



USAID
FROM THE AMERICAN PEOPLE

USAID Framework for Foreign Audit Environment Appraisal and Audit Firm Assessment

A Mandatory Reference for ADS 591

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1. Overview

To ensure accountability and transparency of taxpayer funds, USAID awards include provisions, when applicable, requiring financial audits. This financial audit work must be conducted consistent with the Single Audit Act Amendments of 1996 ([31 USC 7501-7506](#)) and the Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200 ([2 CFR 200](#)) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance supersedes OMB A-133 Audits of States, Local Governments and Non-Profit Organizations requirements¹. An independent auditor performs these financial audits in accordance with U.S. Generally Accepted Government Auditing Standards (GAGAS or the "Yellow Book"); herein referred to as GAGAS, issued by the Comptroller General of the United States Government Accountability Office (GAO).² USAID Agency-contracted financial audits (ACAs) or USAID's Recipient-contracted financial audits (RCAs), using Federal funds, must meet these standards.

This mandatory reference provides a framework to overseas and Washington Operating Units (OUs) on assessing non-U.S. audit firms prior to USAID funded audits. The goal of this framework is both to inform USAID work to strengthen the audit environment in partner countries and protect USAID funds. The cognizant Controller (Controller) with the support of an Office of Financial Management (OFM) and oversight of the Agency's Chief Financial Officer (M/CFO) will: appraise the partner country's audit environment; assess a non-U.S. audit firm's ability to perform quality audits; and manage an accurate list of acceptable non-U.S. audit firms that may perform financial audits of USAID resources managed by recipients/subrecipients.

USAID maintains a List of non-U.S. Audit Firms (List) that include audit firms assessed by the Controller and determined as acceptable for USAID-funded audits. The List also includes audit firms previously determined by USAID Office of Inspector General (OIG) as acceptable. M/CFO is responsible for USAID's assessment of non-U.S. audit firms; OIG no longer provides this assessment. These previously OIG accepted audit firms remain on the List until the Controller becomes aware of factors that necessitate an assessment of the audit firm. Factors may include the length of time since the audit firm was determined as acceptable or an audit firm provides a poor quality audit. Failure to use a USAID acceptable audit firm from the List could result in an unacceptable audit report and disallowance of audit costs.

¹ [2 CFR 200.104](#) Supersession

² In relation to other professional auditing standards, an auditor may elect to apply the auditing standards established by the International Auditing and Assurance Standards Board (IAASB) and the related International Standards on Auditing (ISA), although these auditing standards must be applied in conjunction with GAGAS.

The assessment of the non-U.S. audit firm serves to:

- Ensure integrity of audits,
- Reduce work caused by poor quality audits,
- Mitigate risk of corruption and collusion between auditors and recipients, and
- Allow quick reference for USAID acceptable audit firms.

There are three steps the Controller performs in this framework reference:

1. Appraise the partner country's audit environment at the national or regional³ level (Audit Environment Appraisal);
2. Assess audit firms' ability to deliver audit quality using criteria described in this framework (Audit Firm Assessment); and
3. Manage an accurate list of acceptable non-U.S. audit firms that may perform financial audits of USAID resources managed by recipients/subrecipients.

2. Controller Responsibilities for Appraisal and Assessment (in sequence):

1. Conduct an appraisal of the country's audit environment (Audit Environment Appraisal) at the national (or regional) level. See section 7, **Resources** for a listing of international professional material when conducting this Appraisal. The Appraisal will inform the Controller's determination on relevant criteria for the Audit Firm Assessment (see section 3, **Foreign Audit Environment Appraisal**).
2. Determine applicable criteria and data sources to assess a country's audit firm as informed by the Audit Environment Appraisal. See the Audit Firm Assessment for criteria and data sources (see section 4 and **Appendix 2** on **Audit Firm Assessment**).
3. Submit a signed Information Memorandum that includes an **Audit Environment Appraisal** to the Deputy Chief Financial Officer (DCFO) for Overseas Operations (see **Appendix 1** for Memorandum template). Controller reviews the Audit Environment Appraisal at least annually or, if earlier, when material and significant audit related changes occur in the

³ The Audit Environment Appraisal may be more appropriate at a regional level (either multilateral or sub-national) depending on the circumstances. The geographic range of the analysis may be determined by the Controller based on the current circumstances.

country or region. Controller submits an updated Information Memo to the DCFO when applicable.

4. Conduct the **Audit Firm Assessment** to determine whether the non-U.S. audit firm demonstrates the ability to deliver high quality audits and should be included on the list as an acceptable non-U.S. audit firm for USAID-funded financial audit engagements. The Controller gathers information for assessing an audit firm starting with sending the questionnaire to the firm (see [Audit Firm Assessment Questionnaire](#) and **Appendix 3**). The questionnaire is based on internationally accepted audit quality control standards. The Controller reviews responses and may conduct interviews and consultations with stakeholders such as Professional Accountancy Organizations (PAOs), donors, firm's former clients, and/or regulators who may have information that relates to the Audit Firm Assessment (see section **7, Resources**). The Controller uses this information to assess the non-U.S. audit firm's ability to deliver a high quality audit, using the element and criteria structure based on internationally accepted audit quality control standards provided in section **4** and **Appendix 2**.
5. Determine whether the non-U.S. audit firm is considered acceptable in the **Audit Firm Assessment**. Each firm's assessment should be monitored and updated as needed. The Controller may perform a review of the audit engagement when appropriate.
6. Document the **Audit Firm Assessment** and maintain supporting documents in the Agency's Consolidated Audit and Compliance System (CACS) database. Each Controller edits, maintains, and is overall responsible for the acceptable or not acceptable status of audit firms in the USAID List of Non-U.S. Audit Firms (List) for their OU's area of programming. The List contains non-U.S. audit firms assessed in accordance to this framework and prior OIG accepted audit firms. The List is not an inventory of all audit firms in a country or region.
7. Serve as a subject matter expert (SME) on the audit environment quality and inform programming efforts to build a country's audit environment and/or an audit firm capacity when the environment or audit firm generally does not meet internationally accepted audit and accountancy standards.

3. Foreign Audit Environment Appraisal

The Audit Environment Appraisal provides an analysis of the current regulatory and legal system for the country's auditing profession by referring to existing material provided by the international audit and accounting professional community (see section **7, Resources**). This appraisal provides the Controller information to determine the relevant criteria and data sources needed for the Audit Firm Assessment. The appraisal provides country-specific audit

information and areas of concern that may impact the assessment and determination of an acceptable audit firm. As a general statement, in audit environments where audit firms are members of the country's PAO and that PAO is a good standing member with demonstrated compliance of the International Forum of Independent Audit Regulators (IFIAR) and/or the International Federation of Accountants (IFAC) Statement of Membership Obligations (SMO), the audit firm may be acceptable for placement on USAID's List of Non-U.S. Audit Firms. A well-informed Audit Environment Appraisal may reduce the time to assess the audit firm.

The information from the Audit Environment Appraisal and the Controller's determination on relevant criteria needed for the Audit Firm Assessment are documented in an Information Memo (see **Appendix 1**) for the DCFO for Overseas Operations. A review of the Audit Environment Appraisal is conducted at least annually and an update to the Information Memo occurs when necessary based upon material and significant changes.

The Memo is organized as follows:

- Key Takeaways
- Audit Environment Appraisal
- Conclusion

The Key Takeaways must include the following:

- Controller's selection of criteria that will be used for the Audit Firm Assessment as informed by the Audit Environment Appraisal (see criteria in section 4, **Foreign Audit Firm Assessment**); and
- Controller's tentative selection of a rating method that will be used for the Audit Firm Assessment (i.e., average method, weakest link method, and/or combination) (see rating methods described in section 4, **Foreign Audit Firm Assessment**).

The Audit Environment Appraisal must include the following:

- Regulatory/Governance: Country framework of governing regulation over the accounting and audit profession. How is the audit profession regulated? What is the legal framework and operational independence?
 - Self-regulated: Audit quality is self-regulated by audit profession in country.
 - Shared regulation: Audit quality is shared between audit profession and external oversight body.

- External regulation: Audit quality is regulated by an external oversight body.
- Quality Assurance: The quality assurance (QA) analysis should describe the country's system in place to monitor compliance of the work performed by the country's independent auditor and audit firms with applicable professional auditing, ethical, financial reporting and other standards. The QA should be independent from audit firms and external influences. The Memo should define the framework of the quality assurance and the description of how it may be carried out, such as:
 - Peer review system carried out by a separate audit firm.
 - Professional accountancy organization that may be a government body or regulator.
 - Audit regulator independent of the accountancy profession.
- Education Standards: This section should describe the country's professional accounting education requirements for competency, certification, or licensure and whether these country requirements are materially different from international accounting education standards. Also, this information should provide any requirements or practices for ongoing professional education for the country's accounting professional title(s).
- Alignment with International Standards, including Financial Reporting Standards: This section should describe whether the country adopted and implemented international auditing standards, public sector accounting standards, financial reporting standards or provides a means to converge country's auditing/accounting standards with international standards.
- Professional Code of Ethics: This section should describe whether the country adopted and implemented the International Code of Professional Ethics for Accountants or provides a means to converge the country's professional ethics with the International Code.
- Investigations and Discipline: This section should describe whether the country's audit regulators have enforcement powers which include the capability to ensure that audit findings or recommendations are appropriately addressed. This area of the audit environment also provides the ability of auditor regulators to impose sanctions, memberships, and/or remove an auditor's certification or license.

The Conclusion must include the following:

- Based on the Audit Environment Appraisal, brief reasons why criteria is or is not selected for the Audit Firm Assessment; and
- Planned actions to obtain information for the assessment, such as existing PAO information, site visits, consultations, and other planned action.

4. Foreign Audit Firm Assessment

Foreign Audit Firm Assessment (Assessment) content is adapted from the International Standard on Quality Control (ISQC) 1, “Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements” as provided by the International Auditing and Assurance Standards Board (IAASB). The Assessment includes elements from ISQC1 that demonstrate an audit firm’s ability to deliver audit quality. The analysis of the Assessment will recognize that the extent of a firm’s policies, procedures, and practices depends on factors such as the size and operation of the firm. The format and scoring of the Assessment is modeled after the Public Expenditure and Financial Accountability (PEFA) Assessment Handbook from the PEFA Secretariat (www.pefa.org) of the World Bank Group. See **Appendix 2** for USAID’s Audit Firm Assessment document.

The Controller begins the Assessment with a questionnaire sent to each potentially acceptable independent audit firm. The Controller must use M/CFO’s current version of the questionnaire (see **Appendix 3**). The questionnaire requests information and documents from the audit firm to support each element’s rating by the Controller. The questionnaire contains nine sections starting with the firm’s basic information and history, followed by seven sections covering the ISQC 1 elements (summarized below), and a final section for audit firm declarations.

Audit Firm Assessment			
Objective: Quality Audit Firm for USAID contract	7 Rated Elements: 1. English Audit Report 2. Leadership responsibilities for quality 3. Ethical requirements	Rated Criteria: 1.1 Audit Report and supporting documents 2.1 Leadership assumes responsibility for quality control 3.1 Compliance with the International Code of Ethics	Data source: See Appendix 2

Audit Firm Assessment		
		for Professional Accountants including independence compliance
	4. Acceptance and continuance of client relationships	4.1 Competency when accepting engagements 4.2 Continuance of Client Relationship
	5. Human resources	5.1 Personnel policies and procedures on competence, capabilities, ethics 5.2 Continuing professional education (CPE) for audit staff 5.3 Licensing individual auditors
	6. Engagement performance	6.1 High quality engagement 6.2 Timing of completing engagement including reports
	7. Monitoring	7.1 Monitoring process of quality control 7.2 Quality control deficiencies

Responses from the Audit Firm Questionnaire and information from other assessment resources (see section **2, Controller Responsibilities**) are organized based on the criteria shown in the table above and rated an A, B, or C, (acceptable) or D (unacceptable) scale (see **Appendix 2, Audit Firm Assessment**). Generally, a D score is warranted when there is insufficient information or documentation to establish that the audit firm can meet the element rating of C. Generally, a C rating is described as; “a majority of the time” which may be understood as at least 50 percent of the time. The Audit Firm Assessment does not require the use of the audit profession’s definition of sampling to score each element. However, the Controller provides judgement in rating the element for the Audit Firm Assessment. This judgement is based on

the audit firm demonstrating its ability through written explanation, peer review documentation, existing audit firm policies, and other data sources.

The rating scale of an element is based on its listed criteria. When an element has one criteria level, the element and criteria rating are the same. For example, an A rating for *Criteria 1.1 Audit Report and Supporting Documents* results in an A rating for *Element 1 English Audit Report*.

See Table 1 in **Appendix 2** for an average rating method when there is more than one criteria level for an element. For example, when one criteria rates as D and the second criteria rates as B, the average rating is a C for the element containing two criteria levels (**Appendix 2** Table 1 shows various combinations for an average rating).

Another rating method for the Audit Firm Assessment is the weakest link (WL) method. As described by PEFA, the WL method is used where poor performance in one criterion is likely to undermine the element regardless of the rating of other criteria. For example, *Element 6 Engagement Performance* contains two criteria. When the WL method is used for Criteria 6.1, a D (unacceptable) rating of Criteria 6.1 results in a D rating for Element 6 regardless of the Criteria 6.2 rating.

WL method may also be used at the element level for an element rating deemed essential to accept an audit firm. For example, an audit firm does not produce the audit report in English and *Element 1 English Audit Report* rates as D. When the WL method is used for the 7 Elements, a D rating for Element 1 results in a D rating for the Audit Firm Assessment regardless of the other element ratings. The audit firm is not accepted because it does not produce audit reports in English.

The Controller may determine whether to use an average method, WL method, and/or combination given the facts and circumstances of the Audit Firm Assessment. The Controller's determination of which method will be used for an Audit Firm Assessment should be included in the Audit Environment Appraisal.

5. Supreme Audit Institutions

The country Audit Environment Appraisal may include information on the partner country's principal government audit agency, also referred to as its "Supreme Audit Institution" (SAI). Although the Audit Firm Assessment is not designed to assess the performance of SAIs, a similar process should be followed. As noted in the USAID Financial Audit Guide for Foreign Organizations ([ADS 591maa](#)), the SAI must be assessed⁴ before the SAI conducts audits of USAID funds.

⁴ Recommended guidance for assessing SAI independence is PEFA Assessment Handbook [Volumes](#) issued by PEFA Secretariat and found at www.pefa.org; also, reference information on

6. USAID List of Non-U.S. Audit Firms

The USAID List of Non-U.S. Audit Firms (List) is a compilation of independent non-U.S. audit firms that have been determined as acceptable to perform USAID funded financial audits. USAID will maintain documents supporting the determination of acceptable audit firms in an Agency audit management database. The database will also include documents supporting the determination of a non-acceptable audit firm. Reports generated from the database will provide contact information for acceptable audit firms. Controllers and M/CFO may determine to reassess audit firms included in USAID's List on a periodic basis.

The List is not an existing contract or agreement with an audit firm. Each USAID OU should communicate to a firm that there are no guarantees for audit work as a result of USAID assessing requested information from the audit firm.

7. Resources

When available, USAID OUs can leverage resources of professional standard-setting organizations and donor assessments for information to contribute to the country Audit Environment Appraisal and Audit Firm Assessment. OUs should coordinate with stakeholders such as professional organizations and donors as applicable. The organizations and their resources are listed by strength of audit oversight for accounting firms that may perform financial audits on U.S. funds. Each organization's mandate and available resources are briefly described as follows:

- 1) The **Public Company Accounting Oversight Board (PCAOB)** is a nonprofit corporation established by the U.S. Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports. The Sarbanes-Oxley Act of 2002⁵ which created the PCAOB required that auditors of U.S. public companies be subject to external and independent oversight for the first time in history. Previously, the U.S. audit profession was self-regulated.⁶

Website: PCAOBUS.ORG

Usefulness:

- Individual Accounting Firms - Under the Sarbanes-Oxley Act and PCAOB rules, public accounting firms that prepare or issue audit reports on U.S. public companies, brokers and dealers, or that play

www.intosai.org and the SAI Performance Measurement Framework at INTOSAI Development Initiative.

⁵ https://pcaobus.org/About/History/Documents/PDFs/Sarbanes_Oxley_Act_of_2002.pdf

⁶ From "About the PCAOB" in <https://pcaobus.org/About/Pages/default.aspx>

a substantial role in the preparation or issuance of such reports, must be registered with the PCAOB and must undergo regular inspections by the PCAOB to assess the firm's compliance with applicable U.S. law and professional standards. These requirements apply to both U.S. and non-U.S. public accounting firms.⁷ The PCAOB offers a database of these registered non-U.S. accounting firms and provide public access to their required annual report, inspection reports, and any disciplinary proceedings. This information is useful for assessing firms already registered with the PCAOB.

- **Global Networks** - The PCAOB offers information on registered public accounting firms that are affiliated with a network of global accounting firms, such as BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited. PCAOB-registered public accounting firms provide information about their global network affiliations in their annual reports on PCAOB Form. 2. Not every accounting firm in a global network is registered with the PCAOB, but many are. Only those PCAOB-registered accounting firms that report performing certain work are likely to be inspected by the PCAOB.⁸
- **Cooperative Agreements with Non-U.S. Regulators** - The PCAOB will enter into formal cooperative arrangements with foreign audit regulators in order to minimize administrative burdens and potential legal or other conflicts that non-U.S. firms may face in their home countries. In many cases, cooperation under these agreements includes the PCAOB regularly carrying out inspections jointly with the home-country regulators.⁹ Countries involved in these cooperative agreements and that share a statement of protocol with the PCAOB may provide a greater assurance for the audit firms acceptable to that respective country's public accounting organization. This understanding should be referenced in the relevant country's audit environment assessment.

2) The International Forum of Independent Audit Regulators (IFIAR) comprises independent audit regulators from 52 jurisdictions representing Africa, North America, South America, Asia, Oceania, and Europe. IFIAR's mission is to serve the public interest, including investors, by enhancing audit oversight globally. IFIAR offers multilateral memoranda

⁷ <https://pcaobus.org/International/Registration/Pages/default.aspx>

⁸ <https://pcaobus.org/Registration/Firms/Pages/GlobalNetworkFirms.aspx>

⁹ <https://pcaobus.org/International/Pages/RegulatoryCooperation.aspx>

of understanding (MMOUs) concerning cooperation in the exchange of information for audit oversight. IFIAR objectives include knowledge of the member countries' audit environment and independent audit regulatory practices, collaboration and consistency; and a platform for dialogue with other international organizations interested in audit quality.¹⁰

Website: <https://www.ifiar.org/>

Usefulness:

- Through their Member Directory¹¹, IFIAR shares the Member Profile that provides the country's self-reported assessment of their audit market environment and the independent audit regulatory practices, such as the laws that establish the basis for the audit firm regulations, the audit regulatory governing bodies, and the ethical standards.
- As part of its outreach program, IFIAR delivers dozens of presentations, responds to requests for comment regarding proposed standard setting, and actively engages with non-Member jurisdictions interested in developing an independent auditor oversight regime. IFIAR also collaborates on audit-related matters with its observer organizations, such as the Basel Committee of Banking Supervisors (BCBS), the European Commission, the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO), Public Interest Oversight Board (PIOB) and the World Bank.¹²

3) The International Federation of Accountants (IFAC) is a global organization for the accountancy profession serving the public interest by strengthening the profession. It is a Swiss-registered association whose members are PAOs. IFAC is comprised of over 175 PAO members and associates in more than 130 countries and jurisdictions.¹³ PAO members are required to meet certain criteria, including a demonstrated compliance with IFAC's Statements of Membership Obligations (**SMOs**).¹⁴ The SMOs cover quality assurance, international education standards, and international audit standards, code of ethics, investigation and discipline, and financial reporting standards. As a note of caution, the associate status is open to PAOs that do not meet the SMO criteria. IFAC

¹⁰ <https://www.ifiar.org/about/>

¹¹ <https://www.ifiar.org/members/member-directory/>

¹² <https://www.ifiar.org/about/>

¹³ <http://www.ifac.org/about-ifac>

¹⁴ <http://www.ifac.org/publications-resources/statements-membership-obligations-smos-1-7-revised>

membership is not open directly to individuals; rather, an individual would belong to its country's PAO that may meet IFAC's SMOs. IFAC's public interest service includes supporting the profession's Independent Standard-Setting Boards:

- [International Auditing and Assurance Standards Board \(IAASB\)](#)
- [International Ethics Standards Board for Accountants \(IESBA\)](#)
- [International Accounting Education Standards Board \(IAESB\)](#)
- [The International Public Sector Accounting Standards Board \(IPSASB\)](#)
- [International Accounting Standards Board \(IASB\)](#)

Website: <http://www.ifac.org/>

Usefulness:

- PAOs that demonstrate compliance with IFAC's Statements of Membership Obligations ([SMOs](#)) contribute information when conducting the country's audit environment appraisal. PAO membership compliance with IFAC may add a level of assurance when assessing individual audit firms that are good-standing members of PAOs.
- IFAC may be a resource for PAOs looking for training and guidance for its PAO members.

Other Donors:

- 4) The World Bank's [Report on the Observance of Standards and Codes \(ROSC\)](#) (<http://www.worldbank.org/en/programs/rosc#2>), initiative was launched in 1999 to strengthen the international financial architecture. The initiative seeks to promote greater financial stability, both domestically and internationally, through the development, dissemination, adoption, and implementation of international standards and codes.¹⁵ ROSC [Accounting and Auditing Assessments](#) assess corporate sector accounting and auditing practices¹⁶.

Website: [ROSC](http://www.worldbank.org/en/programs/rosc#2): <http://www.worldbank.org/en/programs/rosc#2>

¹⁵ <http://www.worldbank.org/en/programs/rosc#2>

¹⁶ <http://www.worldbank.org/en/programs/rosc#2>

ROSC Accounting and Auditing Assessments are available at:
<http://documents.worldbank.org/curated/en/docsearch/document-type/904555>

- 5) Public Expenditure and Financial Accountability (PEFA) is a partnership program, initiated and managed by seven international development partners. The PEFA Secretariat is based in the World Bank, Washington, DC. PEFA is a tool for assessing the status of public financial management.¹⁷

Website: <https://www.pefa.org/>

Public assessment reports available at:
<http://www.pefa.org/assessments/listing>

- 6) The Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC) between the International Federation of Accountants (IFAC) and the international development community ([USAID is one of 13 MOSAIC signatories](#)) provides the foundation for an aligned approach to increase the capacity of professional accountancy organizations (PAOs) and improve the quality of financial management systems in emerging economies.¹⁸

Website: <https://www.ifac.org/mosaic>

MOSAIC Capacity Building Projects available at:
<https://www.ifac.org/mosaic/project-database>

¹⁷ <https://www.pefa.org/>

¹⁸ <https://www.ifac.org/mosaic/about-mosaic>

Appendix 1



Month DD, YYYY

INFORMATION MEMO FOR DEPUTY CHIEF FINANCIAL OFFICER FOR OVERSEAS OPERATIONS [FULL NAME]

FROM: USAID/ [Operating Unit] Controller, [Full Name]

SUBJECT: Audit Environment Appraisal of [Country or Region]

Key Takeaways

Provide bullets outlining:

- Controller's selection of criteria that will be used for the Audit Firm Assessment as informed by the Audit Environment Appraisal (see criteria in section 4, **Foreign Audit Firm Assessment**)
- Controller's tentative selection of a rating method that will be used for the Audit Firm Assessment (i.e., average method, weakest link method, and/or combination) (see ratings methods described in section 4, **Foreign Audit Firm Assessment**)

Also, this section highlights anything that DCFO for Overseas Operations should understand from this memo if it is the only thing he/she reads.

Audit Environment Appraisal

USAID/X conducts an appraisal of the following aspects in this country or region: **regulatory/governance** framework over the accounting and audit profession; country's **quality assurance** system and standards in place to monitor the work performed by independent auditors; **education standards** in the country for the accounting profession; country's alignment with **international accounting, auditing standards, and public sector accounting standards**; the existence and strength of a country's accounting/auditing profession **code of ethics**; and the country system for comprehensive **investigation and discipline** addressing the accounting/ auditing profession.

The appraisal documents information on the country's professional audit environment which may impact an audit firm's ability to produce quality audit reports (organize the information using the aspects listed in the preceding paragraph such as regulatory/governance, etc.). Additionally, the

audit environment appraisal should provide the country/region's macro indicators that affect the country's professional audit environment, such as corruption and self-reliance measurements.

Conclusion

Provide brief summary of the Audit Environment Appraisal and the Controller's judgement on why criteria is or is not selected for the Audit Firm Assessment as informed by the Audit Environment Appraisal. Also, include the Controller's planned actions to obtain information for the Audit Firm Assessment, such as existing PAO information, site visits, consultations, and any other planned actions.

Appendix 2

Audit Firm Assessment¹⁹ (Controller Action)

Summary- Audit Firm Assessment			
Objective:	7 Rated Elements:	Rated Criteria:	Data source:
Quality Audit Firm for USAID funded financial audits	<ol style="list-style-type: none"> 1. English language 2. Leadership responsibilities for quality 3. Ethical requirements 4. Acceptance and continuance of client relationships 5. Human Resources 	<p>1.1 Audit Report and supporting documents</p> <p>2.1 Leadership assumes responsibility for quality control</p> <p>3.1 Compliance with the International Code of Ethics for Professional Accountants</p> <p>4.1 Competency when accepting engagements 4.2 Continuance of Client Relationship</p> <p>5.1 Personnel policies and procedures on competence, capabilities, ethics 5.2 Continuing professional education (CPE) for audit staff 5.3 Licensing individual auditors</p>	See expanded Criteria below for data sources

¹⁹ The assessment content is **adapted from the International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements as provided by the International Auditing and Assurance Standards Board (IAASB)**. Included are areas from ISQC1 that assist in demonstrating an audit firm's ability to deliver audit quality. The extent of a firm's policies, procedures, and practices depends on factors such as the size and operation of the firm. The assessment format and rating are modeled after the Public Expenditure and Financial Accountability (PEFA) Assessment from the PEFA Secretariat (www.pefa.org) of the World Bank Group.

Summary- Audit Firm Assessment		
	6. Engagement Performance	6.1 High quality engagement 6.2 Timing of completing engagement including report
	7. Monitoring	7.1 Monitoring process of quality control 7.2 Quality control deficiencies

Expanded Assessment Elements and Criteria

1. English Language

Criteria 1.1 Audit Report and supporting documents.

A	Audit firm is capable of providing audit reports and supporting documents in English.
B	Audit firm is capable of providing audit reports in English and most of the supporting documents in English.
C	Audit firm is capable of providing audit reports in English and majority of the supporting documents in English.
D	Does not meet requirement C.

Timing	Data requirements (from audit firm)	Data sources
At time of assessment covering three preceding fiscal years	<ul style="list-style-type: none"> Audit reports and supporting documents are provided in English 	<ul style="list-style-type: none"> Documents demonstrating that firm has the capability of providing audit reports and supporting documents in English

See Appendix 3 questions to assist with data requirement from audit firms.

2. Leadership Responsibilities for Quality Within the Firm (ISQC 1 Para. 18)

Criteria 2.1 Leadership assumes responsibility for system of quality control.

A	Audit firm demonstrates that its established policies and procedures require its chief executive officer (or equivalent) or managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control. Leadership continuously promotes a quality-oriented internal culture that emphasizes quality control and the requirement to perform work that complies with professional standards, applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances.
B	Audit firm demonstrates that its established policies and procedures require its chief executive officer (or equivalent) or managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control. Leadership, most of the time , promotes a quality-oriented internal culture that emphasizes quality control and the requirement to perform work that complies with professional standards, applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances.
C	Audit firm demonstrates that its established policies and procedures require its chief executive officer (or equivalent) or managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control. Leadership majority of the time promotes a quality-oriented internal culture that emphasizes quality control and the requirement to perform work that complies with professional standards, applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances.
D	Does not meet requirement C.

Timing	Data requirements (from audit firm)	Data sources
At time of assessment covering three preceding fiscal years	<ul style="list-style-type: none"> • Position(s) ultimately responsible for firm quality control • Methods of communication on quality control system to personnel • External peer review • Promote internal culture based on quality 	<ul style="list-style-type: none"> • Policies and procedures for quality control system • Documents on training, meetings, newsletters • External peer review report • Policies/procedures on performance evaluation, compensation, and promotion demonstrating commitment to quality

See Appendix 3 questions to assist with data requirement from audit firms.

3. Ethical Requirements (ISQC 1 Para. 20)

Criteria 3.1 Reasonable assurance of personnel compliance with the International Code of Ethics for Professional Accountants.

A	Audit firm demonstrates that it established policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The firm's relevant ethical requirements are the International Code of Ethics for Professional Accountants (the Code) issued by the International Ethics Standard Board for Accountants (IESBA) which include principles of: integrity, objectivity, professional competences and due care, confidentiality, professional behavior, and independence.
B	Audit firm demonstrates that it established policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The firm's relevant ethical requirements include most of the principles included in the Code issued by the IESBA such as: integrity; objectivity; professional competences and due care; confidentiality; professional behavior; and independence.
C	Audit firm demonstrates that it established policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The firm's relevant ethical requirements include the majority of the principles included in the Code issued by the IESBA such as: integrity, objectivity, professional competences and due care, confidentiality, professional behavior, and independence.
D	Does not meet requirement C.

Timing	Data requirements (from audit firm)	Data sources
At time of assessment covering three preceding fiscal years	<ul style="list-style-type: none"> • Audit firm's reasonable assurance that personnel comply with professional ethical requirements • Methods of communicating professional ethical requirements • Monitoring ethical compliance • Process dealing with ethical violations 	<ul style="list-style-type: none"> • Policies and procedures on relevant ethical requirements, training, monitoring, and non-compliance • Documents on ethical training, meetings, publications • Documents demonstrating personnel compliance including staff signed acknowledgements of

Timing	Data requirements (from audit firm)	Data sources
		<ul style="list-style-type: none"> ethical requirements • Documents demonstrating firm and personnel satisfying independence requirements including any staff signed acknowledgements of independence requirements

See Appendix 3 questions to assist with data requirement from audit firms.

4. Acceptance and Continuance of Client Relationships (ISQC 1 Para. 26)

Criteria 4.1 Competency when accepting engagements.

A	Audit firm demonstrates that it will only undertake engagements where the firm is competent to perform the engagement and has the capabilities and resources to do so.
B	Audit firm demonstrates that it will undertake engagements where the firm is competent to perform the engagement and most of the time has the capabilities and resources to do so.
C	Audit firm demonstrates that it will undertake engagements where most of the time the firm is competent to perform the engagement and majority of the time has the capabilities, and resources to do so.
D	Does not meet requirement C.

Timing	Data requirements (from audit firm)	Data sources
At time of assessment covering the preceding three fiscal years	<ul style="list-style-type: none"> • Audit firm requires information from client before engagement to determine if audit firm is competent and capable as to client's industry and business practices • Audit firm requires personnel to consider the integrity of the client 	<ul style="list-style-type: none"> • Policies and procedures on the acceptance of clients • Documents demonstrating firm's competence, capabilities, and resources when accepting a client engagements • Documents demonstrating firm considered integrity of the

Timing	Data requirements (from audit firm)	Data sources
		client such as firm's communications with third parties, peers, relevant databases

See Appendix 3 questions to assist with data requirement from audit firms.

Criteria 4.2 Continuance of Client Relationship.

A	Audit firm demonstrates that it will only continue engagements where the firm is competent to perform the engagement and has the capabilities and resources to do so.
B	Audit firm demonstrates that it will continue engagements where the firm is competent to perform the engagement and most of the time has the capabilities and resources to do so.
C	Audit firm demonstrates that it will continue engagements where most of the time the firm is competent to perform the engagement and majority of the time has the capabilities and resources to do so.
D	Does not meet requirement C.

Timing	Data requirements (from audit firm)	Data sources
At time of assessment covering the preceding three fiscal years	<ul style="list-style-type: none"> • Audit firm requires information from client before continuing the engagement to determine if audit firm is competent and capable as to any new client industry and business practices • Audit firm considers information from current or previous client engagement when deciding whether to continue with the client • Audit firm addresses circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier • Audit firm requires personnel to consider the integrity of the client 	<ul style="list-style-type: none"> • Policies and procedures on the continuance of client engagements • Documents demonstrating firm's competence, capabilities, and resources on continuing client engagements • Documents demonstrating firm's policies and procedures on addressing circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier

Timing	Data requirements (from audit firm)	Data sources
		<ul style="list-style-type: none"> Documents demonstrating firm considered integrity of the client such as firm's communications with third parties, peers, relevant databases

See Appendix 3 questions to assist with data requirement from audit firms.

5. Human Resources (ISQC 1 Para. 29)

Criteria 5.1 Personnel policies and procedures on competence, capabilities, and ethics.

A	Audit firm demonstrates that it established policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with competence, capabilities, and commitment to professional ethics necessary to perform work that complies with professional standards, applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances. The audit firm demonstrates that it has reasonable assurance for all engagements.
B	Audit firm demonstrates that it established policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with competence, capabilities, and commitment to professional ethics necessary to perform work that complies with professional standards, applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances. The audit firm demonstrates that it has reasonable assurance most of the time.
C	Audit firm demonstrates that it established policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with competence, capabilities, and commitment to professional ethics necessary to perform work that complies with professional standards, applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances. The audit firm demonstrates that it has reasonable assurance majority of the time.
D	Does not meet requirement C.

Timing	Data requirements	Data sources
At time of assessment, covering the	<ul style="list-style-type: none"> Audit firm demonstrates that it has reasonable assurance that its personnel have sufficient 	<ul style="list-style-type: none"> Policies and procedures on personnel competence, capabilities,

Timing	Data requirements	Data sources
three preceding fiscal years	competences, capabilities, and commit to professional ethics for engagements.	and commitment to professional ethics <ul style="list-style-type: none"> • Documents on audit firm's trainings • Documents demonstrating personnel competencies and system of performance evaluation

See Appendix 3 questions to assist with data requirement from audit firms.

Criteria 5.2 Continuing professional education (CPE) for audit staff.

A	Audit firm demonstrates that all of its audit staff who plan, direct, perform engagement procedures for, or report on an engagement maintain their professional competence by completing at least 80 hours of continuing professional education (CPE) in every two-year period as follows, or 120 hours in every three-year period, with at least 20 hours earned each year.
B	Audit firm demonstrates that most of its audit staff who plan, direct, perform engagement procedures for, or report on an engagement maintain their professional competence by completing at least 80 hours of continuing professional education (CPE) in every two-year period as follows, or 120 hours in every three-year period, with at least 20 hours earned each year.
C	Audit firm demonstrates that the majority of its audit staff who plan, direct, perform engagement procedures for, or report on an engagement maintain their professional competence by completing at least 80 hours of continuing professional education (CPE) in every two-year period as follows, or 120 hours in every three-year period, with at least 20 hours earned each year.
D	Does not meet requirement C.

Timing	Data requirements	Data sources
At time of assessment, covering the three preceding fiscal years	<ul style="list-style-type: none"> • Audit firm demonstrates that their audit staff who plan, direct, perform engagement procedures for, or report on an engagement maintain professional competence by completing required CPE • Methods of communicating required professional CPE • Monitoring audit staff compliance 	<ul style="list-style-type: none"> • Documents demonstrating staff completes required professional CPE • Documents communicating CPE requirements to audit staff • Documents demonstrating a

Timing	Data requirements	Data sources
	for professional CPE	monitoring process for audit staff completing CPE

See Appendix 3 questions to assist with data requirement from audit firms.

Criteria 5.3 Licensing individual auditors needed for the audit staff conducting audits.

A	Audit firm demonstrates that all of its audit staff who require audit licensing have attained appropriate license requirements and continue to maintain the requirements during engagements.
B	Audit firm demonstrates that most of its audit staff who require audit licensing have attained appropriate license requirements and continue to maintain the requirements during engagements.
C	Audit firm demonstrates that the majority of its audit staff who require audit licensing have attained appropriate license requirements and continue to maintain the requirements during engagements.
D	Does not meet requirement C.

Timing	Data requirements	Data sources
At time of assessment, covering the three preceding fiscal years	<ul style="list-style-type: none"> • Audit firm demonstrates that its audit staff who require audit licensing have attained appropriate license requirements and continue to maintain the requirements during engagements • Methods of communicating audit licensing requirements • Monitoring audit staff compliance for audit licensing 	<ul style="list-style-type: none"> • Documents demonstrating staff attained required professional audit licensing • Documents communicating audit licensing requirements to audit staff • Documents demonstrating a monitoring process for audit staff maintaining license requirements

See Appendix 3 questions to assist with data requirement from audit firms.

6. Engagement Performance (ISQC 1 Para. 32)

Criteria 6.1 High quality engagement.

A	Audit firm demonstrates that engagements are performed in accordance with professional standards, applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances. Engagement teams possess technical knowledge, practical experience, and a process of engagement supervision from engagement partners.
B	Audit firm demonstrates that engagements are performed in accordance with professional standards, applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances. Most of the time, engagement teams have technical knowledge, practical experience, and a process of engagement supervision from engagement partners.
C	Audit firm demonstrates that engagements are performed in accordance with professional standards, applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances. Majority of the time, engagement teams have technical knowledge, practical experience, and a process of engagement supervision from engagement partners.
D	Does not meet requirement C.

Timing	Data requirements	Data sources
At time of assessment, covering the three preceding fiscal years	<ul style="list-style-type: none"> • Audit firm demonstrates that engagements are performed in accordance with professional standards, applicable legal and regulatory requirements, and issue appropriate reports • Engagement teams have knowledge and experience for engagement • Engagement teams have a process of engagement supervision from engagement partners. 	<ul style="list-style-type: none"> • External peer reviews • Regulatory oversight reviews • Documents demonstrating engagement team knowledge and experience for engagement • Documents demonstrating process of supervision from engagement partners with team during an engagement

See Appendix 3 questions to assist with data requirement from audit firms.

Criteria 6.2 Timing of completing engagement including report.

A	Audit firm demonstrates that it agrees on a realistic timeframe for the performance of the engagement and completes the engagement including report on time.
B	Audit firm demonstrates that it agrees on a realistic timeframe for the performance

	of the engagement and most of the time completes the engagement including report within the agreed time.
C	Audit firm demonstrates that it agrees on a realistic timeframe for the performance of the engagement and majority of the time completes the engagement including report within the agreed time.
D	Does not meet requirement C.

Timing	Data requirements (from audit firm)	Data sources
At time of assessment covering the preceding three fiscal years	<ul style="list-style-type: none"> Audit firm performs the engagement including report within the agreed timeframe 	<ul style="list-style-type: none"> Policies and procedures on the timeliness of engagement including reports Documents demonstrating audit firm performs engagements within time periods agreed with clients

See Appendix 3 questions to assist with data requirement from audit firms.

7. Monitoring (ISQC 1 Para. 48)

Criteria 7.1 Monitoring process of quality control.

A	The audit firm demonstrates a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the quality control system are relevant, adequate, and operates effectively. The audit firm has a monitoring process that includes a cyclical inspection of the quality control review of at least one completed engagement per engagement partner and is assigned to a person with sufficient and appropriate experience and authority within the firm to assume responsibility.
B	The audit firm demonstrates a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the quality control system are relevant, adequate, and operates effectively. The audit firm has a monitoring process that includes a cyclical inspection of the quality control review of less than one completed engagement per engagement partner and is assigned to a person with sufficient and appropriate experience and authority within the firm to assume responsibility.
C	The audit firm demonstrates a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the quality control system are relevant, adequate, and operates effectively. The audit firm has a monitoring process that includes a non-cyclical inspection of the quality

	control review of less than one completed engagement per engagement partner and is assigned to a person with sufficient and appropriate experience and authority within the firm to assume responsibility.
D	Does not meet requirement C.

Timing	Data requirements	Data sources
At time of assessment, covering the three preceding fiscal years	<ul style="list-style-type: none"> • Audit firm's reasonable assurance that policies and procedures relating to the quality control system are relevant, adequate, and operate effectively • Position(s) ultimately responsible for firm quality control review 	<ul style="list-style-type: none"> • Policies and procedures on monitoring process for quality control system • Documents demonstrating cyclical inspection of quality control review • Documents demonstrating inspection of quality control review is assigned to authoritative person

See Appendix 3 questions to assist with data requirement from audit firms.

Criteria 7.2 Quality control deficiencies.

A	The audit firm demonstrates that deficiencies resulting from its monitoring process are noted, evaluated of their effect, communicated, and appropriate action taken to remedy deficiencies.
B	The audit firm demonstrates that most of the time deficiencies resulting from its monitoring process are noted, evaluated of their effect, communicated, and appropriate action taken to remedy deficiencies.
C	The audit firm demonstrates that majority of the time deficiencies resulting from its monitoring process are noted, evaluated of their effect, communicated, and appropriate action taken to remedy deficiencies.
D	Does not meet requirement C.

Timing	Data requirements	Data sources
At time of assessment, covering the three preceding	<ul style="list-style-type: none"> • Audit firm demonstrates that deficiencies from monitoring process are noted, evaluated, communicated, and appropriate action taken 	<ul style="list-style-type: none"> • Documents demonstrating that deficiencies from monitoring process are

Timing	Data requirements	Data sources
fiscal years		noted, evaluated, communicated, and appropriate action taken

See Appendix 3 questions to assist with data requirement from audit firms.

TABLE 1. Determine an element rating by averaging criteria ratings within the element.

Element with two Criteria levels. Rating combinations for two Criteria levels:		Element rating based on two Criteria within the Element:
D	D	D
D	C	D+
D	B	C
D	A	C+
C	C	C
C	B	C+
C	A	B
B	B	B
B	A	B+
A	A	A

Element with two Criteria levels. Rating combinations for two Criteria levels:		Element rating based on two Criteria within the Element:	
	D	D	D
Element with three		Element rating	

Criteria levels. Rating combinations for three Criteria levels:			based on three Criteria within the Element:
D	D	D	D
D	D	C	D+
D	D	B	D+
D	D	A	C
D	C	C	D+
D	C	B	C
D	C	A	C+
D	B	B	C+
D	B	A	B
D	A	A	B
C	C	C	C
C	C	B	C+
C	C	A	B
C	B	B	B
C	B	A	B
C	A	A	B+
B	B	B	B

B	B	A	B+
B	A	A	A
A	A	A	A

Note: Criteria scores can be counted in any order to determine the Element score. For example, in Element 5, if Criteria 5.1 scored an **A**, Criteria 5.2 scored a **C**, and Criteria 5.3 scored a **B**, then this would match the 6th row from the bottom of Table 1 and aggregate to a **B** score for the Element.

Appendix 3

Audit Firm Assessment Questionnaire

The CFO's most current version of the Audit Firm Assessment Questionnaire is available on M/CFO's intranet site. The questions are intended to compile the audit firm's general information, and policies and procedures necessary to assess the audit firm. After receiving answers from the audit firm, the Controller assesses the audit firm based on the Element and Criteria structure provided in section 4 and **Appendix 2**.

The questionnaire is adapted from the content in the International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurances and Related Services Engagements*.

The purpose of using ISQC 1 content when assessing audit firms is to use internationally accepted audit quality standards when determining the ability of a non-U.S. audit firm to perform and deliver a quality audit report.

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