



MEMORANDUM

DATE: July 7, 2020

TO: USAID/Pakistan Mission Director, Julie Koenen

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

SUBJECT: Closeout Financial Audit of the Pakistan Outreach and Communication Activity Managed by M&C Saatchi World Services LLP, Contract AID-391-C-15-00014, January 1, 2018 to January 31, 2019 (5-391-20-059-R)

This memorandum transmits the final audit report on the Pakistan Outreach and Communication Activity managed by M&C Saatchi World Services LLP (M&C). M&C 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 the 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 M&C's fund accountability statement (FAS); 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 M&C's FAS for the period audited was presented fairly, in all material respects; (2) evaluate M&C's internal controls; (3) determine whether M&C complied with award terms and applicable laws and regulations; and (4) determine the status of prior year audit recommendations. To answer the audit objectives, the audit firm examined the program's FAS and supporting documentation; evaluated the control environment, accounting systems, and control procedures; reviewed compliance with agreement requirements and applicable laws and regulations; determined compliance with closeout procedures; and analyzed the status of prior audit report

¹ 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.

recommendations. The audit covered \$3,746,756 in both revenues and costs for the period from January 1, 2018 to January 31, 2019.

The audit firm concluded that except for the effect of the \$362 in ineligible questioned cost, the FAS presented fairly, in all material respects, project revenues and costs incurred under the contract for the period audited. The ineligible questioned cost pertained to an overcharge in insurance expenses. Since the questioned cost did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation on the questioned cost. Nevertheless, we suggest that the mission determine the allowability of the \$362 in questioned cost and recover any amount determined to be unallowable.

The audit firm did not identify any material weakness in internal control but identified one instance of material noncompliance related to M&C's non-remittance of general sales taxes due to the local government. In addition, the audit firm reported that two issues in the prior audit report were partially addressed, while two were not resolved and were reported in the management letter. Since the project has ended and USAID/Pakistan does not have an existing or planned award with M&C Saatchi, we are not making any procedural recommendation on the material instance of noncompliance. However, we suggest that the mission review and consider the finding in conjunction with any future award to the recipient. The audit firm also issued a management letter to M&C identifying seven internal control and compliance issues.

During our desk review, we noted issues that the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the Controller dated July 7, 2020.

The report does not include any recommendations. 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