



## MEMORANDUM

**DATE:** May 15, 2019

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

**FROM:** USAID OIG Asia Regional Office Acting Audit Director, Emily Gardiner /s/

**SUBJECT:** Financial Audit of the Malakand Reconstruction and Recovery Program Assistance – Housing Cash Transfer in Pakistan Managed by the Provincial Reconstruction Rehabilitation & Settlement Authority, Government of Khyber Pakhtunkhwa, Grant 391-011, July 1, 2013, to June 30, 2014 (5-391-19-031-R)

This memorandum transmits the final audit report on the Malakand Reconstruction and Recovery Program Assistance – Housing Cash Transfer in Pakistan managed by the Provincial Reconstruction Rehabilitation & Settlement Authority (PaRRSA), Government of Khyber Pakhtunkhwa. 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 U.S. generally accepted government auditing standards (GAGAS) 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 GAGAS. It did not disclose the scope limitations that it did not fully comply with GAGAS requirements pertaining to continuing professional education and external quality control reviews. However, the mission confirmed that the Auditor General is not in full compliance with the GAGAS continuing professional education program and external quality control review requirements. The Auditor General also 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).<sup>1</sup> 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

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<sup>1</sup> GAGAS 2.19 allows auditors to use GAGAS in conjunction with professional standards issued by other authoritative bodies.

PaRRSA's fund accountability statement; the effectiveness of its internal control; or its compliance with the grant terms and applicable laws and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether the grantee's fund accountability statement 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 grant terms and applicable laws and regulations. To answer the audit objectives, the Auditor General reviewed program documents and procedures; examined the fund accountability statement; reviewed the internal control system; and tested compliance with grant terms and applicable laws and regulations. The audit covered program revenues and disbursements of \$15,012,000 and \$10,217,000, respectively, from July 1, 2013, to June 30, 2014.

The Auditor General reported that it could not express an opinion on the fund accountability statement because it was unable to obtain sufficient appropriate evidence to provide a basis for an audit opinion. In the report on the fund accountability statement, the Auditor General listed several issues which form its basis for the disclaimer of an opinion. The Auditor General did not identify any questioned costs in the fund accountability statement and the report on the fund accountability statement. In the management letter, the Auditor General discussed in detail the issues it listed in the report on the fund accountability statement for the disclaimer of an audit opinion. The Auditor General noted, among others, the following issues: (1) the recipient could not provide sufficient evidence for the disbursement of funds by banks to the beneficiary accounts for the funds released by the finance department to various banks totaling \$10,217,000; (2) the banks delayed disbursement of funds to the beneficiary accounts; and (3) the recipient did not conduct an internal audit. Accordingly, we are making a questioned cost recommendation to the mission on the entire disbursements of \$10,217,000 as unsupported because of a disclaimer of opinion by the Auditor General. However, since the program has completed, we are not making any procedural recommendations.

The Auditor General did not identify any significant deficiencies or material weaknesses in internal control, or material instances of noncompliance.<sup>3</sup> Also, in response to our inquiry, the mission confirmed that the grantee does not have a cost-sharing contribution requirement and provisional indirect cost rate in the agreement. Finally, all of the four prior audit findings were reported again in the current audit management letter.

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<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 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 time; thus, 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.

During our desk review, we noted some issues which the Auditor General will need to address in future audit reports. We presented these issues in a memorandum to the controller dated May 15, 2019.

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

**Recommendation I.** Determine the allowability of \$10,217,000 in questioned costs (unsupported) discussed on page 2 of this memorandum and detailed in Findings 4.2.1, 4.2.2, and 4.2.8 of the management letter on pages 16, 17, and 21 of the report, respectively, and recover any amount determined to be unallowable.

We ask that you provide 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