



**USAID**  
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## ADS Chapter 594

# Audits of USAID's Annual Financial Statements

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**Functional Series 500 – Management Services**  
**ADS 594 – Audits of USAID’s Annual Financial Statements**

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

## **ADS 594 – Audits of USAID’s Annual Financial Statements**

### **594.1 OVERVIEW**

Effective Date: 06/24/1997

This chapter establishes the requirements governing the audits of USAID's Annual Financial Statements.

### **594.2 PRIMARY RESPONSIBILITIES**

Effective Date: 06/24/1997

#### **a. The Chief Financial Officer (CFO)**

- Ensures that the Bureau for Management, Chief Financial Officer, prepares USAID’s Annual Financial Statements and submits them to the Office of Management and Budget (OMB) and other necessary addressees; and
- Establishes policy guidance for USAID financial and program personnel for the preparation of the Annual Financial Statements.

**b. The Bureau for Management, Chief Financial Officer**, prepares USAID's Annual Financial Statements.

**c. The Office of Inspector General (OIG)** audits USAID’s Annual Financial Statements.

### **\*594.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES**

Effective Date: 03/22/2010

#### **594.3.1 Preparation of USAID's Annual Financial Statements**

Effective Date: 01/01/2004

Annually, USAID must prepare Principal Financial Statements and Combining Statements of USAID financial activity.

The Bureau for Management, Chief Financial Officer (M/CFO), must submit USAID’s complete cumulative interim financial statements to the USAID Office of Inspector General (OIG) within four weeks of the close of each quarter. M/CFO must also submit USAID's final Annual Financial Statements to the OIG by October 31 of each year.

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

**\*594.3.2 Audit of USAID's Annual Financial Statements**

Effective Date: 03/22/2010

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

The OIG or independent external auditors under the OIG's direction and guidance, must audit USAID's Annual Financial Statements. The objectives of the audit are to

**a. Provide an opinion on the financial statements**

- (1) The OIG must audit USAID's Principal Financial Statements and Combining Statements, and provide an opinion as to whether these statements present fairly, in all material respects, the financial position, results of operations, changes in net position, cash flow, and budget and actual expenses in accordance with Office of Management and Budget (OMB) Bulletins or generally accepted accounting principles, as applicable.
- (2) \*The audit must be conducted in accordance with [Government Auditing Standards](#), the [Chief Financial Officers Act](#), and the requirements of [OMB Bulletin No. 07-04](#).

**b. Report on internal controls**

- (1) The OIG must obtain an understanding of USAID's internal controls sufficient to plan the audit; assess control risk for the assertions embodied in the account balance, transaction class, and disclosure components of the financial statements; and, determine the nature, timing, and extent of substantive tests for the financial statement assertions.
- (2) The OIG must report the results of its internal control review in its "Auditors' Report on Internal Control Structure."
- (3) With performance information, the OIG must obtain an understanding of USAID's internal control structure related to the existence and completion assertion. The OIG must also assess the risks of controls for policies and procedures which assure proper recording and accounting of data supporting performance outcome measurements.

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**c. Report on compliance with laws and regulations**

- (1) The OIG must determine whether USAID has complied with laws and regulations that could have a direct and material effect on the Principal Statements. This determination of compliance must include, but is not limited to, obtaining an understanding of the process by which USAID identifies and evaluates weaknesses required to be reported under the [Federal Managers' Financial Integrity Act](#).
- (2) In its "Auditor's Report on Compliance," the OIG must report the results of its compliance review together with any material instances of non-compliance and instances or indications of illegal acts which could result in criminal prosecution.

**d. Report on the compliance of the financial systems with the Federal Financial Management Improvement Act**

The OIG must report whether USAID's financial management systems comply with the requirements of the [Federal Financial Management Improvement Act \(FFMIA\)](#). The FFMIA requires agencies to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards and the [United States Government Standard General Ledger](#) at the transaction level.

**594.3.2.1 Other Requirements of the Financial Statement Audit**

Effective Date: 01/01/2004

In addition to the main objectives of the audit,

- a. The OIG must obtain written representations from USAID management in the form of Management Representation Letters (see [Sample Management Representation Letter for Financial Audits](#)) for all financial statements and periods covered by the auditor's report.
- b. The OIG must assess whether the information presented in the "Overview of the Reporting Entity" and "Supplemental Financial and Management Information" sections of the Annual Financial Statement is materially consistent with the information in the Principal Statement.
- c. The OIG must issue a Management Representation Letter to USAID management to communicate any conditions identified during the audit

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that are not included in the required audit reports, but that the auditors consider necessary to communicate to USAID management.

- d. At the completion of the annual audit, the OIG must prepare the report so that the USAID Administrator can submit it to the Office of Management and Budget by November 15 of each year.

### **594.3.3 Distribution of USAID's Audited Annual Financial Statements**

Effective Date: 01/01/2004

USAID's audited Annual Financial Statements must be distributed to all appropriate parties.

The Chief Financial Officer (CFO) must submit the audited statements to the Office of Management and Budget (OMB) by November 15 of each year, and also submit them to the U.S. Government Accountability Office (GAO) and appropriate Congressional committees. In addition, the CFO must submit the auditors' reports to these parties.

### **\*594.4 MANDATORY REFERENCES**

Effective Date: 03/22/2010

#### **\*594.4.1 External Mandatory References**

Effective Date: 03/22/2010

- a. [Chief Financial Officers \(CFO\) Act of 1990](#)
- b. [Federal Accounting Standards Advisory Board \(FASAB\)](#)
- c. [Federal Financial Management Improvement Act of 1996 \(FFMIA\), Pub. L. 104-208](#)
- d. [Federal Managers Financial Integrity Act \(FMFIA\), Pub. L. 97-255](#)
- \*e. [Generally Accepted Government Auditing Standards \(GAGAS\), Issued by the Comptroller General of the United States, Revised July 2007](#)
- f. [Government Management Reform Act \(GMRA\) of 1994](#)
- g. [Government Performance and Results Act \(GPRA\) of 1993, Pub. L. 103-62](#)
- h. [Inspector General Act of 2008, as amended, Pub. L. 110-409](#)
- i. [OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements](#)

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

j. [OMB Circular A-136, Form and Content of Agency Financial Statements](#)

**594.4.2 Internal Mandatory References**

**594.5 ADDITIONAL HELP**  
Effective Date: 01/01/2004

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

**\*594.6 DEFINITIONS**  
Effective Date: 03/22/2010

**Annual Financial Statement**

The annual document comprised of (a) an Overview of the Reporting Entity; (b) Principal Financial Statements; (c) Combining Statements, where applicable; and, (d) Supplemental Financial and Management Information. (Chapter 594)

**Combining Statement**

The financial document that presents the Principal Financial Statements information broken down by major programs, activities, and funds, where feasible or appropriate. (Chapter 594)

**\*[Generally Accepted Government Auditing Standards \(GAGAS\)](#)**

The standards, issued by the Comptroller General of the United States, for the audit of U.S. Government organizations, programs, functions, activities, and assistance received by contractors, nonprofit organizations, and other non-governmental organizations. (See also U.S. Government Accountability Office "Yellow Book" standards.) (Chapters [590](#), [591](#), [592](#), 594)

**Overview of the Reporting Entity**

In a financial audit, the narrative discussion and analysis of the financial condition and results of the operation of the reporting organization. It presents the information based on an analysis of the relevant financial and performance data of the organization's programs, activities, and funds. (Chapter 594)

**performance measurement**

A means of evaluating efficiency, effectiveness, and results. A balanced performance measurement scorecard includes financial and non-financial measures focused on quality, cycle time, and cost. Performance measurement should include program accomplishments in terms of outputs and outcomes. (Chapter 594)

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**\*Principal Financial Statements**

Financial documents, including the Balance Sheet, Statement of Net Cost, Changes in Net Position, Statement of Budgetary Resources, and the Notes to the Principal Statements. (Chapter 594)

**Supplemental Financial and Management Information**

A section of the Annual Financial Statement which includes additional information supporting the "Overview of the Reporting Entity" or enhancing the understanding of the financial condition and operations of USAID. (Chapter 594)

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