



## MEMORANDUM

**DATE:** February 4, 2020

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

**FROM:** USAID OIG Asia Regional Office Audit Director, James C. Charlifue /s/

**SUBJECT:** Financial Audit of Halcrow Pakistan (Pvt) Limited Under Multiple USAID/Pakistan Task Orders, January 1 to December 31, 2018 (5-391-20-013-R)

This memorandum transmits the final audit report on the multiple task orders managed by Halcrow Pakistan (Pvt) Limited (Halcrow). Halcrow contracted with the independent certified public accounting firm of UHY Hassan Naeem & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. generally accepted government auditing standards and USAID Financial Audit Guide for Foreign Organizations. However, 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 Halcrow's fund accountability statement; the effectiveness of its internal control; or its compliance with the task orders, laws, and regulations.<sup>1</sup>

The audit objectives were to: (1) express an opinion on whether Halcrow's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate Halcrow's internal controls; (3) determine whether Halcrow complied with task order terms, and applicable laws and regulations; and (4) determine whether Halcrow 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 the effectiveness of the design and operation of the internal control system; conducted tests of Halcrow's compliance with task order terms and applicable laws and regulations; and assessed

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<sup>1</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.

the status of prior audit recommendations. The audit covered costs incurred of \$3,507,947 from January 1 to December 31, 2018<sup>2</sup>.

The audit firm concluded that the fund accountability statement presented fairly in all material respects, costs incurred under the task orders for the period audited. The audit firm identified ineligible questioned costs of \$1,588 in the fund accountability statement. 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 \$1,588 in ineligible questioned costs and recover any amount determined to be unallowable.

The audit firm did not identify any material weaknesses in internal controls. The audit firm, however, reported a material instance of noncompliance pertaining to Halcrow not paying sales tax to the local government, despite USAID/Pakistan allowing this tax to be a reimbursable expense. Further, in the management letter, the audit firm noted internal control matters and nonmaterial instances of noncompliance. Finally, the two prior audit recommendations were not satisfactorily addressed; thus, they were reported again in the current report on compliance and management letter, respectively.

During our desk review, we noted several issues that the audit firm will need to address in future audit reports. We presented these issues and suggestion in a memorandum to the controller dated February 4, 2020.

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

**Recommendation I.** Verify that Halcrow Pakistan (Pvt) Limited corrects the material instance of noncompliance identified in the report on compliance on page 27 and detailed in Condition II on page 31 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

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<sup>2</sup> The audit covered three task orders under Contract AID-391-I-11-00002: AID-391-TO-15-00005 (Independent Quality Assurance for USAID's Stabilization Program Activities in the Federally Administered Tribal Areas and Khyber Pakhtunkhwa); AID-391-TO-16-00001 (Monitoring and Milestone Verification of Waran Canal and Gomal Zam Dam Command Area Development Project in Khyber Pakhtunkhwa); and AID-391-TO-16-00006 (Architectural & Engineering Services for the Construction of Schools in Sindh Stage II).