



**USAID**  
FROM THE AMERICAN PEOPLE

# USAID Financial Audit Guide for Foreign Organizations

A Mandatory Reference for ADS Chapter 591

Full Revision Date: 03/04/2019  
Responsible Office: M/CFO  
File Name: 591maa\_030419

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## **Acronyms**

AICPA	American Institute of Certified Public Accountants
CFR	U.S. Code of Federal Regulations
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	U.S. Government Accountability Office
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
MCA	Mission Contracted Audit
NFA	Non-Federal Audit
NICRA	Negotiated Indirect Cost Rate Agreement
OIG	USAID Office of the Inspector General
QCR	Quality Control Review
RCA	Recipient Contracted Audit
RIG	USAID Regional Inspector General
SAI	Supreme Audit Institution

## 1. Purpose

### 1.1. Background

The U.S. Agency for International Development (USAID) administers foreign economic development and humanitarian assistance programs on behalf of the United States Government.

USAID consists of a central headquarters staff in the United States and a number of overseas Operating Units and Offices. It provides assistance to countries through both non-U.S. nongovernmental and non-U.S. public (governmental) organizations that support programs generally managed at an Operating Unit level (and, on an exception basis, by headquarters offices).

The USAID Financial Audit Guide for Foreign Organizations (Guide) is to be used by foreign organization recipients, referred to as "recipients" throughout this Guide (see section **1.2 Applicability**) and independent auditors to assist them with meeting the financial audit requirements of USAID awards. Awards<sup>1</sup> are defined as USAID-funded grants, contracts, and cooperative agreements. The Guide also provides guidance to recipients in selecting independent auditors to perform the financial audits.

USAID awards require financial audits as prescribed by the Single Audit Act Amendments of 1996 (31 USC 7501-7506) and the Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200 ([2 CFR 200](#)), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The purpose of the Single Audit Act Amendments of 1996<sup>2</sup> and the Uniform Guidance are to promote sound financial management, including effective internal controls; establish uniform requirements for audits of federal awards; promote the efficient and effective use of audit resources; and reduce burden. To meet these requirements, recipients of USAID awards contract independent auditors to perform annual financial audits consistent with [2 CFR 200](#).

This Guide is issued by USAID's Office of the Chief Financial Officer and supersedes any previous USAID Office of Inspector General (OIG) Guidelines for Financial Audits Contracted by Foreign Recipients. This Guide primarily focuses on recipient contracted audits (RCA), Agency contracted audits (ACA), and Mission contracted audits (MCA). These audits were referred to as non-federal audits in previous guidance. This Guide is not applicable for audits conducted by the Office of the Inspector General (OIG) or Government Accountability Office (GAO).

### 1.2. Applicability

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<sup>1</sup> 2 CFR 200.101 (b)(1) Applicability to different types of federal awards.

<sup>2</sup> Single Audit Act Committee on Governmental Affairs US Senate May 13, 1996.

USAID assistance to foreign organizations<sup>3</sup> and foreign public entities<sup>4</sup> provide provisions for recipient responsibilities on annual financial audits. For federal financial assistance awards ([ADS 303](#)), the audit requirement in [2 CFR 200<sup>5</sup>](#), sets the audit threshold at \$750,000 or more in combined federal fund expenditures during the recipient's fiscal year. In the year an award concludes, the annual audit scope will be expanded to fulfill the closeout audit requirements. Even if an award does not meet the \$750,000 audit threshold, the USAID Operating Unit may determine that an audit is warranted<sup>6</sup>. Some reasons may include a need to mitigate risk or prevent fraud, waste, and abuse.

Additionally, [2 CFR 200<sup>7</sup>](#), requires recipients to ensure their subrecipients, who expend \$750,000 or more in federal funds within their fiscal year, are also audited. Further guidance is provided in section **1.5 Multiple Awards and Subrecipients**.

The Food for Peace Development Assistance Program and Food Peace Emergency Program must also follow the [2 CFR 200](#), Appendix XI, Compliance Supplement issued April 2017 and April 2018 (both Supplements)<sup>8</sup>. The audit procedures to test compliance with the requirements for these federal programs are outlined in the document's "Matrix of Compliance Requirements". The auditor must use this Compliance Supplement guidance to perform the audits for any funds expended under these programs.

The requirements of [2 CFR 200](#) do not apply directly to USAID bilateral agreements with foreign public entities (such as agreements with public international organizations (PIOs) ([ADS 308](#)) and government-to-government assistance ([ADS 220](#))). However, agreements with host country governments must contain a requirement for an independent auditor and have audits performed in accordance with this Guide (see section **3.3 Supreme Audit Institutions**). Agreements with PIOs must follow [ADS 308](#) and its standard provisions, which contain a requirement for an independent audit.

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<sup>3</sup> 2 CFR 200.47 Foreign organization means an entity that is: (a) A public or private organization located in a country other than the United States and its territories that are subject to the laws of the country in which it is located, irrespective of the citizenship of project staff or place of performance; (b) A private nongovernmental organization located in a country other than the United States that solicits and receives cash contributions from the general public; (c) A charitable organization located in a country other than the United States that is nonprofit and tax exempt under the laws of its country of domicile and operation, and is not a university, college, accredited degree granting institution of education, private foundation, hospital, organization engaged exclusively in research or scientific activities, church, synagogue, mosque or other similar entities organized primarily for religious purposes; or (d) An organization located in a country other than the United States not recognized as a Foreign Public Entity.

<sup>4</sup> 2 CFR 200.46 Foreign public entity means: (a) A foreign government or foreign governmental entity; (b) A public international organization, which is an organization entitled to enjoy privileges, exemptions, and immunities as an international organization under the International Organizations Immunities Act (22 USC 288–288f); (c) An entity owned (in whole or in part) or controlled by a foreign government; or (d) Any other entity consisting wholly or partially of one or more foreign governments or foreign governmental entities.

<sup>5</sup> 2 CFR 200.501

<sup>6</sup> Exemption when federal awards expended are less than \$750,000 pursuant to 2 CFR 200.501 (d) and 200.503.

<sup>7</sup> 2 CFR 200.101(b)(1) Applicability to different types of federal awards. Non-federal entities must comply with requirements in this part regardless of whether the non-federal entity is a recipient or subrecipient of a federal award.

<sup>8</sup> [https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/2017/Compliance\\_Supplement\\_2017.pdf](https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/2017/Compliance_Supplement_2017.pdf) and <https://www.whitehouse.gov/wp-content/uploads/2018/05/2018-Compliance-Supplement.pdf>

### 1.3 Compliance with Auditing Standards

In accordance with [2 CFR 200](#) and the terms of the award, audits of USAID funds provided to foreign organization recipients are to be performed by an independent auditor in accordance with U.S. Generally Accepted Government Auditing Standards (GAGAS or the Yellow Book); herein referred to as “GAGAS”, issued by the Comptroller General of the United States Government Accountability Office.<sup>9</sup> In relation to other professional standards, an auditor may elect to apply the standards established by the International Auditing and Assurance Standards Board (IAASB) and the related International Standards on Auditing (ISA), although these standards must be applied in conjunction with GAGAS. The International Standards of Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI) for public-sector audits may be used in conjunction with GAGAS.

In order to assist recipients in selecting a qualified audit firm, USAID maintains a list of audit firms that have experience complying with USAID auditing standards. To be compliant with [2 CFR 200](#), auditors and audit organizations must provide services in accordance with GAGAS and be independent from an audited entity. The cost of audit services failing to meet these standards may be found disallowable. USAID is aware that some possible auditors contacted by foreign organizations’ recipients initially may not fully comply with this Guide because of a lack of technical knowledge and experience in using GAGAS. The USAID cognizant Controller will assess and consider this lack of institutional capability prior to the decision whether to accept the use of the audit firm for the required audit services. The USAID Controller may note and remove any auditors from the list of eligible audit firms that do not make adequate progress in upgrading their audit capabilities to comply with GAGAS (see section **3.1 USAID List of Audit Firms**).

### 1.4 Audit Costs

Recipients may charge to USAID awards a reasonably proportionate share<sup>10</sup> of the costs for performing the specific audit of their USAID-funded awards.<sup>11</sup> The costs to be charged to the USAID awards will be a matter for negotiation at the time of award between USAID and the recipient. For audits meeting the \$750,000 audit threshold, the audit firm is required to produce a final audit report that is approved by the OIG. For all other audits, the final audit report must be accepted by the cognizant USAID Operating Unit.

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<sup>9</sup> GAGAS incorporates the American Institute of Certified Public Accountants (AICPA), Professional Standards that include Statements on Auditing Standards (SASs). The SASs includes an “AU-C” identifier which represents section(s) in the Codification of SASs. The Codification was designed for clarity and converged the standards with the International Standards on Auditing (ISAs). See [AICPA Clarified Statements on Auditing Standards](https://www.aicpa.org/research/standards/auditattest/clarifiedsas.html) (https://www.aicpa.org/research/standards/auditattest/clarifiedsas.html)

<sup>10</sup> 2 CFR 200.425(a)

<sup>11</sup> See also [ADS 303mab Mandatory Standard Provisions for Non-U.S. Nongovernmental Organizations](#) M2.

If the USAID Operating Unit returns the work of an audit firm for revision due to noncompliance with professional auditing standards, only the cost of the audit work in accordance with the terms of the award may be charged to USAID until the final audit work is accepted. Any additional costs incurred in correcting deficient audit reports will not be reimbursed by USAID unless USAID provided prior approval to reimburse additional costs. Should the audit firm fail to make its report acceptable, a different audit firm may be requested to perform another audit. In such case, the original audit firm will not be considered acceptable to perform future audits until the cognizant Operating Unit determines otherwise and the firm is capable of substantially improved performance (see section **3.1 USAID List of Audit Firms**).

## **1.5 Multiple Awards and Subrecipients**

Some recipients may receive federal funding from more than one USAID award, from multiple USAID Operating Units, and/or from subawards provided by other U.S. or foreign entities, referred to as pass-through entities<sup>12</sup>. A recipient receiving subaward(s) from a pass-through entity is considered a subrecipient<sup>13</sup>. Under such circumstances, one annual financial audit covering the auditee's (see section **2.3 Auditee**) financial statements is required. The financial statements must include a schedule of expenditures of federal awards, referred to as a fund accountability statement that identifies funds for each specific federal award and USAID Operating Unit (see **Appendix 2 Illustrative Report**).

The responsibility as the cognizant office falls to the Operating Unit with the preponderance of USAID funds expended by the recipient.<sup>14</sup> Both the cognizant Operating Units and the pass-through entities may attend the audit entrance and exit conferences, as necessary. The cognizant Operating Unit will be responsible for the management decisions related to the recommendations and questioned costs for their awards. Recipient organizations providing funding to subrecipients are responsible for the questionable costs and audit follow-up for their subawards.

A subrecipient of one or more U.S. or non-U.S. recipients must have an annual financial audit in accordance with the provisions of its award if it meets the threshold of \$750,000 expenditures within the subrecipient's fiscal year. When a non-U.S. organization recipient of direct USAID assistance is a subrecipient of a U.S. recipient organization in addition to receiving funds directly from USAID as a recipient, then the annual audit performed must include the funding passing through the U.S. recipient organization. If a non-U.S. organization recipient is only a subrecipient to a U.S. organization recipient, then the annual audit is subject to the guidelines provided under [\*\*ADS 591.3.1, Audits of U.S. Organizations\*\*](#). If a subrecipient audit covers multiple recipients, the audit costs should be managed by the recipient with the largest expended amount and the cost shared on a pro-rata basis of the funds audited. The cognizant Operating Unit will make the determination as part of the annual audit plan.

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<sup>12</sup> Pass-through entities are defined in 2 CFR 200.74

<sup>13</sup> Subrecipients are defined in 2 CFR 200.93

<sup>14</sup> USAID Operating Units can access reports in the TRACS database to determine the amount of funds expended per recipient.



Subrecipients, some of which receive funding from multiple USAID recipients, manage a large portion of USAID funding. Consistent with USAID award provisions<sup>15</sup>, each recipient is responsible for ensuring they have full information about the combined total federal fund expenditures of their subrecipient(s) and monitoring the audit requirements of its subrecipients or contracts.

## 1.6 Audit Timelines

The recipient must submit final audit reports to the cognizant USAID Operating Unit as soon as possible and pursuant to the terms of the contract with the audit. Pursuant to the current award provisions, the final audit report must be submitted to USAID within 30 days after the recipient receives the auditor's report, but no later than nine months after the end of the period audited. For audits meeting the \$750,000 audit threshold, the cognizant Operating Unit should receive the final audit report within six months after the recipient's fiscal year end, noting that the Operating Unit must have the final audit report in time to forward to the cognizant OIG audit unit no later than nine months after the recipient's fiscal year end to be compliant with [2 CFR 200](#).

To meet these timelines, the selection of an independent audit firm (see section 3 **Selection of Audit Firm**), beginning the audit process, and interim audit work are likely needed before the close of a fiscal year, since initiating audits after the close of a fiscal year could hinder timely audit reporting and may restrict the scope of certain audit procedures, leading to additional questioned costs.

## 2. Roles and Responsibilities

### 2.1 USAID Operating Units<sup>16</sup>

USAID Operating Units are Missions, regional entities, and Washington-based Offices that expend U.S. federal funds. They must monitor the submission of required audit reports and encourage recipients to begin the audit process as soon as possible. For each audit of any amount of expenditures,<sup>17</sup> the cognizant Operating Unit must take actions to ensure that their recipients meet the federal funds audit compliance standards. To meet this end, the cognizant Agreement Officer's Representative can provide the Statement of Work (SOW) template (see **Appendix 1**) for the recipient to use when contracting audit services; the cognizant Controller will provide a list of acceptable audit firms available for the recipient to use; the cognizant AOR may review the final SOW; and the cognizant Operating Units may provide further assistance, expertise, as well as participate in the audit entrance and exit conferences, as needed.

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<sup>15</sup> See also [ADS 303mab Mandatory Standard Provisions for Non-U.S. Nongovernmental Organizations](#) M2.

<sup>16</sup> USAID ADS Glossary: Operating Units are USAID field Missions, regional entities, and USAID/Washington Offices that expend funds to support Agency program objectives.

<sup>17</sup> Audits with expenditures less than \$750,000 will be entirely managed and resolved by the USAID Operating Unit.

Each USAID Operating Unit is responsible for timely submission (see section **1.6 Audit Timelines**) of final audit reports meeting the \$750,000 threshold to the cognizant OIG audit unit, preparing its own management decisions, and acting upon findings and recommendations applicable to its agreements with the recipient. For audits below the \$750,000 threshold, the cognizant Operating Units will solely manage the audit without OIG audit unit interaction, unless directed otherwise.

Pursuant to [2 CFR 200<sup>18</sup>](#), USAID must take appropriate action in the event that their recipient has a continued inability or unwillingness to have an audit performed in accordance with the Guide. Remedies will be handled by the terms and conditions of the recipient's agreement and could include suspension of disbursements to the recipient until a satisfactory audit is performed.

## **2.2 Office of Inspector General (OIG)**

The OIG monitors the quality of financial audits by independent auditors meeting the \$750,000 audit threshold. For these audits, the OIG performs desk reviews of final audit reports for compliance with professional reporting standards, including GAGAS. After its review, the OIG will either reject the report and return it to USAID or issue a memorandum that transmits the audit report to USAID with any recommendations needing action. The transmittal memorandum is publically available on its external Web site.

The OIG does not normally conduct desk reviews of financial audit reports covering less than \$750,000 in expenditures within the recipient's fiscal year, but can do so at its discretion.

## **2.3 Auditee**

The auditee, for the purposes of this document, is a recipient that expends federal awards which must be audited under [2 CFR 200](#). This includes USAID's foreign organization recipients that expend a combined total of \$750,000 or more in federal funds either directly or through another federally funded contractor or recipient (excluding fixed priced contracts and fixed amount awards), or recipients procuring audit services otherwise required or permitted by their USAID award.

In conformance with their USAID award, auditee responsibilities should be consistent with [2 CFR 200<sup>19</sup>](#) and failure to comply may result in the disallowance of costs. Pursuant to [2 CFR 200<sup>20</sup>](#), the auditee responsibilities include procuring the audit work in accordance with GAGAS, preparing the appropriate financial statements including the fund accountability statement,<sup>21</sup> prompt follow-up and corrective actions on audit findings, and providing the auditor with access to personnel, accounts, books, records,

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<sup>18</sup> 2 CFR 200.505

<sup>19</sup> 2 CFR 200.508

<sup>20</sup> 2 CFR 200.509

<sup>21</sup> The fund accountability statement meets the 2 CFR 200 requirement for a schedule of expenditures 2 CFR 500.510(b).

supporting documentation, and other information as needed for the auditor to perform the required audit services. In accordance with [2 CFR 200<sup>22</sup>](#), the auditee’s financial statements must reflect its financial position, results of operations or changes in net assets, and cash flows for the fiscal year audited.

### **3. Selection of an Auditor<sup>23</sup>**

#### **3.1 USAID List of Audit Firms**

USAID maintains a list of audit firms that have experience with USAID-funded audits or have been screened and accepted by the cognizant Controller or designated Financial Analysts. The list provides information about each audit firm and their demonstrated ability to conduct a reliable audit that results in high-quality audit reports in accordance with this Guide’s section on “Compliance with Auditing Standards”. Prior to beginning any USAID-funded audit work, USAID advises that recipients choose an independent auditor from the List of Audit Firms. Failure to use a USAID-approved audit firm from the List of Audit Firms could result in an unacceptable audit report and disallowance of costs.

The cognizant Controller may decide to screen an audit firm not currently on the USAID List of Audit Firms. The process to critically examine a potentially acceptable audit firm may take time depending on the country’s audit environment. The cognizant Controller may determine that there is insufficient time to screen the audit firm and still meet the audit deadlines (see section **1.6 Audit Timelines**). In this case, the Controller will offer any needed guidance to recipients regarding the List of Audit Firms. It is recommended to give the Controller at least six months advance notice to screen a new audit firm. USAID encourages local audit firms and rotating audits among eligible audit firms to ensure independence. USAID bases the decision to accept an audit firm for the List of Audit Firms on a combination of factors, including prior experience, host country audit environment, and Operating Unit-specific requirements. Below are the baseline criteria for all audit firms analyzed for the List of Audit Firms:

1. Audit firm meets ability to produce reports in English.
2. Audit firm has sufficient quality control program in place that meets the GAGAS quality control and external peer review standards.
3. Audit firm has received a passing quality control review within three years.
4. Audit firm is a good standing member of the AICPA or the country’s public accounting organization (PAO), which complies with the statements of membership obligations of IFAC, or another internationally recognized standard setting body.

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<sup>22</sup> 2 CFR 200.510

<sup>23</sup> 2 CFR 200.509

5. Audit firm has been in operation at least three years, or its partners have previous acceptable experience with USAID-funded audits.
6. Audit firm requires continuing professional education (CPE) meeting GAGAS for audit partners and audit staff.
7. Audit firm senior staff has a Chartered Accountants or Certified Public Accountant designation.
8. Other possible considerations:
  - a. Affiliation with international audit firm.
  - b. Continuing Professional Education Program, differing from GAGAS.
  - c. Recent experience with USAID audits.

A firm may be noted for lacking certain criteria and determined not acceptable on the USAID List of Audit Firms. Auditors submitting unacceptable work or audit firms that do not provide timely responses to USAID's requests may also be noted and excluded from the list. Audit firms may also be removed from the list if they have not performed any audits under this Guide for a period of five years. However, USAID will give firms an opportunity to update their information before removing them or give firms an opportunity to update their information and apply to be reinstated on the list.

USAID may consider pursuing further repercussions with U.S. affiliates of audit firms that do not perform audits in accordance with the requirements of [2 CFR 200](#), and accept audit work beyond their proven scope of abilities.

In conjunction with the List of Audit Firms, the recipient's selection of an independent auditor should be based on factors such as the audit firm's past performance in terms of quality, timeliness, and ability to conduct audits in accordance with professional auditing standards (see section **1.3 Compliance with Auditing Standards**).

### **3.2 Independent Audit Firms**

Auditors and audit firms should avoid situations that could lead reasonable and informed third parties to conclude that the auditors and audit firms are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work. Auditors and audit firms should be independent from an audited entity during and for any period of time that falls within the period covered by the financial statements or subject matter of the engagement unless the non-audit service was provided prior to the period of professional engagement; the non-audit service relates only to periods prior to the period covered by the financial statements; and the financial statements for the period

to which the non-audit service relate have been audited by other auditors (or in the case of an examination, review, or review of financial statements, examined, reviewed, or audited by other auditors as appropriate).

In addition and pursuant to [2 CFR 200.509\(b\)](#), an auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by this part when the indirect costs recovered by the auditee during the prior year exceeded \$1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

Since non-audit services that auditors provide can affect independence of mind and appearance in periods after the non-audit services were provided, USAID would like to be notified of any such circumstances.

In accordance with the GAGAS, independence is defined as an independence of mind and independence in appearance. The state of an independent mind is one that permits the conduct of an engagement without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism. Independence in appearance means the absence of circumstances that would cause a reasonable and informed third party to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the engagement team had been compromised.

The OIG, cognizant Controller, and Operating Unit may conduct reviews of the audit firms that conduct audit services of USAID funds. All audit records including the auditor's working papers<sup>24</sup> related to the USAID recipient and their subrecipients must be available to complete and support their review of the audit work. These reviews may be used to determine whether the audit work was performed in accordance with their contract and appropriate standards, and can result in a change in the audit firm's eligibility to conduct audits of USAID funds. The Operating Unit will notify the recipient and the auditors of the results of these reviews.

### **3.3 Supreme Audit Institutions**

The recipient country's principal government audit agency, often referred to as its "Supreme Audit Institution" (SAI), may audit foreign public entities under this Guide. However, SAIs will only be accepted to audit USAID funds if the USAID cognizant Controller, or designee, determines that the SAI:

- Complies with U.S. Generally Accepted Government Auditing Standards (GAGAS) or the International Auditing and Assurance Standards Board (IAASB)

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<sup>24</sup> 31 U.S.C. 7503(f)

standards and the related International Standards on Auditing (ISA) and International Standards on Assurance Engagements in conjunction with GAGAS.

- Complies with International Standards of Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI) for public-sector audits in conjunction with GAGAS.
- Is in fact in mind and in appearance, independent of the government recipient organizations to be audited and the executive branch of the government, and substantially meets the independence requirements set forth in GAGAS.
- Does not participate in any way in pre-control, contract or transaction approval, check signing, or other activity that is incompatible with the audit function.
- Maintains a professionally prepared and competent staff of duly qualified and licensed certified public accountants, or equivalent, experienced in the performance of financial audits and appropriately supervised by more experienced auditors.
- Maintains a continuing program of staff training and professional development for its audit staff.
- Agrees to perform audits pursuant to this Guide.

USAID may support SAIs in developing their auditing manuals, audit quality control systems, and other audit needs by facilitating coordination between SAIs and other resources, such as the U.S. GAO Center for Audit Excellence, before the SAI conducts audits of USAID funds. The cognizant USAID Operating Units will consider assisting SAIs if they manifest a desire to perform professional quality audits of USAID-financed activities and the recipient government places a high priority upon this function.

In the event that an SAI demonstrates an inability or unwillingness to perform audit work in compliance with this Guide, USAID will not accept its work until the SAI is capable of substantially improving its performance. If an SAI's audit work is rejected, USAID may require an audit by a professional audit firm or, at its discretion, make arrangements for its own audit on behalf of the governmental recipient in accordance with the standard audit provisions in the USAID awards.

## **4. Audits**

### **4.1 Scope of Audit**

A financial audit of USAID funds provided to recipients must be performed in accordance with GAGAS, ISA in conjunction with GAGAS, or ISSAI in conjunction with GAGAS. The primary purpose of a financial statement audit is to provide an opinion

about whether an entity's financial statements are presented fairly in all material respects in conformity with an applicable generally accepted accounting principles or financial reporting standards. Reporting on financial statement audits performed in accordance with GAGAS also includes reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.

The financial audit must cover the entire operations of the recipient, including the recipient's general purpose financial statements on an organization-wide basis (balance sheet, income statement, and where appropriate, cash flow statement) if the recipient has been authorized to use a provisional indirect cost rate<sup>25</sup>, or if the Operating Unit specifically requests such an audit. The financial statements and the Fund Accountability Statement must be for the same audit period.<sup>26</sup>

The independent auditor must determine whether the financial statements of the recipient are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles (U.S. GAAP), International Financial Reporting Standards (IFRSs), or International Public Sector Accounting Standards (IPSAS). The independent auditor must also determine whether the fund accountability statement (also referred to as a schedule of expenditures of federal awards) is stated fairly in all material respects in relation to the recipient's financial statements as a whole.<sup>27</sup>

For financial audits of awards without provisional indirect cost rates, the fund accountability statement is the basic financial statement to be audited. The fund accountability statement must not include cost-sharing or matching contributions provided from the recipient's own funds or in-kind. The cost-sharing or matching contribution must be presented in a separate schedule. The opinion on the fund accountability statement must comply with Statement on Auditing Standard (SAS) No. 122 AU-C Section 805 Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement. SAS No.122 AU-C Section 805 is part of the AICPA Professional Standards which are incorporated into GAGAS.

## 4.2 Audit Objectives

The financial audit objectives must include the following and as such should be reflected in the audit contract SOW (**Appendix 1**):

- Express an opinion on whether the fund accountability statement for the USAID-funded programs presents fairly in all material respects in relation to the recipient's financial statements as a whole and in revenues received, costs incurred, and assets, commodities, and technical assistance directly procured

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<sup>25</sup> For additional help on indirect cost rates, see USAID's Indirect Cost Rate Guide for Non-Profit Organizations.

<sup>26</sup> 2 CFR 200.510 (a) & (b)

<sup>27</sup> 2 CFR 200.514 (a) & (b)

with USAID funding for the period audited in conformity with the terms of the award and generally accepted accounting principles.

- Evaluate the recipient's internal control related to the USAID-funded programs, assess control risk, and identify significant deficiencies including material weaknesses.
- Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost-sharing or matching contributions, if applicable) and applicable laws and regulations related to USAID-funded programs.
- Evaluate whether the recipient has met its cost-sharing or matching contributions, if required by the agreement.
- Perform an audit of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to USAID using provisional or 10 percent de minimis rates and USAID has not yet negotiated final rates with the recipient.
- If the recipient has been authorized to charge provisional indirect cost rates, then perform a financial audit of the recipient's organization-wide general-purpose financial statements.
- Determine if the recipient has taken adequate corrective actions on prior audit report recommendations, if applicable.

### **4.3 Fund Accountability Statement**

The recipient must accept the responsibility for the accuracy of the fund accountability statement before the audit commences regardless of whether the recipient received assistance in the preparation of the fund accountability statement from the books and records maintained by the recipient.

The fund accountability statement must reconcile to USAID provided fund information, the accounting records, and bank statements of the recipient. All currency amounts in the audit report must be stated in U.S. dollars. The auditors should calculate the exchange rate at the time the local currency was disbursed to the recipient by USAID and indicate the exchange rate(s) in the notes to the fund accountability statement. In audits of recipients covering awards from more than one USAID Operating Unit, the fund accountability statement must separately disclose the financial information (revenues, costs, etc.) for each award and program, and identify the USAID Operating Units that provide funding. Each Operating Unit must be able to identify its award in the audit report for resolution of findings and recommendations with the recipient. The same reporting principles apply when only one USAID award is covered by the audit. Auditors must not express separate opinions on fund accountability statements of each award or program unless specifically requested to do so by USAID.



#### 4.4 Cost-Sharing/Matching Schedule<sup>28</sup>

The audit should determine whether cost-sharing or matching contributions were provided and accounted for by the recipient in accordance with the terms of the agreements, if applicable. The auditors will review the cost-sharing or matching contributions schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule. The auditors should question all cost-sharing or matching contributions that are either ineligible or unsupported costs. In addition, for audits of awards that present a cost-sharing or matching contribution budget on an annual basis and for closeout audits of awards that present cost-sharing or matching contribution budgets on a life-of-project basis, the auditors will review the cost-sharing or matching contributions schedule to determine if cost-sharing or matching contributions were provided by the recipient in accordance with the terms of the agreement.

#### 4.5 Indirect Cost Rates<sup>29</sup>

In the case that the recipient has been authorized to use provisional indirect cost rates, the audit must be performed on the actual indirect cost rates for the year. The audit of the indirect cost rates should involve tests to determine whether the distribution or allocation base and the indirect cost pools includes only items or costs authorized by the USAID awards and applicable cost principles. These tests should also confirm that the indirect cost rates are accurately calculated. Costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both. If chosen, this methodology, once elected, must be used consistently for all federal awards until such time as the recipient chooses to negotiate for a rate.

As further provided in federal regulation ([2 CFR 200.414](#)), any foreign recipient that has never received a NICRA may elect to charge a de minimis rate of 10 percent of modified total direct costs. If chosen, this methodology, once elected, must be used consistently for all federal awards until such time as the recipient chooses to negotiate for a rate.

Additional information on the allocation and determination of indirect cost rates is provided in [2 CFR 200](#) Appendix IV to Part 200 – Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organization.

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<sup>28</sup> Leverage of non-USAID resources is different from cost-sharing or matching contributions. Pursuant to [ADS 303.3.27](#) (Public-Private Partnerships) leveraging represents all non-USAID resources, excluding cost sharing, expected to be applied to a program. Leveraging is limited to Public-Private Partnership awards. Leveraging includes resources that third-parties bring to the program without necessarily providing them to the recipient of the USAID assistance awards. These parties may include the host government private foundations, businesses, or individuals. The recipient is not responsible for meeting the leveraging amounts/resources and leveraging is not subject to audit; [ADS 303.3.10](#) Cost Share and 2 CFR 200.306 Cost-sharing or matching.

<sup>29</sup> For additional help on indirect cost rates, see [USAID An Indirect Cost Rate Guide for Non-Profit Organizations](#) and <https://www.usaid.gov/india/partner-resources/infographic-de-minimis-rate-indirect-costs>

In the case that the recipient has been authorized to use provisional indirect cost rates, an audit of the recipient's organization-wide general purpose financial statements is needed to ensure sound financial management and provide reasonable assurance that all costs have been correctly included in the indirect cost rate calculation.

#### **4.6 Audit Steps**

Auditors must design audit steps and procedures in accordance with GAGAS to provide reasonable assurance of detecting situations or transactions in which fraud or illegal acts have occurred or are likely to have occurred. If such evidence exists, the auditors must contact the appropriate USAID Operating Unit and should exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

Auditors must conduct their audit in accordance with the SOW (**Appendix 1**), obtain a management representation letter (**Appendix 4**), and consult the reference materials (**Appendix 5**). The SOW contains a list of 12 documents, as applicable, that must be reviewed prior to beginning the audit.

#### **4.7 Internal Controls**

The auditors must review and evaluate the recipient's internal controls related to USAID programs to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation. The auditor's understanding of the internal controls must be documented in the audit documentation file.

Auditors must follow the steps outlined in the SOW (**Appendix 1**) and prepare the report required by the Guide (**Appendix 2**), identifying any significant deficiencies or material weaknesses in the design or operation of internal control. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal controls that is less severe than a material weakness but that is important enough to merit attention by those charged with governance. Any significant deficiencies or material weaknesses must be set forth in the report as "findings". Any other matters related to internal control – such as suggestions for improving operational or administrative efficiency or internal control, or control deficiencies that are not significant deficiencies or material weaknesses – may be reported in a separate management letter to the recipient and referred to in the report on internal control.

#### **4.8 Compliance with Agreement Terms and Applicable Laws**

Auditors must follow the reporting standards contained in GAGAS for reporting on compliance which are based on the AICPA Professional Standards. The auditor's report

on compliance must set forth as findings all material instances of noncompliance with agreement terms, and applicable laws and regulations, defined as instances that could have a direct and material effect on the financial statements and/or fund accountability statement. In accordance with AICPA Professional Standards, the auditor is not responsible for preventing noncompliance and cannot be expected to detect noncompliance with all laws and regulations.<sup>30</sup> Nonmaterial instances of noncompliance must be included in a separate management letter to the recipient and referred to in the report on compliance. A copy of the management letter should be provided to the cognizant USAID Operating Unit along with the audit report.

The auditor's report must include relevant information about identified or suspected fraud based on sufficient, appropriate evidence obtained.<sup>31</sup> Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statement is intentional or unintentional. In presenting material irregularities, illegal acts, or other noncompliance, auditors must continue to follow the reporting standards contained in GAGAS. If the auditors conclude that sufficient evidence of any known or likely fraud or illegal acts exists, regardless of whether material to the financial statements, they must contact the USAID cognizant Operating Unit and the OIG and exercise due professional care in pursuing indications of possible fraud and illegal acts to avoid interfering with potential future investigations or legal proceedings.

#### **4.9 Follow-up on Prior Audit Recommendations**

The status of actions taken on findings and recommendations reported in prior audits, including prior audits of organization-wide financial statements, attestation engagements, and other assessments must be reviewed. Auditors should evaluate whether the audited entity has taken appropriate corrective action and prepare a Summary Schedule of Prior Audit Findings (SSPAF) to address findings and recommendations from previous engagements that could have a material effect on the financial statements as per [2 CFR 200.511](#). When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, financial reviews, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors must follow their contract Statement of Work (**Appendix 1**).

#### **4.10 Closeout Audits**

A closeout<sup>32</sup> audit is an audit for an award that concluded during the period audited. Pursuant to [ADS 591, Financial Audits of USAID Contractors, Recipients, and Host Government Entities](#), and the additional help in [ADS 302sat, Guidance on Closeout Procedures for A&A Awards](#), closeout audits

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<sup>30</sup> See AICPA AU-C Section 250, Consideration of Laws and Regulations in an Audit of Financial Statements.

<sup>31</sup> See AICPA AU-C Section 240, Consideration of Fraud in a Financial Statement Audit.

<sup>32</sup> Closeout is defined in 2 CFR 200.16 and further explained in 2 CFR 200.343-344.

require additional scope of the audit services, including but not limited to the following:

- Review unliquidated advances to the recipient and pending reimbursements by USAID.
- Ensure that the recipient has returned any excess cash to USAID.
- Review final share of costs in accordance with the terms of the agreement, if applicable.
- Ensure that all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the agreements.

The auditors must determine whether an annex to the fund accountability statement showing the balances and details of final inventories of nonexpendable property acquired under the awards is presented fairly in all material respects in relation to the financial statements. This inventory must indicate which items were titled to the U.S. Government and which were titled to other entities. These closeout audit procedures must be performed for any award that expires during the period audited.

For closeout audits of awards with a life-of-project budget for cost-sharing or matching contributions, the auditors will review the cost-sharing or matching schedule to determine if the recipients provided such contributions in accordance with terms of the agreement. If actual contributions were less than budgeted contributions, the shortfall will be identified in the appropriate column of the cost-sharing or matching schedule.

## **5. Audit Reporting**

As required by the template audit contract SOW, the final audit report will be submitted to the cognizant USAID Operating Unit as a portable document format (PDF) copy (or multiple copies) of the audit report in English and, if applicable, a PDF copy of the report in the recipient country's official language. The timeline for the audit reports must be consistent with the award provisions and section **1.6 Audit Timeline** of this Guide. The format and content of the audit reports should closely follow the Statement of Work (**Appendix 1**) and Illustrative Reports (**Appendix 2**) of this Guide. The audit report must specify the correct award number(s) of each award covered by the audit.

The report must contain, as applicable, a title page, table of contents, transmittal letter, and a summary which includes a background section. The background section must state a general description of the USAID programs audited, period covered, program objectives, clear identification of all entities mentioned in the report, follow-up audit recommendations, whether cost-sharing or matching contributions were required, and whether the recipient has a USAID-authorized provisional indirect cost rate. The report must also include the objectives and scope of the financial audit, clear explanation of

the procedures performed and any scope limitations. The report must summarize, as applicable, the audit results of the fund accountability statement, questionable costs, internal control, compliance with agreement terms and applicable laws, indirect cost rates, status of any prior audit recommendations, the recipient's general purpose financial statements on an organization-wide basis, the results of the review of the cost-sharing or matching contributions, and the recipient's management comments regarding its view on the audit and any findings.

The auditor's report must also include the auditor's opinion on the fund accountability, the review of the schedule of cost-sharing or matching contributions, the internal control, compliance with the agreement terms and applicable laws, the indirect cost rates, and if applicable, the recipient's general purpose financial statements on an organization-wide basis. The findings included in the reports on internal control and compliance related to USAID-funded programs must be developed with all elements of the findings pursuant to the auditing standards and include the following elements, condition, criteria, cause, effect and an actionable recommendation that corrects the cause and the condition, as applicable.

The reports must also contain, after each recommendation, pertinent views of responsible recipient officials concerning the auditor's findings and actions taken by the recipient to implement the recommendations. If possible, the auditor should obtain written comments. When the auditors disagree with management comments opposing the findings, conclusions or recommendations, they must explain their reasons. Conversely, the auditors should modify their report if they find the comments valid.

Contact the cognizant USAID Operating Unit for any additional information or clarification on this Guide.

## **APPENDICES**

APPENDIX 1: Standard Statement of Work

APPENDIX 2: Illustrative Audit Reports

APPENDIX 3: Audit Agreement Template with SAI

APPENDIX 4: Illustrative Management Representation Letter

APPENDIX 5: Reference Materials

## Appendix 1

### STANDARD STATEMENT OF WORK FOR FINANCIAL AUDITS OF NON-U.S. ORGANIZATIONS

#### I. BACKGROUND

On [date], the U.S. Agency for International Development (USAID), [Operating Unit] (Operating Unit) approved the [program name and number] (program), which provided [amount in U.S. Dollars] in [loan/grant] funds to [name of recipient] (recipient) for [describe the time period of the award and in general terms the purposes of the program and the principal line items and amounts budgeted, including cost sharing contributions, direct payments and all related financial information of the program, as applicable].

*[If recipient activities are financed by more than one program, include a similar paragraph for each program.]*

*[Include a brief history of the recipient, its principal purposes and goals, location(s) of activities to be audited, location(s) of accounting records and management.]*

*[The purpose of including complete data on the recipient/subrecipient and the program(s) involved is to provide the auditor with all necessary information for them to properly estimate their audit fees.]*

#### II. TITLE

Audit of the Fund Accountability Statement (or Audit of Financial Statements). In the case of closeout audits, the title must specify that it is a closeout audit, as in: Closeout Audit of the USAID Resources Managed by [name of recipient] Under Program [program number and name] for the period from [date] to [date].

#### III. OBJECTIVES

The objective of this engagement is to conduct a financial audit of the USAID resources managed by the recipient/subrecipient under program [program number and name] from [date] to [date] in accordance with:

- USAID Financial Audit Guide for Foreign Organizations (hereafter Guide);
- U.S. Generally Accepted Government Auditing Standards<sup>33</sup> (GAGAS or the Yellow Book); hereafter referred to as GAGAS, issued by the Comptroller General of the United States Government Accountability Office; and, as

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<sup>33</sup> GAGAS incorporates the American Institute of Certified Public Accountants (AICPA), Professional Standards that include Statements on Auditing Standards (SASs). The SASs include an "AU-C" identifier which represents section(s) in the Codification of SASs. The Codification was designed for clarity and converged the standards with the International Standards on Auditing (ISAs). See [AICPA Clarified Statements on Auditing Standards](https://www.aicpa.org/research/standards/auditattest/clarifiedsas.html) (https://www.aicpa.org/research/standards/auditattest/clarifiedsas.html)

applicable;

- International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), in conjunction with GAGAS; and
- The International Standards of Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI) for public-sector audits, in conjunction with GAGAS.

The financial audit must include a specific audit of all the recipient's USAID-funded programs. The fund accountability statement is the basic financial statement to be audited when indirect cost rates are not used. All amounts in the financial audit report must be stated in U.S. dollars. The auditors should indicate the exchange rate(s) used in the notes to the fund accountability statement.

### **A. Audit of USAID Funds**

Auditors must design steps and procedures in accordance with GAGAS. A financial audit of the funds provided by USAID must be performed in accordance with GAGAS, or other approved standards where applicable, and accordingly includes such tests of the accounting records as deemed necessary under the circumstances. The specific objectives of the audit of the USAID funds are to:

- Express an opinion on whether the fund accountability statement for the USAID-funded awards presents fairly in all material respects in relation to the recipient's financial statements as a whole, and in revenues received, costs incurred, and commodities and technical assistance directly procured by USAID for the period audited in conformity with the terms of the agreements and generally accepted accounting principles.
- Evaluate and obtain a sufficient understanding of the recipient's internal controls related to the USAID-funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation must include the internal controls related to required cost-sharing contributions.
- Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost-sharing/matching contributions, if applicable) and applicable laws and regulations related to USAID-funded programs. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred must be identified. Such tests must include the compliance requirements related to any required cost-sharing contributions.

In addition, if applicable:

- Determine if the recipient has taken adequate corrective action on prior audit report recommendations.
- Review cost-sharing/matching contributions to determine whether cost-sharing/matching contributions were provided and accounted for by the recipient in accordance with the terms of the agreements. The auditors will review the cost-sharing/matching table to determine if the computation is fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule. The auditors should question all cost-sharing/matching contributions that are either ineligible or unsupported costs.
- Perform an audit of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to USAID using provisional rates. If so, the fund accountability statement should be reconciled to the USAID funds included in the general purpose financial statements by a note to the fund accountability statement. If the recipient does not have a USAID authorized indirect cost rate, this fact must be disclosed in the report.
- The audit of the general purpose financial statements must be performed in accordance with GAGAS. The objective of this audit is to express an opinion on whether the general purpose financial statements present fairly, in all material respects, the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

#### **IV. AUDIT SCOPE**

The auditor must use the following steps as the basis for preparing audit programs. They are not all-inclusive or restrictive in nature and do not relieve the auditor from exercising due professional care and judgment. The steps must be modified to fit local conditions and specific program design, implementation procedures, and agreement provisions, which may vary from program to program. Any limitations in the scope of work must be communicated as soon as possible to the USAID cognizant Operating Unit.

##### **A. Pre-Audit Document Review**

Following is a list of documents applicable to different USAID programs. The auditor must review the applicable documents considered necessary to perform the audit:

1. The agreement between USAID and the recipient.
2. The sub-agreements between the recipient and other implementing entities, as applicable.
3. Contracts and subcontracts with third parties, if any.



4. The budgets, implementation letters, and written procedures approved by USAID.
5. USAID Automated Directives System [Chapter 636, Program Funded Advances](#).
6. [2 CFR 200 Subpart F](#) on audit and [2 CFR 700](#) on Cost Principles.
7. Federal Acquisition Regulation (FAR), Part 31, Contract Cost Principles and Procedures.
8. [USAID Acquisition Regulation \(AIDAR\)](#), which supplement the FAR.
9. Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees ([ADS Chapter 303, Grants and Cooperative Agreements to Non-Governmental Organizations](#)).
10. Standard Provisions Annex for Agreements with Foreign Governments ([ADS Chapter 350, Grants to Foreign Governments](#)).
11. All program financial and progress reports; charts of accounts, organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures for materials, as necessary to successfully complete the required work.
12. Any previous audits, financial reviews, etc., that directly relate to the objectives of the audit.

## **B. Fund Accountability Statement**

The auditor must examine the fund accountability statement<sup>34</sup> for USAID programs including the budgeted amounts by category and major items; the revenues received from USAID for the period covered by the audit; the costs reported by the recipient as incurred during that period; and the commodities and technical assistance directly procured by USAID for the recipient's use. The fund accountability statement must include all USAID funds identified by each specific program or agreement. The revenues received from USAID less the costs incurred, after considering any reconciling items, must reconcile with the balance of cash-on-hand or in bank accounts.<sup>35</sup> The fund accountability statement must not include cost-sharing/matching contributions provided from the recipient's own funds or in-kind.

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<sup>34</sup> A "fund accountability statement" is a financial statement that presents USAID recipient's revenues, costs incurred, cash balance of funds (after considering reconciling items), and commodities directly procured by USAID that were provided by USAID agreements.

The opinion on the fund accountability statement must comply with Statement on Auditing Standard SAS No. 62 (AU623).

<sup>35</sup> If the recipient does not receive any advances from USAID, i.e., it operates on a reimbursement basis, then the recipient will not hold any balances of USAID funds.

The audit firm may not prepare or assist the recipient in preparing the fund accountability statement when the same audit firm will then perform an audit. If a third party prepares or assists the recipient in preparing the fund accountability statement from the books and records maintained by the recipient, then the recipient must accept the responsibility for the statement's accuracy before the audit commences.

The fund accountability statement must separately identify those revenues and costs applicable to each specific USAID agreement. The audit must evaluate program implementation actions and accomplishments to determine whether specific costs incurred are allowable, allocable, and reasonable under the agreement terms and applicable cost principles, and to identify areas where fraud and illegal acts have occurred or are likely to have occurred as a result of inadequate internal control. At a minimum, the auditors must:

1. Review direct and indirect costs billed to and reimbursed by USAID and costs incurred but pending reimbursement by USAID, identifying and quantifying any questioned costs. All costs that are not supported with adequate documentation or are not in accordance with the agreement terms must be reported as questioned. Questioned costs that are pending reimbursement by USAID must be identified in the notes to the fund accountability statement as not (yet) reimbursed by USAID.
2. Questioned costs must be presented in the fund accountability statement in two separate categories. Ineligible costs are costs that are explicitly questioned because they are unreasonable, prohibited by the agreements or applicable laws and regulations, or not program related. In addition, if a recipient was required to place USAID funds in an interest-bearing account but did not, then the imputed interest that would have been earned is also classified as an ineligible cost. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations. All questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations must be included as findings in the report on compliance. Also, the notes to the fund accountability statement must briefly describe the questioned costs and must be cross-referenced to any corresponding findings in the report on compliance.
3. Review general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed by, USAID to the program and general ledgers.
4. Review the procedures used to control the funds, including their channeling to contracted financial institutions or other implementing entities. Review the bank accounts and the controls on those bank accounts. Perform positive confirmation of balances, as necessary.

5. Determine whether advances of funds were justified with documentation, including reconciliations of funds advanced, disbursed, and available. The auditors must ensure that all funding received by the recipient from USAID was appropriately recorded in the recipient's accounting records and that those records were periodically reconciled with information provided by USAID.
6. Determine whether program income was added to funds used to further eligible project or program objectives, to finance the non-federal share of the project or program, or deducted from program costs, in accordance with USAID regulations, other implementing guidance, or the terms and conditions of the award.
7. Review procurement procedures to determine whether sound commercial practices including competition were used, reasonable prices were obtained, and adequate controls were in place over the qualities and quantities received.
8. Review direct salary charges to determine whether salary rates are reasonable for that position, in accordance with those approved by USAID when USAID approval is required, and supported by appropriate payroll records. Determine if overtime is charged to the program and whether it is allowable under the terms of the agreements. Determine whether allowances and fringe benefits received by employees are in accordance with the agreements and applicable laws and regulations. The auditors must question unallowable salary charges in the fund accountability statement.
9. Review travel and transportation charges to determine whether they are adequately supported and approved. Travel charges that are not supported with adequate documentation or not in accordance with agreements and regulations must be questioned in the fund accountability statement.
10. Review commodities (e.g., supplies, materials, vehicles, equipment, food products, tools, etc.) procured by the recipient as well as those directly procured by USAID for the recipient's use. The auditors must determine whether commodities exist or were used for their intended purposes in accordance with the terms of the agreements, and whether control procedures exist and have been placed in operation to adequately safeguard the commodities. As part of the procedures to determine if commodities were used for intended purposes, the auditors must perform end-use reviews for an appropriate sample of all commodities based on the control risk assessment (see section **IV.D. "Internal Controls of this Statement of Work"**). End-use reviews would normally include site visits to verify that commodities exist or were used for their intended purposes in accordance with the terms of the agreements. When conducting end-use reviews, the auditors must ensure that commodities are marked in accordance with grant or contract requirements. The cost of all commodities whose existence or proper use in accordance with the terms of the agreements cannot be verified and must be questioned in the fund accountability statement.

(The auditor should determine the cost of commodities based on supporting documentation available from the recipient or USAID, as appropriate).

11. Review technical assistance and services procured by the recipient. The auditors must determine whether technical assistance and services were used for their intended purposes in accordance with the terms of the agreements. The cost of technical assistance and services not properly used in accordance with the terms of the agreements must be questioned in the fund accountability statement.

If the recipient contracted the technical assistance and services through a U.S. contractor, the auditors are still responsible for determining whether technical assistance and services were used for their intended purposes in accordance with the terms of the agreements. However, the auditors are not responsible for performing additional audit steps for the costs incurred under the technical assistance and services agreements, if either USAID or a cognizant U.S. Government agency is responsible for contracting for audits of these costs.

12. For final closeout audits, review unliquidated advances to the recipient and pending reimbursements by USAID. Ensure that the recipient has returned any excess cash to USAID. Also, ensure that all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the agreements. The auditors must determine whether an annex to the fund accountability statement showing the balances and details of final inventories of nonexpendable property acquired under the agreements is presented accurately in all material respects in relation to the financial statements. This inventory must indicate which items were titled to the U.S. Government and which were titled to other entities. These closeout audit procedures must be performed for any award that expires during the period audited.

The fund accountability statement must separately disclose the financial information (revenues, costs, commodities and technical assistance) for each agreement, and must identify the USAID Operating Unit that provided funding for each agreement. Questioned costs and internal control and compliance findings of any audits of subrecipients must be reported in the recipient's financial audit using the same treatment and procedures as the recipient's own questioned costs and findings.

The auditors must generally express a single opinion on the fund accountability statement that includes more than one agreement with USAID. Auditors must not express separate opinions on fund accountability statements of each agreement or program unless specifically requested to do so by the USAID Operating Unit.

### **C. Cost-Sharing/Matching Contribution Schedule**

USAID awards may require contributions by the recipient. USAID and recipient awards may establish a life-of-project budget or an annual budget for the cost-sharing/matching

contributions. In either case, the review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data supporting the cost-sharing/matching contribution table.

For an agreement with a life-of-project budget for cost-sharing/matching contributions, it is not possible to determine whether the contributions have been made as required until the agreement ends. Nonetheless, USAID and the recipient need reliable information to monitor actual cost-sharing/matching contributions throughout the life of the agreement.

The auditors will review the cost-sharing/matching contributions schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule. The auditors must question all cost-sharing/matching contributions that are either ineligible or unsupported costs. An ineligible cost is unreasonable, prohibited by the agreements or applicable laws and regulations, or not program related. An unsupported cost lacks adequate documentation or does not have required prior approvals or authorizations. All questioned costs must be briefly described in the notes to the cost sharing/matching contributions. In addition, material questioned costs must be included as findings in the report on compliance. Notes to the cost-sharing/matching contributions schedule must be cross-referenced to the corresponding findings in the report on compliance. Also, significant deficiencies in internal control related to cost-sharing/matching contributions must be set forth as findings in the report on internal control. In addition, for closeout audits, the auditors will review the cost-sharing/matching contributions schedule to determine if the recipients provided such contributions in accordance with the terms of the agreement. If actual contributions were less than budgeted contributions, the shortfall will be identified in the appropriate column of the cost sharing/matching contributions schedule.

#### **D. Internal Controls**

The auditors must review and evaluate the recipient's internal controls related to USAID programs to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation. The auditor's understanding of the internal controls must be documented in the audit documentation files.

Auditors must prepare the report required by the Guide (**Appendix 2**), identifying any significant deficiencies or material weaknesses in the design or operation of internal control. A material weakness is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness but that is important enough to merit attention by those charged with governance. Any significant deficiencies or material weaknesses must be set forth in the report as "findings". Any other matters related to internal controls – such as suggestions for improving operational or administrative efficiency, effectiveness, or control deficiencies that are not significant

deficiencies or material weaknesses – may be reported in a separate management letter to the recipient and referred to in the report on internal control. A copy of the management letter should be provided to the cognizant USAID Operating Unit along with the audit report.

The major internal control components to be studied and evaluated include, but are not limited to, the controls related to each revenue and expense account on the fund accountability statement. The auditors must:

1. Obtain an understanding of the design of the internal control related to USAID programs and determine whether they have been placed in operation.
2. Assess inherent risk, control risk, and determine the detection risk. Inherent risk is the susceptibility of an assertion, such as an account balance, to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls. Control risk is the risk that a material misstatement (either individually or when aggregated with other misstatements) could occur in a relevant assertion and will not be prevented or detected on a timely basis by the entity's internal controls. Detection risk is the risk that the auditor will not detect a material misstatement that exists in an assertion. Detection risk is based upon the effectiveness of an auditing procedure and the auditor's application of that procedure.
3. Summarize the risk assessments for each assertion in the audit documentation file. The risk assessments must consider the following broad categories under which each assertion should be classified: (a) existence or occurrence; (b) completeness; (c) rights and obligations; (d) valuation or allocation; and (e) presentation and disclosure. At a minimum, the audit documentation files must identify the name of the account or assertion, the account balance or the amount represented by the assertion, the assessed level of inherent risk (high, moderate, or low), the assessed level of control risk (high, moderate, or low), the combined risk (high, moderate, or low), and a description of the nature, extent, and timing of the tests performed based on the combined risk. These summary audit documentation files must be cross-indexed to the supporting audit documentation files that contain the detailed analysis of the fieldwork. If control risk is evaluated at less than the maximum level (high), then the basis for the auditor's conclusion must be documented in the audit documentation files.
4. Evaluate the control environment, the adequacy of the accounting systems, and control procedures. Emphasis must be placed on the policies and procedures that pertain to the recipient's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the fund accountability statement. This evaluation must include, but not be limited to, the control systems for:
  - a. Ensuring that charges to the program are proper and supported;

- b. Managing cash on hand and in bank accounts;
  - c. Procuring goods and services;
  - d. Managing inventory and receiving functions;
  - e. Managing personnel functions such as timekeeping, salaries, and benefits;
  - f. Managing and disposing of commodities (such as vehicles, equipment, and tools, as well as other commodities) purchased either by the program or directly by USAID; and
  - g. Ensuring compliance with agreement terms and applicable laws and regulations that collectively have a material impact on the fund accountability statement. The results of this evaluation must be contained in the audit documentation section described in section **IV.E.** of this Statement of Work and presented in the compliance report.
5. Evaluate internal control established to ensure compliance with cost sharing/matching contribution requirements, if applicable, including both provision and management of the contributions.
6. Include in the study and evaluation other policies and procedures that may be relevant if they pertain to data the auditors use in applying auditing procedures. This may include, for example, policies and procedures that pertain to non-financial data that the auditor uses in analytical procedures.

## **E. Compliance with Agreement Terms and Applicable Laws and Regulations**

In fulfilling the audit requirement to determine compliance with agreement terms and applicable laws and regulations related to USAID programs, the auditors must follow the reporting standards contained in GAGAS for reporting on compliance which incorporate the AICPA Professional Standards. The auditor's report on compliance must set forth as findings all material instances of noncompliance, defined as instances that could have a direct and material effect on the fund accountability statement, and/or the financial statements, as applicable. Nonmaterial instances of noncompliance must be included in a separate management letter to the recipient and referred to in the report on compliance. A copy of the management letter should be provided to the cognizant USAID Operating Unit along with the audit report.

The auditor's report must include relevant information about identified or suspected fraud based on sufficient, appropriate evidence obtained that a fraud or illegal act either has occurred or is likely to have occurred. In reporting material fraud, illegal acts, and abuse or other noncompliance, the auditors must place their findings in proper

perspective. In presenting material irregularities, illegal acts, or other noncompliance, auditors must follow the reporting standards contained in GAGAS. If the auditors conclude that sufficient evidence of any known or likely fraud or illegal acts exists, regardless of whether material to the financial statements, they must contact the USAID cognizant Operating Unit or OIG and exercise due professional care in pursuing indications of possible fraud and illegal acts to avoid interfering with potential future investigations or legal proceedings.

In planning and conducting the tests of compliance the auditors must:

- 1.** Identify the agreement terms and pertinent laws and regulations and determine which of those, if not observed, could have a direct and material effect on the fund accountability statement. The auditors must:
  - a.** List all standard and program-specific provisions contained in the agreements that cumulatively, if not observed, could have a direct and material effect on the fund accountability statement;
  - b.** Assess the inherent and control risk that material noncompliance could occur for each of the compliance requirements;
  - c.** Determine the nature, timing and extent of audit steps and procedures to test for errors, fraud, and illegal acts that provide reasonable assurance of detecting both intentional and unintentional instances of noncompliance with agreement terms and applicable laws and regulations that could have a material effect on the fund accountability statement; and
  - d.** Prepare a summary audit documentation file that adequately identifies each of the specific compliance requirements included in the review, the results of the inherent, control and (detection) risk assessments for each compliance requirement, the audit steps used to test for compliance with each of the requirements based on the risk assessment, and the results of the compliance testing for each requirement. The summary document should be cross-indexed to detail audit documentation that support the facts and conclusions contained in the summary document.
- 2.** Determine if payments have been made in accordance with agreement terms and applicable laws and regulations.
- 3.** Determine if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms. If so, the auditor must identify these costs as questioned in the fund accountability statement.
- 4.** Identify any costs not considered appropriate, classifying and explaining why these costs are questioned.



5. Determine whether commodities, whether directly procured by the recipient or directly procured by USAID for the recipient's use, exist or were used for their intended purposes in accordance with the agreements. Ensure that commodities are marked in accordance with grant or contract requirements. If not, the cost of such commodities must be questioned.
6. Determine whether any technical assistance and services, whether procured by the recipient or directly procured by USAID for the recipient's use, were used for their intended purposes in accordance with the agreements. If not, the cost of such technical assistance and services must be questioned.
7. Determine if the amount of cost-sharing/matching funds was calculated and accounted for as required by the agreements or applicable cost principles.
8. Determine if the cost-sharing/matching funds were provided according to the terms of the agreements and quantify any shortfalls.
9. Determine whether those who received services and benefits were eligible to receive them.
10. Determine whether the recipient's financial reports (including those on the status of cost-sharing contributions) and claims for advances and reimbursement contain information that is supported by the books and records.
11. Determine whether the recipient held advances of USAID funds in interest-bearing accounts, and whether the recipient remitted to USAID any interest earned on those advances, with the exception of up to \$500 a year that the recipient may retain for administrative expenses. If the recipient was required to place USAID funds in an interest-bearing bank account but did not, then the auditor should determine the amount of interest that was foregone by the recipient, and this amount should be classified as ineligible costs.

## **F. Follow-Up on Prior Audit Recommendations**

If applicable, the auditors must review the status of actions taken on findings and recommendations reported in prior audits of USAID-funded programs. Auditors should evaluate whether the audited entity has taken appropriate corrective action and prepare a Summary Schedule of Prior Audit Findings (SSPAF) to address findings and recommendations from previous engagements that could have a material effect on the financial statements as per [2 CFR 200.511](#). When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, financial reviews, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.

The auditors must describe the scope of their work on prior audit recommendations in the summary section of the audit report. The auditors should refer to the most recent recipient audit report for the same award (for a follow-up audit) or other USAID awards (for an initial audit). When corrective action has not been taken and the deficiency remains unresolved for the current audit period, the auditors need to briefly describe the prior finding and status and show the page reference to where it is included in the current report. If there were no prior findings and recommendations, the auditors must include a note to that effect in this section of the audit report.

## **G. Indirect Cost Rates**

The auditors must determine the actual indirect cost rates for the year if the recipient has used provisional rates to charge indirect costs to USAID. The audit of the indirect cost rates must include tests to determine whether the:

1. Distribution or allocation base includes all costs that benefited from indirect activities,
2. Distribution or allocation base is in compliance with the governing USAID Negotiated Indirect Cost Rate Agreement (NICRA), if applicable,
3. Indirect cost pool includes only costs authorized by the USAID agreements and applicable cost principles,
4. Indirect cost rates obtained by dividing the indirect cost pool by the base are accurately calculated, or
5. Costs included in this calculation reconcile with the total expenses shown in the recipient's audited general purpose financial statements.

The results of the audit of the indirect cost rate must be presented in a schedule of computation of indirect cost rate. This schedule should contain: a listing of costs included in each indirect cost pool, a list of cost exclusions based on cost principles, the distribution base, and the calculation and the resultant indirect cost rate calculation. The costs in the schedule should reconcile with the total expenses shown in the recipient's general purpose financial statement as per guidance from [2 CFR 200](#).

## **H. General Purpose Financial Statements**

Where indirect costs are authorized, an audit of the general purpose financial statements is needed to ensure sound financial management and provide reasonable assurance that all costs have been correctly included in the indirect cost rate calculation. Auditors should examine the recipient's general purpose income statement on an organization-wide basis, balance sheet, and if applicable, the statement of cash flows. The objective of this audit is to express an opinion on whether those statements

are presented fairly in all material respects in accordance with generally accepted accounting principles.

## **I. Other Audit Responsibilities**

The auditors must perform the following steps:

1. Hold entrance and exit conferences with the recipient. The cognizant USAID Operating Unit must be notified of these conferences in order that USAID representatives may attend, if deemed necessary.
2. During the planning stages of an audit, communicate information to the auditee regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting. Such communication should state whether the auditors plan to provide opinions on compliance with laws and regulations and internal control over financial reporting. This communication should be in the form of an engagement letter.
3. Institute quality control procedures to ensure that sufficient appropriate evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the agreement (s) under audit. While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:
  - a. Audit reports and audit documentation are reviewed by an auditor, preferably at the partner level, who was not involved in the audit. This review must be documented.
  - b. All quantities and monetary amounts involving calculations are footed and cross-footed.
  - c. All factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting audit documentation.
4. The auditor must ascertain, before preparing its proposal for the audit engagement (or if this is not possible, at the earliest opportunity during the engagement itself), whether the recipient ensured that audits of its subrecipients were performed to ensure accountability for USAID funds passed through to subrecipients. If subrecipient audit requirements were not met, the auditors should immediately notify the cognizant USAID Operating Unit and consider whether they can audit the subrecipient costs themselves. If, after consultation with the cognizant USAID Operating Unit, the auditors conclude that a restriction on the scope of the audit exists and the restriction cannot be removed, then the auditors should consider modifying their opinion and any costs that have not been audited as required must be questioned as unsupported costs.

5. Obtain a management representation letter. See **Appendix 4** of the Guide for an illustrative management representation letter.

## **V. AUDIT REPORTS**

The recipient should submit to the cognizant USAID Operating Unit a portable document format (PDF) copy of the audit report in English and a PDF copy of the report in the recipient country's official language, if considered appropriate. The format and content of the audit reports should closely follow this Statement of Work and the illustrative reports in **Appendix 2** of the Guide. The audit report must specify the correct award number(s) of each award covered by the audit.

The report must contain:

1. Title page (close-out audits must be clearly titled),
2. Table of contents,
3. Transmittal letter, and
4. Summary, which includes:
  - a. Background section with:
    - i. A general description of the USAID programs audited,
    - ii. Period covered,
    - iii. Program objectives,
    - iv. Clear identification of all entities mentioned in the report,
    - v. Follow-up of prior audit recommendation section,
    - vi. Cost-sharing/matching contributions explanation,
    - vii. Indirect cost rate details;
  - b. Objectives and scope of the financial audit and clear explanation of the procedures performed and any scope limitations;
  - c. Brief summary of audit results on the:
    - i. Fund accountability statement,
    - ii. Questionable costs,

- iii. Internal control,
  - iv. Compliance with agreement terms and applicable laws,
  - v. Indirect cost rates,
  - vi. Status of prior audit recommendations, and if applicable,
  - vii. General purpose financial statements on an organization-wide basis;
- d. A brief summary of the results of the review of cost-sharing/matching contributions; and
  - e. A brief summary of the recipient's management comments regarding its view on the audit and results and findings.

5. The auditor's report includes the following:

- a. The auditor's report on the Fund Accountability Statement, identifying any material questioned costs not fully supported with adequate records or not eligible under the terms of the agreements (see **Appendix 2** of the Guide). The report must be in conformance with the standards for reporting in GAGAS and must include the auditor's opinion on whether the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred, and commodities and technical assistance directly procured by USAID for the year then ended in accordance with the terms of the agreements and in conformity with generally accepted accounting principles or other basis of accounting as well as the following report components.
- b. A report on internal control including significant deficiencies and material weaknesses in the recipient's internal control. Deficiencies related to improving operational or administrative efficiency or internal control, or control deficiencies that are not significant deficiencies or material weaknesses – may be communicated through a separate management letter that should be sent with the audit report (see **Appendix 2** of the Guide).
- c. A report on the recipient's compliance with agreement terms and applicable laws and regulations related to USAID-funded programs. Nonmaterial instances of noncompliance should be communicated to the recipient in a separate management letter that should be sent with the audit report. All questioned costs resulting from instances of noncompliance must be included as findings in the

report on compliance (see **Appendix 2** of the Guide).

- d. A report and a table on the cost-sharing/matching contributions identifying the budgeted amounts required by the agreements; any cost-sharing/matching contribution shortfalls; and notes to the cost-sharing/matching contributions providing an explanation on the basis for questioned costs and shortfalls, if applicable. The notes must be cross-referenced to the corresponding findings, if the questioned costs are material, in the report on compliance (see **Appendix 2** of the Guide).
- e. A report on the audit of the indirect cost rate(s), if the recipient has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates (**Appendix 2**) with the recipient, along with a report on the audit of the general purpose financial statements (see **Appendix 2** of the Guide).

Firms are expected to exercise independent professional judgment throughout the audit engagement, including in reporting on questioned costs. Findings that involve monetary effect must:

1. Be quantified and included as questioned costs in the fund accountability statement, the Auditor's Report on Compliance, and cost sharing/matching contributions schedule (cross-referenced) if applicable.
2. Be reported without regard to whether the conditions giving rise to them were corrected.
3. Be reported whether the recipient does or does not agree with the findings or questioned costs.
4. Contain enough relevant information to expedite the audit resolution process (e.g., number of items tested, size of the universe, error rate, corresponding U.S. dollar amounts, etc.).

The reports must also contain, after each recommendation, pertinent views of responsible recipient officials concerning the auditor's findings and actions taken by the recipient to implement the recommendations. If possible, the auditor should obtain written comments. When the auditors disagree with management comments opposing the findings, conclusions or recommendations, they must explain their reasons following the comments. Conversely, the auditors should modify their report if they find the comments valid.

Any evidence of fraud or illegal acts that have occurred, or are likely to have occurred, must be included in a separate written report if deemed necessary by USAID. This report must include an identification of all questioned costs as a result of fraud or illegal

acts, without regard to whether the conditions giving rise to the questioned costs have been corrected or whether the recipient does or does not agree with the findings and questioned costs.

You may contact the cognizant USAID Operating Unit for any additional information or clarification on the Guide.

## **VI. RELATIONSHIPS AND RESPONSIBILITIES**

The client for this contract is the [*name of office*]. The program coordinator is [*name of person*].

The audit firm will work in coordination with the USAID cognizant Operating Unit. The liaison for audit concerns will be [*name*] or his designee, and the liaison for information and assistance from the USAID Operating Unit will be the USAID cognizant Controller or his/her designee.

The USAID Operating Unit may meet with the public accounting firm at the beginning of the audit to explain any financial/compliance areas of concern that they want emphasized and provide any advice concerning the performance of the audit. The USAID Operating Unit should provide the following information to the auditors for the entrance conference:

1. A list of all payments made for assets, equipment, materials, and technical assistance purchased by USAID from third parties for the period being audited with copies of vouchers with supporting documentation.
2. A list of all advances and recoveries made during the audit period.
3. A list of all disbursements made to the recipient.

The USAID Operating Unit may also provide written comments on the draft audit report concerning the facts and conclusions contained in the report in order to obtain the best possible end product. The USAID Operating Unit may also attend the exit conference for the same purpose. However, the USAID Operating Unit comments on the draft report and at the exit conference will not be binding on the public accounting firm.

The public accounting firm must properly maintain and store the working papers for a period of three years from the completion of the audit. During this three-year period the audit firm must immediately provide the working papers when requested by the USAID Operating Unit or USAID OIG. Public accounting firms that are nonresponsive or do not provide timely responses to questions raised by the USAID Operating Unit or USAID OIG will be temporarily or permanently excluded from performing additional USAID audits.

## **VII. TERMS OF PERFORMANCE**

The audit must begin as soon as practicable after the signing of the audit contract, and from the audit start date, the audit firm must submit to USAID: a draft indexed audit report in English within 90 calendar days, and a final audit report within 120 calendar days. The audit firm must submit to the USAID Operating Unit [*number*] copies of the final report in English and [*number*] copies of the report in the official language of the recipient country [*if deemed necessary by the Operating Unit*].

It is the responsibility of the recipient to ensure that all records are available, all accounting entries and adjustments are made, and all other necessary steps are taken to make it possible for the audit firm to perform the work necessary to be able to present the final audit report within 120 calendar days.

Payment modalities should be determined by the cognizant USAID Operating Unit.



## **Appendix 2**

### **Illustrative Audit Reports**

The following illustrative reports provide templates of the various components of the financial audit report that are required to meet the requirements of the USAID Financial Audit Guide for Foreign Organizations. The format and content of audit reports should closely follow the illustrative reports.

- 2.1.A Illustrative Auditor's Report on a Fund Accountability Statement with an Unqualified Opinion
- 2.1.B Illustrative Auditor's Report on a Fund Accountability Statement with a Qualified Opinion
- 2.1.C Illustrative Fund Accountability Statement

- 2.2.A Illustrative Auditor's Report on Internal Control with No Significant Deficiencies Noted
- 2.2.B Illustrative Auditor's Report on Internal Control with Significant Deficiencies Noted

- 2.3.A Illustrative Auditor's Report on Compliance with No Material Noncompliance Noted
- 2.3.B Illustrative Auditor's Report on Compliance with Material Noncompliance Noted

- 2.4.A Illustrative Auditors' Report on the Cost Sharing/Matching Contributions, with no Deficiencies
- 2.4.B Illustrative Auditors' Report on the Cost Sharing/Matching Contributions, with Deficiencies
- 2.4.C Illustrative Cost-Sharing Table

- 2.5.A Illustrative Auditor's Report on Schedule of Computation of Indirect Cost Rate
- 2.5.B Schedule of Computation of Indirect Cost Rate

- 2.6.C Illustrative Auditor's Report on the General Purpose Financial Statements

### **Additional Information**

If the audit firm conducting the audit lacks a satisfactory continuing education program and/or external quality control review program, it must be disclosed in the second paragraph of the Fund Accountability Statement, the Internal Control Report, and the Compliance Report as applicable:

- “Except for not having a fully satisfactory continuing education program and/or not having an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted

our audit in accordance with GAGAS issued by the Comptroller General of the United States....” (Continue with the standard language for this paragraph).

- If the audit firm does not meet the CPE requirement but have some education, it should be disclosed. “We do not have a continuing education program that fully satisfies the requirement set forth in GAGAS. However, our current program provides for at least (*number*) hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.”
- “We did not have an external quality control review by an unaffiliated audit organization as required by GAGAS, since no such program is offered by professional organizations in (*name of country*). We believe that the effects of this departure from GAGAS are not material because we participate in the (*name of U.S. affiliate*) worldwide internal quality control review program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.”

If the auditor issues a management letter for internal deficiency or compliance issues that are not material, a paragraph to that effect should be included in the appropriate report as follows:

- We noted certain matters involving internal control and its operation that we have reported to the management of (*name of recipient*) in a separate letter dated August 15, 20XX.
- We noted certain immaterial instances of noncompliance that we have reported to the management of (*name of recipient*) in a separate letter dated August 15, 20XX.<sup>36</sup>

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<sup>36</sup> Exclude this paragraph if there are no immaterial instances of noncompliance.

## 2.1A Illustrative Auditor's Report on a Fund Accountability Statement with an Unqualified Opinion

### Independent Auditor's Report

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* for the year ended December 31, 20XX. The fund accountability statement is the responsibility of *(name of recipient)*'s management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit of the fund accountability statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by USAID for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note X.

In accordance with U.S. Government Auditing Standards, we have also issued our reports dated June 30, 20XX, on our consideration of *(name of recipient)*'s internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

This report is intended for the information of *(name of recipient)* and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature Date

## 2.1. B Illustrative Auditor's Report on a Fund Accountability Statement with a Qualified Opinion

### Independent Auditor's Report

Board of Directors  
Name of Recipient Organization  
Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* for the year ended December 31, 20XX. The fund accountability statement is the responsibility of *(name of foreign recipient)*'s management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit of the fund accountability statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The results of our tests disclosed the following material questioned costs as detailed in the fund accountability statement: (1) \$XXX in costs that are explicitly questioned because they are not program related, unreasonable, or prohibited by the terms of the agreements; and (2) \$XXX in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations.

In our opinion, except for the effects of the questioned costs discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by USAID for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note X.

In accordance with U.S. Government Auditing Standards, we have also issued our reports dated June 30, 20XX, on our consideration of *(name of recipient)*'s internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of *(name of recipient)* and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature Date

## 2.1.C Illustrative Fund Accountability Statement

(Name of recipient)

Fund Accountability Statement

From 1/1/20X1 to 12/31/20X3

(Single award, 3<sup>rd</sup> year presented with cumulative amounts, in USD)

Elements	Agreement Budget	Actual Revenues and Expenditures	Cumulative Revenues and Expenditures	Questioned Costs		Notes
	1/1/20X1 to 12/31/20X3	1/1/20X3 to 12/31/20X3	1/1/20X1 to 12/31/20X3	Ineligible	Unsupported	
<b>Revenues</b>						
USAID Contribution	3,554,399	984,389	1,912,680			Note 1
Program Income	-					
<b>Total Revenues</b>	<b>3,554,399</b>	<b>984,389</b>	<b>1,922,680</b>			
<b>Costs</b>						
Salaries	817,512	180,666	450,152	36,000		Note 3
Transportation	142,176	31,420	152,521			
Program activities	2,185,955	483,086	900,582		14,350	
Other costs	408,756	90,333	220,541			
<b>Total costs</b>	<b>3,554,399</b>	<b>785,505</b>	<b>1,723,796</b>			
<b>Cash Balance</b>		<b>198,884</b>	<b>198,884</b>			Note 5

## Fund Accountability Statement

(Multiple awards, 1<sup>st</sup> year presented, no cumulative amounts, in USD)

Elements	Budget Agreement A	Actual Revenues and Expenditures 01/1/20X1 to 12/31/20X1 Agreement A	Budget Agreement B	Actual Revenues and Expenditures 03/15/20X1 to 12/31/20X1 Agreement B	Questioned Costs		Notes
					Ineligible	Unsupported	
<b>Revenues</b>							
USAID Contribution	3,554,399	984,389	2,300,550	1,245,405			Note 1
Program Income	-			245,829			
<b>Total Revenues</b>	<b>3,554,399</b>	<b>984,389</b>	<b>2,300,550</b>	<b>1,491,234</b>			
<b>Costs</b>							
Salaries	817,512	180,666	529,127	213,085	36,000		Note 3
Transportation	142,176	31,420	92,022	37,058			
Program activities	2,185,955	483,086	1,414,838	569,772		14,350	
Other costs	408,756	90,333	264,563	106,543			
<b>Total costs</b>	<b>3,554,399</b>	<b>785,505</b>	<b>2,300,550</b>	<b>926,458</b>			
<b>Cash Balance</b>		<b>198,884</b>		<b>564,776</b>			Note 5

## Notes to the Fund Accountability Statement

### Note 1: Accounting Policies

The following are the principal accounting policies applied by the management of the program:

#### **a. Basis of Preparation of the Fund Accountability Statement**

The recipient {Name} has a budgetary account held by registration of revenues and costs month by month. The accumulation of the revenue and cost generates the fund accountability statement, which is audited for the period closed as of 12/31/20XX.

The fund accountability statement revenue corresponds to flow of funds received from USAID.

Cost of the fund accountability statement corresponds to funds disbursed in payment of the costs incurred.

#### **b. Basis of Preparation of Budget**

Budget of the project presented at the fund accountability statement has been prepared in accordance with the budget approved by USAID. This budget is expressed in USD.

#### **c. Conversion from {Local Currency} to USD**

The fund accountability statement provided to the auditor by the recipient is stated in {local currency}. The USD exchange rate retained by the auditor to convert is the 1 USD = {xxx local currency}. Thus, the figures in U.S. dollars do not correspond to the amounts recorded in USAID financial systems because the transactions were converted to dollar at various exchange rates.

### Note 2: Revenues Received by USAID

From {period duration} the recipient {Name} received from USAID/X a total amount of {amount in USD and local currency}. This amount is detailed by the following receptions:

DATE	NATURE		Amounts in Local Currency	Amounts in USD
1/10/20X1	Remittance by check	Bank transfer received by USAID, Advance of January 20X1		
1/29/20X1	Transfer	Bank transfer received by USAID, Advance of June 20X1		
<b>Total received from</b>				

### **Note 3: Expenses Incurred and Liquidated**

From {period duration} the recipient {Name} incurred and liquidated a total amount of {amount in USD and local currency} in expenditures.

### **Note 4: Reconciliation with Accounting Balances**

The amounts recorded by USAID are consistent with amounts recorded by the recipient and the Fund Accountability's balance reconcile with the bank statements.

### **Note 5: Fund Balance Reconciliation**

As of December 31, 20XX, the bank balance reconciled with the balance recorded in the accounting books and the Fund Accountability Statement of the Recipient.

### **Notes**

Additional information or supporting schedules detailing revenues, costs incurred, outstanding fund balances, and commodities directly procured by USAID for each individual agreement should be reported.

All questioned costs will be listed here. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations should be included as findings in the report on compliance.

The notes to the fund accountability statement should briefly describe both material and immaterial questioned costs and should be cross-referenced to any corresponding findings in the report on compliance.



## 2.2.A Illustrative Auditor's Report on Internal Control with No Significant Deficiencies Noted

### Independent Auditor's Report on Internal Control

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended December 31, 20XX, and have issued our report on it dated August 15, 20XX. We also reviewed the separate cost-sharing/matching contributions schedule *(if applicable)*.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we noted certain matters involving internal control and its operation that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 20XX.

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature Date

## 2.2.B Illustrative Auditor's Report on Internal Control with Significant Deficiencies Noted

### Independent Auditor's Report on Internal Control

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended December 31, 20XX, and have issued our report on it dated August 15, 20XX. We also reviewed the separate cost-sharing/matching contributions schedule *(if applicable)*.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we considered to be material weaknesses *(include if applicable: and other deficiencies that we consider to be significant deficiencies)*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *(Include if applicable: We consider the following deficiencies in the company's internal control to be material weaknesses):*

*(If applicable, describe the material weaknesses that were identified.)*

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the entity's internal control to be significant deficiencies:

*(Describe the significant deficiencies that were identified.)*

We also noted other matters involving internal control and its operation that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 20XX.

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature Date

## **2.2.C Illustrative Internal Control Finding**

### **The Project Did Not Deposit USAID Grant Funds in An Interest Bearing Account and Funds Were Commingled**

#### Condition

The USAID funds were deposited with Bank of Country X checking account No. 1234 and no interest was earned on USAID funds.

The expenses incurred for materials for a USAID project for the amount of \$12,000 was debited from another bank account of the recipient and a USAID transfer of funds was deposited to another bank account of the recipient.

#### Criteria

[ADS 636, Program Funded Advances](#) and mandatory standard provisions state that federal funds must be deposited into interest bearing accounts, unless (a), (b), (c) or (d) applies.

- a. The recipient receives less than \$120,000 in federal awards per year.
- b. The best reasonably available interest bearing account is not expected to earn interest in excess of \$500 per year on federal cash balances.
- c. The depository requires an average or minimum balance so high that it is not feasible within the expected federal and non-federal cash resources.
- d. Other legislative authority specifically excludes the requirement.

In addition, [ADS 636.3.4](#) stipulates recipients must be able to account for the receipt, obligation, and expenditure of USAID funds and interest earned on the advances provided cumulatively by the U.S. Government.

#### Cause

The recipient did not establish procedures to ensure that project funds were deposited in an interest bearing account for USAID related transactions only. The recipient had a weak control environment and did not have an accountant for 3 of the last 12 months.

#### Effect

The lack of procedures to ensure that project funds are deposited in an interest bearing account and only for USAID purposes could result in financial losses to the project. This also created vulnerabilities to fraud, waste, and abuse.

**Recommendation No. X:**

We recommend that the recipient establish and implement procedures to ensure that project funds are deposited in an interest bearing account and provide staff training on new procedures.

**Management Comments:**

## 2.3.A Illustrative Auditor's Report on Compliance with No Material Noncompliance Noted

### Independent Auditor's Report on Compliance

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended December 31, 20XX, and have issued our report on it dated August 15, 20XX. We also reviewed the separate cost-sharing/matching contributions schedule *(if applicable)*.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with agreement terms and laws and regulations applicable to *(name of recipient)* is the responsibility of *(name of recipient)*'s management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost-sharing/matching contributions *(if applicable)*.

The results of our tests disclosed no instances of noncompliance that are required to be reported here under U.S. Government Auditing Standards.

We noted certain immaterial instances of noncompliance that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 20XX.

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature Date

### **2.3.B Illustrative Auditor's Report on Compliance with Material Noncompliance Noted**

#### Independent Auditor's Report on Compliance

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended December 31, 20XX and have issued our report on it dated August 15, 20XX. We also reviewed the separate cost-sharing/matching contributions schedule *(if applicable)*.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with agreement terms and laws and regulations applicable to *(name of recipient)* is the responsibility of *(name of recipient)*'s management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost-sharing/matching contributions *(if applicable)*.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement and the cost-sharing/matching contributions schedule *(if applicable)*. The results of our compliance tests disclosed the following material instances of noncompliance, the effects of which are shown as questioned costs in *(name of recipient)*'s 20XX fund accountability statement and cost-sharing/matching contributions schedule *(if applicable)*.

(Include paragraphs summarizing the material instances of noncompliance, with references to the attached findings, which must fully describe the material instances of noncompliance.)

We considered these material instances of noncompliance in forming our opinion on whether *(name of recipient)*'s 20XX fund accountability statement is presented fairly, in

all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in note X to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated *(date of report)*.

We noted certain immaterial instances of noncompliance that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 20XX.

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature Date



### **2.3.C Illustrative Compliance Audit Finding Submission of Federal Financial Reports**

#### Condition

The recipient did not comply with the mandatory Standard Provision of filing SF-425 quarterly federal financial reports.

#### Criteria

*"The recipient must submit the Federal Financial Report (FFR/SF-425) on a quarterly basis via Electronic format to the U.S. Department of Health and Human Services (<https://pms.psc.gov>). The recipient must submit a copy of the FFR at the same time to the Agreement Officer and the Agreement Officer's Representative (AOR)."*

#### Cause

Lack of understanding of USAID agreement and proper follow-up by the respective AOR in obtaining the required financial reports.

#### Effect

It may cause delays in processing the advance liquidation. USAID financial system (Phoenix) may not show accurately the financial progress of USAID funded activities and accrual computations may not be accurately computed. As a result, obligations may not be managed in an effective manner.

#### **Recommendation No. X:**

The recipient should comply with the terms of the Agreement and the AOR must require submission of the quarterly Federal Financial Report on a timely basis.

#### **Management Comment:**

## **2.4.A Illustrative Auditor’s Report on the Cost Sharing/Matching Contributions, with No Significant Issues Noted**

### Independent Auditor’s Review Report

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have reviewed the accompanying cost-sharing/matching contributions schedule of *(name of recipient)* for the period *(date of beginning of current audit period)* to *(date of end of current audit period)*. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). The purpose of our review was to determine if the cost-sharing/matching contributions schedule is fairly presented in accordance with the basis of accounting described in note X to the cost-sharing/matching contributions schedule. We also considered internal control related to the provision of and accounting for cost-sharing/matching contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the cost-sharing/matching contributions schedule. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that *(name of recipient)* did not fairly present the cost-sharing/matching contributions schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost-sharing/matching contributions schedule.

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Audit Firm’s Signature Date

## **2.4.B Illustrative Auditor’s Report on the Cost Sharing/Matching Contributions with Significant Issues Noted**

### Independent Auditor’s Review Report

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have reviewed the accompanying cost-sharing/matching contributions schedule of *(name of recipient)* for the period *(date of beginning of current audit period)* to *(date of end of current audit period)*. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA).<sup>39</sup> The purpose of our review was to determine if the cost-sharing/matching contributions schedule is fairly presented in accordance with the basis of accounting described in note X to the cost-sharing/matching contributions schedule. We also considered internal control related to the provision of and accounting for cost-sharing/matching contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the cost-sharing/matching contributions schedule. Accordingly, we do not express such an opinion.

The results of our review disclosed the following material questioned costs as detailed in the cost-sharing/matching contributions schedule: (1) \$XXX in ineligible costs which were not fairly presented in accordance with the basis of accounting used by the recipient to prepare the cost-sharing/matching contributions schedule, and (2) \$XXX in unsupported costs which were not fairly presented in accordance with the basis of accounting used by the recipient to prepare the cost-sharing/matching contributions schedule.

(Include paragraphs summarizing the internal control and compliance findings related to the cost-sharing/matching contributions schedule with references to the findings in the reports on internal control and compliance, as applicable, as well as the notes to the cost-sharing/matching contributions schedule.)

Based on our review, except as noted above, nothing came to our attention that caused us to believe that *(name of recipient)* did not fairly present the cost-sharing/matching contributions schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost-sharing/matching contributions schedule.

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Audit Firm's Signature Date

## 2.4.C Illustrative Table Presenting Cost-Sharing/Matching Contributions

### Cost-Sharing Table

From January 1, 20X1 to December 31, 20X3

All Amounts in USD

Description	Budget Contributions	Contributions in FY 20X2	Contributions in FY 20X3	Cumulative Contributions as of 12/31/X3	Ineligible	Unsupported	Notes
Cash	10,000	5,000	5,000	10,000	-	-	Note 1
Land for sewage treatment	25,000	35,972	27,508	63,480	-	-	Note 3
Transportation	15,000	26,360	-	26,360	-	-	Note 4
Other costs	76,250	5,725	60,525	66,250	-	9,243	Note 4 and 5
<b>Total</b>	<b>126,250</b>	<b>73,057</b>	<b>103,033</b>	<b>166,090</b>	<b>-</b>	<b>9,243</b>	<b>Note 2</b>

## Notes to the Cost-Sharing Schedule

### Note 1:

#### a. Exchange Rate

The cost-sharing schedule is stated in USD. The conversion of the local currency in USD used in exchange is 1 USD = 0.XX local currency.

#### b. Cash and In-Kind Contributions

The contributions of the Recipient Agreement # {number} were cash and in-kind contributions as required per the agreement. Cash and in-kind contributions are itemized separately on the Cost-Sharing Schedule.

### Note 2: Shortfall/Surplus of Contributions

The recipient contributed more than what was required in the Agreement. At the end of December 20XX, the contributions of the recipient exceeded the planned budget by 32%. The figure below shows the achievements announced by the project management in relation to the budget:

Description	Budget in USD	Cumulative Contributions as of XX/XX/ 20X3	%
Cash	10,000	10,000	100%
Land for sewage treatment	25,000	63,480	254%
Transportation	15,000	26,360	176%
Other costs	76,250	66,250	87%
<b>Total</b>	<b>126,250</b>	<b>166,090</b>	<b>132%</b>

### Note 3: In-Kind Contribution Valuation

Among contributions of the recipient, a field dedicated to the construction of the sewage has been donated. The value of this plot of land was estimated by an appraisal by a sworn expert from the government at \$63,480.

### Note 4: Detail of contributions

All supporting documentation of in-kind contributions was reviewed to validate amounts contributed. Details of contributions by the project management are presented as follows:

Project team transportation:

<b>Contributions</b>	<b>Cost/Day In USD</b>	<b>Number of days</b>	<b>in USD</b>
Fees for supply of vehicle with driver	48.63	542.00	26,360.00
<b>Total</b>	<b>410.96</b>	<b>542.00</b>	<b>26,360.00</b>

<b>Contributions</b>	<b>Cost/Day in USD</b>	<b>Number of days</b>	<b>Amounts in USD</b>
Fees for supply of vehicle with driver	48.63	542	26,360
<b>Total</b>	<b>410.96</b>	<b>542</b>	<b>26,360</b>

Detail of other contributions:

<b>Activities</b>	<b>Cost in USD</b>
Travel, transportation and reception of Ambassador's visit.	9,243
Contribution of the population in the development of the access track to the sewage treatment station.	57,007
<b>Total</b>	<b>66,250</b>

**Note 5: Unsupported Questioned Costs**

We have identified one material instance of noncompliance, as follows: The recipient did not have proper supporting documentation for the event related to the Ambassador's visit. Justification was not provided and there were no receipts/invoices to support these costs. A finding is included in the report on compliance.

## **2.5.A Illustrative Report on Schedule of Computation of Indirect Cost Rate**

### **Independent Auditor's Report on Schedule of Computation of Indirect Cost Rate**

Board of Directors

Name of Recipient Organization

Complete Mailing Address

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of computation of indirect cost rate contained on page (x) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Audit Firm's Signature Date



## 2.5.B Illustrative Schedule of Computation of Indirect Cost Rate

### (Name of recipient) Schedule of Computation of Indirect Cost Rate

For the Year Ended December 20XX

	Total Costs	Exclusions	Direct Cost Base	Indirect Costs
	A	B	C	D
Rents	31,513			\$ 31,513
Employee benefits	68,117		48,600	19,517
Supplies	7,029		5,642	1,387
Training	21,880		18,120	3,760
Consultancies	18,000		18,000	
Contributions/donations	13,600	13,600		
Entertainment expenses	16,238	16,238		
Resource aids	23,742		23,742	
Bad debts (2)	5,000	5,000		
Fixed assets	52,214	30,000	14,520	7,694
Travel	19,048		12,700	6,348
Grants to sub-recipients	150,000	150,000		
Insurance (5)	24,600	18,200		6,400
Salaries	195,579	-	139,179	56,400
Total (3)	\$ 646,560	\$ 233,038	\$ 280,503	\$ 133,019

Verification (A-B) = C+D      \$413,522                                      \$413,522

Indirect Cost Pool: Modified Total Direct Costs

**Indirect Cost Rate Computation: Total Indirect Costs/Modified Total Direct Costs**  
**133,019/280,503 = 47.42%**

1. The costs of capital expenditures, sub-contracts/sub-grants are distorting items and excluded from the computation. These costs are \$30,000 for vehicles and \$150,000 sub-grants.
2. Ineligible costs are excluded.
3. The recipient total expenses (\$646,560) as per the organization general purpose income statement.
4. The allocation base is "Total direct costs excluding capital expenditures; and sub-contracts/sub-grants".
5. Insurance costs for officers are \$18,200. The organization is identified as beneficiaries for the officers' insurance. There is also \$6,400 for fire insurance.

## 2.6 Illustrative Unqualified Opinion on the General Purpose Financial Statements of the Recipient Organization as a Whole

### Independent Auditor's Report

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the accompanying financial statements of *(name of recipient)*, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, and cash flows for the year then ended, and the related notes to the financial statements .

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles (name principles such as generally accepted in the United States of America); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

We conducted our audit in accordance with *(insert source of auditing standards)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *(name of recipient)* on December 31, 20XX, and the results of its operation and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Audit Firm's Signature Date

The auditors must express a qualified, adverse, or disclaimer of opinion when a lack of sufficient, competent evidential matter or restrictions on the scope of the auditor's examination have led him or her to conclude that an unqualified opinion cannot be expressed.

## Appendix 3

### Template of Audit Agreement with Supreme Audit Institution

The Agency for International Development (USAID) and the *(title of the host country's Supreme Audit Institution -- hereinafter referred to as the SAI)* agree that the SAI may perform or contract for audits of USAID funding agreements with the government of *(name of country)*.

USAID and the SAI agree that the SAI will perform audits in accordance with U.S. Government Auditing Standards (GAGAS) or International Standards of Supreme Audit Institutions (ISSAIs) in conjunction with GAGAS.

USAID and the SAI may agree that the SAI can contract an independent public accounting firm to perform the audit. If an accounting firm performs the audit it must be in accordance with GAGAS and be supervised by the SAI. USAID may finance these audit contracts. The audit firms and contracts must be approved by USAID before the contract is entered into.

USAID and the SAI must jointly prepare an annual schedule of audits to be performed or contracted by the SAI. The schedule of audits must contain the following information:

- Names of the governmental institutions to be audited.
- Identifying numbers of USAID agreements to be covered by the audits.
- Fiscal year to be covered by the audits.
- Name of the auditors (SAI or public accounting firm).
- Name of the entity in charge of supervising the audits (SAI, public accounting firm, or individual contractor).

Standard statements of work provided by USAID must be used in performing audits of governmental organizations as per USAID standard Statement of Work which is an integral part of this agreement. USAID may expand the scope of work to allow the review of specific areas that may be of particular interest to USAID for ensuring proper accountability over resources provided to the recipient, and may meet with the SAI or its contractor at the beginning of the audit to explain any financial or compliance areas of

concern contained in the statement of work that USAID wants to emphasize. USAID must approve the statement of work before audit work begins.

The scope of audits must include, at a minimum, a report on the fund accountability statement for the USAID-funded programs, a report on internal control related to the USAID-funded programs, and a report on compliance with agreement terms and applicable laws and regulations related to the USAID-funded programs. If USAID or the OIG does not accept an audit report because of deficiencies in the work of the SAI or its contractor, the auditors will perform any additional audit work at no additional cost to USAID.

The SAI or its contractor must properly maintain audit working papers for a period of three years from the completion of the audit. During this three-year period, the SAI or its contractor must immediately provide the working papers when requested by USAID or the RIG.

Signed \_\_\_\_\_  
USAID Operating Unit Representative

Date

Signed \_\_\_\_\_  
Supreme Audit Institution

Date

## **Appendix 4**

### **Illustrative Management Representation Letter**

(Date)

XYZ & CO. (Independent Auditor)  
Address of Independent Auditor

We are providing this letter in connection with your audit(s) of the (identification of financial statements) of (name of entity) as of (dates) and for the (periods) for the purpose of expressing an opinion as to whether the (consolidated) financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of (name of entity) in conformity with [accounting principles generally accepted in the United States of America (U.S. GAAP)] [International Financial Reporting Standards (IFRSs)] or [International Public Sector Accounting Standards (IPSAS)]. We confirm that we are responsible for the fair presentation in the (consolidated) financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it possible that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, (as of date of auditor's report), the following representations made to you during your audit(s).

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) [International Financial Reporting Standards (IFRSs)] or [International Public Sector Accounting Standards (IPSAS)] .
2. We have made available:
  - a. Financial records and related data.
  - b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving (a) management, (b) employees who have significant roles in internal control or (c) others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have complied with all aspects of contracts and agreements that could have a material effect on the fund accountability statement in the event of noncompliance.

## Appendix 5 Reference Materials

1. U.S. Government Auditing Standards may be obtained from the U.S. Government Accountability Office (<https://www.gao.gov>) or from the U.S. Government Printing Office: <http://www.gao.gov/assets/590/587281.pdf>
2. [\*\*Subpart F - Audit Requirements \(§§ 200.500 - 200.521\)\*\*](#)  
2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards USAID:  
<https://www.law.cornell.edu/cfr/text/2/part-200>
3. [\*\*Subpart E - Cost Principles \(§§ 200.400 - 200.475\)\*\*](#)  
2 PART 700 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards: <https://www.ecfr.gov/cgi-bin/text-idx?SID=531ffcc47b660d86ca8bbc5a64eed128&mc=true&node=pt2.1.700&rn=div5>
4. [\*\*USAID Automated Directives System \(ADS\)\*\*](#)
5. [\*\*Code of Federal Regulations\*\*](#) (CFR)
  - Title 48 - Federal Acquisition Regulations System Chapter 1
  - Chapter 7 - Agency for International Development Acquisition Regulations (AIDAR)
6. Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees ([\*\*ADS Chapter 303, Grants and Cooperative Agreements to Non-Governmental Organizations\*\*](#)).
7. Standard Provisions Annex for Agreements with Foreign Governments ([\*\*ADS Chapter 350, Grants to Foreign Governments\*\*](#)).
8. The Statements on Auditing Standards (SASs) may be of interest:  
<https://www.aicpa.org/research/standards/auditattest/sas.html>
9. The Codification of Statements on Auditing Standards (SASs) (contained in AICPA Professional Standards)  
<https://www.aicpa.org/research/standards/auditattest/clarifiedsas.html>

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