



USAID
FROM THE AMERICAN PEOPLE

ADS Chapter 590 Audit

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ADS 590 -- Audit

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ADS 590 -- Audit**590.1 OVERVIEW**

Effective Date: 09/29/1998

This chapter provides the policy directives and required procedures for audits performed by USAID's Office of Inspector General.

***590.2 PRIMARY RESPONSIBILITIES**

Effective Date: 03/22/2010

- a. The Administrator is responsible for ensuring that management officials throughout USAID understand the value of the audit process and are responsive to audit recommendations.
- b. *The Bureau for Management, Office of Acquisition and Assistance (M/OAA) is responsible for ensuring that contracts and grants contain appropriate audit provisions, that financial audits of USAID grantees and contractors are performed, and that appropriate action is taken on audit recommendations.
- c. The Bureau for Management, Chief Financial Officer (M/CFO) is responsible for preparing and submitting USAID's Annual Financial Statements to the Office of Management and Budget (OMB).
- d. *The Bureau for Management, Office of Management Policy, Budget, and Performance (M/MPBP) and Office of the Chief Financial Officer, Audit, Performance and Compliance Division (M/CFO/APC) are responsible for preparing USAID's Summary of Performance and Financial Reports, which incorporates the Administrator's required semiannual reporting to Congress.
- e. The Office of Inspector General (OIG) is responsible for
 - Conducting and supervising audits related to USAID's programs and operations;
 - Providing leadership, coordination, and policy recommendations designed to promote economy, efficiency, and effectiveness in the administration of USAID programs and operations and to prevent and detect fraud and abuse; and
 - Providing a means for keeping the Administrator and Congress fully and currently informed about problems and deficiencies related to the administration of USAID programs and operations and the necessity for and progress of corrective actions.

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590.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

Effective Date: 03/22/2010

590.3.1 General Audit Policies

Effective Date: 09/29/1998

The OIG conducts or supervises all audits of USAID's programs and operations. Before any party may provide audit services to USAID, the party must coordinate the audit with OIG. The OIG conducts audits to assist USAID management through providing insight into how well the Agency is operating, making recommendations for improvement of any problems, and noting when USAID is performing an activity well. The OIG maximizes audit coverage by developing an audit strategy and an annual audit plan.

590.3.1.1 Five-Year Plan

Effective Date: 11/07/2001

The OIG prepares and periodically updates a five-year strategic plan for auditing (and investigating) USAID's programs, systems, functions, and activities. The five-year plan establishes the basis for determining the overall approach and emphasis when auditing USAID's programs, processes, operations, and contracts and grants. The OIG provides copies of the five-year plan to all USAID offices.

590.3.1.2 Annual Plan

Effective Date: 11/07/2001

The OIG develops an annual plan which lists the audits planned for the upcoming fiscal year. Through its planning system, the OIG maintains an inventory of USAID's programs and operations, and assesses it to determine the coverage, frequency, and priority of audits in relation to available resources. The planning is designed to maximize the impact of the OIG in detecting fraud, waste, and abuse and in encouraging accountability, economy, efficiency, and effectiveness in USAID's programs and operations. In developing the annual plan, the OIG seeks the input of USAID managers and staff, Congress, and others, including the Government Accountability Office (GAO) and the Office of Management and Budget (OMB). OIG provides copies of the annual plan to all USAID offices and posts it to the OIG intranet.

590.3.1.3 Audit Recommendations

Effective Date: 11/07/2001

The OIG will make audit recommendations that are action-oriented, well supported, and effective. Whenever possible, the OIG will discuss its recommendations with management prior to the completion of audit field work. The auditors will consider recommendations proposed by management that will achieve the intended results. (See [ADS 591, Financial Audits of USAID Contractors, Grantees, and Host Government Entities](#) and [ADS 592, Performance Audits.](#))

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***590.3.1.4 Quality Control and Assurance**

Effective Date: 03/22/2010

*The OIG maintains an internal quality control system and participates in external quality control reviews in accordance with the [Inspector General Act of 1978, Government Auditing Standards \(GAS\)](#) (also called Generally Accepted Government Auditing Standards (GAGAS)), and the [Council of Inspectors General on Integrity and Efficiency April 1997 policy statement](#).

590.3.1.5 Audit Training and Career Development

Effective Date: 09/29/1998

Training and career development programs are planned, programmed, and budgeted to ensure that the OIG has a work force of well-trained auditors, overseas audit managers, assistant division directors, division directors, and Regional Inspectors General.

590.3.2 Performance Audits

Effective Date: 01/01/2004

OIG staff carry out the performance audits. Performance audits help promote and preserve USAID's effectiveness, efficiency, and integrity by assessing the adequacy of the Agency's management of its programs, systems, functions, and activities. Performance audits encompass a wide variety of objectives, including assessing program effectiveness and results; economy and efficiency; internal controls; and compliance with legal or other requirements; and to providing prospective analyses, guidance, and summary information. (See [ADS 592, Performance Audits](#), for more details.)

590.3.2.1 The Audit Program

Effective Date: 09/29/1998

In planning for each audit, the auditors set forth the audit objectives, scope, and methodology. Auditors consider legal and regulatory requirements, obtain an understanding of management and internal controls, identify criteria needed to evaluate the subject to be audited, and consider significance or materiality and audit risk.

590.3.2.2 Audit Objectives

Effective Date: 09/29/1998

State audit objectives as either descriptive or normative questions. Descriptive objectives inform the reader of a condition. Normative objectives measure the auditee's performance against specific criteria.

***590.3.2.3 Auditing for Fraud, Illegal Acts, and Abuse**

Effective Date: 03/22/2010

In all performance audits, [Generally Accepted Government Auditing Standards](#)

**An asterisk indicates that the adjacent material is new or substantively revised.*

require the auditors to be alert to situations or transactions that could be indicative of fraud, illegal acts, or abuse. Abuse does not necessarily involve violation of law, regulation, or contract or grant agreement. However, in the case of abuse, the conduct of a government program or entity falls far short of behavior that a prudent person considers to be reasonable and necessary business practices.

590.3.2.4 Entrance and Exit Conferences

Effective Date: 09/29/1998

The OIG conducts an entrance conference with cognizant USAID officials at the start of an audit's field work to inform management about the audit's objectives, scope, and methodology. At the completion of the field work, the OIG conducts an exit conference with management to present its preliminary audit findings. The OIG communicates the preliminary findings orally and, when possible, presents a written record as the evidence becomes available.

***590.3.2.5 Evidence**

Effective Date: 03/22/2010

Auditors work to obtain sufficient appropriate evidence to fairly answer the audit objectives. When deemed necessary or useful to answer the audit objectives, the auditors may request a management representation letter from cognizant USAID officials (see [Sample Management Representation Letter for Performance Audits](#)). Documentation is the evidence that supports the information, findings, and conclusions in audit reports. Evidence is sufficient if there is enough of it to support the findings, conclusions, and recommendations. Evidence is relevant if it is logically and sensibly related to the audit objectives. Evidence is competent if it is valid.

590.3.2.6 Reporting

Effective Date: 11/07/2001

Audit reports set forth the findings, conclusions, and recommendations of the auditors in an objective, fair, and timely manner in accordance with [Generally Accepted Government Auditing Standards](#). The OIG issues the draft audit report for management's review and comments within a reasonable time following the exit conference. OIG issues the final report after the receipt of management's comments. The final report includes OIG's acceptance and rebuttal, as applicable, of management's comments.

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***590.3.3 Attestation Engagements**

Effective Date: 03/22/2010

*Attestation engagements are reviews, examinations, or performances of agreed-upon procedures on a subject matter or an assertion¹ about a subject matter and reporting on the results. The subject matter comes from a broad range of financial and nonfinancial categories. These include historical or prospective performance, condition, physical characteristics, historical events, analyses, systems, processes, and behavior. Specifically, attestation engagements could include reporting on

- a. An entity's internal control over financial reporting;
- b. An entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants;
- c. The effectiveness of an entity's internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
- d. Management's Discussion and Analysis (MD&A) presentation;
- e. Prospective financial statements or pro-forma financial information;
- f. The reliability of performance measures;
- g. Final contract cost;
- h. The allowability and reasonableness of proposed contract amounts; and
- i. A specific procedure performed on a subject matter (agreed-upon procedures).

(See [Government Auditing Standards](#).)

590.3.4 Financial Audits of USAID's Grants and Contracts

Effective Date: 09/29/1998

Financial audits of USAID's grants and contracts assess whether the recipient of USAID funds (contractor, grantee, or host government) has accounted for the funds and used them as intended and in compliance with applicable laws and regulations. Generally, auditors from outside of the OIG perform financial audits of USAID's grants and contracts. These auditors include grant recipients' independent auditors, public

¹ An assertion is any management declaration or set of declarations about whether a subject matter is related to or in conformity with selected criteria.

accounting firms under contract to USAID, and certain Federal audit agencies under an OIG Memorandum of Understanding, such as the Defense Contract Audit Agency. (See [ADS 591, Financial Audits of USAID Contractors, Grantees, and Host Government Entities](#), for more details.)

590.3.4.1 Agency-Contracted Audits

Effective Date: 11/07/2001

USAID contracts for audits of some grants and contracts. The contractors are generally independent public accounting firms approved by the OIG. In initiating an Agency-contracted audit, USAID prepares a scope of work in consultation with the OIG, initiates the procurement process, and arranges for audit services through indefinite quantity contracts or other appropriate means. The OIG monitors the audit and reviews the draft and final reports.

***590.3.4.2 Recipient-Contracted Audits**

Effective Date: 03/22/2010

Nonprofit organizations receiving USAID funding must arrange for audits of their USAID grants and contracts. The OIG's involvement is limited to responding to inquiries during the audit, desk reviews of the final audit reports, and, on a selective basis, performing quality assurance reviews of the audits. Recipient-contracted audits are carried out as follows:

- a. **U.S.-Based Nonprofit Organizations.** Audits of grants to and contracts with U.S.-based nonprofit organizations are usually performed by independent public accounting firms under contract with the recipient organization. In general, the recipient's own Certified Public Accountant (CPA) firm conducts these audits annually. [OMB Circular A-133](#) applies to these audits and requires detailed testing of major Federal programs' contracts and grants for compliance with their own terms.
- *b. **Foreign Nonprofit Organizations.** Audits of USAID assistance to foreign nonprofit organizations are usually performed by in-country public accounting firms affiliated with U.S. firms, or by other acceptable firms under contract with the recipient organization. The OIG is responsible to approve accounting firms for these audits. A foreign country's principal government audit agency, the Supreme Audit Institution, if approved by the OIG, may perform audits of foreign governmental organizations. Audits of foreign nonprofit organizations are performed in accordance with the [Guidelines for Financial Audits Contracted by Foreign Recipients](#).

590.3.4.3 Audits of U.S.-Based For-Profit Organizations

Effective Date: 09/29/1998

Audits of U.S.-based for-profit organizations are generally performed by Federal audit agencies. Each U.S.-based for-profit contractor is assigned a cognizant Federal audit

**An asterisk indicates that the adjacent material is new or substantively revised.*

agency (based on the Federal agency that provides the most funding to the contractor) to ensure that a contractor will only have to work with one Federal auditor. Under a Memorandum of Understanding between USAID OIG and the Defense Contract Audit Agency (DCAA), DCAA is the cognizant agency for audits of USAID contractors. The OIG reviews the resulting reports and issues them to USAID management.

590.3.4.4 Audits of Foreign For-Profit Organizations

Effective Date: 09/29/1998

Audits of foreign for-profit organizations are generally performed by an independent public accounting firm acceptable to the OIG. The independent auditor performs the audit in accordance with the scope of work prepared by the cognizant USAID Mission. The auditor commences the audit upon the receipt of the final incurred cost submission from the organization. The auditor must audit the direct and indirect costs incurred under the award to determine the allowable direct costs and recommend the indirect cost rate. The OIG reviews the resulting reports and issues them to USAID management.

590.3.5 Audits of USAID's Annual Financial Statements

Effective Date: 09/29/1998

Audits of USAID's financial statements is required by the [Government Management Reform Act of 1994](#), the [Chief Financial Officers Act of 1990](#), and the [Federal Financial Management Improvement Act of 1996 \(FFMIA\)](#). (See [ADS 594](#).)

Audits of USAID's Agency-wide financial statements and selected accounts (e.g., Housing Investment Guaranty, Private Sector Investment) are generally performed by OIG staff, but may be contracted out to public accounting firms. The audits are performed in accordance with [Generally Accepted Government Auditing Standards](#).

***590.3.6 Semiannual Report to Congress**

Effective Date: 03/22/2010

The OIG's Semiannual Report to Congress (SARC), prepared in accordance with the [Inspector General Act of 1978, as amended](#), describes the results of audit activity during the previous six months, including the status of audit recommendations. The OIG must furnish a SARC to the Administrator no later than April 30 and October 31 of each year, and must transmit the SARC to the appropriate Congressional committees or subcommittees within 30 days of the report's submission to the Administrator. [ADS 595, Audit Management Program](#), provides additional policies on and procedures for the SARC reporting requirements.

*The Administrator's reporting requirements, as outlined in the Inspector General Act of 1978, as amended, are incorporated into the SARC transmittal letter as well as the Annual Agency Financial Report (AFR), which is due to the Office of Management and Budget and Congress no later than 45 calendar days after the end of the fiscal year.

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***590.4 MANDATORY REFERENCES**

Effective Date: 03/22/2010

***590.4.1 External Mandatory References**

Effective Date: 03/22/2010

- a. [Chief Financial Officers \(CFO\) Act of 1990](#)
- b. [Federal Financial Management Improvement Act \(FFMIA\) of 1996](#)
- *c. [Generally Accepted Government Auditing Standards \(GAGAS\), issued by the Comptroller General of the United States](#)
- d. [Government Management Reform Act of 1994](#)
- e. [Inspector General Act of 1978, as amended](#)
- f. [OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations](#)

***590.4.2 Internal Mandatory References**

Effective Date: 03/22/2010

- a. [ADS 591, Financial Audits of USAID Contractors, Recipients, and Host Government Entities](#)
- b. [ADS 592, Performance Audits](#)
- c. [ADS 594, Audits of USAID's Annual Financial Statements](#)
- d. [ADS 595, Audit Management Program](#)
- *e. [Guidelines for Financial Audits Contracted by Foreign Recipients, February 2009](#)

590.5 ADDITIONAL HELP

Effective Date: 01/14/2004

- a. [Sample Management Representation Letter for Performance Audits](#)

**An asterisk indicates that the adjacent material is new or substantively revised.*

***590.6 DEFINITIONS**

Effective Date: 03/22/2010

annual plan

The audit plan for the upcoming fiscal year developed by the OIG to describe the audits to be conducted. (Chapters 590, [592](#))

***audit documentation**

Records that are the principal support for an auditor's report and which provide the documentation allowing others to review the quality of the audit work. (Chapter 590)

audit finding

An answer to an audit objective. It is supported by relevant, sufficient, and competent evidence. (Chapter 590)

audit methodology

The steps necessary to answer the audit objectives. Examples include using data as evidence, testing to determine compliance with specific criteria, and performing management control assessments. (Chapter 590)

audit objective

The purpose of the audit. The audit objective, normally formed as a question, determines the type of work to be performed and the auditing procedures to be followed in order to achieve the audit's goals. (Chapter 590)

audit scope

The extent of a performance audit as defined by factors such as who the auditee is, what is being audited (program, project, grant, etc.), general criteria (grant agreement, policy, law, assistance objective, planned result, etc.), the time period under audit, and the location to be audited. (Chapter 590)

desk review

A limited review of a financial audit report prepared by non-Federal auditors. The objective is to determine whether the report contains all the required elements and appears to be accurate and logical. (Chapters 590, [591](#))

entrance conference

A meeting between an auditor and the auditee to discuss an impending audit, including time constraints, preliminary scope, issues, sensitivities, points of contact, referrals for information, and preliminary requests for information and documents. (Chapters 590, [592](#))

exit conference

A meeting between an auditor and the auditee held upon completion of an audit to discuss the findings. (Chapter 590, [592](#), [595](#))

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external quality control review

A review conducted on an audit organization every three years by an entity not affiliated with the auditor to determine whether an internal quality control system is in place and operating effectively. The review also examines whether the auditor follows established policies and procedures and applicable auditing standards in their audit work. (Chapter 590)

field work

The detailed examination phase of an audit developed specifically to find answers to the audit objectives. (Chapters 590, [592](#))

Generally Accepted Government Auditing Standards (GAGAS)

The standards, issued by the Comptroller General of the United States, for audit of Government organizations, programs, functions, and activities, and of Government assistance received by contractors, nonprofit organizations, and other non-governmental organizations (also called Government Auditing Standards (GAS) or U.S. Government Accountability Office "Yellow Book" standards). (Chapters 590, [591](#), [592](#))

internal quality control system

The system which reasonably assures that the Office of Inspector General adheres to applicable auditing standards and has established and follows adequate auditing policies and procedures. The system includes written policies and procedures and a quality assurance review program. (Chapter 590)

performance audit

A performance audit is an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria. This includes assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. (Chapters 590, [592](#))

public accounting firm

An independent, non-Federal auditor that generally is a Certified Public Accountant (CPA). (Chapter 590)

quality control review

A review of the working papers supporting an audit report prepared by non-Federal auditors to ensure that the work complies with auditing standards approved by the Comptroller General of the United States. (Chapters 590, [591](#))

recommendation

An auditor's suggested action for management for addressing a deficiency arising from an audit. (Chapter 590)

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scope of work

The document which describes the specifications of an audit contracted out to a public accounting firm, including the background, audit objectives, steps, procedures, reporting requirements, and terms of performance. (Chapter 590)

Supreme Audit Institution (SAI)

A foreign country's principal government audit agency. (Chapter 590, [591](#))

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