



## MEMORANDUM

**DATE:** June 30, 2021

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

**FROM:** USAID OIG Asia Regional Office USDH NFA Coordinator, James C. Charlifue /s/

**SUBJECT:** Financial Audit of the Project Management & Engineering Services for Federally Administered Tribal Areas Infrastructure Program in Pakistan Managed by the Government of Khyber Pakhtunkhwa, PIL 391–013–32, July 1, 2019, to June 30, 2020 (5-391-21-031-R)

This memorandum transmits the final audit report on the Project Management & Engineering Services for Federally Administered Tribal Areas Infrastructure Program (FIP) in Pakistan managed by the Planning and Development Department of the Government of Khyber Pakhtunkhwa. The audit was conducted by the Auditor General of Pakistan (Auditor General). The Auditor General stated that it performed its audit in accordance with international standards of supreme audit institutions.<sup>1</sup> The Auditor General is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the grantee's fund accountability statement (FAS); 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 grantee's FAS 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 Auditor General examined the FAS and its supporting documents; evaluated the grantee's internal controls over its financial

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<sup>1</sup> The international standards of supreme audit institutions were issued by the International Organization of Supreme Audit Institutions.

<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.

reporting; and tested compliance with agreement terms and applicable laws and regulations. The audit covered project revenues and costs of \$1,225,264 and \$1,041,941, respectively, from July 1, 2019, to June 30, 2020.

The Auditor General concluded that the FAS presented fairly, in all material respects, project revenues and costs incurred under the agreement for the period audited. The Auditor General did not identify any questioned costs, material weaknesses in internal control,<sup>3</sup> or material instances of noncompliance.

In the management letter, the Auditor General identified four audit findings. Two findings involved monetary effects totaling \$51,955 that should have been identified as ineligible questioned costs in the FAS. The findings were related to overpayments to a contractor due to under deduction and nondeduction of income taxes from service fees. Accordingly, we are making a recommendation for USAID/Pakistan to determine the allowability of and recover, as appropriate, these questioned costs.

There are several issues that the mission and the Auditor General will need to address in future audit reports. We also have a suggestion to the mission. We provided these issues and suggestion in a memorandum to the mission controller dated June 30, 2021.

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

**Recommendation 1.** Determine the allowability of \$51,955 in questioned costs (ineligible) discussed on page 2 of this memorandum and further detailed in Findings 4.2.2 and 4.2.3 on pages 20-22 of the report and recover any amount that is unallowable.

We ask that you provide written notification of actions planned or taken to reach a management decision.

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>3</sup> The report on internal control (page 7, paragraph 3) stated that certain deficiencies in internal control considered to be material weaknesses were identified. However, no material weaknesses were identified in either the report on internal control or in a separate finding discussion.