New Partners Initiative (NPI)
Round 3 Launch

Annual Audit

February 9th – 12th , 2009

Kampala, Uganda

Audit Requirements

Annual Audit

• When a U.S. recipient expends $500,000 or more of USAID funds in a year in accordance with OMB Circular A-133.

• When a non-U.S. recipient expends $300,000 or more of USAID funds in a year (Standard Provision) in accordance with USAID OIG's Guidelines for Financial Audits Contracted by Foreign Recipients

• One annual audit must cover all USAID funding to a recipient.

NGOs Expending Less than Requirement

- Organizations expending less than the requirement ($500K for US NGOs and $300K for non-US NGOs) per their fiscal year are exempt from USAID mandated audits but are required to make their records available upon request for review.
- For the records, it is advisable that these organizations certify annually that they expended less than the requirement
- Annual organizational audits are also recommended as it is a good capacity building opportunity

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Pre-Award Assessment Verifications

- Auditors must verify that the pre-award assessment findings are resolved within one year of award
- This should be added on to the scope of your USAID required annual audit
- If annual expenditures are less than the requirement then a special audit should be arranged to complete this verification
- TA providers are available to assist you to resolve these findings and complete a review prior to the formal verification

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Close-Out Audits

- All awards in excess of US$500,000 over the life of the grant are subject to a final close-out audit
- This close-out audit is usually incorporated in the annual audit exercise

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US Recipients

Per 22 CFR 226:

•US recipients required to ensure that financial audits are performed for themselves and their sub-recipients in accordance with the US Government Auditing Standards or other approved standards

• Sub-recipient activities must also be monitored to ensure that awards are used for authorized purposes and in compliance with the award

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Non-US Recipients

Per "Accounting, Audit and Records" Standard Provision:

•USAID Guidelines for Financial Audits Contracted by Foreign Recipients to be followed can be found at www.usaid.gov/policy/ads/500/591maa.pdf and www.usaid.gov/sa/businessb.html

•Foreign organizations that provide USAID resources to other organizations to carry out the USAID program and activities shall be responsible for monitoring and ensuring audit completion of their sub-recipients or sub-grantees.

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Timeframe

- The timeframe covered by the audit is your organization's fiscal year.
- Audit package must be submitted no later than 9 months after the end of your fiscal year
- It is suggested that the audit process should begin before the close of the recipient's fiscal year
- Financial records and a copy of the audit package must be retained for a minimum of three years following submission or three years after a finding from the audit year was resolved.

Audit Costs

- If your organization is required to be audited, the costs of conducting the audit are allowable, provided the audit is conducted according to the appropriate regulations.
- If you are not required to be audited then audit costs are not allowable, unless included in an indirect cost rate proposal, or if specifically approved by the awarding agency as a direct cost to an award (A-122,4b)

Auditor Selection – US NGOs

- NGOs responsibility to recruit an audit firm
- Competitive procurement with clear objectives and scope
- Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality control reviews, and price
- Auditor who prepares indirect cost proposal or cost allocation plan may not provide audit services
- Suggestion: use different auditors for statutory and USAID audits

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Auditor Selection – Non US NGOs

- USAID requires that independent auditors acceptable to USAID annually audit funds
- Check with your local USAID office for an updated list of approved auditors
- RIG Office involved in audit process – approval of statement of work, contract, and reports and participation in entrance and exit conferences *(see 12 step process in launch binder)*

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Audit Documents

Prepare the following before your audit is conducted:

Identify all USG funds received and programs under which they were received

- Gather financial reports (SF-269)
- Prepare a schedule of expenditures made under USG awards (federal and cost-share)
- Prepare a schedule of prior audit findings (if any)

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Audit Focus

The audit will focus on the following questions:

1. Were financial reports submitted during the year accurate?
2. Were the rules, regulations, and policies governing the award followed?
3. What is status of any previous audit findings?
4. Are there any questionable costs?

Common Audit Findings

- Lack of internal controls (accounting system/record-keeping)
- Duties of accounting personnel not properly segregated
- Missing authorization signatures for cash disbursements
- Inadequate supporting documentation
- Vouchers and supporting documentation not stamped "Paid"
- Bank reconciliation not done on timely basis

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Common Audit Findings (Cont'd)

- Unsupported personnel costs (lack of timesheets)
- Unsupported cost sharing contribution
- Co-mingling of funds
- Advances expensed
- Closing fund balance/interest not remitted to USAID
- Budget overruns
- Incomplete fixed asset register
- Inventory of fixed assets not performed yearly
- Procurement policies not adhered to

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Audit Report

Audit Report will consist of:

1. Complete Fund Accountability Statement in US$ (includes all USAID funding)
2. Signed Independent Auditor's Report on the Fund Accountability Statement – Opinion expressed
3. Signed Independent Auditor's Report on Internal Controls
4. Signed Independent Auditor's Report on Compliance with rules and regulations (include both legal and award compliance)
5. Cost Share Schedule and Signed Independent Auditor's Review Report on Cost Sharing
6. General Audited Statement of entire organization (when indirect cost rate is used and/or prior approval from USAID)

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Corrective Action Plan

Once your audit is complete, your organization must prepare a corrective action plan to address each finding. The plan shall provide:

- The responsible individual
- The corrective action planned
- The anticipated completion date

If you still do not agree with the audit findings or believe corrective action is not required, then the plan shall include an explanation and specific reasons why.

Corrective Action Plan (Cont'd)

- For each finding, the prime or the sub (in the case of a finding for a sub-recipient) will issue a corresponding management decision detailing how the finding will be addressed, such as repaying disallowed costs, making financial adjustments or other action.
- Be sure to maintain documentation showing your progress on each item.

Questioned Costs

What are they?

- Auditor should question costs when the expenditure of USAID funds is not properly supported or is prohibited by the agreement
- Auditors may also question ineligible and unsupported cost sharing contributions

What is to be done about them?

- Improve internal controls, compliance with agreement terms and the accounting processes to prevent their occurrence in the future
- AO will determine whether questioned costs will be allowed or disallowed
- USAID may deduct disallowed from disbursements or send a bill of collection

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Ways to Ensure Audit Success

- Develop and maintain written policies and procedures (internal controls)
- Have clear organizational structure
- Ensure that cash controls are in effect
- Ensure there is adequate documentation
- Utilize an internal control committee
- Conduct a pre-audit exercise

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