1. **TITLE**
2. **Examination of xx compliance with Terms and Conditions of xx Number xx for the period from xx to xx**

* *[ Insert the audit title per the audit notification letter]*

Background

* *[Insert a brief background on the project subject to Audit, The background should include a brief description of the nature and activities under the program, the estimated amount of expenditures incurred during the period under audit under the federal share and the non-federal share, if any, the nature of the expenditures (salaries/personnel, program, travel, procurement, etc.)]*

1. **OBJECTIVES:**

The objective of this engagement is to determine if the contractor/grantee complied with the terms and conditions of the above mentioned contract/grant. The attestation engagement shall be performed in accordance with U.S. *Government Auditing Standards,* the *AICPA Statements on Standards for Attestation Engagements (SSAE), and the OIG Guidelines for Financial Audits Contracted by Foreign Recipients dated February 2009*. The specific objectives of this engagement are to:

1. Perform tests to determine whether the contractor/grantee complied, in all material respects, with “specific agreement terms” and applicable laws and regulations related to USAID-funded programs and projects that have a direct effect on the use of funds paid to them. All material instances of noncompliance and all indications of illegal acts should be identified. Such tests shall include: (a) compliance with Executive Order 13224 – *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism;* and (b) compliance with the prohibition on paying value added tax (VAT) with USAID funds;
2. Design the engagement to provide reasonable assurance of detecting fraud, illegal acts, or violations of provisions of the contract/grant agreement that could have a material effect on the subject matter or assertion of the attestation engagement, and be alert to situations or transactions that could be indicative of abuse. In accordance with U.S. *Government Auditing Standards*, Chapter 5, when planning review-level or agreed-upon-procedure-level attestation engagements, auditors should be alert to situations or transactions that could be indicative of fraud, illegal acts, and violations of provisions of contracts/grants. If such evidence exists, the auditor should contact the Regional Inspector General in Frankfurt (RIG/F) and should exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both.
3. **ATTESTATION SCOPE**

The auditors should conduct this engagement in accordance with U.S. *Government Auditing Standards*, Chapter 5, for *General, Field Work, and Reporting Standards for Attestation Engagements and the OIG Guidelines for Financial Audits Contracted by Foreign Recipients dated February 2009*. Furthermore, the auditors should use the following steps as the basis for preparing their audit program and their review. They are not considered all-inclusive or restrictive in nature and do not relieve the auditors from exercising due professional care and judgment. The steps should be modified to fit local conditions and the specific program project design, implementation procedures, and contract/grant award provisions that may vary from program to program. Any limitations in the scope of work should be communicated as soon as possible to USAID/WBG. USAID/WBG will try to resolve the issue with the contractor/grantee first. If USAID/WBG does not succeed in resolving the matter within a reasonable time, the matter will be referred to RIG/F for decision.

1. **Pre-engagement Steps**

Following is a list of documents applicable to different USAID programs. The auditors should review the applicable documents to become familiar with the associated cost principles and contract/grant terms:

1. The contract/grant (including any cost sharing Contracts) between USAID and the contractor/grantee, and all amendments to the contract/grant, and/or the sub-contract between the prime contractor/grantee and the sub-contractor/grantee.

2. Contracts/grants and sub-contracts/grants with third parties, if any.

3. Determine if the contract/grant was awarded to the lowest quote submitter on a fixed price basis.

4. Applicable Code of Federal Regulations, Mission Orders, OMB Circulars, USAID Handbooks, Automated Directive Systems (ADS), and Contractor Notices, such as, but not limited to:

* Federal Acquisition Regulation (FAR), Part 12
* All program financial and progress reports, charts of accounts, organizational charts, accounting system descriptions, procurement policies and procedures, and receipt, warehousing and distribution procedures for materials, as necessary, to successfully complete the required work.
* In fulfilling the engagement requirements to determine compliance with contract/grant terms and applicable laws and regulations related to USAID programs and projects, the auditors must follow, at a minimum, guidance contained in AICPA SAS No. 117 (AU801) entitled *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients.*
* Executive Order 13224 - Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism, and its applicable USAID’s Acquisition and Assistance Policy Directives (AAPDs), Mission Orders, and notices.

**B. Specific Engagement Terms and Conditions**

1. Develop procedures to determine whether the contractor/grantee complied with Executive Order 13224 – *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism*. Compliance with EO 13224 can be considered satisfied if the contractor/grantee have complied with USAID/West Bank and Gaza’s vetting requirements and with the terms and conditions of applicable USAID Assistance and Acquisition Procurement Directives (AAPDs), Mission Orders, and Notices. To examine compliance with USAID/West Bank and Gaza Notice No. 2009-WBG-11, dated June 30, 2009, and 2012-WBG-2, dated February 9, 2012 the auditors must ensure that:

* The three mandatory clauses are included in the body of sub-awards above the signature line. The three mandatory clauses are for (1) prohibition against support for terrorism, (2) prohibition against cash assistance to the Palestinian Authority; and (3) restriction on facilities names. Alternatively, if the mandatory clauses are included as an attachment to the sub-awards, the auditors should ensure that there is a reference to the attachment in the body of the sub-awards, and the attachment reference to the sub-awards.
* USAID partners disclosed the reasons for not incorporating the mandatory clauses into the sub-awards at the time of award, if applicable, and
* USAID partners certified that the information pertaining to the sub-awards is complete and accurate.

* + USAID Assistance and Acquisition Procurement Directives, Mission Orders and notices implementing E.O. 13224 – Executive Order on Terrorist Financing require that a mandatory clause be included in all contracts, subcontracts, grants and sub grants to ensure that USAID funds are not used to support entities or individuals who are involved in terrorism. Please include an audit step to confirm that this clause is present in all contracts, subcontracts, grants and sub grants within the scope of this engagement. Statistical sampling is not acceptable for this test.
  + If applicable, USAID Assistance and Acquisition Procurement Directives, Mission Orders and notices implementing E.O. 13224 – Certification Regarding Terrorist Financing require the applicant to state that it has not provided, and will take all reasonable steps to ensure that it does not and will not knowingly provide material support or resources to any individual or entity that engages in terrorist activity. This would include, without limitation, any organization designated by the United States Government as a Foreign Terrorist Organization under § 219 of the Immigration and Nationality Act, as amended (8 U.S.C. § 1189), any individual or entity designated by the United States Government as a Specially Designated Terrorist or Specially Designated Global Terrorist, and any individual or entity designated by the United States Government in or pursuant to United States Executive Orders 12947 (“Prohibiting Transactions With Terrorists Who Threaten To Disrupt the Middle East Peace Process”) and 13224 (“Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism”).

1. Determine whether the contractor/grantee complied with the Restriction on Taxing Foreign Assistance which maintains that U.S. Foreign Assistance shall not be subject to value added taxes (VAT) or customs duties of a foreign country (or that any such taxes charged be fully reimbursed). Any USAID funds used to pay VAT or customs duties must be reported as costs that should be reimbursed back to USAID and a noncompliance finding should be reported within the examination report.
2. Determine whether the contractor/grantee complied with the requirements in 22 CFR Part 228, Rules on Source, Origin and Nationality for Commodities and Services Financed by USAID. The authorized source for procurement is Geographic Code 000 unless otherwise specified in the schedule of this contract/grant. If USAID determines that the contractors/grantees have procured any specific restricted goods under this contract/grant, without the prior written authorization of the Contracting Officer, and have received payment for such purposes, the Contracting Officer may require the contractors/grantees to refund the entire amount of the purchase, as the result of a noncompliance finding reported within the engagement report.

1. Determine whether the contractor/grantee complied with award terms regarding materials, equipment, and workmanship in accordance with USAID’s instructions and testing of such to include review of purchase orders, invoices, and shipping documents. Failure to conform will be a serious and clear issue affecting safety and prevention of injuries. The auditors should report findings of noncompliance.
2. If applicable within the respective contract/grant, develop procedures to determine if the contractor/grantee was required to perform additional work. If it did, develop audit procedures to determine that the contractor/grantee complied with the terms and conditions outlined within “Additional Requirements” under Compensation. Findings of noncompliance should be reported.

**C. Other Auditor Responsibilities**

The auditors must perform the following steps:

1. Hold entrance and exit conferences with the contractor/grantee. USAID/West Bank and Gaza, and representatives from the contractor/grantee must be notified of these conferences in order that each organization be represented. The auditors must ensure the availability of the means for each organization to attend these conferences telephonically.
2. During the planning stages of an attestation engagement, auditors should communicate to officials of the contractor/grantee information regarding the nature, timing, and extent of testing and reporting including the level of assurance provided and any potential restriction of reports associated with the different levels of assurance services, to reduce the risk that the needs or expectations of the parties involved may be misinterpreted. This communication should be in the form of an engagement letter. Auditors should document the communication in the working papers. If the contractor/grantee does not provide access to requested supporting data in a timely manner, the auditors must inform USAID/WBG copying the RIG/F immediately by written communication (email) stating the types of support requested, when the request was made, whom the request was made to, and the contractor/grantee’s response. If the USAID/WBG could not resolve the matter within a reasonable time, and the auditors still cannot gain access to the requested supporting data then the auditors must contact RIG/F to determine if the engagement shall continue.
3. Institute quality control procedures to ensure that sufficient, competent evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the subject matter. While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:

a. Reports and supporting working papers are reviewed by an auditor, preferably at the partner level who was not involved in the engagement. 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 working papers.

1. Provide USAID/WBG with a written letter that attests to the audit firm's independence and absence of any conflict of interest with respect to the contractor/grantee before field work starts.
2. Upon completion of the fieldwork, the auditor will present the contractor/grantee with all findings that will be included in the draft report. These findings should be in writing, and a copy should be left with the contractor/grantee for reference and follow-up.
3. Submit a draft report to the contractor/grantee for review and preparation for the exit conference at least five working days before the exit conference. If the scope of the audit as disclosed in section I “Title”, covers a prime and its sub-contractor(s)/grantee(s), the audit firm shall issue a separate report for each entity.
4. Coordinate with the contractor/grantee and the USAID/WBG point of contact to schedule and hold the exit conference.
5. **ENGAGEMENT REPORTS**

The auditors should submit to the contractor/grantee via email one Adobe Acrobat® (\*.pdf) file containing the scanned image of the draft engagement report in English. The contractor/grantee shall submit the draft report to the USAID/WBG via e-mail at [WBGPCA@usaid.gov](mailto:WBGPCA@usaid.gov) to prepare for the exit conference if USAID/WBG plans to attend.

Once the auditors issue the final independent auditors draft report to the contractor/grantee, the contractor/grantee shall submit the same report to USAID/WBG for general review. USAID/WBG will then submit the final signed independent auditors draft report via email to the RIG/F for technical review and issuance.

The scanned copy will be a faithful copy of the original signed reports, and will by definition reproduce all signatures and letterheads. The scanner shall be set to the lowest resolution that can easily be read, to minimize the size of the electronic files. The report shall:

A**.** Contain a title page, table of contents, transmittal letter and a summary which includes: (1) a background section with a general description of the projects and programs reviewed, the project and program objectives, the project termination date, and a clear identification of all entities mentioned in the report; (2) the objectives and scope of the engagement and a clear explanation of the procedures performed and the scope limitations, if any; (3) a brief summary of the engagement results on the contractor/grantee’s compliance with the award terms and conditions; and (4) a brief summary of the contractor/grantee's management comments regarding their views on the engagement results and findings.

B. Contain the auditor's report detailing the results of the engagement. The report must be in conformance with the standards for reporting in Chapter 5 of the U.S. *Government Auditing Standards* and must:

1. Identify the subject matter or the assertion being reported on and state the character of the engagement.
2. State the auditor’s conclusions about the subject matter or the assertion in relation to the criteria against which the subject matter was evaluated.
3. State all of the auditor’s significant reservations about the engagement, the subject matter, and, if applicable, the assertion related thereto.
4. Report on the contractor/grantee’s compliance with GAGAS (Chapter 5 of the U.S. *Government Auditing Standards* paragraphs 5.19).
5. Report on deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or contract agreements, and abuse (Chapter 5 of the U.S. *Government Auditing Standards* paragraphs 5.20 through 5.26).The findings contained in the reports should include a description of the condition, criteria, the cause and effect. In addition, the findings must contain a recommendation that corrects the cause and the condition, as applicable. It is recognized that material internal control weaknesses and noncompliance may not always have all of these elements fully developed, given the scope and objectives of the specific engagement. But at least the auditors must identify the condition, criteria, and possible asserted effect to provide sufficient information to management to permit them to determine the effect and cause in order to take timely and proper corrective action.
6. Report on the views of responsible officials (Chapter 5 of the U.S. *Government Auditing Standards* paragraphs 5.32 through 5.38).
7. Report on privileged and confidential information if certain pertinent information is prohibited from general disclosure. The report on the attestation engagement should state the nature of the information omitted and the requirement that makes the omission necessary (Chapter 5 of the U.S. *Government Auditing* paragraphs 5.39 through 5.43).
8. Report on issuance and distribution (Chapter 5 of the U.S. *Government Auditing* paragraph 5.44).

The auditor's report shall include all conclusions, based on evidence obtained, that a fraud or illegal act either has occurred or is likely to have occurred. This report shall include an identification of all questioned costs, if any, as a result of fraud or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected and whether the contractor/grantee does or does not agree with the findings and questioned costs. Abuse that is material, either quantitatively or qualitatively, must also be reported

In reporting material fraud, illegal acts, or other noncompliance, the auditors must place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and is quantified in terms of U.S. dollars, if appropriate. In presenting material fraud, illegal acts, or other noncompliance, auditors must follow the reporting standards in the U.S. *Government Auditing Standards*. Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense. The U.S. *Government Auditing Standards* provide guidance on factors that may influence auditors' materiality judgments. If the auditors conclude that sufficient evidence of fraud or illegal acts exist, they must contact the RIG/F and exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both.

Any evidence of fraud or illegal acts that have occurred or are likely to have occurred shall be included in a separate written report if deemed necessary by RIG/F.

The auditors must review and report on the status of actions taken on prior findings and recommendations in the summary section of the examination report. The auditors shall request from the contractor/grantee the most recent pre-award survey, financial review, and examination report for the same contract/grant (for a follow-up examination) or other USAID contracts/grants (for an initial examination). When corrective action has not been taken and the deficiency remains unresolved for the current examination period and is reported again in the current report, 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 examination report.

**V. INSPECTION AND ACCEPTANCE OF AUDITOR’S WORK AND THE REPORT**

RIG/F is responsible for assuring that the work performed under this statement of work complies with U.S. *Government Auditing Standards.* To accomplish this objective, the RIG/F will perform desk reviews on every final report and will perform quality control reviews of the working papers of a sample of reports received from the independent auditors. The audit firm must ensure that all records related to the USAID program are available, and must provide any necessary photocopies requested by the RIG auditors to enable them to complete and support their review. If RIG/F does not accept the report because of deficiencies in the work, the public accounting firm shall perform any additional work requested by RIG/F at no cost. RIG/F will notify the contractor/grantee through the USAID/WBG to withhold final payment for any work it determines to be substandard until acceptable corrective actions are taken.

The final report will be subject to approval and acceptance by RIG/F.

**VI. RELATIONSHIPS AND RESPONSIBILITIES**

The client for this contract/grant is the contractor/grantee. The audit firm will work in coordination with the contractor/grantee. The liaison for audit concerns identified during the engagement will be RIG/F, and the liaison for information and assistance from USAID/West Bank and Gaza will be the USAID/WBG controller or his/her designee.

The audit firm shall provide a list of key/essential personnel who will be directly involved with this award to the contractor/grantee. All key/essential personnel shall be fluent in the English language. Unless otherwise agreed to in writing by the contractor/grantee, the audit firm shall be responsible for providing such personnel for performance at the level-of-effort and for the term required. Failure to provide the key/essential personnel may be considered nonperformance by the audit firm unless such failure is beyond the control, and through no fault or negligence of the audit firm. The audit firm shall immediately notify the contractor/grantee and USAID/WBG of any key/essential personnel’s departure and the reasons therefore. The audit firm shall take steps to immediately rectify this situation and shall propose a substitute candidate for each vacated position along with an impact statement in sufficient detail to permit evaluation of the impact on the program.

USAID/WBG may also provide written comments on the draft examination report concerning the facts and conclusions contained in the report in order to obtain the best possible end product. USAID representatives may also attend the exit conference for the same purpose. However, the USAID 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 engagement. During this three-year period the audit firm shall immediately provide the working papers when requested by RIG/F. Public accounting firms that are not responsive or do not provide timely responses to questions raised by RIG/F shall be temporarily or permanently excluded from performing additional engagements and/or audits.

**VII. TERMS OF PERFORMANCE**

The period of performance of this contract is *[Insert time frame for audit firm to complete the examination. Keep in mind that the final draft report is due to USAID/WBG no later than seven months from the date of audit notification letter or the end of the audited period whichever is later]* months from the audit contract date until the audit firm issues the final draft examination report. Nonetheless, the audit firm remains obligated to perform per this scope of work and under the audit contract until the RIG/F issues the final audit report to the USAID/WBG Mission or two years from the date of the audit contract, whichever is earlier or comes first.

The audit firm shall coordinate the engagement from the entrance conference until issuance of the final report with the contractor/grantee copying the USAID/WBG point of contact or [WBGPCA@usaid.gov](mailto:WBGPCA@usaid.gov) on all communications to keep him/her informed at all times.

It is the responsibility of the audit firm to communicate to the contractor/grantee all necessary information regarding records and documentation which will be required for the audit firm to begin its work in accordance with the approved work schedule.

The audit firm and the contractor/grantee are both/all responsible for the timely performance and submission of the audit report(s) to USAID/WBG.

**VIII.** **PAYMENT AND BUDGET**:

Payment terms of audit fees are to be negotiated and agreed upon between the partner/auditee and the audit firm.

* For close-out audits/examinations, the partner/auditee and the audit firm may negotiate and agree to payment terms of up to 100% of the agreed upon fees to be paid upon issuance of the final draft report by the audit firm to the partner/auditee.
* For all non-close-out audits/examinations, at least 10% of the agreed upon fees must be withheld by the partner/auditee until issuance of the final report by the RIG, whereas negotiated payments of up to 90% of agreed upon fees can be paid before and/or upon issuance of the final draft report by the audit firm to the partner/auditee.