



OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

MEMORANDUM

DATE: March 29, 2023

TO: USAID/Pakistan Mission Director, Reed Jay Aeschliman

FROM: USAID OIG Deputy Assistant Inspector General for Audit, Christine M. Byrne /s/

SUBJECT: Financial Audit of Sindh Municipal Services Delivery Program in Pakistan Managed by the Government of Sindh Planning and Development Department, Award 391-PEPA-DG-S-MSP-2011-01, July 1, 2020 to June 30, 2021 (5-391-23-011-R)

This memorandum transmits the financial audit report on the Sindh Municipal Services Delivery Program in Pakistan managed by the Planning and Development Department of the Government of Sindh (the recipient) for the period from July 1, 2020, to June 30, 2021. The Auditor General of Pakistan (Auditor General) conducted the audit. The Auditor General stated it performed its audit in accordance with International Organization of Supreme Audit Institutions' standards. The Auditor General is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the recipient's schedule of expenditures of USAID awards; 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 the schedule of expenditures of USAID awards for the audited period was presented fairly, in all material respects; (2) evaluate the recipient's internal controls related to the Sindh Municipal Services Delivery Program; (3) determine whether the recipient complied with award terms and applicable laws and regulations, including cost-sharing contributions; and (4) determine if corrective actions had been taken on prior audit recommendations. The audit covered receipts and costs of \$2,634,231 and \$2,371,433, respectively, for the period audited.

¹ We reviewed the Auditor General's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify items that need clarification or issues that require management attention. Desk reviews are limited to review of the audit report itself and exclude review of the auditor's supporting work papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The Auditor General concluded that the schedule of expenditures of USAID awards presented fairly, in all material respects, project revenues and costs incurred and reimbursed under the grant for the period audited. The Auditor General did not identify any questioned costs, material weaknesses in internal control, or instances of material noncompliance.

Regarding the review of cost-sharing contributions, the Auditor General reported that the recipient contributed approximately \$545,535 (Rs87,328,662) for the period audited and a total of \$2,462,716 (Rs 394,228,662) of the required total cost share of \$3,289,317 (Rs 926,550,000)². The Auditor General did not report any questioned costs on these cost-sharing contributions. Finally, the Auditor General reported that 14 prior-year audit findings remained unresolved.

In its management letter, the Auditor General identified 26 findings of which 11 related to instances of noncompliance and or deficiencies in internal controls, resulting in questioned costs of \$19,830,068, which include contract amounts. Since the Auditor General did not specify which findings were specific to USAID/Pakistan contributions, however, we are making a recommendation for USAID/Pakistan to determine the allowability of and recover, as appropriate, the questioned costs related to USAID/Pakistan contributions, which could be as high as total expenditures of \$2,371,433. The details of the findings and the associated questioned costs from the Auditor General’s management letter are summarized in Table I.

Table I. Summary of Questioned Costs (Ineligible & Unsupported)²

No	Finding Description	Ineligible Costs (USD)	Unsupported Costs (USD)	Finding No	Page No
1	Sales taxes not withheld on payments for services as required	95,789	-	4.2.2	26-27
2	Unauthorized service charges on fuel procured with corporate card	364	-	4.2.3	27
3	Unsupported use of project vehicles	-	36,413	4.2.4	28
4	Building repair work awarded to a contractor not registered with local authorities as required	3,076	-	4.2.5	29
5	Proper utilization of funds could not be verified due to lack of required internal audit and third-party monitoring	2,687,832	-	4.2.6	30
6	Unsupported payment for IT equipment repair	-	887	4.2.7	30-31

² OIG computed equivalent USD amounts using the exchange rate of \$160.08 obtained by dividing total receipts in rupees by the total receipts in US Dollars reported in the audited schedule of expenditures of USAID’ awards.

No	Finding Description	Ineligible Costs (USD)	Unsupported Costs (USD)	Finding No	Page No
7	Sales taxes not withheld on payment for building repair	558	-	4.2.8	31-32
8	Unsupported payment made to project officer without required cash book	-	2,774,103	4.2.10	32
9	Unsupported expenditures for various items including equipment, furniture's, and IT equipment without necessary support for delivery, receipt and stock registration, distribution, and vendor acknowledgement of payment	-	8,086	4.2.11	33
10	Acquisition splitting to avoid required international competitive bidding	14,158,236	-	4.3.1	34
11	Irregular payment to a contractor for material in excess of allowed quantity without required prior approval	64,724	-	4.4.1	36-37
Subtotal Questions Costs		\$17,010,579	\$2,819,489	\$	2,787,897.70
Total Questioned Costs		\$19,830,068			

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

Recommendation I. Determine the allowability of up to \$2,371,433 in questioned costs pertaining to USAID contributions and recover any amount that is unallowable. Total questioned costs are detailed in Findings 4.2.2 to 4.2.11, 4.3.1, and 4.4.1 on pages 26-33, 34, and 36-37, respectively, of the audit report.

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

The 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").