs detailed on pages 27 to 39 of the audit 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.

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”). In addition, USAID OIG has determined that this transmittal memo and the enclosed report are not subject to notification and reporting requirements under Section 5274 of the National Defense Authorization Act.²

² The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 Pub. L. No. 117-263, § 5274. Please direct related inquiries to oignotice_ndaa5274@usaid.gov.