**I. AUDIT TITLE**

1. **Audit of the Fund Accountability Statement of USAID Resources Managed by xx Under xx Number xx, “xx,” for the Period From xx to xx**
* *[ Insert the audit title per the audit notification letter]*

Background

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

**II. OBJECTIVES**

The objective of this engagement is to conduct a financial audit of USAID resources managed by the recipient/sub-recipient under the above-mentioned award(s)/sub-award(s). The engagement shall include the audit of the recipient/sub-recipient locally incurred costs for the award(s) in West Bank & Gaza. Locally incurred costs include; (1) costs incurred and paid locally, (2) costs incurred locally and paid in the U.S. if material (the audit firm is responsible for defining the materiality threshold). Locally incurred costs do not include expatriate costs (such as salaries and allowances) paid in the U.S.

The auditor must evaluate and obtain a sufficient understanding of the recipient’s internal controls related to the award, assess control risk, and identify reportable conditions, including material internal control weaknesses. The auditor must perform tests to determine whether the recipient complied, in all material respects, with award terms and applicable laws and regulations related to USAID-funded programs that have a direct and material effect on recipient’s fund accountability statement.

**A. Audit of USAID Funds**

A financial audit of the funds provided by USAID shall be performed in accordance with the *U.S. Government Auditing Standards* and the *USAID Office of Inspector General’s Guidelines for Financial Audits Contracted by Foreign Recipients* 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:

1. Express an opinion on whether the fund accountability statement for the award presents fairly, in all material respects, project revenues received, costs incurred, and commodities directly procured by USAID for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
2. Evaluate and obtain a sufficient understanding of the recipient's internal controls related to the award, assess control risk, and identify reportable conditions, including material internal control weaknesses. This understanding should include a consideration of the methods an entity uses to process accounting information because such methods influence the design of internal controls. This evaluation should include the internal controls related to required cost- sharing contributions (if any).
3. Perform tests to determine whether the recipient complied, in all material respects, with award terms including cost-sharing, and applicable laws and regulations related to the award that have a direct and material effect on the fund accountability statement. All material instances of noncompliance and all indications of illegal acts should be identified. Such tests shall include: (a) the compliance requirements related to required cost-sharing contributions, if applicable; (b) compliance with the prohibition on paying value added tax (VAT) with USAID funds; and (c) compliance with Executive Order 13224 - *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism*.
4. If applicable, and based on records accessibility, perform tests to determine whether the recipient correctly charged indirect costs to USAID using an authorized provisional or final indirect cost rate. If a provisional rate was used prior to USAID negotiating final rates, determine if the final rate was applied retroactively.
5. Determine if the recipient has taken adequate corrective action on prior audit report recommendations if applicable.

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

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

A review of cost-sharing contributions shall be performed in order to determine whether cost- sharing contributions were provided and accounted for by the recipient in accordance with the terms of the awards and project needs.

**III. AUDIT SCOPE**

The auditors should use the following steps as the basis for preparing their audit programs and their review. They are not considered all-inclusive or restrictive in nature and do not constitute relief from exercising due professional care and judgment. The steps shall be modified to fit local conditions and specific project design, implementation procedures, and award provisions which may vary from project to project. Any limitations in the scope of work shall be communicated as soon as possible to USAID/WBG. USAID/WBG will try to resolve the issue with the auditee first. If USAID/WBG does not succeed in resolving the matter within a reasonable time, the matter will be referred to RIG/F for decision.

**A. Pre-Audit Steps**

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

1. The award between USAID and the recipient, and any amendments to the award.
2. The sub-agreements/subcontracts between the recipient and other implementing entities, as applicable.
3. Contracts and subcontracts with third parties, if any.
4. The budgets, project implementation letters, and written procedures approved by USAID to manage the project.
5. USAID Automated Directives System Chapter 636—“Program Funded Advances.”
6. For awards awarded on or after December 26, 2014, 2 CFR 700 and 2 CFR 200 - “UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS” Subparts D and E.
7. For awards issued prior to December 26, 2014, continue to be administered under 22 CFR 226 and OMB Circular A-122 — "Cost Principles for Nonprofit Organizations" is applicable.
8. Federal Acquisition Regulation (FAR), Part 31—“Contract Cost Principles and Procedures.”
9. USAID Acquisition Regulation (AIDAR), which supplements the FAR.
10. Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees (USAID Automated Directives System, Series 300).
11. Standard Provisions Annex for Agreements with Foreign Governments (USAID Automated Directives System, Series 200).
12. All project 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. Executive Order 13224 - *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism*, and its applicable USAID’s Acquisition and Assistance Policy Directives (AAPDs), Mission Orders, and notices.

**B. Fund Accountability Statement**

The auditors must examine the fund accountability statement[[1]](#footnote-1) for the award including the budgeted amounts by category and major items; the revenues received from USAID for use in the West Bank and Gaza for the period covered by the audit; the costs reported by the recipient as incurred in the West Bank and Gaza during that period; and the commodities directly procured by USAID for the recipient's use in the West Bank and Gaza. The fund accountability statement must include all USAID assistance funds, provided for use in the West Bank and Gaza, identified by each specific project, grant, loan, etc., under audit. The revenues received from USAID less the costs incurred, after considering any reconciling items, should reconcile with the balance of cash-on-hand and**/**or in bank accounts. The fund accountability statement should not include cost-sharing contributions provided from the recipient's own funds or in-kind. However, a separate cost-sharing schedule, from project inception through the end of the current audit period, must be included and reviewed to determine whether they were provided and accounted for in accordance with the terms of the awards and project needs (see section C of article IV of this statement of work).

The auditor may prepare or assist the recipient in the preparation of the fund accountability statement from the books and records maintained by the recipient, but the recipient must accept the responsibility for the fund accountability statement as its own before the audit begins.

The opinion on the fund accountability statement expressed in the “Auditor's Report on the Fund Accountability Statement” should be in accordance with Statement on Auditing Standard (SAS) No. 62 (AU623). The fund accountability statement must provide separate identification of those revenues and costs applicable to each specific USAID grant, project, or loan under audit. The audit must include evaluations of project implementation actions and accomplishments to specifically determine that costs incurred are allowable, allocable, and reasonable under the award terms, and to identify areas where fraud and illegal acts have occurred or are likely to have occurred as a result of inadequate controls. 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. *A*llcosts that are not supported with adequate documentation or not in accordance with the award terms must be reported as questioned. Questioned costs that are pending reimbursement by USAID must be identified in the findings and notes to the fund accountability statement as not reimbursed by USAID.

 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 awards 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. (b) *unsupported costs* that 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 award 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 project ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to and reimbursed by USAID to the project and general ledgers. The materiality level for questioned costs must be approved by RIG/F.

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. Consider positive confirmation of balances, as necessary. During the entrance conference, request recipient authorize access to bank statements and cancelled checks.

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

5. Determine whether project 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 that sound commercial practices including competition were used, reasonable prices were obtained, and there were adequate controls over the qualities and quantities received.

7. Review direct salary charges to determine whether salary rates are 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 is charged to the project and whether it is allowable under the terms of the award. Determine whether allowances and fringe benefits received by employees are in accordance with the awards and applicable laws and regulations. Unallowable salary charges must be questioned 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 and not in accordance with awards 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 as well as those directly procured by USAID for the recipient's use. The auditor should determine whether (a) the commodities are accounted for; (b) control procedures exist and have been placed in operation to adequately safeguard the commodities; (c) whether the commodities have been used for their intended purposes in accordance with the awards; and (d) whether value added tax was paid on commodities. As part of the procedures to determine if commodities were used for intended purposes, the auditor 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 project site visits to verify that commodities exist and/or were used for intended purposes and in accordance with the terms of the awards. The cost of all commodities unaccounted for or not used in accordance with the awards must be questioned in the fund accountability statement. In the report on compliance, the auditor shall explicitly disclose in a separate paragraph the results of the end-use review.

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

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

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

11. If applicable, for local recipients, 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 award terms and regulations. Indirect cost rates should be recalculated after all adjustments have been made to the pool and base. *[If the local recipient does not have a USAID authorized indirect cost rate, this test is omitted.]* 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. For final close out audits, review unliquidated advances to the recipient and pending reimbursements by USAID. Ensure that the recipient has returned any excess cash to USAID. Also, ensure that all assets (inventories, fixed assets, equipment, food products, etc.) procured with project funds have been disposed of in accordance with the terms of the awards. The auditors should present, as an annex to the fund accountability statement, the balances and details of final inventories of non-expendable property acquired under the awards. This inventory should indicate which items are titled to the U.S. Government and which are titled to other entities. These close out audit procedures must be performed for any award that expires during the period audited.

The auditors must generally express a single opinion on an recipient’s fund accountability statement that includes more than one award with USAID. Auditors must *not* express separate opinions on fund accountability statements of each activity (agreement, grant or project) unless specifically requested to do so by RIG/F.

**C. Cost-Sharing Schedule**

The USAID awards required cost-sharing contributions by the recipient. The awards established a life-of-project budget for such contributions. The review of the cost sharing requirements will consist principally of inquiries of recipient personnel and analytical procedures applied to financial data supporting the cost-sharing schedule.

The auditors may prepare or assist the recipient in preparing the cost-sharing 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.

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

Thus, for awards with a life-of-project budget for cost-sharing contributions, for each year that an audit is performed in accordance with these 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 the recipient 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 awards 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, material 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 Revised OIG Guidelines issued in February 2009.)

In addition, for closeout audits of awards with a life-of-project budget for cost-sharing contributions, the auditors will review the cost-sharing schedule to determine if the recipients provided such contributions in accordance with the terms of the award. 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 Revised OIG Guidelines issued in February 2009.)

**D. Internal Control**

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, understand the design of the internal control related to USAID programs and determine whether they have been placed in operation. The U.S. Government Accountability Office's Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1; 1999) may prove helpful in assessing recipient internal control. The internal control must be described in the audit documentation.

Prepare the report required by and in accordance with the OIG Guidelines dated February 2009, 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 than 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 OIG Guidelines dated February 2009).

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.

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 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. If you 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:

d.1 Ensuring that charges to the program are proper and supported.

d.2 Managing cash on hand and in bank accounts.

d.3 Procuring goods and services.

d.4 Managing inventory and receiving functions.

d.5 Managing personnel functions such as timekeeping, salaries and benefits.

d.6 Managing and disposing of commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.) purchased either by the recipient or directly by USAID.

d.7 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 should be contained in the audit documentation section described in paragraphs 4.18 thorough 4.20 of the OIG Guidelines dated February 2009 and presented in the compliance report.

1. Evaluate internal control established to ensure compliance with cost sharing/counterpart contribution requirements, if applicable, including both provision and management of the contributions.
2. 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 non-financial data that the auditors use in analytical procedures.

In fulfilling the audit requirement relating to an understanding of internal control and assessing the level of control risk, follow, at a minimum, the guidance contained in AICPA SAS Nos. 109 (AU 314), entitled Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, 115 (AU 325), entitled Communicating Internal Control Related Matters Identified in an Audit, and 117 (AU801) entitled Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance.

**E. Compliance with Award Terms and Applicable Laws and Regulations**

In fulfilling the audit requirement to determine compliance with award terms and applicable laws and regulations related to USAID programs and projects, the auditors must follow, at a minimum, guidance contained in AICPA SAS No. 117 (AU801) entitled *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients 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—if cost-sharing contributions were provided and accounted for in accordance with the terms of the awards. 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 should be included in a separate management letter to the recipient and referred to in the report on compliance. The materiality level used for reporting instances of noncompliance is subject to approval by the RIG/F.

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 4 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 on factors that may influence auditor's materiality judgments. If the auditor concludes that sufficient evidence of fraud or illegal acts are likely to have occurred, they must promptly contact RIG/F and exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both.

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

1. Identify the award 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 provisions contained in the awards as well as project-specific provisions contained in the awards 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 materialnoncompliance 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 award terms and applicable laws and regulations that could have a material effect on the fund accountability statement, based on the risk assessment in 1.b. above and

 d. prepare a summary working paper 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 working paper should be cross-indexed to detailed working papers that adequately support the facts and conclusions contained in the summary working paper.

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

3. Determine if funds have been expended for purposes not authorized or not in accordance with applicable award 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. Perform End-Use Review procedures. Determine whether commodities, (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 awards. 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 awards. If not, the cost of such technical assistance and services should be questioned. In the report on compliance, the auditor shall explicitly disclose in a separate paragraph the results of the end-use review.

7. Determine if the amount of cost-sharing funds was calculated and accounted for as required by the awards or applicable cost principles.

8. Determine if the cost-sharing funds were provided according to the terms of the awards and quantify any shortfalls.

9. Determine if 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 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 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.

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

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

13. Determine whether the recipient complied with the Restriction on Taxing Foreign Assistance which maintains that U.S. Foreign Assistance shall not be subject by a foreign country to value added taxes (VAT) or customs duties (or that any such taxes charged be fully reimbursed). Any USAID funds used to pay VAT or customs duties must be reported as ineligible costs in the auditor’s report on the fund accountability statement and on the auditor’s report on compliance.

**F. Indirect Cost Rates**

For U.S. recipients, if records are accessible locally, the auditors should determine if the recipient correctly applied the USAID authorized indirect cost rates to charge indirect costs to USAID for the period audited.

For local recipients, the audit of the indirect cost rate application should include tests to determine whether the:

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

2. The recipient retroactively applied a final indirect cost rate, if one has been authorized by USAID and the provisional indirect cost rate does not equal the final indirect cost rate.

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

4. Indirect costs included in this calculation reconcile with the indirect costs shown in the recipient’s fund accountability statement.

The results of the audit of the application of indirect cost rate should be presented in a supplemental schedule to the fund accountability statement. This schedule should contain (1) a listing of costs included in each indirect cost pool, (2) the distribution base, and (3) the resultant indirect cost rate calculation. The costs in the schedule should reconcile with the indirect costs expenditures shown in the recipient’s fund accountability statement.

# G. Follow-Up on Prior Financial Reviews and Audit Recommendations

The auditors must review the status of actions taken on findings and recommendations reported in prior pre-award survey reports, financial reveiews, and audits of USAID-funded programs and projects. Chapter 4 of the *U.S. Government Auditing Standards,* under the section entitled *Audit Follow-up*, states: "Auditors must follow up on known material findings and recommendations from previous audits that could affect the financial statement audit. They 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 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 should request from recipient the most recent 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 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.

**H. Other Audit Responsibilities**

The auditors must perform the following steps:

1. Hold entrance and exit conferences with the recipient. USAID/West Bank and Gaza and representatives from the recipient must be notified of these conferences in order that each organization will be represented. The auditors must ensure the availability of the means at each organization to attend these conferences telephonically.

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 should state that the auditors do not plan to provide opinions on compliance with laws and regulations and internal control over financial reporting.[[2]](#footnote-2) This communication should be in the form of an engagement letter. Auditors should document the communication in the working papers. If the recipient does not provide access to books and records in a timely matter, the auditors must inform USAID/WBG copying the RIG/F immediately by written communication (email) stating which books and records to which access was requested, when the request was made, whom the request was made to, and the recipient’s response. If the USAID/WBG could not resolve the matter within a reasonable time, and the auditors cannot gain access to the recipient’s books and records then the auditors must contact RIG/F to determine if the audit should continue.

3. Institute quality control procedures to ensure that sufficient competent evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:

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

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

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

4. Ascertain, before preparing the 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 sub-recipients were performed to ensure accountability for USAID funds passed through to sub-recipients. If sub-recipient audit requirements were not met, the auditors should immediately notify the USAID/WBG mission.

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 Revised OIG Guidelines dated February 2009, for an illustrative management representation letter.

6. Provide USAID/WBG with a written letter that attests to the audit firm's independence and absence of any conflict of interest with respect to the auditee before field work starts.

7. Upon completion of the fieldwork, the auditor will present the auditee with all findings that will be included in the draft report. These findings should be in writing, and a copy should be left with the recipient for reference and follow-up.

8. Submit a draft audit report to the auditee for review and preparation for the exit conference, at least five working days before the exit conference. If the scope of the audit as disclosed in section I “Audit Title” covers a prime and its sub-recipient(s), the audit firm shall issue a separate report for each entity. .

**IV. AUDIT REPORTS**

The auditors should submit to the auditee one Adobe Acrobat® (\*.pdf) file containing the scanned image of the draft audit report in English. The auditee shall submit the draft report to the USAID/WBG via e-mail to WBGPCA@usaid.gov at least five working days before the scheduled date of the exit conference allowing USAID/WBG time to prepare for the exit conference if USAID/WBG plans to attend.

Once the auditors issue the final draft report to the auditee, the auditee shall submit the same report to USAID/WBG for general review. USAID/WBG will then submit the final signed report via e-mail to the RIG/F for technical review and issuance.

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

**A.** Contain a title page, table of contents, transmittal letter and a summary which includes: (1) a background section with a general description of the USAID projects and programs audited, the period covered, the project and program objectives, the project termination date, and a clear identification of all entities mentioned in the report and whether the recipient has a USAID-authorized provisional or final indirect cost rate; (2) the objectives and scope (the amount audited should be explicitly stated) 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 control, compliance with award terms and applicable laws and regulations (the recipient’s compliance or noncompliance with Executive Order 13224 must be explicitly stated), indirect cost rates, and status of prior audit recommendations; (4) a brief summary of the results of the review of cost-sharing contributions; and (5) a brief summary of the recipient's management comments regarding their views on the audit results and findings.

**B.** Contain 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 awards. The report must be in conformance with the standards for reporting in Chapter 4 of the 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, project revenues, costs incurred, and commodities directly procured by USAID for the year then ended in accordance with the terms of the awards 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*. 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 OIG Guidelines dated February 2009). The materiality threshold for reporting is subject to approval by RIG/F.

 2. The fund accountability statement identifying the project revenues, costs incurred, and commodities 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 the awards could not be verified.

 All material questioned costs resulting from instances of noncompliance with award terms and applicable laws and regulations must be included as findings in the report on compliance. Also, material and immaterial questioned costs must be briefly described in the notes to the fund accountability statement and must be cross-referenced to any corresponding findings in the report on compliance (see Example 6.1 of the OIG Guidelines dated February 2009). 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.** Contain a report on the auditor's review of the cost-sharing schedule. The report must follow the guidance in the U.S. *Government Auditing Standards* for Attestation Engagements. The report shall include:

 1. A review report on the cost-sharing schedule. This review report should state that the review was conducted in accordance with U.S. *Government Auditing Standards*. It should also explain that a review is less in scope than an examination performed in accordance with U.S. *Government Auditing Standards*, and state that an opinion on the schedule is not expressed. The report must identify any material 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 if the questioned costs are material. 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 OIG Guidelines dated February 2009).

 2. The cost-sharing schedule identifying questioned costs (see Examples 6.2.A and 6.2.B of the OIG Guidelines dated February 2009). Cost-sharing contributions that are unreasonable, prohibited by the awards 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 awards,[[3]](#footnote-3) the amounts actually provided, and any cost-sharing shortfalls (see Example 6.2.B of the OIG *Guidelines dated February 2009*).

 4. Notes to the cost sharing schedule that briefly explain the basis for the 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.** Contain 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 reportable conditions, including the identification of material weaknesses in the recipient's internal control. Reportable conditions 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. 112 and the standards for reporting in Chapter 4 of U.S. *Government Auditing Standards.* Non-reportable conditions should be communicated to the recipient in a separate management letter which 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). The determination of which conditions are reportable is subject to approval by RIG/F.

1. Contain the auditor's report on the recipient's compliance with award terms and applicable laws and regulations related to USAID-funded programs and projects. The report must follow the guidance in SAS No. 117. Material instances of noncompliance (those that have a direct and material effect on the fund accountability statement for the period audited) must be reported in a separate section (see paragraphs 5.2 through 5.4 of the Guidelines). Nonmaterial instances of noncompliance should be communicated to the recipient in a separate management letter, which should be sent with the audit report (See Examples 7.3.A and 7.3.B of the OIG Guidelines dated February 2009). All material questioned costs resulting from instances of noncompliance must be included as findings in the report on compliance and cross-referenced to the fund accountability statement. 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. The materiality threshold for reporting instances of noncompliance is subject to approval by RIG/F.

 To the extent possible when presenting the audit findings the auditors shall develop the elements of criteria, condition, cause, and effect to assist management or oversight officials of the audited entity in understanding the need for taking corrective action. In addition, if auditors are able to sufficiently develop the findings, they shall provide recommendations for corrective action.

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

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

**F.** If applicable, for local recipients, contain the schedule of application of indirect cost rate and the auditor's report on the schedule of application of indirect cost rate. This should be a separate report prepared in accordance with guidance set forth in SAS No. 29 (AU551). This schedule is omitted if the recipient does not have a USAID authorized indirect cost rate.

**G.** Contain the auditor's comments on the status of prior audit recommendations. The auditors should review and report on the status of actions taken on findings and recommendations reported in prior audits. 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 should include a description of the condition, criteria, the cause and effect must be included in the findings. In addition, the findings must contain a recommendation that corrects the cause and the condition, as applicable. It is recognized that material internal control weaknesses and noncompliance may not always have all of these elements fully developed, given the scope and objectives of the specific audit. But at least the auditors must identify the condition, criteria and possible asserted effect to provide sufficient information to management to permit them to determine the effect and cause in order to take timely and proper corrective action.

Findings which involve monetary effect must be quantified and included as questioned costs in the fund accountability statement, cost-sharing schedule, and schedule of indirect costs rates (cross-referenced). The findings shall be reported without regard to whether the conditions giving rise to them have been corrected and whether the recipient does or does not agree with the findings or questioned costs. In addition, the findings must contain adequate information necessary to facilitate the audit resolution process (i.e., number of items tested, size of the universe, error rate, corresponding U.S. dollar amounts, etc.).

The reports must also contain, after each finding, pertinent views of responsible recipient officials concerning the auditor's findings and actions taken by the recipient to implement the recommendations. If possible, the recipient's views should be obtained in writing. When the comments of the recipient oppose the findings, conclusions, or recommendations, and are not in the auditor's opinion valid, the auditors must state following the recipient's comments their reasons for rejecting them. 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 shall be included in a separate written report if deemed necessary by RIG/F. 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.

**V. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND THE REPORT**

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

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

**VI. RELATIONSHIPS AND RESPONSIBILITIES**

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

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

The auditors may request from USAID/West Bank and Gaza the following information:

1. A list of all payments made for assets, equipment, materials, and technical assistance purchased by USAID 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; and

USAID/West Bank and Gaza 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. USAID representatives may also attend the exit conference for the same purpose. However, the USAID comments on the draft report and at the exit conference will not be binding on the public accounting firm.

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

**VII. TERMS OF PERFORMANCE**

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

The audit firm shall coordinate the engagement from the entrance conference through the issuance of the final audit report with the auditee copying the USAID/WBG point of contact or WBGPCA@usaid.gov on all communications to keep him/her informed at all times.

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

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

**VIII. PAYMENT AND BUDGET:**

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

* For close-out audits, the partner/auditee and the audit firm may negotiate and agree to payment terms of up to 100% of the agreed upon fees to be paid upon issuance of the final draft report by the audit firm to the partner/auditee.
* For all non-close-out audits, at least 10% of the agreed upon fees must be withheld by the partner/auditee until issuance of the final report by the RIG, whereas negotiated payments of up to 90% of agreed upon fees can be paid before and/or upon issuance of the final draft report by the audit firm to the partner/auditee.
1. A "fund accountability statement" is a financial statement that presents a USAID recipient's revenues, costs incurred, cash balance of funds (after considering reconciling items), and commodities directly procured by USAID that were provided by USAID agreements. The fund accountability statement should be presented in U.S. dollars. [↑](#footnote-ref-1)
2. 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 on Chapter 3 of these Guidelines. [↑](#footnote-ref-2)
3. This step is required for audits of awards 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 OIG *Guidelines dated February 2009*. [↑](#footnote-ref-3)