



## MEMORANDUM

**DATE:** April 26, 2019

**TO:** USAID/Pakistan Mission Director, Jerry Bisson

**FROM:** USAID OIG Asia Regional Office Audit Director, Matthew Rathgeber /s/

**SUBJECT:** Financial Audit of Mehran University of Engineering and Technology's Management of the Center for Advanced Studies in Water Program in Pakistan, Cooperative Agreement AID-391-A-15-00003, for the Year Ended June 30, 2017 (5-391-19-024-R)

This memorandum transmits the final audit report on the Center for Advanced Studies in Water Program. Mehran University of Engineering and Technology (MUET) contracted with the independent certified public accounting firm of Deloitte Yousuf Adil (Deloitte) to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards except that 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 MUET'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 fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate MUET's internal controls; (3) determine whether MUET complied with award

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. The statement of work, however, required the auditors to follow the guidelines, and this contracted audit follows the guidelines.

<sup>2</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.

terms and applicable laws and regulations; and (4) determine whether MUET 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 MUET's internal control systems; tested compliance with contract terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered project revenues and costs of \$3,097,173 and \$2,247,178, respectively, for the year ended June 30, 2017.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for \$21,523 in total questioned costs (ineligible); one material weakness in internal control for not having an internal audit function; and one instance of material noncompliance pertaining to procurement of ineligible commodities included in questioned costs above. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that the mission determine the allowability of the \$21,523 in questioned costs and recover any amount determined to be unallowable. In addition, although we are not making a recommendation for significant deficiencies noted in the report, we suggest that the mission determine if the recipient addressed the issues noted. Additionally, the audit firm presented a status of corrective actions on prior audit report recommendations on page 38 onwards of the report.

During our desk review, we noted several minor issues which the audit firm will need to address in future audit reports. We presented these issues in a memo to the controller, dated April 26, 2019.

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

**Recommendation 1.** Verify that Mehran University of Engineering and Technology corrects the material weakness in internal control detailed on page 38 of the audit report.

**Recommendation 2.** Verify that Mehran University of Engineering and Technology corrects the instance of material noncompliance detailed on page 37 of the audit report.

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