STANDARD STATEMENT OF WORK
FOR FINANCIAL AUDITS OF NON-U.S. ORGANIZATIONS CONTRACTED BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

OBJECTIVES AND GENERAL STATEMENT OF WORK
AUDIT OF USAID RESOURCES
MANAGED BY [NAME OF RECIPIENT]

I. BACKGROUND

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

[If recipient activities are financed by more than one program or office (such as a USAID/Washington Bureau), include a similar paragraph for each program.]

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

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

II. TITLE

Audit of the Fund Accountability Statement (or Audit of Financial Statements, if the audit includes an audit of the general-purpose financial statements) of USAID Resources Managed by [name of recipient] Under Program [program number and name] for the period from [date] to [date]. In the case of close-out audits,[1] the title must specify that it is a close-out audit, as in: Close-out Audit of the USAID Resources Managed by [name of recipient] Under Program [program number and name] for the period from [date] to [date].

III. OBJECTIVES

The objective of this engagement is to conduct a financial audit of the USAID resources managed by the recipient under program [program number and name] from [date] to [date] in accordance with U.S. Government Auditing Standards issued by the U.S. Government Accountability Office and the USAID Office of the Inspector General "Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines)."

The financial audit must include (1) a specific audit of all the recipient's USAID-funded programs, and (2) an audit of the recipient's general purpose financial statements on an organization-wide basis (balance sheet, income statement, and cash flow statement) if

[1] A close-out audit is an audit for an award that expired during the period audited.

the recipient has been authorized to use provisional indirect costs rates,[2] or if the mission specifically requests such an audit.

The fund accountability statement is the basic financial statement to be audited that presents the recipient's revenues, costs incurred, cash balance of funds provided by USAID, and commodities directly procured by USAID for the recipient's use. The fund accountability statement should be reconciled to the USAID funds included in the general purpose financial statements by a note to the financial statements or the fund accountability statement. All currency amounts in the fund accountability statement, cost-sharing schedule, and the report findings, if any, must be stated in U.S. dollars. The auditors should indicate the exchange rate(s) used in the notes to the fund accountability statement.

A. Audit of USAID Funds

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

- Express an opinion on whether the fund accountability statement for the USAID-funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities directly procured by USAID for the period audited in conformity with the terms of the 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 the recipient's internal control related to the USAID-funded programs, assess control risk, and identify significant deficiencies including material weaknesses. This evaluation should include the internal control related to required cost-sharing contributions.

- Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost sharing/counterpart contributions, if applicable) and applicable laws and regulations related to USAID-funded programs. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred should be identified. Such tests should include the compliance requirements related to required cost-sharing contributions, if applicable.

- Perform an audit of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient.

- Determine if the recipient has taken adequate corrective action on prior audit report recommendations.

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[2] Where the recipient had been authorized to use provisional indirect cost rates, 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.

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 contact the USAID Regional Inspector General office in Pretoria (RIG/Pretoria) and should exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

B. Review of Cost-Sharing/Counterpart Contributions Schedule

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

C. Audit of General Purpose Financial Statements

A financial audit of the recipient's general purpose financial statements on an organization-wide basis must be submitted to USAID together with the audit of USAID funds if the recipient has been authorized to charge indirect costs, or if the mission 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), auditing standards that have been prescribed by the laws of the country or adopted by an association of public accountants in the country, or auditing standards promulgated by the International Organization of Supreme Audit Institutions or International Auditing Practices Committee of the International Federation of Accountants. The objective of this audit is to express an opinion on whether those statements present fairly, in all material respects, the recipient’s financial position at year-end, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

IV. AUDIT SCOPE

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

A. Pre-Audit Steps

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

1. The agreement between USAID and the recipient.

2. The subagreements between the recipient and other implementing entities, as applicable.

3. Contracts and subcontracts with third parties, if any.

4. The budgets, implementation letters, and written procedures approved by USAID.

5. USAID Automated Directives System Chapter 636 – “Program Funded Advances”

6. OMB Circular A-122 "Cost Principles for Nonprofit Organizations" (2 CFR Part 230).

7. OMB Circular A-21 "Cost Principles for Educational Institutions" (2 CFR Part 220).

8. Federal Acquisition Regulation (FAR), Part 31, Contract Cost Principles and Procedures.

9. USAID Acquisition Regulation (AIDAR), which supplement the FAR.

10. Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees (USAID Automated Directives System, Chapter 303 Internal Mandatory References).

11. Standard Provisions Annex for Agreements with Foreign Governments (USAID Automated Directives System, Chapter 350).

12. All program financial and progress reports; and 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.

13. Any previous audits, financial reviews, etc., that directly relate to the objectives of the audit.

B. Fund Accountability Statement

The auditor must examine the fund accountability statement[3] for USAID programs including the budgeted amounts by category and major items; the revenues received from USAID for the period covered by the audit; the costs reported by the recipient as incurred during that period; and the commodities directly procured by USAID for the

[3] A “fund accountability statement” is a financial statement that presents a USAID recipient’s revenues, costs incurred, cash balances of funds (after considering reconciling items), and commodities directly procured by USAID that were provided by USAID agreements. 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.

recipient's use. The fund accountability statement must include all USAID assistance funds identified by each specific program or agreement. The revenues received from USAID less the costs incurred, after considering any reconciling items, must reconcile with the balance of cash-on-hand or in bank accounts.[4] The fund accountability statement should not include cost-sharing/counterpart contributions provided from the recipient's own funds or in-kind. However, a separate cost sharing/counterpart contributions schedule must be included and reviewed to determine whether cost sharing/counterpart contributions were provided and accounted for in accordance with the terms of the agreement (see section IV.C. of this statement of work).

The auditors may prepare or assist the recipient in the preparing the fund accountability statement from the books and records maintained by the recipient, but the recipient must accept the responsibility for the statement's accuracy before the audit commences.

The opinion on the fund accountability statement must comply with Statement on Auditing Standard (SAS) No. 62 (AU623). The fund accountability statement must separately identify those revenues and costs applicable to each specific USAID agreement. The audit must evaluate program implementation actions and accomplishments to determine whether specific costs incurred are allowable, allocable, and reasonable under the agreement terms and applicable cost principles, and to identify areas where fraud and illegal acts have occurred or are likely to have occurred as a result of inadequate internal control. At a minimum, the auditors must:

1. Review direct and indirect costs billed to and reimbursed by USAID and costs incurred but pending reimbursement by USAID, identifying and quantifying any questioned costs. All costs that are not supported with adequate documentation or are not in accordance with the agreement terms must be reported as questioned. Questioned costs that are pending reimbursement by USAID must be identified in the notes to the fund accountability statement as not reimbursed by USAID.

    a. Questioned costs must be presented in the fund accountability statement in two separate categories. Ineligible costs that are explicitly questioned because they are unreasonable, prohibited by the agreements or applicable laws and regulations, or not program related. In addition, if a recipient was required to place USAID funds in an interest-bearing account but did not, then the imputed interest that would have been earned is also classified as an ineligible cost. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations must be included as findings in the report on compliance. Also, the notes to the fund accountability statement must briefly describe both material and immaterial questioned costs and must be cross-referenced to any 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, USAID to the program and general ledgers.

[4] If the recipient does not receive any advances from USAID, i.e., it operates on a reimbursement basis, then the recipient will not hold any balances of USAID funds.

3. Review procedures used to control the funds, including their channeling to contracted financial institutions or other implementing entities. Review bank accounts and the controls on those bank accounts. Perform positive confirmation of balances, as necessary.

4. Determine whether advances of funds were justified with documentation, including reconciliations of funds advanced, disbursed, and available. The auditors must ensure that all funding received by the recipient from USAID was appropriately recorded in the recipient's accounting records and that those records were periodically reconciled with information provided by USAID.

5. Determine whether program income was added to funds used to further eligible project or program objectives, to finance the non-federal share of the project or program, or deducted from program costs, in accordance with USAID regulations, other implementing guidance, or the terms and conditions of the award.

6. Review procurement procedures to determine whether sound commercial practices including competition were used, reasonable prices were obtained, and adequate controls were in place over the qualities and quantities received.

7. Review direct salary charges to determine whether salary rates were reasonable for that position, in accordance with those approved by USAID when USAID approval is required, and supported by appropriate payroll records. Determine if overtime was charged to the program and whether it was allowable under the terms of the agreements. Determine whether allowances and fringe benefits received by employees were in accordance with the agreements and applicable laws and regulations. The auditors should question unallowable salary charges in the fund accountability statement.

8. Review travel and transportation charges to determine whether they were adequately supported and approved. Travel charges that are not supported with adequate documentation or not in accordance with agreements and regulations must be questioned in the fund accountability statement.

9. Review commodities (e.g., supplies, materials, vehicles, equipment, food products, tools, etc.) procured by the recipient or directly procured by USAID for the recipient's use. The auditors should determine whether commodities exist or were used for their intended purposes in accordance with the terms of the agreements, and whether control procedures exist and have been placed in operation to adequately safeguard the commodities. As part of the procedures to determine if commodities were used for intended purposes, the auditors should perform end-use reviews for an appropriate sample of all commodities based on the control risk assessment (see section IV.D. of this statement of work). End-use reviews may include site visits to verify that commodities exist or were used for their intended purposes in accordance with the terms of the agreements. The cost of all commodities whose existence or proper use in accordance with the terms of the agreements cannot be verified must be questioned in the fund accountability statement. (The auditor should determine the cost of commodities based on supporting documentation available from the recipient or USAID, as appropriate.)

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

    a. In addition to the above audit procedures, if technical assistance and services were contracted by the recipient from a non-U.S. contractor, the auditors should perform additional audit steps on the technical assistance and services, unless the recipient has separately contracted for an audit of these costs. When testing for compliance with agreement terms and applicable laws and regulations, the auditors should not only consider agreements between the recipient and USAID, but also agreements between the recipient and non-U.S. contractors providing technical assistance and services. The agreements between the recipient and the non-U.S. contractors should 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 agreement terms.

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

11. When indirect costs are charged to USAID 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 agreement terms and regulations. The auditors should be aware that costs that are unallowable as charges to USAID agreements (e.g., fundraising) 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 cost rates must be calculated after all adjustments have been made to the pool and base. When indirect costs are charged to USAID using predetermined or fixed rates, verify that the correct rates are applied in accordance with the agreement with USAID.

12. Review unliquidated advances to the recipient and pending reimbursements by USAID when performing final closeout audits. Ensure that the recipient has returned any excess cash to USAID. Also, ensure that all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the agreements. The auditors should 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 should indicate which items were titled to the U.S. Government and which were titled to other entities. These closeout audit procedures must be performed for any award that expires during the period audited.

The fund accountability statement included as Example 6.1 of the Guidelines illustrates how to report the results of a single audit that covers more than one USAID agreement.

In such cases, the fund accountability statement must separately disclose the financial information (revenues, costs, etc.) for each agreement, and must identify the USAID missions/offices that provided funding for each agreement. Questioned costs, and internal control and compliance findings of any audits of subrecipients must be reported in the recipient's financial audit using the same treatment and procedures as the recipient's own questioned costs and findings. This is particularly important in audits of recipients covering agreements from more than one USAID mission. Each mission can identify its agreements in the audit report for resolution of findings and recommendations with the recipient. The same reporting principles apply when only one USAID 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 with USAID. Auditors must not express separate opinions on fund accountability statements of each agreement or program unless specifically requested to do so by the USAID mission.

C. Cost Sharing/Counterpart Contribution Schedule

USAID agreements may require contributions by the recipient. 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/counterpart contribution 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/counterpart contributions schedule.

The auditors may prepare or assist the recipient in preparing the cost sharing/counterpart contributions schedule from the books and records maintained by the recipient. The recipient must, however, accept responsibility for the schedule's accuracy before the review commences.

C.1. Agreement with Life-of-Project Cost Sharing/Counterpart Contribution Budget

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

Thus, for agreements with a life-of-project budget for cost-sharing/counterpart contributions, for each year that an audit is performed in accordance with the Guidelines, the auditors will review the cost sharing/counterpart contributions schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule. The auditors must question all cost-sharing/counterpart contributions that are either ineligible or unsupported costs. An ineligible cost is unreasonable, prohibited by the agreements or applicable laws and regulations, or not program related. An unsupported cost lacks adequate documentation or does not have required prior approvals or authorizations. All questioned costs must be briefly described in the notes to the cost sharing/counterpart contributions schedule.

In addition, material questioned costs must be included as findings in the report on compliance. Notes to the cost sharing/counterpart contributions schedule must be cross-referenced to the corresponding findings in the report on compliance. Also, significant deficiencies in internal control related to cost-sharing/counterpart contributions must be set forth as findings in the report on internal control. (See sample cost sharing/counterpart contributions schedule at Example 6.2.A, and sample reports at Examples 7.6.A and 7.6.B of the Guidelines.)

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

C.2. Agreement with Annual Cost Sharing/Counterpart Contributions Budget

For agreements with an annual budget for cost sharing/counterpart contributions, for each year that an audit is performed in accordance with the Guidelines, the auditors will review the cost sharing/counterpart contributions schedule to determine whether (1) the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the cost sharing/counterpart contributions schedule and (2) contributions were provided by the recipient in accordance with the terms of the agreement. The auditors must question all cost sharing/counterpart contributions that are either ineligible or unsupported costs. An ineligible cost is unreasonable, prohibited by the agreements or applicable laws and regulations, or not program related. An unsupported cost lacks adequate documentation or does not have required prior approvals or authorizations. All questioned costs must be briefly described in the notes to the cost sharing/counterpart contributions schedule. In addition, material questioned costs must be included as findings in the report on compliance. Notes to the cost sharing/counterpart contributions schedule must be cross-referenced to the corresponding findings in the report on compliance. Also, significant deficiencies in internal control related to cost sharing/counterpart contributions must be set forth as findings in the report on internal control. If actual cost sharing/counterpart contributions were less than budgeted contributions, the shortfall will be identified in the appropriate column of the cost sharing/counterpart contributions schedule. (See sample cost sharing/counterpart contributions schedule at Example 6.2.B, and sample reports at Examples 7.6.C and 7.6.D of the Guidelines.)

D. Internal Controls

The auditors must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. In obtaining this understanding, the auditor must understand the design of the internal control related to USAID programs and determine whether they have been placed in operation. The U.S. General Accounting 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 internal control must be described in the audit documentation.

Auditors must then prepare the report required by the Guidelines, identifying any significant deficiencies or material weaknesses in the design or operation of internal control. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe that a material weakness that is important enough to merit attention by those charged with governance. Any significant deficiencies or material weaknesses must be set forth in the report as "findings" (see paragraph 5.1.d of the Guidelines). Any other matters related to internal control – such as suggestions for improving operational or administrative efficiency or internal control, or control deficiencies that are not significant deficiencies or material weaknesses – may be reported in a separate management letter to the recipient and referred to in the report on internal control.

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

1. Obtain an understanding of the design of the internal control related to USAID programs and determine whether they have been placed in operation.

2. Assess inherent risk and control risk, and determine the detection risk. Inherent risk is the susceptibility of an assertion, such as an account balance, to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls. Control risk is the risk that a misstatement that could occur in a relevant assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented or detected on a timely basis by the entity's internal control. Detection risk is the risk that the auditor will not detect a material misstatement that exists in an assertion. Detection risk is based upon the effectiveness of an auditing procedure and the auditor's application of that procedure.

3. Summarize the risk assessments for each assertion in a single document included in the audit documentation. The risk assessments should consider the following broad categories under which each assertion should be classified: (a) classes of transactions and events for the period under audit (occurrence, completeness, accuracy, cutoff, and classification), (b) account balances at the period end (existence, rights, obligations, completeness, valuation, and allocation), and (c) presentation and disclosure (occurrence, rights, obligations, completeness, classification, understandability, accuracy, and valuation). At a minimum, the audit documentation should 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, timing and extent of the tests performed based on the combined risk. Summary audit documentation should be cross-indexed to supporting audit documentation that contains 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 described in the audit documentation.

   a. If the auditors assess control risk 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 describe in the audit documentation 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 inefficient to test the controls.

4. Evaluate the control environment, the adequacy of the accounting systems, and control procedures. Emphasize the policies and procedures that pertain to the recipient's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the fund accountability statement. This should include, but not be limited to, the control systems for:

   a. Ensuring that charges to the program are proper and supported.

   b. Managing cash on hand and in bank accounts.

   c. Procuring goods and services.

   d. Managing inventory and receiving functions.

   e. Managing personnel functions such as timekeeping, salaries, and benefits.

   f. Managing and disposing of commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.) purchased either by the recipients or directly by USAID.

   g. Ensuring compliance with agreement terms and applicable laws and regulations that collectively have a material impact on the fund accountability statement. The results of this evaluation must be contained in the audit documentation section described in Section IV.E. of this statement of work and presented in the compliance report.

5. Evaluate internal control established to ensure compliance with cost sharing/counterpart contribution requirements, if applicable, including both provision and management of the contributions.

6. Include in the study and evaluation other policies and procedures that may be relevant if they pertain to data the auditors use in applying auditing procedures. This may include, for example, policies and procedures that pertain to nonfinancial data that the auditor uses in analytical procedures.

In fulfilling the audit requirement relating to an understanding of the internal control and assessing the level of control risk, the auditor must follow, at a minimum, the guidance contained in AICPA SAS Nos. 109 (AU314), entitled Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements, 115 (AU325), entitled

Communicating Internal Control Related Matters Identified in an Audit, and 117 (AU801) entitled Compliance Audits.

E. Compliance with Agreement Terms and Applicable Laws and Regulations

In fulfilling the audit requirement to determine compliance with agreement terms and applicable laws and regulations related to USAID programs, the auditors must, at a minimum, follow guidance contained in AICPA SAS No. 117 (AU801) entitled Compliance Audits. The compliance review must also determine – on audits of awards that present cost sharing/counterpart contribution budgets on an annual basis and on close-out audits of awards that present cost sharing/counterpart contribution budgets on a life-of-project basis – if cost sharing/counterpart 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 the recipient and referred to in the report on compliance.

The auditor's report should include all conclusions that a fraud or illegal act either has occurred or is likely to have occurred. In reporting material fraud, illegal acts, or other noncompliance, the auditors should place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and is quantified in terms of U.S. dollars, if appropriate. In presenting material fraud, illegal acts, or other noncompliance, auditors must follow the reporting standards contained in Chapter 5 of U.S. Government Auditing Standards. Chapter 4 of U.S. Government Auditing Standards discusses factors that may influence auditors' materiality judgments. If the auditors conclude that sufficient evidence of fraud or illegal acts exists, they must contact RIG/Pretoria and exercise due professional care in pursuing indications of possible fraud and illegal acts to avoid interfering with potential future investigations or legal proceedings.

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

1. Identify the agreement terms and pertinent laws and regulations and determine which of those, if not observed, could have a direct and material effect on the fund accountability statement. The auditors must:

    a. List all standard and program-specific provisions contained in the agreements that cumulatively, if not observed, could have a direct and material effect on the fund accountability statement.

    b. Assess the inherent and control risk that material noncompliance could occur for each of the compliance requirements 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 agreement terms and applicable laws and regulations that could have a material effect on the fund accountability statement. This should be based on the risk assessment in 1.b above.

d. Prepare a single summary document in the audit documentation that identifies each of the specific compliance requirements included in the review, the results of the inherent, control and (detection) risk assessments for each compliance requirement, the audit steps used to test for compliance with each of the requirements based on the risk assessment, and the results of the compliance testing for each requirement. The summary document should be cross-indexed to detailed audit documentation that support the facts and conclusions contained in the summary document.

2. Determine if payments have been made in accordance with agreement terms and applicable laws and regulations.

3. Determine if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms. If so, the auditors must question these costs in the fund accountability statement.

4. Identify any costs not considered appropriate, classifying and explaining why these costs are questioned.

5. Determine whether commodities, whether procured by the recipient or directly procured by USAID for the recipient's use, exist or were used for their intended purposes in accordance with the terms of the agreements. If not, the cost of such commodities must be questioned.

6. Determine whether any technical assistance and services procured by the recipient were used for their intended purposes in accordance with the agreements. If not, the cost of such technical assistance and services should be questioned.

7. Determine if the amount of cost sharing/counterpart contribution funds was calculated and accounted for as required by the agreements or applicable cost principles.

8. Determine if the cost sharing/counterpart contribution funds[5] were provided according to the terms of the agreements and quantify any shortfalls.

9. Determine whether those who received services and benefits were eligible to receive them.

10. Determine whether the recipient's financial reports (including those on the status of cost sharing/counterpart contributions) and claims for advances and reimbursement contain information that is supported by the books and records.

11. Determine whether the recipient held advances of USAID funds in interest-bearing accounts, and whether the recipient remitted to USAID any interest earned on those advances, with the exception of up to $250 a year that the recipient may retain for

[5] This step is applicable on audits of awards that present cost sharing/counterpart contributions budgets on an annual basis and for closeout audits of awards that present cost sharing/counterpart contribution budgets on a life-of-project basis, as explained in paragraphs 4.12 and 4.13 of the Guidelines.

administrative expenses. If the recipient was required to place USAID funds in an interest-bearing bank account but did not, then the auditor should determine the amount of interest that was foregone by the recipient, and this amount should be classified as ineligible costs.

F. Follow-Up on Prior Audit Recommendations

The auditors must review the status of actions taken on findings and recommendations reported in prior audits of USAID-funded programs. Paragraph 4.09 of the U.S. Government Auditing Standards states: "Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, financial reviews, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives."

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

G. General Purpose Financial Statements

Auditors should examine the recipient's general purpose financial statements on an organization-wide basis if an indirect cost rate needs to be audited,[6] or if the mission 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), auditing standards that have been prescribed by the laws of the country or adopted by an association of public accountants in the country, or auditing standards promulgated by the International Organization of Supreme Audit Institutions or International Auditing Practices Committee of the International Federation of Accountants.

The objective of this audit is to express an opinion on whether those statements present fairly, in all material respects, the recipient'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.

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[6] 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.

H. Indirect Cost Rates

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

1. Distribution or allocation base includes all costs that benefited from indirect activities.

2. Distribution or allocation base is in compliance with the governing USAID Negotiated Indirect Cost Rate Agreement (NICRA), if applicable.

3. Indirect cost pool includes only costs authorized by the USAID agreements and applicable cost principles.

4. Indirect cost rates obtained by dividing the indirect cost pool by the base are accurately calculated.

5. Costs included in this calculation reconcile with the total expenses shown in the recipient's audited general purpose financial statements.

The results of the audit of the indirect cost rate must be presented in a schedule of computation of indirect cost rate (see Example 6.3 the Guidelines). This schedule should 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 calculation. The costs in the schedule should reconcile with the total expenses shown in the recipient's general purpose financial statements. U.S. Office of Management and Budget (OMB) Circular A-122 (2 CFR Part 230) 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 the recipient. The cognizant USAID mission and RIG/Pretoria should be notified of these conferences in order that USAID representatives may attend, if deemed necessary.

2. During the planning stages of an audit, communicate information to the auditee regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting.[7] Such communication should state that the auditors do not plan to provide opinions on compliance with laws and regulations and internal control over financial reporting. This communication should be in the form of an engagement letter.

3. Institute quality control procedures to ensure that sufficient appropriate evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

[7] The auditors only express an opinion on the fund accountability statement, the indirect cost rate, and general purpose financial statements, if applicable, as indicated on Chapter 3 of the Guidelines.

While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:

a. Audit reports and audit documentation are reviewed by an auditor, preferably at the partner level, who was not involved in the audit. This review must be documented.

b. All quantities and monetary amounts involving calculations are footed and cross-footed.

c. All factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting audit documentation.

4. The auditor must ascertain, before preparing its proposal for the audit engagement (or if this is not possible, at the earliest opportunity during the engagement itself), whether the recipient ensured that audits of its subrecipients were performed to ensure accountability for USAID funds passed through to subrecipients (see paragraph 1.6 of the Guidelines). If subrecipient audit requirements were not met, the auditors should immediately notify the cognizant USAID mission and RIG/Pretoria and consider whether they can audit the subrecipient costs themselves. If, after consultation with the cognizant USAID mission and RIG/Pretoria, the auditors conclude that a restriction on the scope of the audit exists and the restriction cannot be removed, then the auditors should consider modifying their opinion and any costs that have not been audited as required must be questioned as unsupported costs.

5. Obtain a management representation letter in accordance with AICPA SAS No. 85 (AU333) signed by the recipient's management. See Example 4.1 of the Guidelines for an illustrative management representation letter.

V. AUDIT REPORTS

The recipient should submit to the cognizant USAID mission a portable document format (PDF) copy of the audit report in English and a PDF copy of the report in the recipient country's official language, if considered appropriate. The USAID mission will forward the report to RIG/Pretoria for processing. The format and content of the audit reports should closely follow the illustrative reports in Chapter 7 of the Guidelines. The audit report must specify the correct award number(s) of each award covered by the audit. The report must contain:

A. A title page,[8] table of contents, transmittal letter, and summary which includes: (1) a background section with a general description of the USAID 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 cost sharing/counterpart contributions were required during the period audited, and whether the recipient has a USAID-authorized provisional indirect cost rate; (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, questionable costs, internal control, compliance

[8] "Closeout" audits must specify that are closeout audits on the title page. A closeout audit is an audit for an award that expired during the period audited.

with agreement terms and applicable laws and regulations, indirect cost rates, status of prior audit recommendations, and, if applicable, the recipient's general purpose financial statements on an organization-wide basis; (4) a brief summary of the results of the review of cost sharing/counterpart contributions; and (5) a brief summary of the recipient's management comments regarding their views on the audit and review results and findings.

B. The auditor's report on the fund accountability statement, identifying any material questioned costs not fully supported with adequate records or not eligible under the terms of the agreement. The report must be in conformance with the standards for reporting in Chapter 5 of U.S. Government Auditing Standards and must include:

1. The auditor's opinion on whether the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred, and commodities directly procured by USAID for the year then ended in accordance with the terms of the agreements and in conformity with generally accepted accounting principles or other basis of accounting. 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 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 Guidelines).

2. The fund accountability statement identifying the program revenues, costs incurred, and commodities and technical assistance directly procured by USAID for the fiscal year. The statement must also identify questioned costs not considered eligible for reimbursement and unsupported, if any, including the cost of any commodities directly procured by USAID whose existence or proper use in accordance with agreements could not be verified. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations must be included as findings in the report on compliance. Also, the notes to the fund accountability statement must briefly describe both material and immaterial questioned costs and must be cross-referenced to any corresponding findings in the report on compliance (see Example 6.1 of the Guidelines). All questioned costs in the notes to the fund accountability statement must be stated in U.S. dollars. The U.S. dollar equivalent should be calculated at the exchange rate applicable at the time the local currency was disbursed to the recipient by USAID.

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.

C. A report on the auditor's review of the schedule of cost sharing/counterpart 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/counterpart contribution schedule. This review report must state that the review was conducted in accordance with

AICPA standards. It should 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/counterpart contribution fund, with a reference to the corresponding finding in the report on compliance if the questioned costs are material. The report must provide negative assurance with regard to the provision of, and accounting for, cost sharing/counterpart contributions for items not tested (see Examples 7.6.A through 7.6.D of the Guidelines).

2. The cost sharing/counterpart contributions schedule identifying questioned costs (see Examples 6.2.A and 6.2.B or the Guidelines). Cost-sharing contributions that are unreasonable, prohibited by the agreements or applicable laws and regulations, or not program related are ineligible. Cost sharing/counterpart contributions that lack adequate documentation or do not have required prior approvals or authorizations are unsupported.

3. The cost sharing/counterpart contributions schedule identifying the budgeted amounts required by the agreements,[9] the amounts actually provided, and any cost-sharing/counterpart contributions shortfalls (see Example 6.2.B of the Guidelines).

4. Notes to the cost sharing/counterpart contributions schedule that briefly explain the basis for questioned costs and shortfalls, if applicable. The notes must be cross-referenced to the corresponding findings, if the questioned costs are material, in the report on compliance.

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 control and in assessing the control risk, and; (2) the significant deficiencies including the identification of material weaknesses in the recipient's internal control. Significant deficiencies must be described in a separate section (see paragraphs 5.2 through 5.4 of the 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. Any other matters related to internal control – such as suggestions for improving operational or administrative efficiency or internal control, or control deficiencies that are not significant deficiencies or material weaknesses – may be communicated through a separate management letter that should be referred to in the report on internal control and sent with the audit report (see Examples 7.2.A and 7.2.B of the Guidelines).

E. The auditor's report on the recipient's compliance with agreement terms and applicable laws and regulations related to USAID-funded programs. The report must follow the guidance in SAS No. 117. Material instances of noncompliance must be described in a separate section (see paragraphs 5.2 through 5.4 of the Guidelines). Nonmaterial instances of noncompliance must be communicated to the recipient in a

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[9] This step is required for audits of agreements that present cost sharing/counterpart contribution budgets on an annual basis and for closeout audits of awards that present cost sharing/counterpart contribution budgets on a life-of-project basis. See paragraphs 4.12 and 4.13 of the Guidelines.

separate management letter that should be sent with the audit report (see Examples 7.3.A and 7.3.B of the Guidelines). All material 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 both material and immaterial questioned costs must be cross-referenced to any corresponding findings in the report on compliance.

1. 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 the recipient does or does not agree with the findings and questioned costs. Abuse that is material, either quantitatively or qualitatively, must also be reported.[10]

2. 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 extent seriousness 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 fraud, 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 fraud 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 fraud or illegal acts exist, they must contact RIG/Pretoria and exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

F. The schedule of computation of indirect cost rate (see Example 6.3 of the Guidelines) and the auditor's report on the schedule of computation of indirect cost rate. This should be a separate report prepared in accordance with guidance set forth in SAS No. 29. (AU551), (see Example 7.4 of the Guidelines).

G. The recipient'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 mission specifically requests that the statements be audited.

[10] Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant. If during the course of the audit, auditors become aware of abuse that could be quantitatively or qualitatively material to the financial statements, auditors should apply on the financial statements or other financial data significant to the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or illegal acts. Because the determination of abuse is subjective, auditors are not required to provide reasonable assurance of detecting abuse.

The findings contained in the reports on internal control and compliance related to USAID-funded programs must include a description of the condition (what is) and the criteria (what should be). The cause (why it happened) and effect (what harm was caused by not complying with the criteria) must be included in the findings. In addition, the findings must contain an actionable recommendation that corrects the cause and the condition, as applicable. It is recognized that material internal control weaknesses and noncompliance found by the auditors might 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. This will help management take timely and proper corrective action.

Firms are expected to exercise independent judgment throughout the audit engagement, including in reporting on questioned costs. Indications of a lack of independence may result in removal of firms from the list of firms eligible to conduct audits of USAID funds. Findings that involve monetary effect must:

1. Be quantified and included as questioned costs in the fund accountability statement, the Auditor's Report on Compliance, and cost sharing/counterpart contributions schedule (cross-referenced).

2. Be reported without regard to whether the conditions giving rise to them were corrected.

3. Be reported whether the recipient does or does not agree with the findings or questioned costs.

4. Contain enough relevant information to expedite the audit resolution process (e.g., number of items tested, size of the universe, error rate, corresponding U.S. dollar amounts, etc.).

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

Any evidence of fraud or illegal acts that have occurred, or are likely to have occurred, must be included in a separate written report if deemed necessary by RIG/Pretoria. This report must include an identification of all questioned costs as a result of fraud or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected or whether the recipient does or does not agree with the findings and questioned costs.

VI. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND THE REPORT

The statement of work, audit program (including detailed audit steps) and the draft report will be subject to approval and acceptance by RIG/Pretoria. After approval, the draft report will be discussed with the responsible officers of the recipient.

RIG/Pretoria is responsible for assuring that the work performed under this statement of work complies with U.S. Government Auditing Standards and the "Guidelines for Financial Audits Contracted by Foreign Recipients." To accomplish this objective, RIG/Pretoria will perform desk reviews on every draft audit report and will perform quality control reviews of the audit documentation of a select sample of final audit reports received from the independent auditors.

For quality control reviews, the audit firm must ensure that all audit records related to USAID agreements are available to enable RIG/Pretoria auditors to complete and support their review. To this end, RIG/Pretoria auditors must have access to all pertinent audit documentation and records of the recipient and their subrecipients and make excerpts, photocopies, and transcripts.

If RIG/Pretoria does not accept the report because of deficiencies in the work, the public accounting firm must perform any additional audit work requested at no additional cost.

VII. RELATIONSHIPS AND RESPONSIBILITIES

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

The audit firm will work in coordination with RIG/Pretoria. The liaison for audit concerns will be Robert Mason, Audit Manager, or his designee, and the liaison for information and assistance from the USAID mission will be the USAID controller or his/her designee.

The USAID mission 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 USAID mission should provide the following information to the auditors for the entrance conference:

1. A list of all payments made for assets, equipment, materials, and technical assistance purchased by USAID from third parties for the period being audited with copies of vouchers with supporting documentation.

2. A list of all advances and recoveries made during the audit period.

3. A list of all disbursements made to the recipient.

4. A copy of the Guidelines for Financial Audits Contracted by Foreign Recipients (February 2009) that the auditors can use to evaluate their draft audit report.

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

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

VIII. TERMS OF PERFORMANCE

The effective date of this contract will be the date of the USAID Contracting Officer's signature. 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 RIG/Pretoria: (a) a complete audit program in writing within 20 calendar days, (b) a draft indexed audit report in English within 90 calendar days, and (c) a final audit report that includes revisions incorporating RIG/Pretoria comments within 120 calendar days. The audit firm must submit to the USAID Mission [number] copies of the final report in English and [number] copies of the report in the official language of the recipient country [if deemed necessary by the mission]. The USAID Mission must submit one signed hard or electronic copy of the final report in English to RIG/Pretoria.

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

Payment will be as follows: 20 percent on the date of this contract, 40 percent on the date of the draft report and 40 percent on the date RIG/Pretoria approves the final report. [Payment terms could differ. However, a significant percentage of the payment should be retained until RIG/Pretoria approves the final report.]