Note: The closing date for receiving the bid offers is 31st of October 2014
1. BACKGROUND

The Intergovernmental Authority on Development (IGAD) is a regional economic block in the horn of Africa which was created in 1996 and it has 8 member states that is Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, South Sudan and Uganda. It has the Divisions of; Agriculture and Environment; Economic Cooperation and Social Development; Peace and Security; Administration and Finance and various Specialized Institutions in the various member states; with several projects/programs. IGAD’s operations are facilitated through Member States funds and Development partners. IGAD also partners with relevant actors at local, national, regional and global levels that have similar mandates for achieving sustainable development in the region. It is headquarters are based in Djibouti.

IGAD’s vision is to be the premier Regional Economic Community (REC) for achieving peace and sustainable development in the region. IGAD’s mission is to promote regional cooperation and integration to add value to Member States ‘efforts in achieving peace, security and prosperity.

The work of IGAD is co-coordinated through a Secretariat which is headed by an Executive Secretary. The Executive Secretary has the responsibility to submit annual audited financial statements of the Secretariat to the Council of Ministers.

The financial statements of the Secretariat are prepared in accordance with Generally Accepted Accounting Practice, the Financial Rules and Regulations of IGAD and relevant Rules and Regulations of Cooperating Partners, as appropriate. The accounts are required to be audited by External Audit Firms registered with the relevant Accountancy Council of the country where the firms are based.

IGAD intends to engage an independent external auditor for three years 2014, 2015 and 2016.

2. OBJECTIVE OF THE EXTERNAL AUDIT

2.1 The objective of the external audit is to express a professional audit opinion in accordance with ISA 800 on whether:

- The consolidated financial statements of IGAD, in all material respects, are in conformity with the applicable Financial Rules and Regulations of IGAD and Agreement Terms and Condition of the agreement; and

- The financial statements of projects that require separate audit reports1, in all material respects, are in conformity with the applicable Financial Rules and Regulations of IGAD and Agreement Terms and Conditions of the financing agreement.

2.2 The Secretariat books of accounts provide the basis for preparation of those financial statements and are established to reflect the financial transactions in respect of the Secretariat and that it maintains adequate internal controls and supporting documentation for transactions.

3. AUDITING STANDARDS

3.1 The external audit is carried out in accordance with International Standards on Auditing (ISA) and includes such tests and auditing procedures as the auditor considers necessary for the assignment. Furthermore, for World Bank and USAID funded projects which require separate audit reports, the auditor will perform the specific procedures set out in the respective audit terms of reference (see annex 1 and 2).

4. RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

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1 Projects financed by World Bank and USAID require separate audit reports.
4.1 The responsibility for the preparation of Financial Statements lies with the IGAD Secretariat and is also responsible for:

(a) The selection and application of accounting policies. IGAD Secretariat will prepare the Financial Statements in accordance with applicable accounting standards that comply with appropriate international standards in all material respects; and

(b) Implementing accounting, administrative and financial procedures documented in manuals.

4.2 The auditors are responsible for the formulation of an opinion on the Financial Statements based on their audit conducted in accordance with ISAs (International Standards on Auditing) promulgated by the IFAC (International Federation of Accountants). In accordance with these standards, the auditors will request the IGAD Secretariat for an Engagement/Confirmation Letter committing the IGAD Secretariat management to the preparation of the Financial Statements and maintenance of proper internal control systems as well as acceptable documentation for all financial transactions.

5. SCOPE OF THE AUDIT

5.1 The audit will be carried out in accordance with the standards specified in 4.2 above and will include such tests and verification procedures as the auditors consider necessary under the circumstances. In conducting the audit, special attention should be paid to the following:

(a) Carry out tests of transactions as are necessary, in order to obtain an understanding of the accounting system, to assess its adequacy as a basis for the preparation of the Financial statements and to establish whether adequate records have been maintained as required by the IGAD Financial Rules and Regulations; Financial Manual and applicable rules of the donors;

(b) Conduct an in-depth and exhaustive review of the internal control systems to have sufficient knowledge of the procedures underpinning the systems, as contained in the IGAD Financial Rules and Regulations; Financial Manual and the applicable rules of the concerned donors;

(c) Confirm that although responsibility for preventing irregularity and fraud remains with the Secretariat, the audit has been planned so as to have a reasonable expectation of detecting material misstatements in the financial statements;

(d) State the extent to which it has relied on the work of the Internal Audit;

(e) Confirm that funds have been used in accordance with the applicable rules of the concerned donors, Council decisions with due attention to economy and efficiency, and that they have only been used for the purposes for which they were intended for and in accordance with the conditions under which the funding was provided;

(f) Confirm that Goods and services financed have been procured in accordance with sound procurement procedures spelled out in the IGAD Procurement Manuals; Financial Rules and Regulations and applicable rules of the donors;

(g) Confirm that all necessary supporting documents, records and accounts have been kept in respect of all activities. Clear linkages should exist between the books of accounts and the financial statements presented;

(h) Confirm that the Financial Statements have been prepared in accordance with acceptable accounting practice and give a true and fair view of the financial position of the Secretariat as at the end of the financial year; and
5.2 The above-defined scope does not in any way restrict the audit procedures or the techniques that the auditor may wish to use in forming an opinion on the Financial Statements being audited.

6. FINANCIAL STATEMENTS

6.1 The Financial Statements to be audited, among others, include:

(a) A Statement of Income and Expenditure;
(b) A Statement of Financial Position;
(c) A Statement of Changes in Accumulated Funds;
(d) A Statement of Cash Flow;
(e) The Accounting Policies Adopted and Explanatory Notes;
(f) Where applicable, a Financial Report compliant with the terms and conditions of agreements with the donors.

7. AUDIT REPORT

7.1 The auditor is expected to present two types of reports: An opinion on the Financial Statements prepared by the Secretariat and a Management Letter.

7.2 The opinion on the Financial Statements shall contain:

(a) A professional opinion on the financial statements and supporting schedules as regard to their true and fair view;
(b) Accounting standards and IGAD Financial Rules and Regulations that have been applied indicating the effect of any deviations from them;
(c) The International Audit standards that were applied;
(d) Include all other requirements of cooperating partners as stated in the various cooperating agreements.

7.3 The Management Letter, among others, shall contain:

(a) Comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
(b) Specific deficiencies and areas of weakness in systems and controls and make recommendations for improvement;
(c) The degree of compliance of each of the development partner funding agreement and give comments, if any, on internal and external matters affecting such compliance;
(d) Matters that have come to their attention during the audit which might have a significant impact on the implementation and sustainability of the funding;
(e) Report on the implementation status of recommendations pertaining to previous period audit reports;
(f) Areas of risk that need to be flagged out to management;
(g) Any other matters that the auditors consider pertinent to be brought to the attention of the Secretariat.

7.4 Ideally, the Management Letter will include reactions/comments from IGAD Secretariat on the weaknesses noted by the auditors.

8. AUDIT OF PROJECTS

8.1 The scope of the audit of projects depends on the cooperation agreement signed between the cooperating partners and the Secretariat. The main Cooperating Partners of the Secretariat are the European Union, World Bank, African Development Bank, USAID, etc. The audit requirements are stated in the various agreements that govern the funding and for those projects that require separate audit reports, the scope of the audit are stated in the attached terms of references (annex 1 for World Bank financed project and annex 2 for USAID funded project). However, some of the general requirements are the following:

(a) That the External Auditors have obtained an understanding of the terms and conditions governing the grant agreement. For example, in the case of USAID funding, the External Auditors should comply with the General Procedures of the Agreement and its annexes;

(b) That the funds received have been used in accordance with the cooperation agreement. For example, in the case of World Bank and USAID funded projects, the auditor will have to perform specific procedures described in annex 1 and 2 to this document in order to verify the conformity of the expenditure to the agreement and its annexes;

(c) That the accounts kept by IGAD are accurate and up to date;

(d) That the accounts and expenditure relating to the grant/cooperation agreement are easily identifiable and verifiable;

(e) That it is possible to reconcile the information in the Financial Report to IGAD’s accounting system and records;

(f) That the correct exchange rates have been applied;

(g) That any identified bank interests have been properly reflected in the books of accounts;

(h) That the Secretariat has maintained the necessary supporting documents, records and accounts in respect of the project activities; and

(i) That the internal control systems of the organization are comprehensive, sufficient and adequate.

8.2 World Bank and USAID financed projects require separate audit reports (i.e., opinion on the financial statements and Management Letters) in line with the annexed terms of references.

8.3 The financial records maintained for projects are usually the following:

(a) Financial ledgers;
(b) Bank Reconciliation Statements;
(c) Payments vouchers substantiated by support documentation;
(d) Assets Register; and
(e) Financial reports (wherever applicable).

9. GENERAL INFORMATION
9.1 The audit report (on the consolidated IGAD accounts and separate project reports) including the financial statements, the management letter including the IGAD Secretariat’s responses should be received by the IGAD within six (6) months after the end of the fiscal year under review.

9.2 The auditors shall be given access to all legal documents, correspondence and any other information associated with the Financial Statements to be audited and deemed necessary by them.

10. **AUDITOR’S QUALIFICATION AND EXPERIENCE**

(a) The auditor must be completely impartial and independent from all aspects of management or financial interests of the organization;

(b) The auditor shall not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as advisers or mentors for, or have any financial or business relationships with the organization; and

(c) The auditor shall be registered with the Accountancy Council and must demonstrate that he employs adequate staff with appropriate professional qualifications and suitable experience in accounting and auditing the accounts of entities comparable in size and complexity to the entity being audited;

(e) Curriculum Vitae (CVs) must be provided to the client by the Partner of the firm of auditors who shall be responsible for signing the opinion, together with the CVs of managers, supervisors and key personnel proposed as part of the audit team. The CVs shall include details of audits carried out by the concerned staff, including ongoing assignments indicating capability and capacity to undertake the audit.

**Qualification and Experience**

10.1 The Auditor will employ adequate staff with appropriate professional qualifications and suitable experience with IFAC standards, in particular International Standards on Auditing and with experience in auditing the accounts of entities comparable in size and complexity to the Entity. In addition the audit team as a whole will have:

- Appropriate experience with audits of external aid operations financed by the donors. At least one senior member of the fieldwork team either a manager/supervisor should have such experience;
- Demonstrate sufficient knowledge of relevant laws, regulations and rules in the country concerned. This includes but is not limited to taxation, social security and labour regulations, accounting and reporting, and
- Fluency in English

**Team composition**

10.2 The team of auditors required for this engagement will be composed of a level 1 auditor who has the ultimate responsibility for the audit and signing of the opinion and an audit team which is composed of an appropriate mix of level 2 – 4 auditors and who have the qualifications and experience as set out below.

**Level 1 – Audit Partner**

10.3 An audit partner must be a highly qualified expert with a relevant university or professional qualification and assuming or having assumed senior and managerial responsibilities in public audit practice. He/she should be a member of international accounting or auditing body or institution (or a member of a national accounting body recognized by an international auditing body). He/she must have at least 15 years of professional experience as a professional Auditor or accountant in public audit
practice and experience with working with the recipient countries of donor aid will also be taken into account.

10.4 An audit partner, or another person in a position similar to that of a partner, is the person of the audit firm who is responsible for the audit and its performance, and for the report that is issued on behalf of the firm. He/she has the appropriate authority from a professional, legal or regulatory body and is authorized to certify accounts by the laws of the country in which the audit firm is registered.

**Level 2 - Audit Manager**

10.5 An audit manager must be a qualified expert with a relevant university or professional qualification. He/she must have at least 12 years’ experience as a professional auditor or accountant in public audit practice including relevant managerial experience of leading audit teams.

**Level 3 –Audit supervisor**

An auditor supervisor must be a qualified expert with a relevant university or professional qualification and at least 10 years professional experience in external aid audits or audit practice.

**Level 4 –Senior Auditor**

10.6 A senior auditor must be a technical and administrative staff of at least 10 years standing with the audit firm or a qualified expert with a relevant university or professional qualification and at least 8 years professional experience in public audit practice.

*Curricula Vitae (‘CVs’)*

10.7 The Auditor will provide the IGAD Secretariat with CV’s of the partner or other person in the audit firm who is responsible for the audit and for signing the report together with the CVs of the audit manager, supervisor and staff proposed as part of the audit team. CVs will include appropriate details on the type of audits carried out by the staff indicating capability and capacity to undertake the audit as well as details on relevant specific experience.

10.8 IGAD Secretariat will examine the CVs before it signs a contract for the engagement and will reject them if they are not considered suitable for the requirements of the engagement.

**11. LETTER OF ENGAGEMENT**

11.1 A formal letter of engagement specifying the scope of audit shall be prepared and signed between the Secretariat and the auditor prior to the beginning of the assignment. The letter of engagement shall also clearly spell out the responsibilities of the two parties.

**12. EVALUATION OF PROPOSALS (Technical and Financial)**

12.1 The Technical proposal shall be evaluated as follows:

- (a) Understanding of Terms of Reference 20%
- (b) Experience of consultant/firm 50%
- (c) Key personnel’s qualification 30%

12.2 Minimum eligible technical score is 75%

12.3 The Lowest Financial Proposal (LFP) for eligible proposal will be selected for negotiations.
12.4 IGAD Secretariat does not bind itself to accept any bid and reserves the right to accept the whole or partially any of the submitted bids.

12.5 All bids should be sent by the 31st of October 2014
Annex 1

TERMS OF REFERENCE FOR AUDIT OF WORLD BANK FINANCED PROJECTS

1. BACKGROUND

IGAD received, through the World Bank, US$ 7.6 million from the Canada International Development Association (CIDA) to support the IGAD Regional HIV and AIDS Partnership Program which will run from May 31, 2013 to December 31, 2014.

The program have been implemented in collaboration with the seven member governments of IGAD and UNHCR. Under this program, IGAD aims to fight HIV/AIDS, especially among mobile populations such as refugees, internally displaced people, returnees, and cross-border mobile populations who are not usually covered by other HIV/AIDS control programs, and services on HIV/AIDS in IGAD member countries, and to share epidemiological, behavioral, and program data among the member countries.

Memorandum of Understanding was signed with each member countries and UNHCR to implement the program. IRAPP also closely works with IOM and UNFPA in their areas of expertise.

The IGAD Regional HIV/AIDS Partnership Program (IRAPP) is designed to help the countries in the IGAD region collaborate on HIV/AIDS interventions for refugees and other cross-border mobile populations (CBMP) to make the efforts of member countries more effective.

There are two interrelated project development objectives for the project. They are to:

i) Increase preventative action, and reduce misconception of cross border and mobile populations, refugees, IDPs, returnees and surrounding host communities concerning HIV/AIDS prevention, treatment and mitigation in selected sites in the IGAD member states; and

ii) Establish a common and sustainable regional approach to supporting these populations in the IGAD member states.

Project components

The direct beneficiaries of the program are: (a) refugees, IDPs, returnees, and surrounding host communities (in every IGAD country); and (b) vulnerable cross-border and mobile populations. Indirect beneficiaries are those in the region who gain from better health policies, programs, service delivery, and knowledge of the epidemic as a result of cross-fertilization. Capacity building support would be provided to IGAD to better coordinate the regional effort, in addition to capacity building efforts at the national level for supporting coordination mechanisms.

IRAPP has the following organs:

(a) Ministerial Committee on Health and HIV/AIDS (thus including the Ministers in charge of the HIV and AIDS programs in their countries, as in Kenya and Uganda);
(b) IRAPP Steering Committee;
(c) IGAD (Health and Social Services Desk); and
(d) Program Facilitation Office.

Institutional Arrangements

The project is facilitated by IGAD and utilizes its institutional set-up, which is described in the “Agreement Establishing the Inter-Governmental Authority on Development”. The structure outlined in this Agreement is:

a) Assembly of Heads of State and Government;
b) A Council of Ministers;
c) A Committee of Ambassadors; and
d) A Secretariat.
In addition to the permanent structures outlined above, the Council of Ministers is authorized to establish sectoral Ministerial committees to deal with issues in their respective sectors (Article 10, paragraph 3). For the purpose of the implementation of this project a Ministerial Committee on Health and HIV/AIDS has been established (April 13th, 2007), as well as a Steering Committee (NAC or appropriate Representatives) endorsed by the Council of Ministers. Terms of references have been established for both the Ministerial Committee on Health and HIV/AIDS and the Steering Committee to ensure the coordination and participation of national programs with this regional program.

Annual work plans and programs determine the kinds of activities to be carried out. The annual work plan and programs contains adequate activity details and a timetable for implementation and procurement. Annual program reviews (at a minimum), coupled with flexibility for subsequent year programs, are of particular importance given that the situation with refugees and other mobile populations may change quickly with repatriation or new disruptions, and that AIDS policy and technology are dynamic and may require shifts in focus. Given the nature of the program, IGAD established a Program Facilitation Office (PFO), which is located in Uganda, to ensure the day-to-day activities of the Program, under the close supervision of HESAD.

Program Facilitation Office (IRAPP- PFO)

PFO functions under the overall supervision of IGAD Secretariat, more particularly of the Health and Social Development Desk belonging to the Economic Coordination, Health and Social Division. The core staff of PFO includes PFO Coordinator, Assistant Coordinators in charge of the project components, Finance and Administration Officer, Internal Auditor, Focal Points Liaison Officer, M&E Officer, Accounting officer, Assistant Finance Officer and general service staff (the Finance and Administration Officer, the Internal Auditor and Assistant Finance Officer are located at IGAD headquarters).

PFO's core professional staffs are responsible for developing plans and programs, and for carrying out our operational, financial, procurement, monitoring and evaluation, overall management of the program and liaise with the IRAPP staff posted at IGAD to be up to date with administrative and financial situations.

With the signing of the IGAD Agreement, the Member States have committed themselves to providing the support necessary to assure the effective execution of the mission and sustainability of IRAPP. No direct financial support is expected from the Member States during the CIDA/World Bank financed project, because 100 percent financing of IRAPP activities has been committed to by the CIDA and World Bank Group.

IGAD has deemed it necessary to carry out a financial audit for the period 01 January 2014 to 31 December 2014 and give an opinion on the funds usage so far.

2. OBJECTIVE OF THE PROJECT AUDIT

The objective of the audit of the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the project at the end of each fiscal year (or period), and on funds received and expenditures incurred for the relevant accounting period.

The project books of accounts provide the basis for preparation of the PFSs by the project implementing agency and are established to reflect the financial transactions in respect of the project. The implementing agency maintains adequate internal controls and supporting documentation for transactions.

3. PREPARATION OF ANNUAL FINANCIAL STATEMENTS

The responsibility for the preparation of financial statements including adequate disclosure is that of the Intergovernmental Authority on Development (IGAD). It is also responsible for the selection and application of accounting policies. IGAD would prepare the PFSs in accordance with the International Financial Reporting Standards.

The auditor is responsible for forming and expressing opinions on the financial statements. The auditor would carry out the audit of the project in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part of the audit process, the auditor may request from IGAD written confirmation concerning representations made in connection with the audit.
4. SCOPE OF THE AUDIT

As stated above, the audit of the project will be carried out in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC), and will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. Special attention should be paid by the auditor as to whether the:

(a) World Bank financing (and all external financing where the World Bank is not the only financier) has been used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided – please see
   i. The Grant Document
   ii. The Project Appraisal Document/Project Paper
   iii. Project Operations Manual
(b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
(c) Goods, works and services financed have been procured in accordance with the relevant financing agreements including specific provisions of the World Bank Procurement Policies and Procedures2;
(d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) methods of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;
(e) Designated Accounts (if used) have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement;
(f) Review and express an opinion on the use of IRAPP funds by the Implementing Partners i.e. National AIDS Commissions, and UNHCR. All National AIDS Commissions are audited by the respective government auditors or external auditors appointed by the government auditors. UNHCR is audited exclusively by the UN auditor general or appointed by it. Check audit report provided by Implementing partners and UN agencies and consider on sample basis the work of other auditors as per ISA 600.
(g) Ensure that all implementing entities (UN Agencies, National AIDS commissions) activities (i.e. funds transferred to them, accountability reports produced by them for the project and balances thereof) are included in the accounts and financial statements of the project. Where scope limitation exists the auditors can qualify the report as such but it is imperative that all project transactions of all implementing entities and balances thereof are shown in the project accounts and financial statements. The auditor shall visit NACs as appropriate.
(h) Review substantial or significant amount of transactions of the PFO;
(i) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g. operational manual, financial procedures manual, etc.) were followed and used;
(j) Financial performance of the project is satisfactory.
(k) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement.
(l) Ineligible expenditures included in withdrawal applications are identified and reimbursed to the Designated Accounts. These should be separately noted in the audit report.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

(a) Fraud and Corruption: Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements. The auditor is required to identify and assess these risks (of material

2 Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of International Standard on Auditing 620: Using the Work of an Expert. Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance.
misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud;

(b) **Laws and Regulations:** In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;

(c) **Governance:** Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by ISA 260: Communication of Audit Matters with those Charged with Governance.

(d) **Risks:** In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by ISA 330: the Auditor’s Procedures in Response to Assessed Risks.

5. **PROJECT FINANCIAL STATEMENTS (PFSs)**

The auditor should verify that the project PFSs have been prepared in accordance with the agreed accounting standards (see paragraph 3 above) and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date.

The Project Financial Statements (PFSs) should include:

(a) A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred;

(b) A summary of the activity in the Designated Account;

(c) A Balance Sheet (if deemed necessary);

(d) A Summary of the principal accounting policies that have been adopted, and other explanatory notes;

(e) A list of material assets acquired or procured to date with project funds.

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the Project from the World Bank”, with those shown as being disbursed by the Bank.

6. **STATEMENT OF EXPENDITURES (SOEs)**

In addition to the audit of the PFSs, the auditor is required to verify all SOEs used as a basis for the submission of loan withdrawal applications to the World Bank. The auditor will apply such tests and auditing procedures as considered necessary under the circumstances. **Annexed to the PFSs should be a schedule listing individual SOE withdrawal applications by specific reference number and amount.**

The total withdrawals under the SOE procedures should be part of the overall reconciliation of Bank disbursements described in paragraph 5 above.

7. **DESIGNATED ACCOUNT**

In conjunction with the audit of the Project PFSs, the auditor is also required to review the activities of the Designated Account associated with the project. The Designated Account usually comprises:

- Advance deposits received from World Bank;
- Replenishments substantiated by withdrawal applications;
- Interest that may have been earned on the accounts, and which belong to the recipient; and
- Withdrawals related to project expenditures

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.
For this Project, the Designated Accounts are referred to in the general conditions, the Financing Agreement (subsection 5.3) and Disbursement Letter (para. I). The auditor should also examine eligibility and correctness of:

- Financial transactions during the period under review;
- Account balances at the end of such a period;
- The operation and use of the Designated Account in accordance with the financing agreement; and
- The adequacy of internal controls for the type of disbursement mechanism.

8. AUDIT REPORT

The auditor will issue an opinion on the project financial statements (PFSs). The annual audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with the financing agreement terms.

9. MANAGEMENT LETTER

In addition to the audit report, the auditor will prepare a management letter, in which the auditor will:

(a) Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
(b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
(c) Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
(d) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
(e) Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
(f) Give comments on previous audits’ recommendations that have not been satisfactorily implemented; and
(g) Bring to the recipient’s attention any other matters that the auditor considers pertinent, including ineligible expenditures.

Ideally, the management letter should also include responses from the implementing agency to the issues highlighted by the auditor.

10. AVAILABLE INFORMATION

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

11. GENERAL

The financial statements, including the audit report, management letter and management response should be received by the Bank no later than six months after the end of the accounting year to which the audit relates.

The auditor should submit the report to the recipient’s designated agent rather than to any staff member of the project entity. The agent should then promptly forward two copies of the audit report and accompanying statements to the Bank together with the management letter and management response.

It is highly desirable that the auditor becomes familiar with the Bank’s Guidelines on Annual Financial Reporting for World Bank-Financed Activities, June 30, 2003, which summarizes the Bank’s financial reporting and auditing requirements. The auditor should be familiar with World Bank Procurement Guidelines, which can be obtained from the project implementing agency. The auditor should also be familiar with the Bank’s Disbursement Handbook for World Bank Clients, Disbursement Guidelines for
Projects: May 2006. These documents are available on the Bank’s website and could be obtained from the Task Team Leader.
STANDARD STATEMENT OF WORK FOR FINANCIAL AUDITS OF NON-U.S. ORGANIZATIONS CONTRACTED BY THE RECIPIENT

1. **OBJECTIVES AND GENERAL STATEMENT OF WORK**

2. **AUDIT OF USAID RESOURCES**

3. **MANAGED BY INTER-GOVERNMENTAL AUTHORITY ON DEVELOPMENT (IGAD)**

I. **BACKGROUND**

In September 2006, September 2007, July 2008, August 2008, September 2009, September 2010, September 2011, September 2012, September 2013 the United States Agency for International Development/East Africa (USAID/East Africa), hereafter referred to as USAID approved the Conflict Limited Scope Grant Agreement (LSGA) – USAID/East Africa Activity No. LSGA 6230009.02-3-60082, which provided 7,519,560 US Dollars in grant funds to IGAD for assisting people within the IGAD sub-region to:

- establish a system of conflict early warning, prevention and response, and then supporting CEWERUs operationalize the strategy in 2013. CEWARN sought to establish an operational framework for enhancing the collaborative efforts of governments, donors, non-governmental organization and the private sector within the IGAD sub-region,
- Support to IGAD’s Regional Disaster Resilience and Sustainability Platform and support to build the capacity of the IGAD Secretariat, and
- Support to IGAD’s Climate Prediction and Applications Centre (ICPAC).

The Intergovernmental Authority on Development (IGAD) in Eastern Africa was created in 1996 to supersede the Intergovernmental Authority on Drought and Development (IGADD), which was founded in 1986. The IGAD Member States are Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan and Uganda. The mandate of IGAD is to coordinate the efforts of member states to advance their development goals in the priority areas of economic cooperation, political and humanitarian affairs and food security and environment protection. The ultimate goal of IGAD is to achieve economic integration and sustainable development for the region.

The locations of activities and accounting records to be audited are at IGAD Secretariat headquarters in Djibouti, Republic of Djibouti, IGAD/CEWARN office in Addis Ababa, Ethiopia and IGAD/ICPAC office in Nairobi, Kenya.

II. **TITLE**

Audit of the Financial Statements of USAID Resources Managed by IGAD under the IGAD/LSGA No. 6230009.02-3-60082 for the period from January 1, 2013 to December 31, 2013.

III. **OBJECTIVES**

The objective of this engagement is to conduct a financial audit of the USAID resources managed by the recipient under the IGAD/ LSGA No. 6230009.02-3-60082 for the period from January 1, 2013 to December 31, 2013 in accordance with U.S. Government Auditing Standards and the USAID “Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines).”
The financial audit shall include (1) a specific audit of all the recipient’s USAID funded programs, and (2) an audit of the recipient's general purpose financial statements on an organization-wide basis (balance sheet, income statement, and cash flow statement).

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

A. Audit of USAID Funds

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

- Express an opinion on whether the fund accountability statement for the USAID-funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities directly procured by USAID for the period audited in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).

- Evaluate the recipient's internal control related to the USAID-funded programs, assess control risk, and identify significant deficiencies including material weaknesses. This evaluation must include the internal control related to required cost-sharing contributions.

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

- Perform an audit of the indirect cost rate(s) if 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. [If the recipient does not have a USAID authorized indirect cost rate, this fact must be disclosed in the report.]

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

Auditors must design audit steps and procedures in accordance with U.S. Government Auditing Standards, Chapter 4, to provide reasonable assurance of detecting situations or transactions in which fraud or illegal acts have occurred or are likely to have occurred. If such evidence exists, the auditors must immediately contact the USAID Regional Inspector General Office in Pretoria (RIG/Pretoria) and the USAID Mission’s Regional Financial Management Services (RFMS) Office Director and should exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

B. Review of Cost Sharing Schedule
The audit must determine whether cost-sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreements, if applicable. The audit firm must clearly state whether or not cost-sharing contributions were required by the agreement. The auditors will review the cost-sharing schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule. The auditors must question all cost-sharing contributions that are either ineligible or unsupported costs. In addition, for audits of agreements that present a cost-sharing budget on an annual basis and for close-out audits of awards that present cost-sharing budgets on a life-of-project basis, the auditors will review the cost-sharing schedule to determine if cost-sharing contributions were provided by the recipient in accordance with the terms of the agreement.

C. Audit of General Purpose Financial Statements

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

IV. AUDIT SCOPE

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

A. Pre-Audit Steps

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

1. The agreement between USAID and the recipient.
2. The sub-agreements between the recipient and other implementing entities, as applicable.
3. Contracts and subcontracts with third parties, if any.
4. The budgets, implementation letters, and written procedures approved by USAID.
5. USAID Automated Directives System Chapter 636 – “Program Funded Advances”
9. USAID Acquisition Regulation (AIDAR), which supplement the FAR.


12. USAID Automated Directives System Chapter 305- “Host Country Contracts”


14. All program financial and progress reports; and charts of accounts, organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures for materials, as necessary to successfully complete the required work.

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

16. All agreements with other donors, governments, and financial institutions.

B. Fund Accountability Statement

The auditors must examine the fund accountability statement\(^3\) for USAID programs including the budgeted amounts by category and major items; the revenues received from USAID for the period covered by the audit; the costs reported by the recipient as incurred during that period; and the commodities directly procured by USAID for the recipient's use. The fund accountability statement must include all USAID assistance funds identified by each specific program or agreement. The revenues received from USAID, less the costs incurred, after considering any reconciling items, must reconcile with the balance of cash-on-hand and/or in bank accounts. The fund accountability statement must not include cost sharing contributions provided from the recipient's own funds or in-kind. However, a separate cost sharing schedule must be included and reviewed as stated in section IV.C. of this statement of work.

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

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

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

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\(^3\) A “fund accountability statement” is a financial statement that presents a USAID recipient's revenues, costs incurred, cash balance of funds (after considering reconciling items), and commodities and technical assistance directly procured by USAID that were provided by USAID agreements. The fund accountability statement must be presented in U.S. dollars and the exchange rate(s) used must be disclosed in a note to the fund accountability statement.
USAID must be identified in the notes to the fund accountability statement as not reimbursed by USAID.

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

2. Review general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed by, USAID to the program and general ledgers.

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

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

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

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

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

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

9. Review bank charges to determine whether they are adequately supported and reasonable, considering the size of the recipient and the amount of the award under management. Any amounts determined to be unreasonable must be questioned as ineligible in the fund accountability statement.
10. Review commodities (e.g., supplies, materials, vehicles, equipment, food products, tools, etc.) procured by the recipient as well as those directly procured by USAID for the recipient's use. The auditors must determine whether commodities exist or were used for their intended purposes in accordance with the terms of the agreements, and whether control procedures exist and have been placed in operation to adequately safeguard the commodities. As part of the procedures to determine if commodities were used for intended purposes, the auditors must perform end-use reviews for an appropriate sample of all commodities based on the control risk assessment (see section IV.D. of this statement of work). End-use reviews would normally include site visits to verify that commodities exist or were used for their intended purposes in accordance with the terms of the agreements. When conducting end-use reviews, the auditors must ensure that commodities are marked in accordance with the agreements. The cost of all commodities whose existence or proper use in accordance with the terms of the agreements cannot be verified must be questioned in the fund accountability statement. (The auditor must determine the cost of commodities based on supporting documentation available from the recipient or USAID, as appropriate.)

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

   a. In addition to the above audit procedures, if technical assistance and services were contracted by the recipient from a non-U.S. contractor, the auditors should perform additional audit steps on the technical assistance and services, unless the recipient has separately contracted for an audit of these costs. When testing for compliance with agreement terms and applicable laws and regulations, the auditors should not only consider agreements between the recipient and USAID, but also agreements between the recipient and non-U.S. contractors providing technical assistance and services. The agreements between the recipient and the non-U.S. contractors should be audited using the same audit steps described in the other paragraphs of this section, including all tests necessary to specifically determine that costs incurred are allowable, allocable, reasonable, and supported under the agreement terms. If the recipient contracts or makes grants to sub-recipients where the sub-recipient expends more than $300,000 per year, the sub-recipient MUST be audited. If any such sub-recipient agreements exist, the audit firm MUST immediately notify the Mission RFMS Director and RIG/Pretoria.

   b. If the technical assistance and services were contracted or granted by the recipient to a U.S. contractor or institution, the auditors are still responsible for determining whether technical assistance and services were used for their intended purposes in accordance with the terms of the agreements. However, normally the auditors are not responsible for performing additional audit steps for the costs incurred under the technical assistance and services agreements, since either USAID or a cognizant U.S. Government agency is responsible for contracting for audits of these costs. The auditors should immediately notify the USAID Mission RFMS Director and RIG/Pretoria if any such agreements exist between the recipient and a U.S. contractor or institution to determine if additional audit steps will be required.

12. When indirect costs are charged to USAID using provisional rates, review the allocation method to determine that the indirect cost pool and distribution base include only allowable items in accordance with the agreement terms and regulations. The auditors must be aware that costs that are unallowable as direct charges to USAID agreements (e.g., fundraising) must be allocated their share of indirect costs if they represent activities that (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization’s indirect costs. Indirect cost rates must be calculated after all adjustments have been made to the pool and base. When indirect costs are charged to USAID using predetermined or fixed rates, verify that the correct rates are applied in accordance with the agreement with USAID.
13. Review unliquidated advances to the recipient and pending reimbursements by USAID when performing final closeout audits. Ensure that the recipient returned any excess cash to USAID. Also, ensure that all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the agreements. The auditors must present, as an annex to the fund accountability statement, the balances and details of final inventories of nonexpendable property acquired under the agreements. This inventory must indicate which items were titled to the U.S. Government and which were titled to other entities. These close out audit procedures must be performed for any award that expires during the period audited.

The fund accountability statement included as Example 6.1 of the Guidelines illustrates how to report the results of a single audit that covers more than one USAID agreement. In such cases, the fund accountability statement must separately disclose the financial information (revenues, costs, etc.) for each agreement, and must identify the USAID missions that provided funding for each agreement. Questioned costs, and internal control and compliance findings of any audits of sub-recipients must be reported in the recipient’s financial audit using the same treatment and procedures as the recipient’s own questioned costs and findings. This is particularly important in audits of recipients covering agreements from more than one USAID mission, so that each mission can identify its agreements in the audit report for resolution of findings and recommendations with the recipient. The same reporting principles apply when only one USAID agreement is covered by the audit.

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

C. Cost-Sharing Schedule

USAID agreements may require cost-sharing contributions by the recipient. Most agreements establish a life-of-project budget for such contributions; however, some agreements may establish annual budgets for those contributions. The review of the cost sharing schedule must be approached differently depending on whether the cost-sharing budget is a life-of-project budget or an annual budget. In either case, the review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data supporting the cost-sharing schedule.

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

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

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

Thus, for agreements with a life-of-project budget for cost-sharing contributions, for each year that an audit is performed in accordance with the Guidelines, the auditors will review the cost-sharing schedule to determine if the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule. The auditors must question all cost-sharing contributions that are either ineligible or unsupported costs. An ineligible cost is unreasonable, prohibited by the agreements or applicable laws and regulations, or not program related. An unsupported cost lacks adequate documentation or does not have required prior approvals or authorizations. All questioned costs must be briefly described in the notes to the cost-sharing schedule. In addition, questioned costs must be included as findings in the report on compliance. Notes to the cost-sharing schedule must be cross-referenced to
the corresponding findings in the report on compliance. Also, significant deficiencies in internal control related to cost-sharing contributions must be set forth as findings in the report on internal control. (See sample cost-sharing schedule at Example 6.2.A, and sample reports at Examples 7.6.A and 7.6.B of the Guidelines.)

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

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

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

D. Internal Control

The auditors must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. In obtaining this understanding, the auditor must understand the design of the internal control related to USAID programs and determine whether they have been placed in operation. The U.S. Government Accountability Office's Standards for Internal Controls in the Federal Government (GAO/AIMD-00-21.3.1; 1999) may prove helpful in assessing recipient internal control. The internal control must be described in the audit documentation.

Auditors must then prepare the report required by the USAID Guidelines, identifying any significant deficiencies or material weaknesses in the design or operation of internal control. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that are less severe than a material weakness that is important enough to merit attention by those charged with governance. Any significant deficiencies or material weaknesses must be set forth in the report as “findings” (see paragraph 5.1.d of the Guidelines). Any other matters related to internal control – such as suggestions for improving operational or administrative efficiency or internal control, or control deficiencies that are not significant deficiencies or material weaknesses - must be reported in a separate management letter to the recipient and referred to in the report on internal control.
The major internal control components to be studied and evaluated include, but are not limited to, the controls related to each revenue and expense account on the fund accountability statement. The auditors must:

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

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

3. Summarize the risk assessments for each assertion in a single document included in the audit documentation. The risk assessments must consider the following broad categories under which each assertion should be classified: (a) classes of transactions and events for the period under audit (occurrence, completeness, accuracy, cutoff, and classification), (b) account balances at the period end (existence, rights, obligations, completeness, valuation, and allocation), (c) presentation and disclosure (occurrence rights, obligations, completeness, classification, understandability, accuracy, and valuation). At a minimum, the audit documentation must identify the name of the account or assertion, the account balance or the amount represented by the assertion, the assessed level of inherent risk (high, moderate, or low), the assessed level of control risk (high, moderate, or low), the combined risk (high, moderate, or low), and a description of the nature, timing, and extent of the tests performed based on the combined risk. Summary audit documentation must be cross-indexed to the supporting audit documentation that contains the detailed analysis of the fieldwork. If control risk is evaluated at less than the maximum level (high), then the basis for the auditor's conclusion must be described in the audit documentation.

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

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

   a. ensuring that charges to the program are proper and supported;

   b. managing cash on hand and in bank accounts;

   c. procuring goods and services;

   d. managing inventory and receiving functions;

   e. managing personnel functions such as timekeeping, salaries, and benefits;
f. managing and disposing of commodities (such as supplies, materials, vehicles, equipment, food products, tools, etc.) purchased either by the recipient or directly by USAID; and

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

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

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

In fulfilling the audit requirement relating to an understanding of the internal control and assessing the level of control risk, the auditor must follow, at a minimum, the guidance contained in AICPA SAS Nos. 109 (AU314), entitled Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, 115 (AU325), entitled Communicating Internal Control Related Matters Identified in an Audit, and 74 (AU801) entitled Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance.

E. Compliance with Agreement Terms and Applicable Laws and Regulations

In fulfilling the audit requirement to determine compliance with agreement terms and applicable laws and regulations related to USAID programs, the auditors must, at a minimum, follow guidance contained in AICPA SAS No. 74 (AU801) entitled Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance. The compliance review must also determine – on audits of awards that present cost-sharing budgets on an annual basis and on close-out audits of awards that present cost-sharing budgets on a life-of-project basis - if cost-sharing contributions were provided and accounted for in accordance with the terms of the agreements. The auditor's report on compliance must set forth as findings all material instances of noncompliance, defined as instances that could have a direct and material effect on the fund accountability statement. Nonmaterial instances of noncompliance must be included in a separate management letter to the recipient and referred to in the report on compliance.

The auditor's report must include all conclusions that a fraud or illegal act either has occurred or is likely to have occurred. In reporting material fraud, illegal acts, or other noncompliance, the auditors must place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and is quantified in terms of U.S. dollar value, if appropriate. In presenting material fraud, illegal acts, or other noncompliance, auditors must follow the reporting standards contained in Chapter 5 of U.S. Government Auditing Standards. Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of U.S. Government Auditing Standards discusses factors that may influence auditors’ materiality judgments. If the auditor concludes that sufficient evidence of fraud or illegal acts exists, they must immediately contact the USAID RIG/Pretoria office and must exercise due professional care in pursuing indications of possible fraud and illegal acts to avoid interfering with potential future investigations or legal proceedings.

In planning and conducting the tests of compliance the auditors must:
1. Identify the agreement terms and pertinent laws and regulations and determine which of those, if not observed, could have a direct and material effect on the fund accountability statement. The auditors must:
   a. list all standard and program-specific provisions contained in the agreements that cumulatively, if not observed, could have a direct and material effect on the fund accountability statement;
   b. assess the inherent and control risk that material noncompliance could occur for each of the compliance requirements listed in 1.a. above;
   c. determine the nature, timing and extent of audit steps and procedures to test for errors, fraud, and illegal acts that provide reasonable assurance of detecting both intentional and unintentional instances of noncompliance with agreement terms and applicable laws and regulations that could have a material effect on the fund accountability statement. This must be based on the risk assessment in 1.b. above; and
   d. prepare a single summary document in the audit documentation that adequately identifies each of the specific compliance requirements included in the review, the results of the inherent, control, and detection risk assessments for each compliance requirement, the audit steps used to test for compliance with each of the requirements based on the risk assessment, and the results of the compliance testing for each requirement. The summary document must be cross-indexed to detailed audit documentation that supports the facts and conclusions contained in the summary document.

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

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

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

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

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

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

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

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

10. Determine whether the recipient's financial reports (including those on the status of cost sharing contributions) and claims for advances and reimbursement contain information that is supported by the books and records.
11. Determine whether the recipient held advances of USAID funds in interest-bearing accounts, and whether the recipient remitted to USAID any interest earned on those advances, with the exception of up to $250 a year that the recipient may retain for administrative expenses. If the recipient was required to place USAID funds in an interest-bearing bank account but did not, then the auditor must determine the interest that was foregone by the recipient, and this amount must be classified as ineligible costs.

2. F. Follow-Up on Prior Audit Recommendations

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

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

G. General Purpose Financial Statements

Auditors must examine the recipient’s general purpose financial statements on an organization-wide basis if an indirect cost rate needs to be audited, or if the mission specifically requests that the general purpose financial statements be audited. The audit must be performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA), auditing standards that have been prescribed by the laws of the country or adopted by an association of public accountants in the country, or auditing standards promulgated by the International Organization of Supreme Audit Institutions or International Auditing Practices Committee of the International Federation of Accountants.

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

H. Indirect Cost Rates

[If the recipient does not have a USAID authorized indirect cost rate, this fact must be disclosed in the report.]

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

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4 Where indirect costs are authorized, an audit of the general purpose financial statements is needed to ensure that all costs have been correctly included in the indirect cost rate calculation.
1. distribution or allocation base includes all costs that benefited from indirect activities,

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

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

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

5. costs included in this calculation reconcile with the total expenses shown in the recipient’s audited general-purpose financial statements.

The results of the audit of the indirect cost rate must be presented in a schedule of computation of indirect cost rate (see Example 6.3 the Guidelines). This schedule must contain: (1) a listing of costs included in each indirect cost pool, (2) the distribution base, and (3) the resultant indirect cost rate calculation. The costs in the schedule must reconcile to the total expenses shown in the recipient’s general purpose financial statements. U.S. Office of Management and Budget (OMB) Circular A-122 provides additional guidance on allocation of indirect costs and determination of indirect cost rates.

I. Other Audit Responsibilities

The auditors must perform the following steps:

1. Hold entrance and exit conferences with the recipient. The cognizant USAID mission must be notified of these conferences in order that USAID representatives may attend, if deemed necessary.

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

3. Institute quality control procedures to ensure that sufficient appropriate evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:
   - audit reports and audit documentation are reviewed by an auditor, preferably at the partner level, who was not involved in the audit. This review must be documented;
   - all quantities and monetary amounts involving calculations are footed and cross-footed; and
   - all factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting audit documentation.

4. The auditor must ascertain, before preparing its proposal for the audit engagement (or if this is not possible, at the earliest opportunity during the engagement itself), whether the recipient ensured that audits of its subrecipients were performed to ensure accountability for USAID funds passed through to subrecipients (see paragraph 1.6 of the Guidelines). If subrecipient audit requirements were not met, the auditors must immediately notify the USAID Mission RFMS.

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5 The auditors only express an opinion on the fund accountability statement, and the indirect cost rate and general purpose financial statements, if applicable, as indicated on Chapter 3 of these Guidelines.
Director and RIG/Pretoria and consider whether they can audit the subrecipient costs themselves. If after consultation with the USAID Mission RFMS Director and RIG/Pretoria, the auditors conclude that a restriction on the scope of the audit exists and the restriction cannot be removed, then the auditors must consider modifying their opinion and any costs that have not been audited as required must be questioned as unsupported.

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

V. AUDIT REPORTS

The recipient should submit to the USAID Mission RFMS Director one portable document format (PDF) copy and three (3) original copies of the report in English for the USAID funded project and one PDF copy of the organization-wide report. The USAID Mission will forward the report to RIG/Pretoria for processing. The format and content of the audit reports must closely follow the illustrative reports in Chapter 7 of the Guidelines. The audit report must specify the correct award number(s) of each award covered by the audit. The report must contain:

A. a title page, table of contents, transmittal letter and a summary which includes: (1) a background section with a general description of the USAID programs audited, the period covered, the program objectives, a clear identification of all entities mentioned in the report, a section on the follow-up of prior audit recommendations, whether cost sharing was required during the period audited, and whether the recipient has a USAID-authorized provisional indirect cost rate; (2) the objectives and scope of the financial audit, and a clear explanation of the procedures performed and the scope limitations, if any; (3) a brief summary of the audit results on the fund accountability statement, questioned costs, internal control, compliance with agreement terms and applicable laws and regulations, indirect cost rates, status of prior audit recommendations, and, if applicable, the recipient's general purpose financial statements on an organization-wide basis; (4) a brief summary of the results of the review of cost-sharing contributions; and (5) a brief summary of the recipient's management comments regarding its views on the audit and review results and findings.

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

1. The auditor's opinion on whether the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred, and commodities directly procured by USAID for the year then ended in accordance with the terms of the agreements and in conformity with generally accepted accounting principles or other basis of accounting. This opinion must clearly state that the audit was performed in accordance with U.S. Government Auditing Standards or specific alternative standards if applicable (see paragraph 2.9.d of the Guidelines). Any deviations from these standards, such as noncompliance with the requirements for continuing professional education and external quality control reviews, must be disclosed (See Example 7.1.A of the Guidelines).

2. The fund accountability statement identifying the program revenues, costs incurred, and commodities directly procured by USAID for the fiscal year. The statement must also identify questioned costs not considered eligible for reimbursement and unsupported, if any, including the cost of any commodities directly procured by USAID whose existence or proper use in accordance with agreements could not be verified. All questioned costs

6 “Closeout audits must specify they are closeout audits on the title page. A closeout audit is an audit for an award that expired during the period audited.”
resulting from instances of noncompliance with agreement terms and applicable laws and regulations must be included as findings in the report on compliance. Also, the notes to the fund accountability statement must briefly describe all questioned costs and must be cross-referenced to any corresponding findings in the report on compliance (see Example 6.1 of the Guidelines). All questioned costs in the notes to the fund accountability statement must be stated in U.S. dollars. The U.S. dollar equivalent must be calculated at the exchange rate applicable at the time the local currency was disbursed to the recipient by USAID.

3. Notes to the fund accountability statement, including a summary of the significant accounting policies, explanation of the most important items of the statements, the exchange rates during the audit period and foreign currency restrictions, if any. In addition, a note to the fund accountability statement must state whether any interest on USAID funds was returned to USAID.

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

1. A review report on the cost-sharing schedule. This review report must state that the review was conducted in accordance with AICPA standards. It must also explain that a review is more limited in scope than an examination performed in accordance with AICPA standards, and state that an opinion on the schedule is not expressed. The report must identify questioned costs related to the provision of, and accounting for, cost-sharing contributions, with a reference to the corresponding finding in the report on compliance. The report must provide negative assurance with regard to the provision of, and accounting for, cost-sharing contributions for items not tested (see Examples 7.6.A through 7.6.D of the Guidelines).

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

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

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

D. The auditor's report on internal control. The auditor's report must include as a minimum: (1) the scope of the auditor's work in obtaining an understanding of the internal control and in assessing the control risk, and; (2) the significant deficiencies including the identification of material weaknesses in the recipient's internal control. Significant deficiencies must be described in a separate section (see paragraphs 5.2 through 5.4 of the Guidelines). This report must be made in conformance with SAS No. 60 and the standards for reporting in Chapter 5 of U.S. Government Auditing Standards. Any other matters related to internal control – such as suggestions for improving operational or administrative efficiency or internal control, or control deficiencies that are not significant deficiencies or material weaknesses - must be communicated through a separate management letter that must be referred to in the report on internal control and sent with the audit report (see Examples 7.2.A and 7.2.B of the Guidelines).

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7 This step is required for audits of agreements that present cost-sharing budgets on an annual basis and for closeout audits of awards that present cost-sharing budgets on a life-of-project basis. See paragraphs 4.12 and 4.13 of the Guidelines.
E. The auditor's report on the recipient's compliance with agreement terms and applicable laws and regulations related to USAID-funded programs. The report must follow the guidance in SAS No. 74. Material instances of noncompliance must be described in a separate section (see paragraphs 5.2 through 5.4 of the Guidelines). Nonmaterial instances of noncompliance must be communicated to the recipient in a separate management letter, which must be sent with the audit report (see Examples 7.3.A and 7.3.B of the Guidelines). All questioned costs resulting from instances of noncompliance must be included as findings in the report on compliance. Also, the notes to the fund accountability statement that describe questioned costs must be cross-referenced to any corresponding findings in the report on compliance.

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

In reporting material fraud, illegal acts, or other noncompliance, the auditors must place their findings in proper perspective. To give the reader a basis for judging the extent and seriousness of these conditions, the instances identified must be related to the universe or the number of cases examined and is quantified in terms of U.S. dollar value, if appropriate. In presenting material fraud, illegal acts, or other noncompliance, auditors must follow the reporting standards contained in Chapter 5 of U.S. Government Auditing Standards. Auditors may provide less extensive disclosure of fraud and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of U.S. Government Auditing Standards provides guidance concerning factors that may influence auditors’ materiality judgments. If the auditors conclude that sufficient evidence of fraud or illegal acts exist, they must contact the USAID RIG/Pretoria office and exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations or legal proceedings.

F. The schedule of computation of indirect cost rate (see Example 6.3 of the Guidelines) and the auditor's report on the schedule of computation of indirect cost rate. This must be a separate report prepared in accordance with guidance set forth in SAS 29 (AU551). (See Example 7.4 of the Guidelines). [This schedule and report are not required if the recipient does not have a USAID authorized indirect cost rate.]

G. The recipient's general-purpose financial statements on an organization-wide basis and the auditor's report on them. These statements and the report on them only apply to recipients with an indirect cost rate that needs to be audited, unless the mission specifically requests that the statements be audited.

H. The auditor's comments on the status of prior audit recommendations. The auditors must review and report on the status of actions taken on findings and recommendations reported in prior audits. When corrective action has not been taken and the deficiency remains unresolved for the current audit period and is reported again in the current report, the auditors need only briefly describe the prior finding and show the page reference where it is included in the current report. If there were no prior findings and recommendations, a note to that effect must be included in this section of the audit report.

The findings contained in the reports on internal controls and compliance related to USAID-funded programs must include a description of the condition (what is) and the criteria (what should be). The cause (why it happened) and effect (what harm was caused by not complying with the criteria) must be included in the findings. In addition, the findings must contain a recommendation that corrects the cause and the condition, as applicable. It is recognized that material internal control weaknesses and noncompliance found by the auditors might not always have all of these elements fully developed, given the scope and objectives of the specific audit. The auditors must, however, at least identify the condition,
criteria and possible effect to enable management to determine the cause and effect. This will help management take timely and proper corrective action.

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

1. Be quantified and included as questioned costs in the fund accountability statement, the Auditor’s Report on Compliance, and cost-sharing schedule (cross-referenced).
2. Be reported without regard to whether the conditions giving rise to them were corrected.
3. Be reported whether the recipient does or does not agree with the findings or questioned costs.
4. Contain enough relevant information to expedite the audit resolution process (e.g., number of items tested, size of the universe, error rate, corresponding U.S. dollar amounts, etc.).

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

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

VI. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND THE REPORT

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

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

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

VII. RELATIONSHIPS AND RESPONSIBILITIES

The client for this contract is IGAD. The USAID RIG/Pretoria is responsible for responding to inquiries on audit matters during the audit. RIG/Pretoria also monitors the quality of such audits as mentioned in the Section VI above. The Program Coordinator for the RIG/Pretoria office is Robert Mason, Audit Manager, or his designee.
USAID missions ensure that audit agreements between recipients and audit firms contain a standard statement of work containing all the requirements of the U.S. Government Auditing Standards and the Guidelines. Accordingly, recipients must send all prospective audit contracts to the cognizant USAID mission for approval prior to finalization. The USAID mission and RIG/Pretoria may meet with the public accounting firm at the beginning of the audit to explain any financial/compliance areas of concern that they want emphasized and provide any advice concerning the performance of the audit. The USAID mission may also attend the exit conference. The USAID mission should provide the following information to the auditors for the entrance conference:

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

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

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

4. A detailed USAID approved work plans and budget.

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

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

VIII. TERMS OF PERFORMANCE

The effective date of this contract and statement of work will be the date of the recipient Contracting Officer's signature.

The audit must begin as soon as practicable after the signing of the audit contract. Recipients must submit three hard copies and one PDF copy of the final audit report to the cognizant USAID mission, who will forward final reports to RIG/Pretoria for review and release. RIG/Pretoria must receive the audit report within nine months after the end of the audited period. To this end, interim audit work is likely to be needed except in the case of recipients with few transactions. This practice makes timely audit reporting possible, does not restrict the scope of certain audit procedures and should result in reduced audit costs.

It is the responsibility of the recipient to ensure that all records are available to the audit firm, all accounting entries and adjustments are made, and all other necessary steps are taken to enable the audit firm complete its work.

Payment will be as follows: 20 percent on the date of this contract, 40 percent on the date the recipient receives the final report, and 40 percent on the date RIG/Pretoria appro