

**Functional Series 500 – Management Services  
ADS 594 – Audits of USAID’s Annual Financial Statements**

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\*An asterisk indicates that the adjacent material is new or substantively revised.

## **ADS 594 – Audits of USAID’s Annual Financial Statements**

### **594.1 OVERVIEW**

Effective Date: 06/24/1997

The objective of the chapter is to establish requirements governing the audit of USAID's Annual Financial Statements.

### **594.2 PRIMARY RESPONSIBILITIES**

Effective Date: 06/24/1997

- a. The Chief Financial Officer (CFO)
  - Ensures that USAID’s Annual Financial Statements are prepared and submitted to the Office of Management and Budget (OMB) and other addressees; and
  - Establishes policy guidance for USAID financial and program personnel with respect to the preparation of the Annual Financial Statements.
- b. The Bureau for Management, Office of Financial Management (M/FM) prepares USAID's Annual Financial Statements.
- c. The Office of Inspector General (OIG) audits USAID’s Annual Financial Statements.

### **594.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES**

#### **594.3.1 Preparation of USAID's Annual Financial Statements**

Effective Date: 01/01/2004

USAID must prepare annual Principal Financial Statements and Combining Statements of USAID financial activity.

\*The Office of Financial Management (M/FM) must submit complete cumulative interim financial statements to the USAID Office of Inspector General (OIG) within four weeks of the close of each quarter during the fiscal year. M/FM must also submit USAID's final Annual Financial Statements to the OIG by October 31 following the close of USAID’s fiscal year.

#### **594.3.2 Audit of USAID's Annual Financial Statements**

Effective Date: 01/01/2004

USAID's Annual Financial Statements (including USAID’s Principal Financial and Combining Statements) must be audited.

The OIG, or independent external auditors under the guidance and direction of the OIG, must audit USAID's required Annual Financial Statements. The objectives of the audit are to

**a. Express an opinion on the financial statements**

(1) The OIG must audit USAID's Principal Statements and Combining Statements, and express an opinion as to whether these statements present fairly, in all material respects, the financial position, results of operations, changes in net position, cash flow, and budget and actual expenses in accordance with OMB Bulletins or generally accepted accounting principles, as applicable.

\*(2) The audit must be conducted in accordance with Government Auditing Standards, the provisions of the CFO Act, and the implementing provisions of OMB Bulletin No. 01-02.

**b. Report on internal controls**

(1) The OIG must obtain an understanding of USAID's internal controls sufficient to plan the audit; assess control risk for the assertions embodied in the account balance, transaction class, and disclosure components of the financial statements; and determine the nature, timing, and extent of substantive tests for financial statement assertions.

(2) The OIG must report the results of its internal control review in the "Auditors Report on Internal Control Structure."

(3) For performance information, the OIG must obtain an understanding of USAID's internal control structure relating to the existence and completion assertion. The OIG must also assess control risk relative to policies and procedures designed to provide reasonable assurance that data supporting reported performance outcome measures are properly recorded and accounted for to permit the preparation of reliable and complete performance information.

**c. Report on compliance with laws and regulations**

(1) The OIG must determine whether USAID has complied with laws and regulations that could have a direct and material effect on the Principal Statements. This determination of compliance must include, but is not limited to, obtaining an understanding of the process by which USAID identifies and evaluates weaknesses required to be reported under the Federal Managers' Financial Integrity Act (FMFIA).

(2) The OIG must report the results of its compliance review together with material instances of noncompliance and instances or indications of illegal acts, which could result in criminal prosecution, in the "Auditors Report on Compliance."

**d. Report on the compliance of financial systems with the Federal Financial Management Improvement Act (FFMIA)**

The OIG must report whether USAID's financial management systems comply with the requirements of the FFMIA. The FFMIA requires agencies to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

**\*594.3.2.1 Other Requirements of the Financial Statement Audit**

Effective Date: 01/01/2004

In addition to the main objectives of the audit, the OIG must address the following:

\*a. The OIG must obtain written representations from USAID management in the form of a Management Representation Letter (see [Sample Management Representation Letter for Financial Audits](#)) for all financial statements and periods covered by the auditors' report.

b. The OIG must assess whether the information presented in the "Overview of the Reporting Entity" and "Supplemental Financial and Management Information" sections of the Annual Financial Statements is materially consistent with the information in the Principal Statements.

c. The OIG must issue a Management Letter to USAID management to communicate any conditions identified during the audit that are not included in the required audit reports, but that the auditors consider necessary to communicate.

\*d. The OIG must prepare an audit report at the completion of the audit so that the USAID Administrator can submit the audit report to OMB by November 15 following the end of USAID's fiscal year.

**594.3.3 Distribution of USAID's Audited Annual Financial Statements**

Effective Date: 01/01/2004

USAID's audited Annual Financial Statements must be distributed to all appropriate recipients.

The Office of Financial Management (M/FM) must submit the audited Annual Financial Statements and auditors' reports to OMB, the U.S. General Accounting Office (GAO), and appropriate Congressional committees.

\*USAID must submit the audited Annual Financial Statements to OMB by November 15 following the end of USAID's fiscal year.

## **594.4 MANDATORY REFERENCES**

### **594.4.1 External Mandatory References**

- a. [Chief Financial Officers \(CFO\) Act of 1990](#) (Authority)
- b. [Federal Accounting Standards Advisory Board \(FASAB\) Statements](#) (Authority)
- c. [Federal Financial Management Improvement Act of 1996 \(FFMIA\), Pub. L. 104-208](#) (Authority)
- d. [Federal Managers Financial Integrity Act \(FMFIA\), Pub. L. 97-255](#) (Authority)
- \*e. [Generally Accepted Government Auditing Standards \(GAGAS\) issued by the Comptroller General of the United States, June 2003 Revision](#) (To access the GAGAS, scroll down to "Other Publications," then click on "The Yellow Book")
- f. [Government Management Reform Act \(GMRA\) of 1994](#) (Authority)
- g. [Government Performance and Results Act \(GPRA\) of 1993, Pub. L. 103-62](#) (Authority)
- \*h. [Inspector General Act of 1978, as amended, Pub. L. 100-5042](#) (Authority)
- \*i. [OMB Bulletin 01-02, Audit Requirements for Federal Financial Statements](#) (Authority)
- \*j. [OMB Bulletin 01-09, Form and Content of Agency Financial Statements](#) (Authority)
- k. OMB Bulletin 93-18, Audited Financial Statements (Authority)

### **594.4.2 Internal Mandatory References**

### **594.4.3 Mandatory Forms**

**594.5 ADDITIONAL HELP****\*a [Sample Management Representation Letter for Financial Audits](#)****594.5.1 Optional Forms****594.6 DEFINITIONS**

Effective Date: 06/24/1997

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

**Annual Financial Statement**

Is comprised of (a) an Overview of the Reporting Entity, (b) Principal Financial Statements, (c) Combining Statements, where applicable, and (d) Supplemental Financial and Management Information. (Chapter 594)

**Combining Statements**

Financial statements that present information found in the Principal Financial Statements by major programs, activities, or funds, where feasible or appropriate. (Chapter 594)

**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 nongovernmental organizations. (See also Generally Accepted Government Auditing Standards and U.S. General Accounting Office "Yellow Book" Standards.) (Chapters 590, 591, 592, 594)

**Overview of the Reporting Entity**

A narrative discussion and analysis of the financial condition and results of operation of the reporting entity, which presents information based on the results of an analysis of relevant financial and performance data of the organization's programs, activities, and funds. (Chapter 594)

**Performance Measurement**

A means of evaluating efficiency, effectiveness, and results. A balanced performance measurement scorecard includes financial and nonfinancial measures focusing on quality, cycle time, and cost. Performance measurement should include program accomplishments in terms of outputs and outcomes. (Chapter 594)

**Principal Financial Statements**

Include the Statement of Financial Position, Statement of Operations, Changes in Net Position, Statement of Cash Flows, Statement of Budget and Actual Expenses, and the related Notes to the Principal Statements. (Chapter 594)

\*An asterisk indicates that the adjacent material is new or substantively revised.

**Supplemental Financial and Management Information**

Additional information that supports the "Overview of the Reporting Entity" or enhances an understanding of the financial condition and operations of the Agency. (Chapter 594)

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