

**STANDARD STATEMENT OF WORK FOR  
FINANCIAL AUDITS OF  
COVERED PROVIDERS**

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**OBJECTIVES AND GENERAL STATEMENT OF WORK  
AUDIT OF MCC RESOURCES  
MANAGED BY [COVERED PROVIDER]**

**I. BACKGROUND**

On [date], the U.S. Government, acting through the Millennium Challenge Corporation (MCC), entered into a compact agreement with (country name) to implement a program proposed by (country name) to advance its progress towards achieving economic growth and poverty reduction. Under the compact agreement, (country name) established MCA-(country name) [if another name is given to the Accountable Entity, that name should be substituted for MCA-(country name) throughout this statement of work] as the Accountable Entity to manage the implementation of compact activities.

[Include a brief history of MCA-(country name), 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 MCA-(country name) 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<sup>1</sup> [or Audit of Financial Statements, if the audit includes an audit of the general-purpose financial statements] of MCC Resources Managed by (COVERED PROVIDER's name) Under the Agreement between the MCA (country name) and the (COVERED PROVIDER's name) for the period from [date] to [date]. In the case of close-out audits,<sup>2</sup> the title must specify that it is a close-out audit, as in: Close-out Audit of the MCC Resources Managed by (COVERED PROVIDER's name) Under the Compact Agreement between the Millennium Challenge Corporation and the Government of (country name) for the period from [date] to [date].

**III. OBJECTIVES**

The objective of this engagement is to conduct a financial audit of the MCC resources managed by (COVERED PROVIDER's name) under the compact agreement between the Millennium Challenge Corporation, representing the U.S. Government, and the Government of (country name) from [date] to [date] in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States and the "Millennium Challenge Corporation Guidelines for Financial Audits Contracted by Foreign Recipients" (MCC Audit Guidelines) issued by the MCC Inspector General (IG).

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<sup>1</sup>A fund accountability statement is the basic financial statement to be audited that presents MCA-(country name)'s revenues, costs incurred, cash balance of MCC-provided funds, and commodities and technical assistance directly procured by MCC for the use. An example is provided on page \_\_\_ of the MCC Audit Guidelines.

<sup>2</sup>A close-out audit is an audit for an award that expired during the period audited.

The financial audit must include (1) a specific audit of all (*COVERED PROVIDER's name*) MCC-funded programs, and (2) an audit of (*COVERED PROVIDER's name*) general purpose financial statements on an organization-wide basis (balance sheet, income statement, and cash flow statement) if (*COVERED PROVIDER's name*) has been authorized to charge indirect costs, or if MCC specifically requests such an audit.

The fund accountability statement is the basic financial statement to be audited that presents (*COVERED PROVIDER's name*)'s revenues, costs incurred, cash balance of MCC-provided funds, and assets and technical assistance directly procured by MCC for (*COVERED PROVIDER's name*)'s use. All currency amounts in the fund accountability statement, cost-sharing schedule, schedule of computation of indirect cost rate, and the report findings, if any, must be stated in U.S. dollars. The auditors must indicate the exchange rate(s) used in the notes to the fund accountability statement. *[If (COVERED PROVIDER's name) receives funds from multiple sources and therefore prepares general-purpose financial statements as well as the fund accountability statement for MCC-provided funds, the fund accountability statement must be reconciled to the MCC-provided funds included in the general-purpose financial statements by a note to the financial statements or the fund accountability statement.]*

#### **A. Audit of Funds Provided by MCC**

A financial audit of the funds provided by MCC must be performed in accordance with U.S. *Government Auditing Standards* and accordingly include such tests of the accounting records as deemed necessary under the circumstances. The specific objectives of the audit of the MCC-provided funds are to:

- Express an opinion on whether the fund accountability statement for the MCC-funded programs presents fairly, in all material respects, revenues received, costs incurred, and assets and technical assistance directly procured by MCC for the period audited in conformity with the terms of the compact agreement and related ancillary agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- Evaluate and obtain a sufficient understanding of (*COVERED PROVIDER's name*) internal controls related to the MCC-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 (*COVERED PROVIDER's name*) complied, in all material respects, with the compact agreement and related ancillary agreements, and applicable laws and regulations related with MCC-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 required cost-sharing contributions, if applicable.
- Perform an audit of the indirect cost rate(s) if (*COVERED PROVIDER's name*) has been authorized to charge indirect costs using provisional rates and MCC has not yet negotiated final rates with (*COVERED PROVIDER's name*). *[If (COVERED PROVIDER's name) does not have an indirect cost rate authorized by the MCC this fact must be disclosed in the report.]*
- Determine if (*COVERED PROVIDER's name*) has taken adequate corrective action

on the prior audit report recommendations and any pre-award survey recommendations for an initial audit.

Auditors must design audit steps and procedures in accordance with U.S. *Government Auditing Standards*, Chapter 4, 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 immediately contact the MCC Inspector General and must exercise professional judgment in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

#### **B. Review of Cost Sharing Schedule**

The audit must determine whether cost-sharing contributions were provided and accounted for by (*COVERED PROVIDER's name*) in accordance with the terms of the compact and related agreements, if applicable. The audit firm must clearly state whether or not cost-sharing contributions were required by the compact and related agreements. The auditors will review the cost-sharing schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by (*COVERED PROVIDER's name*) to prepare the schedule. The auditors must question all cost-sharing contributions that are either ineligible or unsupported costs. In addition, for audits of agreements that present a cost-sharing budget on an annual basis and for close-out audits of awards that present cost-sharing budgets on a life-of-project basis, the auditors will review the cost-sharing schedule to determine if cost-sharing contributions were provided by (*COVERED PROVIDER's name*) in accordance with the terms of the agreements.

#### **C. Audit of General Purpose Financial Statements**

A financial audit of (*COVERED PROVIDER's name*)'s general-purpose financial statements on an organization-wide basis must be submitted together with the audit of MCC-provided funds if (*COVERED PROVIDER's name*) has been authorized to charge indirect costs, or if MCC specifically requests such an audit. The audit must be performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA). The objective of this audit is to express an opinion on whether those statements present fairly, in all material respects, the financial position of (*COVERED PROVIDER's name*) at year end, and the results of its operations and cash flow 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 the audit programs and the review. They are not considered all-inclusive or restrictive in nature and do not constitute relief from exercising professional 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 statement of work must be communicated as soon as possible to the MCC Inspector General.

#### **A. Pre-Audit Steps**

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

1. The Millennium Challenge Compact (compact agreement) between MCC and [country

name].

2. Supplemental agreements between MCC and [country name] and between (*COVERED PROVIDER's name*) and its agents, e.g., Fiscal Agent and Procurement Agent, and plans called for under the compact agreement. Plans and procedures supplementing such plans might include: Governance Agreement, Bank Agreement(s), Disbursement Agreement, Fiscal Agent Agreement, Fiscal Accountability Plan, Financial Plan, Procurement Agent Agreement, Procurement Plan, Procurement Guidelines, Implementing Entity Agreement(s), M&E Plan, Implementation Plan(s), and Work Plans for the relevant Project or Project Activity, among others.
3. The agreements between *MCA-(country name)* and Covered Providers, e.g., contractors and grantees, and any other entities implementing compact funded activities on *MCA-(country name)'s* behalf.<sup>3</sup>,
4. Implementation letters, and written procedures approved by MCC and/or *MCA-(country name)*.
5. The subagreements between *MCA-(country name)'s* Covered Providers or other implementing entities and their subimplementing entities, as applicable.
6. 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.

## **B. Fund Accountability Statement**

A "fund accountability statement" is a financial statement that presents, for an *COVERED PROVIDER's* MCC-funded program, the *COVERED PROVIDER's* revenues, costs incurred, cash balance of funds (after considering reconciling items), and assets and technical assistance directly procured by MCC. The fund accountability statement must be presented in U.S. dollars and the exchange rate(s) used must be disclosed in a note to the fund accountability statement.

The auditor must examine the fund accountability statement for MCC-funded programs including the budgeted amounts by category and major items; the revenues received from MCC for the period covered by the audit; the costs reported by *COVERED PROVIDER-(country name)* as incurred during that period; and the assets/technical assistance directly procured by MCC or the *MCA (country name)* for (*COVERED PROVIDER's name*) use. The fund accountability statement must include all MCC-provided assistance funds identified by each specific program or agreement. The revenues received, less the costs incurred, after considering any reconciling items, must reconcile with the balance of cash-on-hand and/or in bank accounts. The fund accountability statement must not include cost-sharing contributions provided from (*COVERED PROVIDER's name*)'s in cash or in-kind. However, a separate cost sharing schedule must be included and reviewed to determine whether cost-sharing contributions were provided and accounted for in accordance with the terms

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<sup>3</sup> In a typical MCC compact with a host country, the Accountable Entity established by the host country to implement the compact agreement, i.e., *MCA-(country-name)*, is the direct recipient of MCC funds. In turn, the *MCA* entity establishes agreements with Covered Providers--either host country or foreign entities receiving MCC-provided funding in excess of a specified dollar threshold, as well as entities receiving less than the specified dollar thresholds--to implement the compact activities. The MCC Inspector General has developed a separate standard statement of work for non U.S. Covered Providers to use for financial audits required of them by the host country Accountable Entity.

of the compact and related agreements (see section IV.C. of this statement of work).

The auditors may prepare or assist (*COVERED PROVIDER's name*) in the preparation of the fund accountability statement from the books and records maintained by (*COVERED PROVIDER's name*), but (*COVERED PROVIDER's name*) must accept the responsibility for the statement's accuracy before the audit commences.

The opinion on the fund accountability statement must be in accordance with SAS No. 62 (AU623). The fund accountability statement must separately identify those revenues and costs applicable to each specific agreement funded by MCC. 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 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 MCC and costs incurred but pending reimbursement, identifying and quantifying any questioned costs. *All* costs that are not supported with adequate documentation or are not in accordance with the compact and related agreement terms must be reported as questioned. Questioned costs that are pending reimbursement must be identified in the notes to the fund accountability statement as not yet reimbursed.

Questioned costs must be presented in the fund accountability statement in two separate categories (a) *ineligible costs* that are explicitly questioned because they are unreasonable; prohibited by the compact and related agreements or applicable laws and regulations; or not program related; and (b) *unsupported costs* that are not supported with adequate documentation or did not have required prior approvals or authorizations. All questioned costs resulting from instances of noncompliance with the compact and related 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 the corresponding findings in the report on compliance.

2. Review general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to and reimbursed by MCC to the program and general ledgers.
3. 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.
4. Determine whether disbursement requests made to MCC and any (*COVERED PROVIDER's name*) advances of funds to subimplementing entities were justified with documentation, including reconciliations of funds advanced, disbursed, and available. The auditors must ensure that all funding received by (*COVERED PROVIDER's name*) from MCC was appropriately recorded in (*COVERED PROVIDER's name*) accounting records and that those records were periodically reconciled with information provided by MCC.
5. Determine whether program income was added to the funds used to further eligible program objectives, to finance the non-MCC share of the program, or deducted from program costs, in accordance with the terms of the compact and related agreements.

6. Review procurements 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. Assess whether the procurements were in accordance with the Procurement Guidelines, approved procurement plan, and the fiscal accountability plan.
7. Review direct salary charges to determine whether salary rates are reasonable for that position, in accordance with those approved by MCC, when such approval is required, and supported by appropriate payroll records. Determine if overtime was charged to the program and whether it is allowable under the terms of the compact and related agreements. Determine whether allowances and fringe benefits received by employees were in accordance with the agreements and applicable laws and regulations. The auditors must question unallowable salary charges in the fund accountability statement.
8. 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 the compact and related agreements and regulations must be questioned in the fund accountability statement.
9. Review assets (e.g., supplies, materials, vehicles, equipment, food products, tools, etc.) procured by (*COVERED PROVIDER's name*) as well as those directly procured by MCC for (*COVERED PROVIDER's name*)'s use. The auditors must determine whether assets exist or were used for their intended purposes in accordance with the terms of the compact and related agreements, and whether control procedures exist and have been placed in operation to adequately safeguard the assets. As part of the procedures to determine if assets were used for intended purposes, the auditors must perform end-use reviews for an appropriate sample of all assets based on the control risk assessment (see section IV.D. of this statement of work). End-use reviews would normally include site visits to verify that assets exist or were used for their intended purposes in accordance with the terms of the compact and related agreements. When conducting end-use reviews, the auditors must ensure that assets are marked in accordance with grant or contract requirements. The cost of all assets whose existence or proper use, in accordance with the terms of the compact and related agreements, cannot be verified must be questioned in the fund accountability statement.
10. Review technical assistance and services, whether procured by (*COVERED PROVIDER's name*) or directly procured by MCC for (*COVERED PROVIDER's name*)'s use. The auditors must determine whether technical assistance and services were used for their intended purposes in accordance with the terms of the compact and related agreements. The cost of technical assistance and services not properly used in accordance with the agreements must be questioned in the fund accountability statement.

In addition to the above audit procedures, if technical assistance and services were contracted by (*COVERED PROVIDER's name*) from a non-U.S. contractor, the auditors must perform additional audit steps of the technical assistance and services under this statement of work, unless (*COVERED PROVIDER's name*) has separately contracted for an audit of these costs. When testing for compliance with the compact and related agreement terms and applicable laws and regulations, the auditors must not only consider the agreements between (*COVERED PROVIDER's name*) and MCC but also the agreements between (*COVERED PROVIDER's name*) and non-U.S. contractors providing technical assistance and services. The agreements between *MCA-(country name)* and the non-U.S. contractors must be audited using the same audit steps described in the other

paragraphs of this section, including all tests necessary to specifically determine that costs incurred are allowable, allocable, reasonable, and supported under the compact and related agreement terms.

If technical assistance and services were *not* contracted by *MCA-(country name)* from a non-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 compact and related agreements. However, the auditors are not responsible for performing additional audit steps for the *costs incurred* under the technical assistance and services agreements, since either MCC or a cognizant U.S. government agency is responsible for contracting for audits of these costs.

11. When (*COVERED PROVIDER's name*) charges indirect costs to MCC using provisional rates, review the allocation method to determine that the indirect cost pool and distribution base include only allowable items in accordance with the compact and related agreement terms. The auditors must be aware that costs that are unallowable as direct charges to MCC-funded agreements must be allocated their share of indirect costs if they represent activities that (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization's indirect costs. Indirect costs must be calculated after all adjustments have been made to the pool and base. *[If (COVERED PROVIDER's name) does not have an indirect cost rate authorized by MCC, this fact must be disclosed in the report.]*
12. For final closeout audits, review unliquidated advances to (*COVERED PROVIDER's name*) and pending reimbursements by MCC. Ensure that (*COVERED PROVIDER's name*) has returned any excess cash as may be required by the compact documents. Also, ensure that all assets (inventories, fixed assets, assets, etc.) procured with program funds were disposed of in accordance with the terms of the compact and related agreements. The auditors must present, as an annex to the fund accountability statement, the balances and details of final inventories of nonexpendable property acquired under the agreements. This inventory must indicate which items, if any, were titled to the U.S. Government, and which were titled to other entities. These close out audit procedures must be performed for any award that expires during the period audited.

An illustrative fund accountability statement is included as Example 6.1 of the *MCC Audit Guidelines*. This example illustrates how to report the results of a single audit that covers more than one MCC-funded agreement. In such cases, the fund accountability statement must separately disclose the financial information (revenues, costs, etc.) for each agreement. Questioned costs, and internal control and compliance findings of any audits of Covered Providers must be reported in (*COVERED PROVIDER's name*)'s financial audit using the same treatment and procedures as (*COVERED PROVIDER's name*)'s own questioned costs and findings. The same reporting principles apply when only one MCC-funded agreement is covered by the audit.

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

### **C. Cost-Sharing Schedule**

MCC-funded compacts and related agreements may require cost-sharing contributions, either cash or in kind, by (*COVERED PROVIDER's name*). Most agreements establish a life-of-project budget for such contributions; however, some agreements may establish annual budgets

for those contributions. The review of the cost sharing schedule must be approached differently depending on whether the cost-sharing budget is a life-of project budget or an annual budget. In either case, the review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data supporting the cost-sharing schedule.

The auditors may prepare or assist (*COVERED PROVIDER's name*) in preparing the cost-sharing schedule from the books and records maintained by (*COVERED PROVIDER's name*). (*COVERED PROVIDER's name*) must, however, accept responsibility for the schedule's accuracy before the review commences.

### **C(1). Agreement with Life-of-Project Cost-Sharing Budget**

For an agreement with a life-of-project budget for cost-sharing contributions, it is not possible to determine whether the contributions have been made as required until the agreement ends. Nonetheless, MCC and (*COVERED PROVIDER's name*) need reliable information to monitor actual cost-sharing contributions throughout the life of the agreement.

Thus, for agreements with a life-of-project budget for cost-sharing contributions, for each year that an audit is performed in accordance with the *MCC Audit Guidelines*, the auditors will review the cost-sharing schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by (*COVERED PROVIDER's name*) to prepare the schedule. The auditors must question all cost-sharing contributions that are either ineligible or unsupported costs. An ineligible cost is unreasonable, prohibited by the compact and related 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 schedule. In addition, questioned costs must be included as findings in the report on compliance. Notes to the cost-sharing schedule must be cross-referenced to the corresponding findings in the report on compliance. Also, reportable internal control weaknesses related to cost-sharing contributions must be set forth as findings in the report on internal control. (See sample cost-sharing schedule at Example 6.2.A, and sample reports at Examples 7.6.A and 7.6.B of the *MCC Audit Guidelines*.)

In addition, for closeout audits of compacts and related agreements with a life-of-project budget for cost-sharing contributions, the auditors will review the cost-sharing schedule to determine if (*COVERED PROVIDER's name*) provided such contributions in accordance with the terms of the agreements. If actual contributions were less than budgeted contributions, the shortfall will be identified in the appropriate column of the cost-sharing schedule. (See sample cost-sharing schedule at Example 6.2.B, and sample reports at Examples 7.6.C and 7.6.D of the *MCC Audit Guidelines*.)

### **C(2). Agreement with Annual Cost-Sharing Budget**

For agreements with an annual budget for cost-sharing contributions, for each year that an audit is performed in accordance with the *MCC Audit Guidelines*, the auditors will review the cost-sharing schedule to determine whether (1) the schedule is fairly presented in accordance with the basis of accounting used by (*COVERED PROVIDER's name*) to prepare the cost-sharing schedule and (2) contributions were provided by (*COVERED PROVIDER's name*) in accordance with the terms of the compact and related agreements. The auditors must question all cost-sharing contributions that are either ineligible or unsupported costs. An ineligible cost is unreasonable, prohibited by the compact and related 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



schedule. In addition, questioned costs must be included as findings in the report on compliance. Notes to the cost-sharing schedule must be cross-referenced to the corresponding findings in the report on compliance. Also, reportable internal control weaknesses related to cost-sharing contributions must be set forth as findings in the report on internal control. If actual cost-sharing contributions were less than budgeted contributions, the shortfall will be identified in the appropriate column of the cost-sharing schedule. (See sample cost-sharing schedule at Example 6.2.B, and sample reports at Examples 7.6.C and 7.6.D of the *MCC Audit Guidelines*.)

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

The auditors must review and evaluate (*COVERED PROVIDER's name*) internal controls related to MCC-funded 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 U.S. Government Accountability Office's *Standards for Internal Controls in the Federal Government* (GAO/AIMD-00-21.3.1; 1999) may be helpful in assessing recipient internal controls. The auditor's understanding of the internal controls must be documented in the audit documentation file.

Prepare the report required by the *MCC Audit Guidelines*, identifying the reportable conditions that are significant deficiencies in the design or operation of the internal controls, and the reportable conditions considered to be material weaknesses. Material weaknesses are reportable conditions in which the design or operation of the specific internal control elements do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by management performing its normal functions. Reportable conditions, including material weaknesses, must be set forth in the report as "findings" (see paragraph 5.1.d of the *MCC Audit Guidelines*). Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of internal controls that, in the auditor's judgment, could adversely affect (*COVERED PROVIDER's name*)'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement and cost-sharing schedule. Nonreportable conditions must be included in a separate management letter to (*COVERED PROVIDER's name*) and referred to in the report on the internal controls.

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 a sufficient understanding of the internal controls to plan the audit and to determine the nature, timing and extent of tests to be performed.
2. Assess inherent risk and control risk, and determine the combined risk. Inherent risk is the susceptibility of an assertion, such as an account balance, to a material misstatement assuming there are no related internal control policies or procedures. Control risk is the risk that a material misstatement, that could occur in an assertion, will not be prevented or detected on a timely basis by the entity's internal control policies or procedures. Combined risk (sometimes referred to as detection risk) is the risk that the auditor will not detect a material misstatement that exists in an assertion. Combined risk depends upon the effectiveness of an auditing procedure and its application by the auditor.
3. Summarize the risk assessments for each assertion in the audit documentation. 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. The summarized audit documentation 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.

If the control risk is assessed at the maximum level for assertions related to material account balances, transaction classes, and disclosure components of financial statements when such assertions are significantly dependent upon computerized information systems, the auditors must document in the audit documentation files the basis for such conclusions by addressing (i) the ineffectiveness of the design and/or operation of controls, or (ii) the reasons why it would be ineffective to test the controls.

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 (*COVERED PROVIDER's name*)'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 assets (such as vehicles, equipment, and tools, as well as other assets) purchased either by the program or directly by the MCC; and
  - g. ensuring compliance with compact and related 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 dealing with the review of compliance with compact and related agreement terms and applicable laws and regulations and presented in the compliance report.

5. Evaluate internal controls established to ensure compliance with cost-sharing 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 auditor uses 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.

In fulfilling the audit requirement relating to an understanding of the internal controls and assessing the level of control risk, the auditor must follow, at a minimum, the guidance contained in AICPA SAS Nos. 55, 60, 78 and 94 (AU110, AU319, AU324 and AU325), respectively entitled *Consideration of Internal Control in a Financial Statement Audit*, *Communication of Internal Control Related Matters Noted in an Audit*, *Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS 55*, and *The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit*, as well as SAS No. 74 (AU801) entitled *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*, and SAS No. 99 entitled *Consideration of Fraud in a Financial Statement Audit*.

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

In fulfilling the audit requirement to determine compliance with compact and related agreement terms and applicable laws and regulations related to MCC-funded programs, the auditors must, at a minimum, follow guidance contained in AICPA SAS No. 74 (AU801) entitled *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. The compliance review must also determine--on audits of awards that present cost-sharing budgets on an annual basis and on close-out audits of awards that present cost-sharing budgets on a life-of-project basis--whether cost-sharing contributions were provided and accounted for in accordance with the terms of the agreements. 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. Nonmaterial instances of noncompliance must be included in a separate management letter to (*COVERED PROVIDER's name*) and referred to in the report on compliance.

The auditor's report must include all conclusions that a fraud or illegal act either has occurred or is likely to have occurred. In reporting material fraud, illegal acts, abuse, 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. dollar value, if appropriate. In presenting material irregularities, illegal acts, or other noncompliance, auditors must follow the reporting standards contained in Chapter 5 of U.S. *Government Auditing Standards*. Auditors may provide less extensive disclosure of irregularities and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of U.S. *Government Auditing Standards* provides guidance on factors that may influence auditors' materiality judgments. If the auditor concludes that sufficient evidence of irregularities or illegal acts exists, they must immediately contact the MCC Inspector General, and must exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations and/or legal proceedings.

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

1. Identify the requirements of the compact and related compact documents 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 compact and related 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 listed in 1.a. above;
  - 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 the compact and related agreement terms and applicable laws and regulations that could have a material effect on the fund accountability statement. This must be based on the risk assessment in 1.b. above; 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 combined (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 audit documentation file must be cross-indexed to detailed audit documentation files that adequately support the facts and conclusions contained in the summary audit documentation file.
2. Determine if payments have been made in accordance with the compact and related 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 assets, whether directly procured by (*COVERED PROVIDER's name*) or directly procured by MCC for (*COVERED PROVIDER's name*)'s use, exist or were used for their intended purposes in accordance with the compact and related agreements. Ensure that assets are marked in accordance with agreement requirements. If not, the cost of such assets must be questioned.
  6. Determine whether any technical assistance and services, whether procured by (*COVERED PROVIDER's name*) or directly procured by MCC for (*COVERED PROVIDER's name*) use, were used for their intended purposes in accordance with the compact and related agreements. If not, the cost of such technical assistance and services must be questioned.
  7. Determine if the amount of cost-sharing funds was calculated and accounted for as required by the compact and related agreements or applicable cost principles.
  8. Determine if the cost-sharing funds were provided according to the terms of the compact and related agreements. And quantify any shortfalls.
  9. Determine whether those who received services and benefits were eligible to receive them.
  10. Determine whether (*COVERED PROVIDER's name*)'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.

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

The auditors must review the status of actions taken on findings and recommendations reported in any pre-award review and prior audits of MCC-funded programs. Chapter 4 of the U.S. *Government Auditing Standards* under the section entitled *Considering the Results of Previous Audits and Attestation Engagements*, states: "Auditors should consider the results of previous audits and attestation engagements and follow up on known significant findings and recommendations that directly relate to the objectives of the audit being undertaken." As well, the Chapter states, "Auditors should use professional judgment in determining (1) prior periods to be considered, (2) the level of work necessary to follow up on significant findings and recommendations that affect the audit, and (3) the affect on the risk assessment and audit procedures in planning the current audit." They must do this to determine whether the auditee has taken timely and appropriate corrective actions. Auditors must report the status of uncorrected material findings and recommendations from any pre-award survey and prior audits that affect the financial statement audit.

The auditors must review and report on the status of actions taken on prior findings and recommendations in the summary section of the audit report. The auditors must refer to the most recent audit report for the same award (for a follow-up audit), or other MCC-funded awards and any pre-award survey (for an initial audit). When corrective action has not been taken and the deficiency remains unresolved for the current audit 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 audit report.

## **G. General Purpose Financial Statements**

Auditors must examine (*COVERED PROVIDER's name*)'s general purpose financial statements on an organization-wide basis if an indirect cost rate needs to be audited,<sup>4</sup> or if MCC specifically requests that the general purpose financial statements be audited. The audit must be performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA), or auditing standards promulgated by the International Organization of Supreme Audit Institutions (INTOSAI) or International Auditing Practices Committee of the International Federation of Accountants (IFAC).

The objective of this audit is to express an opinion on whether those statements present fairly, in all material respects, (*COVERED PROVIDER's name*)'s financial position at year-end, and the results of its operations and cash flow for the year then ended, in conformity with generally accepted accounting principles.

## **H. Indirect Cost Rates**

*[If (COVERED PROVIDER's name) does not have an indirect cost rate authorized by MCC, this fact must be disclosed in the report.]*

The auditors must determine the actual indirect cost rates for the year if (*COVERED PROVIDER's name*) has used provisional rates to charge indirect costs to the MCC-funded agreement. The audit of the indirect cost rates must include tests to determine whether the:

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<sup>4</sup> Where indirect costs are authorized, an audit of the general purpose financial statements is needed to ensure that all costs have been correctly included in the indirect cost rate calculation.

1. distribution or allocation base includes all costs that benefited from indirect activities,
2. distribution or allocation base is in compliance with the governing MCC Negotiated Indirect Cost Rate Agreement (NICRA), if applicable,
3. indirect cost pool includes only costs authorized by the compact and related agreements and applicable cost principles,
4. indirect cost rates obtained by dividing the indirect cost pool by the base are accurately calculated, and
5. costs included in this calculation reconcile to the total expenses shown in (*COVERED PROVIDER's name*)'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 (see Example 6.3 the *MCC Audit Guidelines*). This schedule must contain: (1) a listing of costs included in each indirect cost pool, (2) the distribution base, and (3) the calculation and the resultant indirect cost rate. The costs in the schedule must reconcile to the total expenses shown in (*COVERED PROVIDER's name*)'s general purpose financial statements. U.S. Office of Management and Budget (OMB) Circular A-122 provides additional guidance on allocation of indirect costs and determination of indirect cost rates.

## **I. Other Audit Responsibilities**

The auditors must perform the following steps:

1. Hold entrance and exit conferences with (*COVERED PROVIDER's name*). The MCC country representative and MCC Inspector General must be notified of these conferences in order that their representatives and any other MCC representatives that have an interest may attend.
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 must state that the auditors do not plan to provide opinions on compliance with laws and regulations and internal control over financial reporting.<sup>5</sup> Written communication is preferred. Auditors must document the communication in the audit documentation files.
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 financial statements under audit. While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:
  - audit reports and supporting audit documentation files are reviewed by an auditor, preferably at the partner level, who was not involved in the audit. This review must be documented in the audit documentation files;

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<sup>5</sup> The auditors only express an opinion on the fund accountability statement, and the indirect cost rate and general purpose financial statements, if applicable, as indicated in Chapter 3 of the *MCC Audit Guidelines*.

- all quantities and monetary amounts involving calculations are footed and cross-footed; and
  - all factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting audit documentation files.
4. Ascertain whether (*COVERED PROVIDER's name*) ensured that audits of its Covered Providers were performed to ensure accountability for MCC funds passed through to the Covered Providers (see paragraph 1.6 of the *MCC Audit Guidelines*). If audit requirements for Covered Providers were not met, the auditors must disclose this in the auditor's report on the fund accountability statement and consider qualifying their opinion.
  5. Obtain a management representation letter in accordance with AICPA SAS No. 85 (AU333), SAS No. 89, and SAS No. 99 signed by (*COVERED PROVIDER's name*)'s management. See Example 4.1 of the *MCC Audit Guidelines* for an illustrative management representation letter.

## V. AUDIT REPORTS

The audit firm must submit one hard copy and one electronic copy (in .pdf format) of the final audit report and any management letter to the MCC Inspector General. In turn, the MCC Inspector General will incorporate the audit firm's report into an audit report issued by the MCC Inspector General which report will include any Inspector General recommendations addressed to the MCC. To make it easier for audit firms to comply with the *MCC Audit Guidelines*, the format and content of the audit reports must follow the illustrative reports in Chapter 7 of the *MCC Audit Guidelines*. The audit report must specify the correct award number of each award covered by the audit. The report must contain:

- A. a title page,<sup>6</sup> table of contents and a transmittal letter and summary which includes: (1) a background section with a general description of the MCC-funded programs audited, the period covered, the program objectives, a clear identification of all entities mentioned in the report, a section on the follow-up of prior audit recommendations, and whether (*COVERED PROVIDER's name*) has a provisional indirect cost rate authorized by MCC; (2) the objectives and scope of the financial audit, and a clear explanation of the procedures performed and the scope limitations, if any; (3) a brief summary of the audit results on the fund accountability statement, questioned costs, internal controls, compliance with the compact and related agreement terms and applicable laws and regulations, indirect cost rates, status of prior audit recommendations, and, if applicable, (*COVERED PROVIDER's name*)'s general purpose financial statements on an organization-wide basis; (4) a brief summary of the results of the review of cost-sharing contributions; and (5) a brief summary of (*COVERED PROVIDER's name*)'s management comments regarding their views on the audit results and findings.
- B. the auditor's report on the fund accountability statement, identifying any questioned costs not fully supported with adequate records or not eligible under the terms of the compact and related agreements. The report must be in conformance with the standards for reporting in Chapter 5 of the U.S. *Government Auditing Standards* and must include:

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<sup>6</sup> Closeout audits must specify they are closeout audits on the title page. A closeout audit is an audit for an award that expired during the period audited.

1. The auditor's opinion on whether the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred, and assets and technical assistance directly procured by MCC for the audited period in accordance with the terms of the compact and related agreements and in conformity with generally accepted accounting principles or other basis of accounting. This opinion must clearly state that the audit was performed in accordance with U.S. *Government Auditing Standards* or specific alternative standards, if applicable (see paragraph 2.9.d of the *MCC Audit Guidelines*). Any deviations from these standards, such as noncompliance with the requirements for continuing professional education and external quality control reviews, must be disclosed (See Example 7.1.A of the *MCC Audit Guidelines*).
2. The fund accountability statement identifying the program revenues, costs incurred, and assets and technical assistance directly procured by MCC for the audited period. The statement must also identify questioned costs not considered eligible for reimbursement and unsupported, if any, including the cost of any assets and technical assistance directly procured by MCC whose existence or proper use in accordance with agreements could not be verified. All questioned costs resulting from instances of noncompliance with the compact and related 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 all questioned costs and must be cross-referenced to any corresponding findings in the report on compliance (see Example 6.1 of the *MCC Audit Guidelines*). All questioned costs in the notes to the fund accountability statement must be stated in U.S. dollars. The U.S. dollar equivalent must be calculated at the exchange rate applicable at the time the local currency was disbursed to (*COVERED PROVIDER's name*) by MCC.
3. Notes to the fund accountability statement, including a summary of the significant accounting policies, explanation of the most important items of the statements, the exchange rates during the audit period and foreign currency restrictions, if any. In addition, a note to the fund accountability statement must state whether any interest on MCC-provided funds was returned to MCC or otherwise used in accordance with the terms of the compact and related agreements.

C. a report on the auditor's review of the schedule of cost-sharing contributions. The report must follow the guidance in the AICPA Statements on Standards for Attestation Engagements, Attestation Standard (AT) for review reports AT100.64. The report must include:

1. A review report on the cost-sharing schedule. This review report must state that the review was conducted in accordance with AICPA standards. It must also explain that a review is more limited in scope than an examination performed in accordance with AICPA standards, and state that an opinion on the schedule is not expressed. The report must identify questioned costs related to the provision of, and accounting for, cost-sharing contributions, with a reference to the corresponding finding in the report on compliance. The report must provide negative assurance with regard to the provision of, and accounting for, cost-sharing contributions for items not tested (see Examples 7.6.A through 7.6.D of the *MCC Audit Guidelines*).
2. The cost sharing schedule identifying questioned costs (see Examples 6.2.A and 6.2.B or the *MCC Audit Guidelines*). Cost-sharing contributions that are unreasonable, prohibited by the compact and related agreements or applicable laws and regulations,



or not program related are ineligible. Cost-sharing contributions that lack adequate documentation or do not have required prior approvals or authorizations are unsupported.

3. The cost-sharing schedule identifying the budgeted amounts required by the compact and related agreements,<sup>7</sup> the amounts actually provided, and any cost-sharing shortfalls (see Example 6.2.B of the *MCC Audit Guidelines*).
4. Notes to the cost sharing schedule that briefly explain the basis for questioned costs and shortfalls, if applicable. The notes must be cross-referenced to the corresponding findings in the report on compliance.

**D.** the auditor's report on internal control. The auditor's report must include as a minimum: (1) the scope of the auditor's work in obtaining an understanding of the internal controls and in assessing the control risk, and; (2) the reportable conditions, including the identification of material weaknesses in (*COVERED PROVIDER's name*)'s internal controls. Reportable conditions must be described in a separate section (see paragraphs 5.2 through 5.4 of the *MCC Audit Guidelines*). This report must be made in conformance with SAS No. 60 and the standards for reporting in Chapter 5 of U.S. *Government Auditing Standards*. Nonreportable conditions must be communicated to (*COVERED PROVIDER's name*) in a separate management letter which must be referred to in the report on internal controls and sent with the audit report (see Examples 7.2.A and 7.2.B of the *MCC Audit Guidelines*).

**E.** the auditor's report on (*COVERED PROVIDER's name*)'s compliance with the compact and related agreement terms and applicable laws and regulations related to MCC-funded programs. The report must follow the guidance in SAS No. 74. Material instances of noncompliance must be described in a separate section (see paragraphs 5.2 through 5.4 of the *MCC Audit Guidelines*). Nonmaterial instances of noncompliance must be communicated to (*COVERED PROVIDER's name*) in a separate management letter, which must be sent with the audit report (see Examples 7.3.A and 7.3.B of the *MCC Audit Guidelines*). All questioned costs resulting from instances of noncompliance must be included as findings in the report on compliance. Also, the notes to the fund accountability statement that describe questioned costs must be cross-referenced to any corresponding findings in the report on compliance.

The auditor's report must include all conclusions, based on evidence obtained, that a fraud or illegal act either has occurred or is likely to have occurred. This report must 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 (*COVERED PROVIDER's name*) does or does not agree with the findings and questioned costs.

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 must be related to the universe or the number of cases examined and quantified in terms of U.S. dollar value, if appropriate. In presenting material fraud, illegal acts, or other noncompliance, auditors must follow the reporting standards contained in Chapter 5 of U.S. *Government Auditing*

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<sup>7</sup> This step is required for audits of compacts and related agreements that present cost-sharing budgets on an annual basis and for closeout audits of awards that present cost-sharing budgets on a life-of-project basis. See paragraphs 4.12 and 4.13 of the *MCC Audit Guidelines*.

*Standards.* Auditors may provide less extensive disclosure of irregularities and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of U.S. *Government Auditing Standards* provides guidance concerning factors that may influence auditors' materiality judgments. If the auditors conclude that sufficient evidence of irregularities or illegal acts exist, they must contact the MCC Inspector General and exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations and/or legal proceedings.

- F.** the schedule of computation of indirect cost rate (see Example 6.3 of the *MCC Audit Guidelines*) and the auditor's report on the schedule of indirect cost rate. This must be a separate report prepared in accordance with guidance set forth in SAS No. 29. (AU551), (see Example 7.4 of the *MCC Audit Guidelines*). [*This schedule and report are not required if (COVERED PROVIDER's name) does not have an indirect cost rate authorized by MCC.*]
- G.** (*COVERED PROVIDER's name*)'s general-purpose financial statements on an organization-wide basis and the auditor's report on them. These statements and the report on them only apply to recipients with an indirect cost rate that needs to be audited, unless the MCC specifically requests that the statements be audited.
- H.** the auditor's comments on the status of prior audit recommendations. The auditors must review and report on the status of actions taken on findings and recommendations reported in prior audits and any pre-award survey recommendations. When corrective action has not been taken and the deficiency remains unresolved for the current audit period and is reported again in the current report, the auditors need only briefly describe the prior finding and show the page reference where it is included in the current report. If there were no prior findings and recommendations, a note to that effect must be included in this section of the audit report.

The findings contained in the reports on internal controls and compliance related to MCC-funded programs must include a description of the condition (what is), the criteria (what should be), the cause (why it happened), and the effect (what harm was caused by not complying with the criteria). 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 found by the auditors may not always have all of these elements fully developed, given the scope and objectives of the specific audit. The auditors must, however, at least identify the condition, criteria and possible effect to enable management to determine the cause and take timely and proper corrective action.

Findings which 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 schedule (cross-referenced).
2. Be reported without regard to whether the conditions giving rise to them were corrected.
3. Be reported whether (*COVERED PROVIDER's name*) 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 (*COVERED PROVIDER's name*) 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 should explain their reasons following the comments. Conversely, the auditors should modify their report if they find the comments valid.

Any evidence of fraud, illegal acts or abuse that have occurred, or are likely to have occurred, must be included in a separate written report if deemed necessary by the MCC Inspector General. This report must include an identification of all questioned costs as a result of abuse, irregularities or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected or whether (*COVERED PROVIDER's name*) does or does not agree with the findings and questioned costs.

## **VI. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND THE REPORT**

The statement of work, audit program (including detailed audit steps) and the draft and final reports will be subject to approval and acceptance by the MCC Inspector General. After approval, the draft report will be discussed with the responsible officers of (*COVERED PROVIDER's name*).

The MCC Inspector General is responsible for assuring that the work performed under this statement of work complies with U.S. *Government Auditing Standards* and the "Millennium Challenge Corporation Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the MCC Inspector General (IG). To accomplish this objective, the MCC Inspector General will perform desk reviews on every draft audit report, and may review audit documentation files prior to approving draft audit reports or perform quality control reviews of the audit documentation files after the fact.

For the IG's review of audit documentation files, the audit firm must ensure that all audit records related to the audited agreements are available to enable IG auditors to accomplish and support their review. To this end, the IG auditors must have access to all pertinent audit documentation files and records of (*COVERED PROVIDER's name*) and their Covered Providers and make excerpts, photocopies, and transcripts.

If the MCC Inspector General does not accept the report because of deficiencies in the work, the audit firm must perform any additional audit work requested at no additional cost.

## **VII. RELATIONSHIPS AND RESPONSIBILITIES**

While the compact agreement is between the MCC and the host country, and (*COVERED PROVIDER's name*) as the host country's implementing entity, in order for the MCC Inspector General to exercise its quality control responsibilities over audits of U.S. funds, the client for this contract is the MCC Inspector General (IG). The IG program coordinator for this contract is [*name of person, telephone number and email address*].

The audit firm will work in coordination with [*name and title of designated person within the office of the MCC country representative or any other representative the MCC may determine*]. The liaison for audit concerns will be [*name and title*] of the MCC Inspector General or his/her designee,

and the liaison for information and assistance from the MCC will be the MCC country representative or his/her designee.

The MCC country representative may meet with the public accounting firm at the beginning of the audit to explain any financial/compliance areas of concern contained in the statement of work that they want emphasized and provide any advice concerning the performance of the audit. The MCC country representative shall provide the following information to the auditors for the entrance conference:

1. a list of all disbursements and reimbursements made by the MCC to (*COVERED PROVIDER's name*) under the compact; and
2. a list of all MCC payments to third parties for assets, equipment, materials, and technical assistance for the period being audited with copies of vouchers with supporting documentation;

MCC 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 MCC country representative may also attend the exit conference for the same purpose. However, the MCC country representative 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 audit documentation files for a period of five years from the completion of the audit. During this five-year period the audit firm must immediately provide the audit documentation files when requested by the MCC Inspector General. Public accounting firms that are nonresponsive or do not provide timely responses to questions raised by the MCC country representative or MCC Inspector General shall be temporarily or permanently excluded from performing additional audits of MCC-funded programs.

## **VIII. TERMS OF PERFORMANCE**

The effective date of this contract will be the date of the signature of (*COVERED PROVIDER's name*)'s authorized representative.

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 MCC Inspector General: (a) a complete audit program in writing within 20 calendar days, (b) an indexed draft audit report in English within 21 calendar days following the end of the audited period, and (c) a final audit report that includes revisions incorporating MCC Inspector General comments within 90 calendar days after the end of the audit period.

It is the responsibility of (*COVERED PROVIDER's name*) 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 to the MCC Inspector General within 90 calendar days after the end of the audited period. In order for the audit firm to meet this compact requirement, (*COVERED PROVIDER's name*) will need to close its books and have its fund accountability statement ready for audit within 14 calendar days after the audit cutoff period. Further, in order to deliver the final audit report to the MCC Inspector General within 90 calendar days after the audit cutoff period, the audit firm will need to have conducted interim testing well before the audit cutoff date and begin final testing while (*COVERED PROVIDER's name*) is still in the process of closing its accounting records.

Payment will be as follows: 20 percent on the date of this contract, 40 percent after approval of the draft report by the MCC Inspector General and 40 percent on the date the MCC Inspector General approves the final report. *[Payment terms could differ. However, a significant percentage of the payment should be retained until the IG approves the final report.]* No payments should be made without the approval of the MCC Inspector General.