



MEMORANDUM

DATE: July 6, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: Regional Inspector General/Manila, Matthew Rathgeber /s/

SUBJECT: Financial Audit of the Tarbela Dam Repair and Maintenance Phase-II Project in Pakistan Managed by the Water and Power Development Authority, Agreement 391-PEPA-ENR-TDR2-00, July 1, 2015, to June 30, 2016 (5-391-18-022-R)

This memorandum transmits the final audit report on the Tarbela Dam Repair and Maintenance Phase-II Project in Pakistan managed by the Water and Power Development Authority (WAPDA). The audit was conducted by the Auditor General of Pakistan (Auditor General). The “Memorandum of Understanding Between the United States Agency for International Development and the Auditor General of Pakistan” requires that the audit be conducted in accordance with generally accepted government auditing standards or the financial audit manual and the guidelines developed by the 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). The Auditor General is responsible for the enclosed auditor’s report and the conclusions expressed in it. We do not express an opinion on the WAPDA’s statement of receipts and payments; 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 grantee’s statement of receipts and payments² 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 with agreement terms and applicable laws and regulations. To answer the audit objectives, the

¹ 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.

² The audit report referred the financial statement as statement of receipts and payments.

Auditor General reviewed project documents and procedures; examined the statement of receipts and payments; reviewed the internal control systems; and tested compliance with agreement terms and applicable laws and regulations. The audit covered project receipts and payments of \$3,697,000 and \$3,697,000, respectively, from July 1, 2015, to June 30, 2016.

The Auditor General concluded that the statement of receipts and payments presented fairly, in all material respects, receipts and payments under the agreement for the period audited. The Auditor General did not identify any questioned costs, significant deficiencies or material weaknesses in internal control, or material instances of noncompliance.³ In its management letter, the Auditor General identified one issue which pertained to nonclearance of material within due period resulting in demurrage costs amounting to \$8,880 (or PKR929,634). Further, in Sections 5.1 and 5.2 (Key Issues for the Future and Lessons Identified), the Auditor General identified an issue which pertained to the delay in the utilization of funds resulting in the delay in the execution of the project. Based on the description of the issues, we considered both issues as material instances of noncompliance; hence, we are making a recommendation for corrective action. However, we are not making a questioned cost recommendation on the demurrage costs of \$8,880 because these costs were not charged to USAID.

In response to our inquiry, the mission confirmed that the grantee does not have a cost-sharing contribution requirement. Finally, this is the first audit of the project.

To address the issues identified in the report and discussed in this memorandum, we recommend that USAID:

Recommendation 1. Verify that the Water and Power Development Authority corrects the two material instances of noncompliance discussed on page 2 of this memorandum and detailed in Observation 4.1.1 on pages 17–18 and in Sections 5.1 and 5.2 (Key Issues for the Future and Lessons Identified) on page 19 of the report.

We ask that you provide written notification of actions planned or taken to reach a management decision. We appreciate the assistance extended to audit staff during the engagement.

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

³ The audit report did not include reports on internal control and compliance. According to the mission, obtaining a formal response from the Auditor General would take a while; thus, in the interest of time, it suggested that we issue the audit report in its present form. The mission confirmed that the Auditor General did not identify any significant deficiencies or material weaknesses in internal control, or material instances of noncompliance. However, in future audits, the audit report should have included reports on internal control and compliance as required by the statement of work for audits performed by the Auditor General.