

**Functional Series 500 - Management Services  
ADS 590 - Audit**

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**ADS 590 - Audit****590.1 OVERVIEW**

Effective Date: 09/29/1998

The purpose of this chapter is to provide the policy directives and required procedures regarding audits performed by USAID's Office of Inspector General. Guidance on the implementation of these policies and procedures is set forth in the Office of Inspector General Policies and Procedures Handbook.

**590.2 PRIMARY RESPONSIBILITIES**

Effective Date: 09/29/1998

- a. The Administrator is responsible for ensuring that management officials throughout USAID understand the value of the audit process and are responsive to audit recommendations.
- b. The Bureau for Management, Office of Procurement (M/OP) is responsible for ensuring that contracts and grants contain appropriate audit provisions, that financial audits of USAID grantees and contractors are performed, and that appropriate action is taken on audit recommendations.
- c. The Bureau for Management, Chief Financial Officer (M/CFO) is responsible for preparing and submitting USAID's Annual Financial Statements to the Office of Management and Budget (OMB).
- d. The Bureau for Management, Office of Management Planning and Innovation, Management Innovation and Control Division (M/MPI/MIC) is responsible for preparing USAID's Performance and Accountability Report, which incorporates the Administrator's semiannual reporting requirements to Congress.
- e. The Office of Inspector General (OIG) is responsible for
  - Conducting and supervising audits related to the programs and operations of USAID;
  - Providing leadership and coordination and recommending policies for USAID activities designed to promote economy, efficiency, and effectiveness in the administration of USAID's programs and operations and to prevent and detect fraud and abuse; and
  - Providing a means for keeping the USAID Administrator and Congress fully and currently informed about problems and deficiencies related to the administration of USAID programs and operations and the necessity for and progress of corrective action.

## **590.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES**

### **590.3.1 General Audit Policies**

Effective Date: 09/29/1998

The Office of Inspector General (OIG) conducts and supervises all audits of USAID's programs and operations. Prior coordination with the OIG is required before providing any audit services to USAID. The OIG conducts audits to assist USAID management by providing insight into how well the Agency is operating, making recommendations for improvement when problems are found, and acknowledging when a USAID activity is doing well. The OIG maximizes audit coverage by developing an audit strategy and an annual plan.

#### **590.3.1.1 Five-Year Plan**

Effective Date: 11/07/2001

The OIG prepares and periodically updates a five-year strategic plan for auditing (and investigating) USAID's programs, activities, systems, and functions. The five-year plan establishes the basis for determining the overall approach and emphasis on USAID's programs, processes, operations, and contracts/grants comprising the audit universe. The OIG provides copies of the five-year plan to all USAID offices.

#### **590.3.1.2 Annual Plan**

Effective Date: 11/07/2001

The OIG develops an annual plan, which includes the audits planned for the upcoming fiscal year. The OIG's planning system maintains a workload inventory of USAID's programs and operations and assesses the workload inventory to determine the coverage, frequency, and priority of audits in relation to available resources. Planning is designed to maximize the impact of the OIG in detecting fraud, waste, and abuse and in encouraging accountability, economy, efficiency, and effectiveness in USAID's programs and operations. In developing the annual plan, the OIG seeks the input of USAID managers and staff, the Congress, and others including the General Accounting Office (GAO) and OMB. Copies of the annual plan are provided to all USAID offices and posted to the OIG's intranet web site.

#### **590.3.1.3 Audit Recommendations**

Effective Date: 11/07/2001

The OIG makes audit recommendations that are action oriented, well supported, and effective. Recommendations are discussed with management prior to the completion of audit field work whenever possible. Auditors will consider recommendations proposed by management that will achieve the intended result. (See mandatory references, [ADS 591](#), Financial Audits of USAID Contractors, Grantees, and Host Government Entities, and [ADS 592](#), Performance Audits)

**590.3.1.4 Quality Control and Assurance**

Effective Date: 09/29/1998

The OIG maintains an internal quality control system and participates in external quality control reviews in accordance with the [Inspector General Act of 1978](#), [Government Auditing Standards \(GAS\)](#) (also called Generally Accepted Government Auditing Standards (GAGAS)), and the President's Council on Integrity and Efficiency (PCIE) April 1997 policy statement.

**590.3.1.5 Audit Training and Career Development**

Effective Date: 09/29/1998

Training and career development programs are planned, programmed, and budgeted to ensure that the OIG has a work force of well-trained auditors, overseas audit managers, Assistant Division Directors, Division Directors, and Regional Inspectors General.

**590.3.2 Performance Audits**

Effective Date: 01/01/2004

\*Performance audits help promote and preserve USAID's effectiveness, efficiency, and integrity by assessing the adequacy of USAID's management of its programs, activities, systems, and functions. Performance audits are carried out by OIG staff. Performance audits encompass a wide variety of objectives, including objectives related to assessing program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information. See [ADS 592](#), Performance Audits, for more details.

**590.3.2.1 Audit Program**

Effective Date: 09/29/1998

In planning for each audit, a written audit program is prepared that sets forth the audit objectives, scope, and methodology for the audit. Auditors consider legal and regulatory requirements, obtain an understanding of management/internal controls, identify criteria needed to evaluate matters subject to audit, and consider significance or materiality and audit risk.

**590.3.2.2 Audit Objectives**

Effective Date: 09/29/1998

Audit objectives are stated as questions and can be either descriptive or normative. Descriptive objectives are designed only to inform the reader of a condition. Normative audit objectives measure the auditee's performance against specific criteria.

**590.3.2.3 Auditing for Abuse and Illegal Acts**

Effective Date: 11/27/2001

In all performance audits, Generally Accepted Government Auditing Standards require the auditors to be alert to situations or transactions that could be indicative of illegal acts or abuse. When abuse occurs, no law, regulation, or provision of a contract or grant agreement is violated. Rather, the conduct of a government program or entity falls far short of behavior that is expected to be reasonable and necessary business practices by a prudent person. (See mandatory reference, [Government Auditing Standards](#))

**590.3.2.4 Field Work**

Effective Date: 09/29/1998

The OIG conducts an entrance conference with cognizant USAID officials at the start of the field work to inform management of the audit's objectives, scope, and methodology. At the completion of the field work, the OIG conducts an exit conference to present the preliminary audit findings. The OIG either communicates preliminary findings to management orally or, when possible, through a written record of audit findings as the evidence becomes available and discussed at the exit conference.

**590.3.2.5 Evidence**

Effective Date: 09/29/1998

Auditors obtain sufficient, competent, and relevant evidence to fairly answer the audit objectives. When deemed necessary or useful to answer the audit objectives, the auditors may request a management representation letter from cognizant USAID officials (see additional help, [Sample Management Representation Letter for Performance Audits](#)). Working papers contain the evidence to support the information, findings, and conclusions in audit reports. Evidence is sufficient if there is enough of it to support the findings, conclusions, and recommendations. Evidence is competent if it is valid. Evidence is relevant if it is logical and sensible.

**590.3.2.6 Reporting**

Effective Date: 11/07/2001

Audit reports set forth the findings, conclusions, and recommendations of the auditors in a timely, fair, objective, and convincing manner in accordance with Generally Accepted Government Auditing Standards. Draft reports are issued for management's review and comments within a reasonable time following the exit conference, and final reports are issued after the receipt of management's comments. The final report discusses the acceptance and/or rebuttal of management's comments. Specific policies and procedures governing the preparation, review, referencing, issuance, and evaluation of reports have been established in the OIG Handbook.

**\*590.3.3 Attestation Engagements**

Effective Date: 01/01/2004

\*Attestation engagements concern examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion<sup>1</sup> about a subject matter and reporting on the results. The subject matter of an attestation engagement may take many forms, including historical or prospective performance, or condition, physical characteristics, historical events, analyses, systems and processes, or behavior. Attestation engagements can cover a broad range of financial or nonfinancial subjects and can be part of a financial audit or performance audit. Possible subjects of attestation engagements could include reporting on

- \*a. An entity's internal control over financial reporting;
- \*b. An entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants;
- \*c. The effectiveness of an entity's internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
- \*d. Management's discussion and analysis (MD&A) presentation;
- \*e. Prospective financial statements or pro-forma financial information;
- \*f. The reliability of performance measures;
- \*g. Final contract cost;
- \*h. The allowability and reasonableness of proposed contract amounts; and
- \*i. Specific procedures performed on a subject matter (agreed-upon procedures).

(See mandatory reference, [Government Auditing Standards](#))

**590.3.4 Financial Audits of USAID's Grants and Contracts**

Effective Date: 09/29/1998

Financial audits of USAID's grants and contracts assess whether the recipient of USAID funds (contractor, grantee, or host government) has accounted for and used USAID funds as intended and in compliance with applicable laws and regulations. Financial audits of USAID's grants and contracts are generally performed by auditors outside of

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<sup>1</sup> An assertion is any declaration or set of declarations made by management about whether the subject matter is based on or in conformity with the criteria selected.

the OIG. They are performed by grant recipients' independent auditors, public accounting firms under contract to USAID, and certain Federal audit agencies other than the OIG, such as the Defense Contract Audit Agency. See [ADS 591](#), Financial Audits of USAID Contractors, Grantees, and Host Government Entities, for more details.

#### **590.3.4.1 Agency-Contracted Audits**

Effective Date: 11/07/2001

USAID contracts and pays for Agency-contracted audits. The audits are generally performed by independent public accounting firms approved by the OIG. USAID prepares a scope of work in consultation with the OIG, starts the procurement process, and arranges for audit services through indefinite quantity contracts or other means. The OIG monitors audit work in process and reviews draft and final reports.

#### **590.3.4.2 Recipient-Contracted Audits**

Effective Date: 09/29/1998

Nonprofit organizations receiving USAID grants and contracts arrange for recipient-contracted audits. The OIG's involvement is limited to responding to inquiries on audit matters during the audit and desk reviews of the final audit reports. In addition, on a selective basis, the OIG performs quality assurance reviews of recipient-contracted audits. Recipient-contracted audits are carried out as follows:

**a. U.S.-Based Nonprofit Organizations.** Audits of grants and contracts with U.S.-based nonprofit organizations are usually performed by independent public accounting firms directly under contract with the recipient organization. Such audits are generally conducted annually by the recipient's own Certified Public Accountants (CPA) firm. OMB Circular A-133 applies to these audits and requires additional detailed testing of major Federal programs for compliance with the terms of grants or contracts. (See mandatory reference, [OMB Circular A-133](#))

**b. Foreign Nonprofit Organizations.** Audits of foreign (non-U.S.) organizations are usually performed by in-country public accounting firms affiliated with U.S. firms or other acceptable firms under direct contract with the recipient organization. Audits of foreign governmental organizations may be performed by Supreme Audit Institutions (SAI) approved by the OIG. Such audits are performed in accordance with the Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines), issued by the OIG. (See mandatory reference, [Guidelines for Financial Audits Contracted by Foreign Recipients](#))

#### **590.3.4.3 Audits of U.S.-Based For-Profit Organizations**

Effective Date: 09/29/1998

These audits are generally performed by Federal audit agencies and not by public accounting firms. All U.S.-based for-profit contractors are assigned a "cognizant" (or



responsible) Federal agency to ensure that a given contractor will have to deal with only one Federal auditor. Various Federal agencies, including the Defense Contract Audit Agency and others, are cognizant for audits of USAID contractors. In cases where USAID is cognizant, the audits are contracted out to CPA firms or other Federal audit agencies, and the OIG then reviews the resulting reports and issues them to USAID management.

#### **590.3.4.4 Audits of Foreign For-Profit Organizations**

Effective Date: 09/29/1998

These audits are generally performed by an independent public accounting firm. The audit is performed in accordance with a specific Scope of Work prepared by the USAID Mission. The audits are performed upon the receipt of a final incurred cost submission from the organization. The independent auditor must audit the direct and indirect costs incurred under the award to determine the allowable direct costs and recommend the indirect cost rate. The OIG reviews the resulting reports and issues them to USAID management.

#### **590.3.5 Audits of USAID's Annual Financial Statements**

Effective Date: 09/29/1998

Financial audit coverage of USAID's financial statements is required by the [Government Management Reform Act \(GMRA\)](#), the [Chief Financial Officers \(CFO\) Act](#), and the [Federal Financial Management Improvement Act \(FFMIA\)](#) of 1996. (See mandatory reference, [ADS 594](#))

Audits of USAID's Agency-wide financial statements and selected accounts (e.g., Housing Investment Guaranty, Private Sector Investment, etc.) are generally performed by OIG staff, but may be contracted out to public accounting firms. The audits are performed in accordance with Generally Accepted Government Auditing Standards, which incorporate the American Institute of Certified Public Accountants (AICPA) standards by reference for financial audits. (See mandatory reference, [Government Auditing Standards](#))

#### **590.3.6 Semiannual Report to Congress**

Effective Date: 01/01/2004

The OIG's Semiannual Report to Congress, prepared in accordance with the Inspector General Act of 1978, as amended, describes the results of audit activity during the prior six-month period, including the status of audit recommendations. (See mandatory reference, [Inspector General Act of 1978, as amended](#)) [ADS 595](#), Audit Management Program, provides additional policies and procedures on the reporting requirements of the Semiannual Report to Congress. The Semiannual Report must be furnished to the Administrator no later than April 30 and October 31 each year, and must be transmitted to the appropriate committees or subcommittees of Congress within 30 days.

\*The Administrator's semiannual reporting requirements, as outlined in the IG Act of 1978, as amended, are incorporated into USAID's Performance and Accountability Report. Beginning in fiscal year 2004, this report must be furnished annually to the Office of Management and Budget and appropriate Congressional committees and subcommittees no later than November 15 for the preceding fiscal year. The Performance and Accountability Report must describe the results of corrective actions taken on recommendations from audit reports issued by the OIG.

## **590.4 MANDATORY REFERENCES**

### **590.4.1 External Mandatory References**

- a. [Chief Financial Officers \(CFO\) Act of 1990](#)
- b. [Federal Financial Management Improvement Act \(FFMIA\) of 1996](#)
- \*c. [Generally Accepted Government Auditing Standards \(GAGAS\) Issued by the Comptroller General of the United States, Revised in June 2003](#) (To access the GAGAS, scroll down to "Other Publications," then click on "The Yellow Book")
- d. [Government Management Reform Act \(GMRA\) of 1994](#)
- \*e. [Inspector General Act of 1978, as amended](#)
- f. [OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations](#)

### **590.4.2 Internal Mandatory References**

- \*a. [ADS 591, Financial Audits of Contractors, Grantees, and Host Government Entities](#)
- \*b. [ADS 592, Performance Audits](#)
- \*c. [ADS 594, Audits of USAID's Annual Financial Statements](#)
- \*d. [ADS 595, Audit Management Program](#)
- e. [Guidelines for Financial Audits Contracted by Foreign Recipients](#)

## **590.5 ADDITIONAL HELP**

- \*a. [Sample Management Representation Letter for Performance Audits](#)

**590.6 DEFINITIONS**

Effective Date: 01/01/2004

The terms and definitions listed below have been included into the [ADS Glossary](#). See the ADS Glossary for all ADS terms and definitions.

**annual plan**

An audit plan developed by the OIG that describes audits planned for the upcoming fiscal year. (Chapters 590, 592)

**audit finding**

The answer to an audit objective that is supported by sufficient, competent, and relevant evidence. (Chapter 590)

**audit methodology**

This defines the steps necessary to completely answer the audit objectives such as data used as audit evidence and tests performed to determine compliance with specific criteria and management control assessments. (Chapter 590)

**\*audit objective**

This defines the purpose of the audit. The audit objective, normally formed as a question, determines the type of work to be performed and the auditing procedures to be followed. (Chapter 590)

**audit scope**

This describes the boundaries of a performance audit by defining the auditee, what is being audited (program, project, grant, etc.), the general criteria (grant agreement, policy, law, strategic objective, planned result, etc.), the time period under audit, and the site locations for the audit. (Chapter 590)

**desk review**

A limited review of a financial audit report prepared by non-Federal auditors to determine whether the report contains all the required elements and appears to be accurate and logical. (Chapters 590, 591)

**entrance conference**

A meeting to discuss the planned review, including time constraints, preliminary scope and contacts, issues, sensitivities, points of contact, referrals for information, and preliminary requests for information/documents. (Chapters 590, 592)

**exit conference**

A meeting upon completion of an audit review to discuss findings. (Chapter 590, 592, 593)

**external quality control review**

A review every three years by an organization not affiliated with the audit organization to determine whether an internal quality control system is in place and operating effectively and established policies and procedures and applicable auditing standards are being followed in the audit work. (Chapter 590)

**field work**

The detailed examination phase employing an audit program developed specifically to find answers to the audit objectives. (Chapters 590, 592)

**Generally Accepted Government Auditing Standards (GAGAS)**

The standards, issued by the Comptroller General of the United States, for audit of Government organizations, programs, activities, and functions, and of Government assistance received by contractors, nonprofit organizations, and other non-governmental organizations (also called Government Auditing Standards (GAS) or U.S. General Accounting Office "Yellow Book" standards). (Chapters 590, 591, 592)

**internal quality control system**

The system includes written policies and procedures and a quality assurance review program designed to provide reasonable assurance that the OIG follows applicable auditing standards and has established and follows adequate policies and procedures. (Chapter 590)

**\*performance audit**

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. (Chapters 590, 592)

**public accounting firm**

Independent non-Federal auditors that are generally Certified Public Accountants (CPAs). (Chapter 590)

**quality control review**

A review of the working papers supporting an audit report prepared by non-Federal auditors to ensure that the work complies with auditing standards approved by the Comptroller General of the United States. (Chapters 590, 591)

**recommendation**

The auditors' suggested action necessary for management to take to correct a deficiency set forth in an audit finding. (Chapter 590)

**Scope of Work**

The document that describes the specifications of an audit contracted out to a public accounting firm, including the background, audit objectives, steps and procedures, reporting requirements, and terms of performance. (Chapter 590)

**Supreme Audit Institution (SAI)**

A foreign country's principal government audit agency, often referred to as its "Supreme Audit Institution" (SAI). (Chapter 590, 591)

**working papers**

These set forth the principal support for the auditors' audit report and provide the documentation allowing others to review the quality of the audit work. (Chapter 590)

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