TANZANIA MISSION TO THE POOR AND DISABLED (PADI)

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Single Audit TERMS OF REFERENCE

REQUEST FOR PROPOSAL (RFP) FOR EXTERNAL AUDIT SERVICES FOR PACT SUB AWARDEES FINANCIAL YEAR 2020.

Background

Pact Tanzania, under prime award AID-621-A-16-0001 USAID Kizazi Kipya project through its partner **TANZANIA MISSION TO THE POOR AND DISABLED (PADI)** is contracting an auditor to conduct financial and compliance audits in accordance with the Mandatory Standard Provision M.2, "Accounting, Audit and Records" (Attachment 1) and the Guidelines for Financial Audits Contracted by Foreign Sub awardees (Attachment 2) issued by the USAID Office of the Inspector General.

Purpose

The Purpose of this engagement is to carry out Audit for Pact sub awardee **TANZANIA MISSION TO THE POOR AND DISABLED (PADI)** who receives funds from PACT Tanzania as a path through entity for the period from January 1, 2020 to December 31, 2020 in accordance with Single Audit Act 1996 which combines financial audit with compliance audit. The auditor shall follow the Single Audit (Formerly known as A-133) guidelines in 2CFR 200.514. The Auditors will be required to issue an audit report on the financial statements to the Management of Pact Tanzania in accordance with the Generally Accepted Government Auditing Standards (GAGAS).

The Auditors will carry out Audit of Pact Tanzania sub awardees which qualify for Single Audit requirement as per 2 CFR 200 Subpart F. (Refer attachment 5 "Sub awards spending")

Audit objective

The objective of the Single Audit is to enable the auditor to provide an independent professional opinion on the financial statements of TANZANIA MISSION TO THE POOR AND DISABLED (PADI) for the financial year ending on **31 December 2020**. The opinion will include.

a) The auditor must determine whether the financial statements of the auditee are presented fairly in all material respect in accordance with generally accepted accounting principles.

b) Using compliance supplement a review is made on internal control over federal programs based upon the guidance in standards for internal control integrated framework.

c) The auditor must determine whether the sub awardees have complied with federal statutes, regulations, and terms and conditions of federal awards that may have direct and material effect on the program.

d) Determine if the sub awardees have taken adequate corrective action on prior audit report recommendations.

The auditor must design audit steps and procedures in accordance with U.S. Government Auditing Standards, to provide reasonable assurance of detecting situations or transactions in which fraud or illegal acts have occurred or are likely to have occurred.

Scope of the Audit

The auditor shall conduct audits for TANZANIA MISSION TO THE POOR AND DISABLED (PADI) in accordance with the Mandatory Standard Provision M.2, “Accounting, Audit and Records” (October 2017) (Attachment 1) and the Guidelines for Financial Audits Contracted by Foreign Sub awardees (Attachment 2) issued by the USAID Office of the Inspector General for Pact sub awardees who have expended more than USD 750,000 in U.S. Government awards within their fiscal year 2020.

In the conduct of the audit the following requirements will take priority:

1. **Document reviews**
    a. The grant agreement and amendments between the USAID Kizazi Kipya program and TANZANIA MISSION TO THE POOR AND DISABLED (PADI).
    b. The budgets, implementation letters, and written procedures approved by Pact, applicable GoT laws, and USAID regulations
    c. The sub awardees financial and progress reports. All program financial and progress reports; organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing, and distribution procedures for materials, as relevant and necessary, to successfully complete the required work
    d. Any previous audits, financial reviews, etc., that directly relate to the objectives of the audit
    e. USAID Automated Directives System Chapter 636 – Program Funded Advances
    f. 2 CFR Part 200 subpart E Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
    g. USAID Automated Directives System Chapter 302 - Guidance on Closeout Procedures for A&A Awards
    h. USAID Automated Directives System Chapter 303 – Internal Mandatory References, Mandatory Standard Provisions for Non-U.S. Governmental Grantees
    i. USAID Automated Directives System Chapter 350 – Standard Provisions Annex for Agreements with Foreign Governments

2. **Internal Control**

    The auditors should review and evaluate the sub awardees internal control structure related to the USAID Kizazi Kipya program funds to 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 Control 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 should then prepare the report, identifying the reportable conditions which are significant deficiencies or material weaknesses in the design or operation of the internal control structure, and the reportable conditions considered to be material weaknesses. Material weaknesses are reportable conditions in which the design or operation of the specific internal control structure elements do not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement may occur and not be detected in a timely manner by management performing its normal functions. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness that is important enough to merit attention by those charged with governance. Reportable conditions, including material weaknesses, should be set forth in the report as "findings." 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 – may 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 refer to sections 4.14—4.16 of the *Guidelines for Financial Audits Contracted by Foreign Recipients* in planning and conducting the review and evaluation of the grantee's internal controls. Specially the auditors shall:

a) Obtain a sufficient understanding of the internal control to plan the audit and to determine the nature, timing and extent of tests to be performed.

b) Assess inherent risk and control risk and determine the combined risk. Inherent risk is the susceptibility of an assertion, such as an account balance, to a material misstatement assuming there are no related internal control policies or procedures. Control risk is the risk that a material misstatement that could occur in an assertion, will not be prevented or detected on a timely basis by the entity's internal control policies or procedures. Combined risk (sometimes referred to as detection risk) is the risk that the auditor will not detect a material misstatement that exists in an assertion. Combined risk depends upon the effectiveness of an auditing procedure and its application by the auditor.

c) Summarize the risk assessments for each assertion in a working paper. The risk assessments must consider the following broad categories under which each assertion should be classified: (a) existence or occurrence; (b) completeness; (c) rights and obligations; (d) valuation or allocation; and (e) presentation and disclosure.
   At a minimum, the working papers 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, extent, and timing of the tests

performed based on the combined risk. These summaries working papers must be cross-indexed to the supporting working papers that contain 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 documented in the working papers.

If the control risk is assessed 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 document in the audit documentation files 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 ineffective to test the controls.

d) Evaluate the control environment, the adequacy of the accounting systems, and control procedures. Emphasis must be placed on 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 evaluation must include, but not be limited to, the control systems for:
    i. Ensuring that charges to the program are proper and supported.
    ii. Managing cash on hand and in bank accounts.
    iii. Procuring goods and services.
    iv. Managing inventory and receiving functions.
    v. Managing personnel functions such as timekeeping, salaries, and benefits.
    vi. Managing and disposing of commodities (such as vehicles, equipment, and tools, as well as other commodities) purchased either by the program or directly by Pact
    vii. 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 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.

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

f) Include in the study and evaluation other policies and procedures that may be relevant if they pertain to data the auditor uses in applying auditing procedures. This may include, for example, policies and procedures that pertain to nonfinancial data that the auditor uses in analytical procedures.
   In fulfilling the audit requirement relating to an understanding of internal control and assessing the level of control risk, the auditor must follow, at a minimum, the guidance contained in AICPA SAS Nos. 109 (AU 314), entitled *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, 115 (AU 325), 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*.

3. Compliance

In fulfilling the audit requirement to determine compliance with host country laws and regulations as well as 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 be quantified in terms of U.S. dollar value, if appropriate. In presenting material irregularities, 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 irregularities and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of U.S. Government Auditing Standards provides guidance on factors that may influence auditors' materiality judgments. If the auditor concludes that sufficient evidence of irregularities or illegal acts exists, they must immediately contact the Pact SA office and must exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations and/or legal proceedings.
Auditors should refer to section 4.20 of the Guidelines for Financial Audits Contracted by Foreign Recipients in planning and conducting the tests of compliance. The auditors shall:

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.

d. Prepare a summary working paper that adequately identifies each of the specific compliance requirements included in the review, the results of the inherent, control, and combined (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 working paper must be cross-indexed to detailed working papers that adequately support the facts and conclusions contained in the summary working paper.

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 auditor must identify these costs as questioned 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 directly procured by the recipient or directly procured by Pact for the recipient's use, exist or were used for their intended purposes in accordance with the agreements. If not, the cost of such commodities must be questioned.

6. Determine whether any technical assistance and services, whether procured by the recipient or directly procured by Pact for the recipient's use, 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 Pact funds in interest-bearing accounts, and whether the recipient remitted to Pact any interest earned on those advances, except for up to $250 a year that the recipient may retain for administrative expenses. If the recipient was required to place Pact funds in an interest-bearing bank account but did not, then the auditor should determine the amount of interest that was foregone by the recipient, and this amount should be classified as ineligible costs.

4. Fund accountability statement

The auditor must examine the fund accountability statement for the USAID Kizazi Kipya project including the budgeted amounts by category and major items; the revenues received from the USAID Kizazi Kipya for the period covered by the audit; the costs reported by the grantee as incurred during that period; and the commodities/technical assistance directly procured by Pact for the grantee's use. The revenues received from USAID Kizazi Kipya, 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 should not include cost sharing contributions provided from the grantee's own funds or in-kind. However, a separate cost sharing schedule must be included and reviewed to determine whether cost sharing contributions were provided and accounted for in accordance with the terms of the agreement.

The auditors should prepare or assist the grantee in preparing the fund accountability statement from the books and records maintained by the grantee, but the grantee must accept responsibility for the statement's accuracy before the audit commences. The fund accountability statement should separately identify those revenues and costs applicable to the USAID Kizazi Kipya agreement.

The audit should evaluate program implementation actions and accomplishments to determine whether specific costs incurred are allowable, allocable, and reasonable under the agreement terms, and to identify areas where irregularities and illegal acts have occurred or are likely to have occurred because of inadequate controls. At a minimum, the auditors shall:

a) Review direct and indirect costs billed to and reimbursed by Pact and costs incurred but pending reimbursement by Pact, identifying and quantifying any questioned costs. All costs that are not supported with adequate documentation or are not in accordance with the agreement terms should be reported as questioned. Questioned costs that are pending reimbursement by Pact should be identified in the notes to the fund accountability statement as not reimbursed by Pact.

   Questioned costs must be presented in the fund accountability statement in two separate categories (a) ineligible costs that are explicitly questioned because they are unreasonable; prohibited by the agreements or applicable laws and regulations; or not program related; and (b) unsupported costs that 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.
b) Review general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed by, Pact to the program and general ledgers.
c) Review the 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.
d) 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 grantee from Pact was appropriately recorded in the grantee's accounting records and that those records were periodically reconciled with information provided by Pact.
e) 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.

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

g) Review direct salary charges to determine whether salary rates are reasonable for that position, in accordance with those approved by Pact when Pact's approval is required and supported by appropriate payroll records. Determine whether overtime was charged to the program and whether it is allowable under the terms of the agreement. 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.

h) 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.

i) Review commodities (e.g., supplies, materials, vehicles, equipment, food products, tools, etc.) procured by the grantee as well as those directly procured by Pact for the grantee's use.

j) The auditors must determine whether commodities exist or were used for their intended purposes in accordance with the terms of the agreement, 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. 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 grant or contract requirements. 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.

k) Review technical assistance and services, whether procured by the recipient or directly procured by Pact for the grantee's use. 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.

   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 must perform additional audit of the technical assistance and services under this statement of work, 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 must not only consider the agreement between the recipient and Pact, but also any 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 must 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.

l) If technical assistance and services were not contracted by the recipient from a non-U.S. contractor, 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, 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.

When indirect costs are charged to Pact using provisional rates or the 10% de minimis rate, 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 costs must be calculated after all adjustments have been made to the pool and base. [If the recipient does not have a USAID authorized indirect cost rate, this fact must be disclosed in the report.]

2 CFR 200, Subpart E, Section 200.414 (f) specifies that any non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. This 10% de minimis rate may be elected by an organization that has never received a negotiated indirect cost rate but must be incorporated into the subgrantee's budget to be considered an allowable cost.

5. Cost share

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.

i. 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, reportable internal control weaknesses 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.)

ii. 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, reportable internal control weaknesses 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.).

6. Follow-Up on Prior Audit Report 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 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 should 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 audit objectives."

The auditors must describe the scope of their work on prior audit recommendations in the summary section of the audit report. The auditors should 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.

General Purpose Financial Statements

Auditors must examine the grantee's general-purpose financial statements on an organization-wide basis. 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 Ethiopia or adopted by an association of public accountants in Ethiopia, 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 grantee'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.

Indirect Costs

Auditors shall determine the actual indirect cost rates for the year if the recipient has used provisional rates to charge indirect costs to Pact, except where a grantee's provisional or final indirect cost rates are set forth in a Negotiated Indirect Cost Rate Agreement approved by a U.S. Government Federal Cognizant Agency or the grantee has elected to apply a de minimis 10% indirect cost rate.

The audit of the indirect cost rates shall include tests to determine whether the:

i. Distribution or allocation base includes all costs that benefited from indirect activities

ii. Indirect cost pool includes only costs authorized by the USAID agreements and applicable cost principles.

iii. Indirect cost rates obtained by dividing the indirect cost pool by the base are accurately calculated.

iv. Costs included in this calculation reconcile with the total expenses shown in the recipient's audited general-purpose financial statements.

If applicable, auditors shall determine whether the distribution or allocation base complies with the governing USAID Negotiated Indirect Cost Rate Agreement.

Auditor Responsibilities

The auditors must perform the following steps:

i. Hold entrance and exit conferences with the recipient.
ii. 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. Written communication is preferred. Auditors must document the communication in the working papers.
iii. Institute quality control procedures to ensure that sufficient competent 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:
    a. Audit reports and supporting working papers are reviewed by an auditor, preferably at the partner level, who was not involved in the audit. This review must be documented in the working papers.
    b. All quantities and monetary amounts involving calculations are footed and cross-footed.
    c. All factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting working papers.
iv. Ascertain whether the recipient ensured that audits of its sub recipients were performed to ensure accountability for USAID funds passed through to sub recipients (see paragraph 1.6 of the Guidelines). If sub recipient audit requirements were not met, the auditors must disclose this in the auditor's report on the fund accountability statement and consider qualifying their opinion.
v. Obtain a management representation letter in accordance with AICPA SAS No. 85 (AU333), SAS No. 89, and SAS No. 99 signed by the recipient's management. See Example 4.1 of the Guidelines for an illustrative management representation letter.

7. Deliverables

For each of the sub awardees and corresponding audit periods covered by the scope of work and identified in attachment 4 the auditors shall deliver to Pact the following deliverables according to the deliverables schedule set forth in attachment 4.

i. Audit Work Plan

A detailed work plan outlining the work breakdown structure, including tasks, subtasks, task and subtask owners, resources, and personnel, in addition to a detailed audit methodology and timeline for the audit of each sub awardees identified in the scope of work. Pact shall review and approve this deliverable in writing prior to authorizing the auditors to commence the audits.

ii. Report on Entrance Meetings

A detailed report of each entrance meeting with the sub awardees identified in the scope of work. The auditors must inform Pact in advance of all audit entrance meetings and a Pact representative must attend all audit meetings to confirm this deliverable. In advance of the entrance meeting the auditor must communicate information to the grantee regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting.

Such communication should state that the auditors do not plan to provide opinions on compliance with laws and regulations and internal control over financial reporting in written form and confirmed by grantee.

iii. Quality Control Procedure Reports

The auditors must institute written quality control procedures sufficient to ensure that competent evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audits. Auditors may present their standard procedures for ensuring quality control provided that these procedures, at a minimum, ensure that:

1. Audit reports and supporting working papers are reviewed by an auditor, preferably at the partner level, who was not involved in the audit
2. All quantities and monetary amounts involving calculations are footed and cross-footed
3. All factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting audit documentation

iv. Report on Exit Meetings

A detailed report documenting each exit meeting with the sub awardees identified in the scope of work. The auditors must inform Pact in advance of all audit exit meetings and a Pact representative must attend all exit meetings to confirm this deliverable.

v. Draft Audit Reports

The auditor shall submit to TANZANIA MISSION TO THE POOR AND DISABLED (PADI) a copy of a draft audit report, in both portable document format (PDF) and as a Microsoft Word document, for each grantee identified in the scope of work. The format and content of the audit reports should closely follow the illustrative reports on Chapter 7 of the *Guidelines for Financial Audits Contracted by Foreign Recipients.* The audit report must specify the correct award number (s) of each award covered by the audit. The report(s) must contain:

1. A title page, table of contents and a transmittal letter and a summary which includes:
    a. A background section with a general description of the USAID Kizazi Kipya grantee audited, the period covered, the audit objectives, and a clear identification of all entities mentioned in the report;
    b. The objectives and scope of the financial audit and a clear explanation of the procedures performed and the scope limitations, if any; and
    c. A summary of the audit results on the fund accountability statement, questionable costs, internal control structure, compliance with agreement terms and applicable laws and regulations.
2. 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 agreements. The report must be in conformance with the standards for reporting in Chapter 5 of the *U.S. Government Auditing Standards* and must include:

a. The auditor's opinion on whether the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred, and commodities and technical assistance directly procured by Pact 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*).
b. The fund accountability statement identifying the program revenues, costs incurred, and commodities and technical assistance directly procured by Pact 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 and technical assistance directly procured by Pact whose existence or proper use in accordance with agreements could not be verified. 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 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 Pact.
c. 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 Pact.

3. 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:
    a. 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 regarding 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*).
    b. The cost sharing schedule identifying questioned costs (see Examples 6.2.A and 6.2.B or 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.

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

4. 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 reportable conditions, including the identification of material weaknesses recipient's internal control. Reportable conditions 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*. Non-reportable conditions must be communicated to the recipient in a separate management letter which 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).
5. 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.
6. 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, because 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.
7. 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 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 irregularities 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 irregularities or illegal acts exist, they must bring it to Pact’s attention and exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations and/or legal proceedings.

8. 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 No. 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.]
9. 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.
10. 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.
11. If there were no prior findings and recommendations, a note to that effect must be included in this section of the audit report.
12. The findings contained in the reports on internal control 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 may not always have 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 take timely and proper corrective action.
13. Findings which involve monetary effect must:
    a. Be quantified and included as questioned costs in the fund accountability statement, the Auditor’s Report on Compliance, and cost-sharing schedule (cross-referenced).
    b. Be reported without regard to whether the conditions giving rise to them were corrected.
    c. Be reported whether the recipient does or does not agree with the findings or questioned costs.
    d. 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.).
14. 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.
15. 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 Pact. This report must include an

identification of all questioned costs as a result of irregularities 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. Final Audit Report

The auditors shall submit to Pact Tanzania and TANZANIA MISSION TO THE POOR AND DISABLED (PADI) a copy of the final audit report, in both portable document format (PDF) and as a Microsoft Word document, for each grantee identified in the scope of work. In addition to the content outlined in Deliverable No. 5: Draft Audit Report, the final audit report shall include all necessary corrective actions and recommendations outlining specific dates and actions for follow-up by the grantee and Pact. The final audit reports shall be considered complete upon acceptance and approval by the USAID Regional Inspector General having authority over the Pact prime award.

vii. Inspection and Acceptance of the Audit Work and the Report

The statement of work, audit program (including detailed audit steps) and the draft report will be subject to approval and acceptance by Pact. After approval, the draft report will be discussed with the responsible officers of the recipient.

Pact is 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 Pact will perform desk reviews on every draft audit report and will perform quality control reviews of the working papers of a sample of final audit reports received from the independent auditors.

For quality control reviews, the auditors must ensure that all audit records related to USAID agreements are available to enable Pact and the USAID Regional Inspector General auditors to complete and support their review. To this end, Pact and the USAID Regional Inspector General auditors must have access to all pertinent working papers and records of the recipient and their sub recipients and make excerpts, photocopies, and transcripts.

If Pact or the USAID Regional Inspector General do not accept the report because of deficiencies in the work, the auditors must correct such deficiencies and perform any additional audit work requested at no additional cost.

Attachment 1 – Guidelines for Audits Contracted by Foreign Recipients

See https://www.usaid.gov/sites/default/files/documents/1868/591maa.pdf

Attachment 2 – Standard Provisions for Non-U.S. Nongovernmental Organization, Mandatory Standard Provision M.2 Accounting, Audit, and Records (October 2017)

See https://www.usaid.gov/sites/default/files/documents/1868/303mab.pdf

Attachment 3 – Mandatory reference guide.

a. USAID Automated Directives System Chapter 636 – Program Funded Advances
b. 2 CFR Part 200 subpart E Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
c. USAID Automated Directives System Chapter 302 - Guidance on Closeout Procedures for A&A Awards
d. USAID Automated Directives System Chapter 303 – Internal Mandatory References, Mandatory Standard Provisions for Non-U.S. Governmental Sub awardees
e. USAID Automated Directives System Chapter 350 – Standard Provisions Annex for Agreements with Foreign Governments

Attachment 4: Deliverable Schedule

The auditors shall submit the deliverables described above in accordance with the deliverable schedule set forth below:

#	Deliverable Name	Responsible	Due Date
1	Vendor Engagement Process	Pact Tanzania	27th April 2021
2	Audit Work Plan	Selected Vendor	4th May 2021
3	Report on Entrance Meetings	Selected Vendor	18th May 2021
4	Quality Control Procedure Reports	Selected Vendor	18th May 2021
5	Report on Exit Meetings	Selected Vendor	4th June 2021
6	Draft Audit Reports	Selected Vendor	11th June 2021
7	Final Audit Reports	Selected Vendor	25th June 2021
8	Submission of final reports to USAID regional inspector general	Selected Vendor	2nd July 2021

Attachment 5: Sub awards spending FY20

CSO Name	CSOs Sub Award #	Financial Year	Annual Expenditure
Tanzania Mission to the Poor and Disabled (PADI)	255-007910	Jan – Dec 2020	3,337,098,962

NB: The Auditing firm should be recognized by USAID