



# USAID Financial Audit Guide for Foreign Organizations

A Mandatory Reference for ADS Chapter 591

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## Acronyms

AICPA	American Institute of Certified Public Accountants
ACA	Agency Contracted Audit
CFR	U.S. Code of Federal Regulations
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	U.S. Government Accountability Office
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
MCA	Mission Contracted Audit
NFA	Non-Federal Audit
NICRA	Negotiated Indirect Cost Rate Agreement
OIG	USAID Office of the Inspector General
QCR	Quality Control Review
RCA	Recipient Contracted Audit
RIG	USAID Regional Inspector General
SAI	Supreme Audit Institution

## 1. Purpose

### 1.1. Background

The USAID Financial Audit Guide for Foreign Organizations (Guide) is to be used by foreign organization recipients, referred to as "recipients" (see section **2.2 Applicability**) and independent auditors to assist with meeting the financial audit requirements of USAID awards. Awards<sup>1</sup> are defined as USAID-funded grants, cooperative agreements, and cost-reimbursement contracts. The Guide also provides guidance to recipients in selecting independent auditors to perform financial audits.

USAID awards require financial audits as prescribed by 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) as adopted by USAID in [2 CFR 700](#). The purpose of the Uniform Guidance is to promote sound financial management, including effective internal controls; establish uniform requirements for audits of Federal awards; promote the efficient and effective use of audit resources; and reduce administrative burden. To meet these requirements, recipients of USAID awards contract independent auditors to perform annual financial audits consistent with [2 CFR 200](#).

This Guide, issued by USAID's Chief Financial Officer (CFO) supersedes any previous USAID Office of Inspector General (OIG) Guidelines for Financial Audits Contracted by Foreign Recipients. This Guide primarily focuses on recipient contracted audits (RCA), Agency contracted audits (ACA), and Mission contracted audits (MCA). These audits were referred to as *non-Federal audits* in previous guidance. This Guide is not applicable to audits conducted by the OIG or Government Accountability Office (GAO).

### 1.2. Applicability

USAID assistance to foreign organizations<sup>2</sup> and foreign public entities<sup>3</sup> include provisions for recipient responsibilities on annual financial audits ([ADS 303](#)). If the

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<sup>1</sup> 2 CFR 200.101 Applicability to different types of Federal awards.

<sup>2</sup> 2 CFR 200.1 Foreign organization means an entity that is: (a) A public or private organization located in a country other than the United States and its territories that are subject to the laws of the country in which it is located, irrespective of the citizenship of project staff or place of performance; (b) A private nongovernmental organization located in a country other than the United States that solicits and receives cash contributions from the general public; (c) A charitable organization located in a country other than the United States that is nonprofit and tax exempt under the laws of its country of domicile and operation, and is not a university, college, accredited degree granting institution of education, private foundation, hospital, organization engaged exclusively in research or scientific activities, church, synagogue, mosque or other similar entities organized primarily for religious purposes; or (d) An organization located in a country other than the United States not recognized as a Foreign Public Entity.

<sup>3</sup> 2 CFR 200.1 Foreign public entity means: (a) A foreign government or foreign governmental entity; (b) A public international organization, which is an organization entitled to enjoy privileges, exemptions, and immunities as an international organization under the International Organizations Immunities Act (22 USC 288–288f); (c) An entity owned (in whole or in part) or controlled by a foreign government; or (d) Any other entity consisting wholly or partially of one or more foreign governments or foreign governmental entities.

recipient expends \$750,000 or more in Federal awards<sup>4</sup> during the recipient's fiscal year, then the recipient meets the audit threshold and must complete an audit for that fiscal year in accordance with 2 CFR 200 Subpart F. The recipient must represent whether it expends \$750,000 or more in Federal awards. For the year in which an award concludes, the recipient's required annual audit must include the Guidelines' close-out audit procedures in its scope. If the recipient expends less than \$750,000 in Federal awards during the recipient's fiscal year, the USAID Operating Unit may determine an audit is warranted to mitigate risk or prevent fraud, waste, and/or abuse.

Additionally, [2 CFR 200<sup>5</sup>](#), requires recipients to verify their subrecipients, who expend \$750,000 or more in Federal funds within their fiscal year, are also audited. Further guidance is provided in section **2.5 Multiple Awards and Subrecipients**.

The Food for Peace Development Assistance Program and Food for Peace Emergency Program must also follow the Compliance Supplement and its Addendum (per **2 CFR 200**, Appendix XI, Compliance Supplement). The U.S. Office of Management and Budget (OMB) Office of Federal Financial Management issues the Compliance Supplement and its Addendum on an annual basis on its [website](#). The audit procedures to test compliance with the requirements for these Federal programs are outlined in the Compliance Supplement's "Matrix of Compliance Requirements". The auditor must use this Compliance Supplement to perform the audits for any funds expended under these programs.

The requirements of [2 CFR 200](#) do not apply directly to USAID agreements with public international organizations (PIOs) ([ADS 308](#)). Agreements with PIOs must follow [ADS 308](#) and its standard provisions, which contain a requirement for an independent audit. Agreements with host country governments must contain a requirement for an independent auditor and have audits performed in accordance with this Guide (see section **4.3 Supreme Audit Institutions**).

### 1.3. Compliance with Auditing Standards

In accordance with the terms of the award, audits of USAID funds provided to foreign organization recipients are to be performed by an independent auditor per [2 CFR 200](#) in accordance with the 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.<sup>6</sup> In

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<sup>4</sup> Federal awards, in this context, are U.S. Government financial assistance or the cost-reimbursement contract under the Federal Acquisition Regulations (FAR) that a non-Federal entity receives directly from any Federal awarding agency or indirectly from a pass-through entity.

<sup>5</sup> 2 CFR 200.101(b) Applicability to different types of Federal awards. Non-Federal entities must comply with requirements in this part regardless of whether the non-Federal entity is a recipient or subrecipient of a Federal award.

<sup>6</sup> GAGAS incorporates the American Institute of Certified Public Accountants (AICPA), Professional Standards that include Statements on Auditing Standards (SASs). The SASs includes an "AU-C" identifier which represents

relation to other professional standards, an auditor may elect to apply the standards established by the International Auditing and Assurance Standards Board (IAASB) and the related International Standards on Auditing (ISA), although these standards must be applied in conjunction with GAGAS. The International Standards of Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI) for public-sector audits may be used in conjunction with GAGAS.

To assist recipients in selecting a qualified audit firm, USAID maintains a list of audit firms that are with relevant assurance considered to be capable of meeting USAID auditing requirements (see section **4.1 USAID List of Acceptable Audit Firms**). To be compliant with [2 CFR 200](#), auditors and audit organizations must provide services in accordance with GAGAS and be independent from the audited entity. The cost of audit services failing to meet these standards may be found disallowable. USAID is aware that some auditors considered by foreign organization recipients may not fully comply with this Guide because of a lack of technical knowledge and experience in using GAGAS. The USAID cognizant Controller will assess and consider this lack of institutional capability prior to the decision whether to accept the use of such an audit firm for these required audit services. The cognizant Operating Unit Controller may allow exceptions to compliance with GAGAS provided that the Controller's assessments determined the audit firm to be generally reliable, and any deviations from GAGAS—such as noncompliance with external quality control reviews and continuing education requirements—must be clearly stated in the audit report as scope limitations. The Controller may note and remove any auditors from the list of eligible audit firms that do not make adequate progress in improving their audit capabilities to comply with GAGAS (see section **4.1 USAID List of Acceptable Audit Firms**).

#### 1.4. Audit Costs

Recipients may charge to USAID awards a reasonably proportionate share<sup>7</sup> of the costs for performing the specific audit of their USAID-funded awards.<sup>8</sup> The costs to be charged to the USAID awards will be a matter for negotiation at the time of award between USAID and the recipient. For recipients meeting the \$750,000 audit threshold, the audit firm is required to produce a final (as opposed to a draft) audit report that is reviewed for quality standards by the cognizant USAID Operating Unit and submitted to the OIG. For all other audits, the final audit report must be reviewed and accepted by the cognizant USAID Operating Unit.

If the USAID Operating Unit returns the audit report of an audit firm for revision due to noncompliance with professional auditing standards, only the cost of the audit work in accordance with the terms of the award may be charged to USAID until the final audit

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section(s) in the Codification of SASs. The Codification was designed for clarity and converged the standards with the International Standards on Auditing (ISAs). See [AICPA Clarified Statements on Auditing Standards](#).

<sup>7</sup> 2 CFR 200.425(a)

<sup>8</sup> See also [ADS 303mab Mandatory Standard Provisions for Non-U.S. Nongovernmental Organizations](#) M2.

report is accepted. Any additional costs incurred in correcting deficient audit reports will not be reimbursed by USAID unless USAID provided prior written approval to reimburse additional costs. Should the audit firm fail to make its report acceptable, a different audit firm may be requested to reperform the audit. In such case, the original audit firm will not be considered acceptable to perform future USAID audits (see section **4.1 USAID List of Acceptable Audit Firms**).

### 1.5. Multiple Awards and Subrecipients

Some recipients may receive Federal funding from:

1. More than one USAID award,
2. Multiple USAID Operating Units, and/or from
3. Subawards provided by other U.S. or foreign entities, referred to as pass-through entities<sup>9</sup>. A recipient receiving subaward(s) from a pass-through entity is considered a subrecipient<sup>10</sup>.

Under such circumstances, one annual financial audit covering the funds the auditee (see section **3.2 Auditee**) received from above funding sources is required. The recipient must include a Schedule of Expenditures of Federal Awards (SEFA)<sup>11</sup> that identifies funds for each specific USAID award (see section **5.3** and **Appendix 2**. This SEFA should be named with a heading such as the Schedule of Expenditures of USAID awards. Recipients required to report other Federal awards (other than USAID) should list those awards in other sections of the SEFA.

The cognizant Operating Unit responsible for the audit is the Operating Unit with the majority of USAID funds expended by the recipient.<sup>12</sup> Both the cognizant Operating Units and the pass-through entities should attend the audit entrance and exit conferences. The cognizant Operating Unit will coordinate and assign responsibility for the management decisions related to the recommendations and questioned costs for each Operating Units' awards. Pass-through entities are responsible for the questioned costs and audit follow-up for their subawards.

When a foreign recipient receives a direct USAID award and is also a subrecipient of a U.S. recipient organization, an annual audit (if required) must include the subawards received from the U.S. recipient organization (pass-through entity). If a foreign organization is only a subrecipient of a U.S. recipient organization, then the annual

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<sup>9</sup> Pass-through entities are defined in 2 CFR 200.1

<sup>10</sup> Subrecipients are defined in 2 CFR 200.1

<sup>11</sup> Previously known as the Fund Accountability Statement, the SEFA (or Schedule of Expenditures of Federal Awards) is defined in 2 CFR 200.510(b).

<sup>12</sup> USAID Operating Units can access reports in the TRACS database to determine the amount of funds expended per recipient.

audit is subject to the guidelines provided under [ADS 591.3.1, Audits of U.S. Organizations](#). If a subrecipient audit covers funding received from multiple recipients, the audit costs should be managed by the recipient with the largest expended amount and the cost shared on a pro-rata basis of the funds audited. The cognizant Operating Unit will make the determination as part of the annual audit plan. Consistent with USAID award provisions<sup>13</sup>, each recipient is responsible for ensuring they have full information about the combined total Federal fund expenditures of their subawards and monitoring the audit requirements of its subrecipients or contracts.

## 1.6. Audit Timelines

The recipient must submit final audit reports to the cognizant USAID Operating Unit within 30 days after receiving the report from the audit firm, but no later than nine months after the end of the period audited, as required by the award provisions. For audits meeting the \$750,000 audit threshold, the recipient should submit the final audit report to the cognizant USAID Operating Unit within six months after the recipient's fiscal year end. The USAID Operating Unit must review for quality standards and forward the audit report to the OIG no later than nine months after the recipient's fiscal year end.

For audits that meet the \$750,000 threshold, the OIG monitors the quality of the financial audit reports conducted by independent auditors. The OIG reviews the final audit reports for compliance with professional reporting standards, including GAGAS. After their review, the OIG may issue a memorandum that transmits the audit report to USAID with recommendations needing action. The transmittal memorandum is publicly available on its external website.

To meet above timelines, the selection of an independent audit firm (see section **4. Selection of an Auditor**), beginning the audit process, and interim audit work should start before the end of the recipient's fiscal year. Initiating audits after the close of a fiscal year could hinder timely audit reporting and may restrict the scope of certain audit procedures, leading to additional questioned costs.

## 2. Roles and Responsibilities

### 2.1. USAID Operating Units

Operating Units must monitor the submission of required audit reports and encourage recipients to meet the timelines (see **2.6 Audit Timelines**). For each audit of any amount of expenditures, the cognizant Operating Unit must ensure their recipients comply with the audit requirements for Federal funds. To help with this process:

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<sup>13</sup> See also [ADS 303mab, Standard Provisions for Non-U.S. Nongovernmental Organizations](#).

1. The cognizant Agreement Officer's Representative (AOR) should provide the Statement of Work (SOW) template (see **Appendix 1**) for the recipient to use when contracting audit services;
2. The cognizant Controller will provide a list of acceptable audit firms available for the recipient to use<sup>14</sup>;
3. The cognizant Controller's office may review the final SOW and;
4. The cognizant Operating Unit may provide further assistance and expertise as needed and will participate in the audit entrance and exit conferences.

Each USAID Operating Unit is responsible for (a) timely submission (see section **2.6 Audit Timelines**) of final audit reports meeting the \$750,000 threshold to the OIG, (b) preparing its own management decisions, and (c) acting upon findings and recommendations applicable to its agreements with the recipient.

USAID will take appropriate action in the event their recipient has a continued inability or unwillingness to have an audit performed in accordance with the Guide. Remedies will be handled by the terms and conditions of the recipient's agreement and could include suspension of disbursements to the recipient until a satisfactory audit is performed.

Each USAID Operating Unit is responsible for serving as custodians for Agency records and will create records needed to meet the financial audit requirements of the Agency, record decisions and actions taken, and document audit activities. The Operating Units must file audit materials regularly and carefully in a manner that allows them to be safely stored and efficiently retrieved when needed, carry out the disposition of audit records under their control in accordance with Agency records schedules and Federal regulations; and ensure that Contracting Officer/Agreement Officer Representatives maintain audit recipient records on USAID-funded activities in accordance with USAID records management policies and procedures found in [ADS 502, The USAID Records Management Program](#).

## 2.2. Auditee

The auditee, for the purpose of this document, is a foreign organization recipient that expends Federal awards which must be audited per USAID awards provisions under [2 CFR 200](#). This includes recipients that expend a combined total of \$750,000 or more in Federal awards during the recipient's fiscal year either directly or through another Federally funded contractor or recipient. This excludes fixed price contracts and fixed amount awards, or recipients procuring audit services otherwise required or permitted by their USAID award.

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<sup>14</sup> The Audit Firm list does not establish any obligation for USAID to pay or reimburse for the audit work.



In conformance with their USAID award, auditee responsibilities should be consistent with [2 CFR 200<sup>15</sup>](#) and failure to comply may result in the disallowance of costs. The auditee responsibilities include:

1. Procuring the audit work in accordance with 2 CFR 200 subpart F,
2. Preparing the financial statements including a Schedule of expenditures of USAID awards<sup>16</sup>,
3. Follow-up, and corrective actions on audit findings, and
4. Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform the required audit services.

### **3. Selection of an Auditor<sup>17</sup>**

#### **3.1. USAID List of Acceptable Audit Firms**

USAID maintains in the Consolidated Audit and Compliance System (CACS), a list of audit firms that have experience with USAID-funded audits or have been screened and accepted by the cognizant Controller. The list provides general information about each audit firm and their demonstrated ability to conduct a reliable audit that results in high-quality audit reports in accordance with this Guide. The cognizant Controller should provide the list to the recipients prior to beginning any USAID-funded audit work, USAID advises recipients choose an independent auditor from the List of Acceptable Audit Firms. Failure to use a USAID-accepted audit firm from the List of Acceptable Audit Firms could result in an unacceptable audit report and disallowance of costs.

The process by which USAID examines a potential audit firm is further described in [ADS 591mab](#). USAID encourages rotating audits among eligible audit firms to help maintain independence. Below are the baseline criteria for all audit firms analyzed for the List of Acceptable Audit Firms:

1. Audit firm meets ability to produce written reports in English.
2. Audit firm has sufficient quality control program in place that meets the GAGAS quality control and external peer review standards.
3. Audit firm is a good standing member of the AICPA or the country's public accounting organization (PAO), which complies with the statements of

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<sup>15</sup> 2 CFR 200.508

<sup>16</sup> The Schedule of expenditures of USAID awards meet the 2 CFR 200.510(b) requirement for a Schedule of expenditures of Federal awards.

<sup>17</sup> 2 CFR 200.509

membership obligations of IFAC, or another internationally recognized standard setting body including independence compliance.

4. Audit firm has been in operation at least three years, or its partners have previous acceptable experience with USAID-funded audits.
5. Audit firm requires continuing professional education (CPE) meeting GAGAS and required professional audit designation for audit staff.
6. Audit firm demonstrates that audits are performed in accordance with professional standards, applicable legal and regulatory requirements, and issue appropriate audit reports.
7. Other possible considerations:
  - a. Affiliation with an international audit firm.
  - b. Continuing Professional Education Program, differing from GAGAS.
  - c. Recent experience with USAID audits.

A firm may be noted for lacking certain criteria and determined not acceptable on the USAID List of Acceptable Audit Firms. Auditors submitting unacceptable work or audit firms that do not provide timely responses to USAID's requests may also be noted and excluded from the list. Audit firms may also be removed from the list if they have not performed audits under this Guide for a period of five years. However, USAID will give audit firms an opportunity to update their information before removing them or apply to be reinstated on the list.

In conjunction with the List of Acceptable Audit Firms, the recipient's selection of an independent auditor should be based on factors such as the audit firm's past performance in terms of quality, timeliness, and ability to conduct audits in accordance with professional auditing standards (see section **2.3 Compliance with Auditing Standards**).

### 3.2. Independent Audit Firms

Auditors and audit firms should be independent from the auditee during and for any period that falls within the period covered by the financial statements. In accordance with the GAGAS, independence comprises: (a) independence of mind which permits the conduct of an engagement without being affected by influences that affect professional judgment and (b) independence in appearance which is the absence of circumstances that would cause a third party to conclude that the integrity, objectivity, or professional skepticism had been compromised.

In addition and pursuant to [2 CFR 200.509\(b\)](#), an auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by this part when the indirect costs recovered by the auditee during the prior year exceeded \$1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

Since non-audit services that auditors provide can affect independence of mind and appearance in periods after the non-audit services were provided, the recipient should notify the USAID Operating Unit of any such circumstances.

### 3.3. Supreme Audit Institutions

The recipient country's principal government audit agency, often referred to as its "Supreme Audit Institution" (SAI), may audit foreign public entities under this Guide. However, SAI's audit reports will only be accepted for USAID funds if the USAID Cognizant Controller, or designee, determines that the SAI:

- Complies with GAGAS or the IAASB standards and the related ISA, and International Standards on Assurance Engagements in conjunction with GAGAS.
- Complies with ISSAI issued by the INTOSAI for public-sector audits in conjunction with GAGAS.
- Is in fact, in mind, and in appearance, independent of the government recipient organizations to be audited and the executive branch of the government, and substantially meets the independence requirements set forth in GAGAS.
- Does not participate in any way in pre-control, contract or transaction approval, check signing, or other activity that is incompatible with the audit function.
- Maintains a professionally prepared and competent staff of duly qualified and licensed certified public accountants, or equivalent, experienced in the performance of financial audits and appropriately supervised by more experienced auditors.
- Maintains a continuing program of staff training and professional development for its audit staff.
- Agrees to perform audits pursuant to this Guide.

USAID may support SAIs in developing their auditing manuals, audit quality control systems, and other audit needs by facilitating coordination between SAIs and other

resources, such as the U.S. GAO Center for Audit Excellence, before the SAI conducts audits of USAID funds. The cognizant USAID Operating Units will consider assisting SAIs if they manifest a desire to perform professional quality audits of USAID-financed activities and the recipient government places a high priority upon this function.

In the event an SAI demonstrates an inability or unwillingness to perform audit work in compliance with this Guide, USAID will not accept its reports until the SAI is capable of improving its performance. If an SAI's audit reports are rejected, USAID may require an audit by a professional audit firm or, at its discretion, make arrangements for an audit on behalf of the foreign public entity in accordance with the standard audit provisions in the USAID award(s).

## **4. Audits**

### **4.1. Scope of Audit**

A financial audit of USAID funds provided to recipients must be performed in accordance with GAGAS, or ISA in conjunction with GAGAS, or ISSAI in conjunction with GAGAS. The primary purpose of a financial statement audit is to provide an opinion about whether an entity's financial statements are presented fairly, in all material respects, in accordance with applicable generally accepted accounting principles or financial reporting standards. Reporting on financial audits performed in accordance with GAGAS also includes reports on internal controls over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.

If the recipient has a current negotiated indirect costs rate agreement<sup>18</sup> (NICRA), including provisional rates, the independent auditor must examine the recipient's organization-wide general purpose financial statements (*i.e.*, balance sheet, income statement, and where appropriate, cash flows statement). The financial statements and the schedule of expenditures of USAID awards must be for the same audit period.<sup>19</sup>

The independent auditor must determine whether the financial statements of the recipient are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles (U.S. GAAP), or International Financial Reporting Standards (IFRSs), or International Public Sector Accounting Standards (IPSAS). The independent auditor must also determine whether the schedule of expenditures of USAID awards is stated fairly in all material respects in relation to the recipient's financial statements as a whole.<sup>20</sup>

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<sup>18</sup> For additional help on indirect cost rates, see [USAID's Indirect Cost Rate Guide for Non-Profit Organizations](#).

<sup>19</sup> 2 CFR 200.510 (a) & (b)

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For financial audits of awards without a current negotiated (including provisional) indirect costs rate, the schedule of expenditures of USAID awards is the basic financial schedule to be audited. The schedule of expenditures of USAID awards must not include cost-sharing or matching (inclusive of in-kind) contributions provided from the recipient's own funds or in-kind.

#### 4.2. Audit Objectives

The financial audit objectives must include the following and as such should be reflected in the audit contract SOW (**Appendix 1**):

- Express an opinion on whether the SEFA for the USAID-funded programs presents fairly in all material respects in relation to the recipient's financial statements as a whole and in revenues received, costs incurred, and assets, commodities, and technical assistance directly procured with USAID funding for the period audited in conformity with the terms of the award and generally accepted accounting principles.
- Evaluate the recipient's internal controls related to the USAID-funded programs, assess control risk, and identify significant deficiencies including material weaknesses.
- Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost-sharing or matching contributions, and indirect costs rate, if applicable) and applicable laws and regulations related to USAID-funded programs.
- Evaluate whether the recipient has met its cost-sharing or matching contributions, if required by the agreement.
- If the recipient has a NICRA (including provisional), then perform a financial audit of the recipient's organization-wide general purpose financial statements, expressing an audit opinion.
- Perform an audit of the indirect costs rate if the recipient has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient.
- When indirect costs are charged to USAID using either predetermined, fixed, or de minimis 10 percent rate, the auditor must verify that the correct rate was applied in accordance with the agreement with USAID.
- Determine if the recipient has taken adequate corrective actions on prior audit report recommendations, if applicable.

### 4.3. Schedule of Expenditures of USAID Awards

The recipient must accept the responsibility for the accuracy of the schedule of expenditures of USAID awards before the audit commences regardless of whether the recipient received assistance in the preparation of the schedule of expenditures from the books and records maintained by the recipient.

The schedule of expenditure of USAID awards must reconcile to USAID provided fund information, the accounting records, and bank statements of the recipient. All currency amounts in the audit report must be stated in U.S. dollars. The exchange rate(s) used must be indicated in the notes to the schedule of expenditures of USAID awards and calculated for the rate at the time the local currency was disbursed to the recipient by USAID.

In audits of recipients covering awards from more than one USAID Operating Unit, the schedule of expenditures of USAID awards must separately disclose the financial information (revenues, costs, etc.) for each award and program, and identify the USAID Operating Units that provide funding. Each Operating Unit must be able to identify its award in the audit report for resolution of audit findings with the recipient. The same reporting principles apply when only one USAID award is covered by the audit. Auditors must not express separate opinions on schedule of expenditures of each award or program unless specifically requested to do so by USAID.

### 4.4. Cost-Sharing/Matching Schedule<sup>21</sup>

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

### 4.5. Indirect Cost Rates<sup>22</sup>

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<sup>21</sup> Leverage of non-USAID resources is different from cost-sharing or matching contributions. Pursuant to [ADS 303.3.27](#) (Public-Private Partnerships) leveraging represents all non-USAID resources, excluding cost sharing, expected to be applied to a program. Leveraging is limited to Public-Private Partnership awards.

<sup>22</sup> For additional help on indirect cost rates, see [An Indirect Cost Rate Guide for Non-Profit Organizations](#) and <https://www.usaid.gov/india/partner-resources/infographic-de-minimis-rate-indirect-costs>

The audit of the indirect cost rates should involve tests to determine whether the distribution or allocation base and the indirect cost pools includes only items or costs authorized by the USAID awards and applicable cost principles. These tests should also confirm that the indirect cost rates are accurately calculated. Costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both. In the case that the recipient has been authorized to use provisional indirect cost rates, the audit must be performed to determine the actual indirect costs rate for that year. If chosen, this methodology, once elected, must be used consistently for all Federal awards until such time as the recipient chooses to negotiate for a rate.

As further provided in Federal regulation ([2 CFR 200.414](#)), any foreign recipient that does not have a current NICRA (including provisional) may elect to charge a 10 percent de minimis rate of modified total direct costs. No documentation is required to justify the 10 percent de minimis indirect cost rate other than the approval of the rate in the award. If chosen, this methodology, once elected, must be used consistently for all Federal awards until such time as the recipient chooses to negotiate for a rate.

Additional information on the allocation and determination of indirect cost rates is provided in [2 CFR 200](#) Appendix IV to Part 200 – Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organization.

#### 4.6. **Audit Steps**

Auditors must design audit steps and procedures in accordance with GAGAS to provide reasonable assurance of detecting situations or transactions in which fraud or illegal acts have occurred or are likely to have occurred. If such evidence exists, the auditors must contact the appropriate USAID Operating Unit and should exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

Auditors must conduct their audit in accordance with the SOW (**Appendix 1**), obtain a management representation letter (**Appendix 4**), and consult the reference materials (**Appendix 5**). The SOW contains a list of 12 documents, as applicable, that must be reviewed during the planning phase of the audit.

#### 4.7. **Internal Controls**

The auditors must review and evaluate the recipient's internal controls related to USAID programs to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation.

Auditors must follow the steps outlined in the SOW (**Appendix 1**) and identify any

significant deficiencies or material weaknesses in the design or operation of internal controls.

- A material weakness is a deficiency, or combination of deficiencies, in internal controls, 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 controls that is less severe than a material weakness but 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". Any other matters related to internal controls – such as suggestions for improving operational or administrative efficiency of internal controls, 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.

#### 4.8. **Compliance with Agreement Terms and Applicable Laws**

Auditors must follow the reporting standards contained in GAGAS for reporting on compliance which are based on the AICPA Professional Standards. The auditor's report on compliance must set forth as findings all material instances of noncompliance with agreement terms, and applicable laws and regulations, defined as instances that could have a direct and material effect on the financial statements and/or schedule of expenditures of USAID awards. In accordance with GAGAS, the auditor is not responsible for preventing noncompliance and cannot be expected to detect noncompliance with all laws and regulations.<sup>23</sup> Nonmaterial instances of noncompliance must be included in a separate management letter to the recipient and referred to in the report on compliance. A copy of the management letter should be provided to the cognizant USAID Operating Unit along with the audit report.

The auditor's report must include relevant information about identified or suspected fraud based on sufficient, appropriate evidence obtained.<sup>24</sup> Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statement is intentional or unintentional. In presenting material irregularities, illegal acts, or other noncompliance, auditors must continue to follow the reporting standards contained in GAGAS. If the auditors conclude that sufficient evidence of any known or likely fraud or illegal acts exists, regardless of whether it is material to the financial statements, they must contact the USAID cognizant Operating Unit and the OIG and exercise due professional care in pursuing

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<sup>23</sup> See AICPA AU-C Section 250, Consideration of Laws and Regulations in an Audit of Financial Statements.

<sup>24</sup> See AICPA AU-C Section 240, Consideration of Fraud in a Financial Statement Audit.



indications of possible fraud and illegal acts to avoid interfering with potential future investigations or legal proceedings.

#### 4.9. Follow-up on Prior Audit Findings

The recipient is responsible for follow-up and corrective action on audit findings. Auditors should evaluate whether the audited entity has taken appropriate corrective action. The recipient must prepare a Summary Schedule of Prior Audit Findings (SSPAF) to address audit findings from previous audit engagements as per [2 CFR 200.511](#). The corrective action plan and SSPAF must include findings relating to the financial statements which are required to be reported in accordance with GAGAS. When planning the audit, auditors should ask management of the audited entity to identify previous audit findings including whether related recommendations have been implemented. Auditors must follow their contract SOW (**Appendix 1**).

#### 4.10. Closeout Audits

A closeout<sup>25</sup> audit is an audit for an award that concluded during the period audited. Pursuant to [ADS 591, Financial Audits of USAID Contractors, Recipients, and Host Government Entities](#), and the additional help in [ADS 302sat, Guidance on Closeout Procedures for A&A Awards](#), closeout audits require additional scope of the audit services, including but not limited to the following:

- Review unliquidated advances to the recipient and pending reimbursements by USAID.
- Ensure the recipient has returned any excess cash to USAID.
- Review final cost-sharing or matching contributions in accordance with the terms of the agreement, if applicable.
- Ensure all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the agreements.

The auditors must determine whether an annex to the schedule of expenditures of USAID awards showing the balances and details of final inventories of nonexpendable property acquired under the awards is presented fairly in all material respects in relation to the financial statements. This inventory must indicate which items were titled to the U.S. Government and which were titled to other entities. These closeout audit procedures must be performed for any award that expires during the period audited.

## 5. Audit Reporting

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<sup>25</sup> Closeout is defined in 2 CFR 200.16 and further explained in 2 CFR 200.343-344.

As required by the template audit contract SOW, the final audit report will be submitted to the cognizant USAID Operating Unit as a portable document format (PDF) copy in English and, if applicable, a PDF copy of the report in the recipient country's official language. The timeline for the audit reports must be consistent with the award provisions and section **2.6 Audit Timeline** of this Guide. The format and content of the audit reports should closely follow the SOW (**Appendix 1**). The audit report must specify the correct award number(s) of each award covered by the audit. The report must contain, as applicable:

1. A title page, table of contents, transmittal letter, and a summary which includes a background section.
2. The background section must state a general description of the USAID programs audited, period covered, program objectives, clear identification of all entities mentioned in the report, follow-up audit recommendations, whether cost-sharing or matching contributions were required, and whether the recipient has a USAID-authorized indirect cost rate.
3. The report must also include the objectives and scope of the financial audit, clear explanation of the procedures performed and any scope limitations.
4. The report must summarize, as applicable, the audit results of the schedule of expenditures of USAID awards, questionable costs, internal control, compliance with agreement terms and applicable laws, indirect cost rates, status of prior audit findings, review of the cost-sharing or matching contributions, and the recipient's management response to the audit and any findings.

The auditor's report must also include the auditor's opinion on the schedule of expenditures of USAID awards, and the agreement terms and applicable laws (including the schedule of cost-sharing or matching contributions and the indirect cost rates, if applicable). A report on the internal control compliance must describe the scope of testing and the results of the tests and if applicable, the recipient's general purpose financial statements on an organization-wide basis. The findings included in the reports on internal controls and compliance related to USAID-funded programs must be developed with all elements of the findings pursuant to the auditing standards and include the following elements: condition, criteria, cause, effect, and an actionable recommendation that corrects the cause and the condition, as applicable.

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

Contact the cognizant USAID Operating Unit for any additional information or clarification on this Guide.

## **APPENDICES**

The following appendices are examples that recipients and/or auditors can consider and modify or exclude as needed.

APPENDIX 1: Standard Statement of Work for Financial Audits of Foreign Organizations

APPENDIX 2: Schedules and Tables

APPENDIX 3: Template of Audit Agreement with Supreme Audit Institution

APPENDIX 4: Illustrative Management Representation Letter

APPENDIX 5: Reference Materials

## Appendix 1: Standard Statement of Work for Financial Audits of Foreign Organizations

### **I. BACKGROUND**

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

[If recipient or contractor activities are financed by more than one program, include a similar paragraph for each program.]

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

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

### **II. TITLE**

Audit of the Statement of Expenditures of USAID awards expended for the period from [date] to [date]. [In the case of closeout audits, the title must specify that it is a closeout audit.]

### **III. SCOPE**

The audit must be completed in accordance with U.S. Government Auditing Standards (GAGAS) issued by the U.S. Government Accountability Office and comply with one of the following bodies of audit standards:

- U.S. Generally Accepted Audit Standards (GAAS) that include:
  - Statements of Auditing Standards (SAS) issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA). Because GAGAS incorporates SAS by reference, the audit report must state the audit was conducted in accordance with GAGAS and SAS or in accordance with GAGAS; or
  - Auditing Standards (AS) issued by the U.S. Public Company Accounting Oversight Board (PCAOB). The audit report must state the audit was conducted in accordance with GAGAS and PCAOB AS.

- International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB). The audit report must state the audit was conducted in accordance with GAGAS and ISA; or
- International Standards of Supreme Audit Institutions (ISSAI) issued by the International Organization of Supreme Audit Institutions (INTOSAI). The International Standards on Auditing (ISA) are incorporated into the ISSAI financial audit standards. The audit report must state the audit was conducted in accordance with GAGAS and ISSAI.

The audit is limited to USAID awards. The auditor must request, from the recipient, a Statement of Expenditures of USAID Awards for the period from [date] to [date]. The Statement must include the following information:

1. [Program Name ], [Program number]
2. [Include all programs described in background]

All amounts in the financial audit report must be stated in U.S. dollars. The auditors should indicate the exchange rate(s) used in the Statement of Expenditures of USAID Awards.

#### **IV. REQUIREMENTS**

##### Objective 1:

Conduct a financial audit of the Statement of Expenditures of USAID Awards (Statement) expended by [name of recipient or contractor] under [program name(s) and number(s)] from [date] to [date].

The audit must comply with the following documents and their successors:

- GAGAS, issued by the U.S. Government Accountability Office (GAO);
- One other applicable body of audit standards described in section III Scope;
- USAID's Financial Audit Guide for Foreign Organizations; and
- 2 CFR 200 section 200.501-200.521 (Subpart F—Audit Requirements) of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

To complete this objective, the auditor must:

1. Express an opinion on whether the Statement of Expenditures of USAID

Awards (Statement) is fairly presented, in all material respects, in accordance with the applicable accounting standards or financial reporting framework and the terms of the award(s).

2. Report the results of evaluating and obtaining a sufficient understanding of internal controls over financial reporting for the Statement.
3. Report on compliance with USAID award terms, provisions of laws, and regulations as they pertain to the Statement.
4. Determine if the audited entity took corrective action on recommendations issued in prior audit reports/reviews.
5. Issue a written report with the audit opinion, results of internal controls tests, and results of compliance based on the preceding 1-3 requirements. The deliverable may be three separate written reports, or a report with the audit opinion and a combined internal control and compliance report.
6. Issue a Schedule of Audit Findings and Questioned Costs. This Schedule must include any significant deficiencies and material weaknesses in internal controls, material noncompliance, material questioned costs, material misrepresentation on the status of any prior audit findings, and known or likely fraud.

#### Objective 2:

Determine if the audited entity complied with the [2 CFR 200 Uniform](#) Guidance's requirements in Appendix XI to Part 200 Compliance Supplement (Parts 4 and 7) for each major program. To complete this objective the auditor must:

1. Assess compliance that could have a major and direct impact on the program.
2. Assess internal control pertaining to achieving compliance.
3. Issue a written report with the auditor's results.

#### Objective 3:

If the audited entity has been authorized to charge indirect costs to awards, review the indirect cost rate to determine if the final or provisional rate conforms to the terms of the agreement. To complete this objective the auditor must:

1. Identify internal control weaknesses and noncompliance.

2. Include the results in the report(s) noted previously in Objective 1. In some cases, the auditor may elect to include the results in the separate compliance report or in both.

#### Objective 4:

If there are cost-sharing agreements, review the cost-sharing contributions to determine if the cost-sharing contributions conform with the terms of the agreement. To complete this objective the auditor must:

1. Identify internal control weaknesses and noncompliance.
2. Include the results in the report(s) noted previously in Objective 1. In some cases, the auditor may elect to include the results in the separate compliance report or in both.

### **Appendix 2: Schedules/Tables**

The following illustrative schedules/tables are for reference purposes.

2.1.C Illustrative Schedule of Expenditures of USAID Awards

2.4.C Illustrative Cost-Sharing Table

2.5.B Schedule of Computation of Indirect Cost Rate

### **Additional Information**

If the audit firm conducting the audit lacks a satisfactory continuing education program and/or external quality control review program, it must be disclosed in the second paragraph of the final Audit Report, the Internal Control Report, and the Compliance Report as applicable:

- “Except for not having a fully satisfactory continuing education program and/or not having an external quality control review by an unaffiliated audit organization, we conducted our audit in accordance with GAGAS (or ISA in conjunction with GAGAS, or ISSAI in conjunction with GAGAS) as GAGAS is issued by the Comptroller General of the United States....” (continue with the standard language for this paragraph).
- If the audit firm does not meet the CPE requirement but have some education, it should be disclosed. “We do not have a continuing education program that fully satisfies the requirement set forth in GAGAS. However, our current program



provides for at least (*number*) hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.”

- “We did not have an external quality control review by an unaffiliated audit organization as required by GAGAS, since no such program is offered by professional organizations in (*name of country*). We believe that the effects of this departure from GAGAS are not material because we participate in the (*name of U.S. affiliate*) worldwide internal quality control review program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.”

If the auditor issues a management letter for internal deficiency or compliance issues that are not material, a paragraph to that effect should be included in the appropriate report as follows:

- We noted certain matters involving internal control and its operation that we have reported to the management of (*name of recipient*) in a separate letter dated August 15, 20XX.
- We noted certain immaterial instances of noncompliance that we have reported to the management of (*name of recipient*) in a separate letter dated August 15, 20XX.<sup>26</sup>

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<sup>26</sup> Exclude this paragraph if there are no immaterial instances of noncompliance.

## 2.1.C Illustrative Schedule of Expenditures of USAID Awards

(Name of recipient)

### Schedule of Expenditures of USAID Awards

From 1/1/20X1 to 12/31/20X3

(Single award, 3<sup>rd</sup> year presented with cumulative amounts, in USD)

Elements	Agreement Budget	Actual Revenues and Expenditures	Cumulative Revenues and Expenditures	Questioned Costs		Notes
	1/1/20X1 to 12/31/20X3	1/1/20X3 to 12/31/20X3	1/1/20X1 to 12/31/20X3	Ineligible	Unsupported	
<b>Revenues</b>						
USAID Contribution	3,554,399	984,389	1,912,680			Note 1
Program Income	-					
Interest Income		100	100			
<b>Total Revenues</b>	<b>3,554,399</b>	<b>984,489</b>	<b>1,922,680</b>			
<b>Costs</b>						
Salaries	817,512	180,666	450,152	36,000		Note 3
Transportation	142,176	31,420	152,521			
Program activities	2,185,955	483,086	900,582		14,350	
Other costs	408,756	90,333	220,541			
<b>Total costs</b>	<b>3,554,399</b>	<b>785,505</b>	<b>1,723,796</b>			
<b>Cash Balance</b>		<b>198,984</b>	<b>198,984</b>			Note 5

### Schedule of Expenditures of USAID Awards

(Multiple awards, 1<sup>st</sup> year presented, no cumulative amounts, in USD)

Elements	Budget Agreement A	Actual Revenues and Expenditures 01/1/20X1 to 12/31/20X1 Agreement A	Budget Agreement B	Actual Revenues and Expenditures 03/15/20X1 to 12/31/20X1 Agreement B	Questioned Costs		Notes
					Ineligible	Unsupported	
<b>Revenues</b>							
USAID Contribution	3,554,399	984,389	2,300,550	1,245,405			Note 1
Program Income	-			245,829			
<b>Total Revenues</b>	<b>3,554,399</b>	<b>984,389</b>	<b>2,300,550</b>	<b>1,491,234</b>			
<b>Costs</b>							
Salaries	817,512	180,666	529,127	213,085	36,000		Note 3
Transportation	142,176	31,420	92,022	37,058			
Program activities	2,185,955	483,086	1,414,838	569,772		14,350	
Other costs	408,756	90,333	264,563	106,543			
<b>Total costs</b>	<b>3,554,399</b>	<b>785,505</b>	<b>2,300,550</b>	<b>926,458</b>			

Cash Balance		198,884		564,776			Note 5
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**Notes to the Schedule of Expenditures of USAID Awards**

**Note 1: Accounting Policies**

The following are the principal accounting policies applied by the management of the program:

**a. Basis of Preparation of the Schedule of Expenditures of USAID Awards**

The recipient {Name} has a budgetary account held by registration of revenues and costs month by month. The accumulation of the revenue and cost generates the schedule of expenditures of USAID awards, which is audited for the period closed as of 12/31/20XX.

The schedule of expenditures of USAID awards revenue corresponds to flow of funds received from USAID.

Cost of the schedule of expenditures of USAID awards corresponds to funds disbursed in payment of the costs incurred.

**b. Basis of Preparation of Budget**

Budget of the project presented at the schedule of expenditures of USAID awards has been prepared in accordance with the budget approved by USAID. This budget is expressed in USD.

**c. Conversion to USD**

The schedule of expenditures of USAID awards provided to the auditor by the recipient is stated in USD and the exchange rate indicated in the notes. The USD exchange rate is calculated based on the rate at the time the funds were disbursed by USAID.

**Note 2: Revenues Received from USAID**

From {period duration} the recipient {Name} received from USAID/X a total amount of {amount in USD and local currency}. This amount is detailed by the following receptions:

DATE	NATURE		Amounts in Local Currency	Amounts in USD
1/10/20X1	Remittance by check	Bank transfer received from USAID, Advance of January 20X1		
1/29/20X1	Transfer	Bank transfer received from USAID, Advance of June 20X1		

Total received from
---------------------

**Note 3: Expenses Incurred and Liquidated**

From {period duration} the recipient {Name} incurred and liquidated a total amount of {amount in USD and local currency} in expenditures.

**Note 4: Reconciliation with Accounting Balances**

The amounts recorded by USAID are consistent with amounts recorded by the recipient and the Schedule of expenditures of USAID awards' balance reconciles with the bank statements.

**Note 5: Fund Balance Reconciliation**

As of December 31, 20XX, the bank balance reconciled with the balance recorded in the accounting books and the schedule of expenditures of USAID awards of the Recipient.

**Notes**

Additional information or supporting schedules detailing revenues, costs incurred, outstanding fund balances, and commodities directly procured by USAID for each individual agreement should be reported.

All questioned costs will be listed here. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations should be included as findings in the report on compliance.

The notes to the schedule of expenditures of USAID awards should briefly describe both material and immaterial questioned costs and should be cross-referenced to any corresponding findings in the report on compliance.

## 2.4.C Illustrative Table Presenting Cost-Sharing/Matching Contributions

### Cost-Sharing/Matching Table

From January 1, 20X1 to December 31, 20X3

All Amounts in USD

Description	Budget Contributions	Contributions in FY 20X2	Contributions in FY 20X3	Cumulative Contributions as of 12/31/X3	Ineligible	Unsupported	Notes
Cash	10,000	5,000	5,000	10,000	-	-	Note 1
Land for sewage treatment	25,000	35,972	27,508	63,480	-	-	Note 3
Transportation	15,000	26,360	-	26,360	-	-	Note 4
Other costs	76,250	5,725	60,525	66,250	-	9,243	Note 4 and 5
<b>Total</b>	<b>126,250</b>	<b>73,057</b>	<b>93,033</b>	<b>166,090</b>	-	<b>9,243</b>	<b>Note 2</b>

## Notes to the Cost-Sharing Schedule

### Note 1:

#### a. Exchange Rate

The cost-sharing schedule is stated in USD. The conversion of the local currency in USD used in exchange is 1 USD = 0.XX local currency.

#### b. Cash and In-Kind Contributions

The contributions of the Recipient Agreement # {number} were cash and in-kind contributions as required per the agreement. Cash and in-kind contributions are itemized separately on the Cost-Sharing Schedule.

### Note 2: Shortfall/Surplus of Contributions

The recipient contributed more than what was required in the Agreement. At the end of December 20XX, the contributions of the recipient exceeded the planned budget by 32%. The figure below shows the achievements announced by the project management in relation to the budget:

Description	Budget in USD	Cumulative Contributions as of XX/XX/20X3	%
Cash	10,000	10,000	100%
Land for sewage treatment	25,000	63,480	254%
Transportation	15,000	26,360	176%
Other costs	76,250	66,250	87%
<b>Total</b>	<b>126,250</b>	<b>166,090</b>	<b>132%</b>

### Note 3: In-Kind Contribution Valuation

Among contributions of the recipient, a field dedicated to the construction of the sewage has been donated. The value of this plot of land was estimated by an appraisal by a sworn expert from the government at \$63,480.

### Note 4: Detail of Contributions

All supporting documentation of in-kind contributions was reviewed to validate amounts contributed. Details of contributions by project management are presented as follows:

Project team transportation:

<b>Contributions</b>	<b>Cost/Day In USD</b>	<b>Number of days</b>	<b>in USD</b>
Fees for supply of vehicle with driver	48.63	542.00	26,360.00
<b>Total</b>	<b>410.96</b>	<b>542.00</b>	<b>26,360.00</b>

<b>Contributions</b>	<b>Cost/Day in USD</b>	<b>Number of days</b>	<b>Amounts in USD</b>
Fees for supply of vehicle with driver	48.63	542	26,360
<b>Total</b>	<b>410.96</b>	<b>542</b>	<b>26,360</b>

Detail of other contributions:

<b>Activities</b>	<b>Cost in USD</b>
Travel, transportation, and reception of Ambassador's visit.	9,243
Contribution of the population in the development of the access track to the sewage treatment station.	57,007
<b>Total</b>	<b>66,250</b>

**Note 5: Unsupported Questioned Costs**

We have identified one material instance of noncompliance, as follows: The recipient did not have proper supporting documentation for the event related to the Ambassador's visit. Justification was not provided and there were no receipts/invoices to support these costs. A finding is included in the report on compliance.

**2.5.B Illustrative Schedule of Computation of Indirect Cost Rate  
(Name of recipient) Schedule of Computation of Indirect  
Cost Rate**

**For the Year Ended December 20XX**

	<b>Total Costs</b>	<b>Exclusions</b>	<b>Direct Cost Base</b>	<b>Indirect Costs</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
Rents	31,513			\$ 31,513
Employee benefits	68,117		48,600	19,517
Supplies	7,029		5,642	1,387
Training	21,880		18,120	3,760
Consultancies	18,000		18,000	
Contributions/donations	13,600	13,600		
Entertainment expenses	16,238	16,238		
Resource aids	23,742		23,742	
Bad debts (2)	5,000	5,000		
Fixed assets	52,214	30,000	14,520	7,694
Travel	19,048		12,700	6,348
Grants to sub-recipients	150,000	150,000		
Insurance (5)	24,600	18,200		6,400
Salaries	195,579	-	139,179	56,400
<b>Total (3)</b>	<b>\$ 646,560</b>	<b>\$ 233,038</b>	<b>\$ 280,503</b>	<b>\$ 133,019</b>

Verification (A-B) = C+D      \$413,522                                      \$413,522

Indirect Cost Pool: Modified Total Direct Costs

**Indirect Cost Rate Computation: Total Indirect Costs/Modified Total Direct Costs  
133,019/280,503 = 47.42%**

1. The costs of capital expenditures, sub-contracts/sub-grants are distorting items and excluded from the computation. These costs are \$30,000 for vehicles and \$150,000 sub-grants.
2. Ineligible costs are excluded.
3. The recipient total expenses (\$646,560) as per the organization general purpose income statement.
4. The allocation base is "Total direct costs excluding capital expenditures; and sub-contracts/sub-grants".



5. Insurance costs for officers are \$18,200. The organization is identified as beneficiaries for the officers' insurance. There is also \$6,400 for fire insurance.

### **Appendix 3: Template of Audit Agreement with Supreme Audit Institution**

The Agency for International Development (USAID) and the *(title of the host country's Supreme Audit Institution -- hereinafter referred to as the SAI)* agree that the SAI may perform or contract for audits of USAID funding agreements with the government of *(name of country)*.

USAID and the SAI agree that the SAI will perform audits in accordance with U.S. Government Auditing Standards (GAGAS) or International Standards of Supreme Audit Institutions (ISSAIs) in conjunction with GAGAS.

USAID and the SAI may agree that the SAI can contract an independent public accounting firm to perform the audit. If an accounting firm performs the audit it must be in accordance with GAGAS and be supervised by the SAI. USAID may finance these audit contracts. The audit firms and contracts must be approved by USAID before the contract is entered into.

USAID and the SAI must jointly prepare an annual schedule of audits to be performed or contracted by the SAI. The schedule of audits must contain the following information:

- Names of the governmental institutions to be audited.
- Identifying numbers of USAID agreements to be covered by the audits.
- Fiscal year to be covered by the audits.
- Name of the auditors (SAI or public accounting firm).
- Name of the entity in charge of supervising the audits (SAI, public accounting firm, or individual contractor).

Standard statements of work provided by USAID must be used in performing audits of governmental organizations as per USAID standard statement of work which is an integral part of this agreement. USAID may expand the scope of work to allow the review of specific areas that may be of particular interest to USAID for ensuring proper accountability over resources provided to the recipient and may meet with the SAI or its contractor at the beginning of the audit to explain any financial or compliance areas of concern contained in the statement of work that USAID wants to emphasize. USAID must approve the statement of work before audit work begins.

The scope of audits must include, at a minimum, a report on the schedule of expenditures of USAID awards for the USAID-funded programs, a report on internal

control related to the USAID-funded programs, and a report on compliance with agreement terms and applicable laws and regulations related to the USAID-funded programs. If USAID or the OIG does not accept an audit report because of deficiencies in the work of the SAI or its contractor, the auditors will perform any additional audit work at no additional cost to USAID.

The SAI or its contractor must properly maintain audit working papers for a period of three years from the completion of the audit. During this three-year period, the SAI or its contractor must immediately provide the working papers when requested by USAID or the OIG.

Signed \_\_\_\_\_  
USAID Operating Unit Representative

Date

Signed \_\_\_\_\_  
Supreme Audit Institution

Date

## Appendix 4: Illustrative Management Representation Letter

(Date)

XYZ & CO. (Independent Auditor)  
Address of Independent Auditor

We are providing this letter in connection with your audit(s) of the (identification of financial statements) of (name of entity) as of (dates) and for the (periods) for the purpose of expressing an opinion as to whether the (consolidated) financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of (name of entity) in conformity with [accounting principles generally accepted in the United States of America (U.S. GAAP)] [International Financial Reporting Standards (IFRSs)] or [International Public Sector Accounting Standards (IPSAS)]. We confirm that we are responsible for the fair presentation in the (consolidated) financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it possible that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, (as of date of auditor's report), the following representations made to you during your audit(s).

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) [International Financial Reporting Standards (IFRSs)] or [International Public Sector Accounting Standards (IPSAS)] .
2. We have made available:
  - a. Financial records and related data.
  - b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving (a) management, (b) employees who have significant roles in internal control or (c) others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have complied with all aspects of contracts and agreements that could have a material effect on the schedule of expenditures of USAID awards in the event of noncompliance.

## Appendix 5: Reference Materials

1. U.S. Government Auditing Standards may be obtained from the U.S. Government Accountability Office (<https://www.gao.gov/yellowbook>)
2. [2 CFR Part 200](#) - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards  
[Subpart F - Audit Requirements \(§§ 200.500 - 200.521\)](#)  
[Subpart E - Cost Principles \(§§ 200.400 - 200.475\)](#)
3. [2 CFR Part 700](#) - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards:
4. [USAID Automated Directives System \(ADS\)](#)
5. [Code of Federal Regulations](#) (CFR)
  - Title 48 - Federal Acquisition Regulations System Chapter 1
  - Chapter 7 - Agency for International Development Acquisition Regulations (AIDAR)
6. Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees ([ADS Chapter 303, Grants and Cooperative Agreements to Non-Governmental Organizations](#)).
7. Standard Provisions Annex for Agreements with Foreign Governments ([ADS Chapter 350, Grants to Foreign Governments](#)).
8. The Statements on Auditing Standards (SASs) may be of interest:  
<https://www.aicpa.org/research/standards/auditattest/sas.html>
9. The Codification of Statements on Auditing Standards (SASs) (contained in AICPA Professional Standards)  
<https://www.aicpa.org/research/standards/auditattest/clarifiedsas.html>

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