



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 and yellow highlight indicates that the adjacent material is new for this chapter or substantively revised.*

ADS 594 – Audits of USAID’s Annual Financial Statements

594.1 OVERVIEW

Effective Date: 06/24/1997

This chapter establishes the mandatory policies and required procedures governing the audits of USAID's Annual Financial Statements.

594.2 PRIMARY RESPONSIBILITIES

Effective Date: 06/24/1997

- a. **The Bureau for Management, Office of the Chief Financial Officer (M/CFO),** prepares USAID's Annual Financial Statements.
- b. **The Chief Financial Officer (CFO)**
 - Ensures that the Office of the Chief Financial Officer prepares USAID’s Annual Financial Statements and submits them to the Office of Management and Budget (OMB), the U.S. Treasury, and the Government Accountability Office, and
 - Establishes policy guidance for USAID financial and program personnel for the preparation of the Annual Financial Statements.
- c. **The Office of Inspector General (OIG)** audits USAID’s Annual Financial Statements under the authority of the [Inspector General Act of 1978, as amended](#).

*594.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

Effective Date: 11/17/2011

*594.3.1 Preparation of USAID's Annual Financial Statements

Effective Date: 11/17/2011

*Annually, USAID must prepare financial statements of USAID financial activity in accordance with the Chief Financial Officers Act of 1990, as codified at 31 U.S.C. 3515, the [Federal Accounting Standards Advisory Board](#), and [OMB Circular A-136](#).

*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 21 business days of the close of each quarter. M/CFO must also submit USAID's final Annual Financial Statements to the OIG no later than November 10 of each year, subject to FACTS II adjustments received after November 10. In this

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situation, M/CFO will discuss the impact of the FACTS II adjustments with the OIG and agree how the adjustments will be reflected in the Annual Financial Statements.

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

Effective Date: 11/17/2011

Audit of USAID's annual financial statements is required by the [Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994 \(Title IV of the Government Management Reform Act of 1994, P.L. 103-356\)](#).

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 annual financial statements, and provide an opinion as to whether these statements present fairly, in all material respects, and in conformity with generally accepted accounting principles, USAID's assets, liabilities and net position; net costs; changes in net position; and budgetary resources as of the end of the fiscal year.
- ***(2)** The audit must be conducted in accordance with auditing standards generally accepted in the United States, [Government Auditing Standards \(GAGAS\)](#), and [OMB Bulletin No. 07-04](#), Audit Requirements for Federal Financial Statements, as amended. In addition, GAO and the President's Council on Integrity and Efficiency issued a Financial Audit Manual ([GAO/PCIE Financial Audit Manual - FAM](#)), which provides the methodology to perform audits of financial statements of federal entities in accordance with professional standards.

b. Report on internal controls

- (1)** The OIG must report the results of its internal control review in its "Report on Internal Control." Specifically, the OIG must state that, with respect to internal control over financial reporting, the OIG obtained an understanding of the design effectiveness of internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of the entity's internal controls.
- ***(2)** The OIG must apply certain limited procedures to Management's Discussion and Analysis, primarily consisting of inquiries of

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management regarding the methods of measurement and presentation of this information.

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 financial statements. The OIG must report the results of its compliance review together with any material instances of non-compliance in its "Report on Compliance with Laws and Regulations."
- (2) The OIG must also report whether USAID's financial management systems substantially comply with the requirements of the [Federal Financial Management Improvement Act of 1996 \(FFMIA\)](#). 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: 11/17/2011

In addition to the main objectives of the audit,

- a. The OIG must obtain written representations from USAID management in the form of a Management Representation Letter (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 "Management Discussion and Analysis" and "Required Supplementary Information" sections of the Annual Financial Statement is materially consistent with the information in the financial statements.
- *c. The OIG must issue a Management Letter to USAID management to communicate any conditions identified during the audit that are not included in the required audit reports, but that the OIG considers necessary to communicate to USAID's management.
- d. The OIG must prepare and submit the audit reports to the Chief Financial Officer in enough time to enable USAID to include them in the Annual

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Financial Report that must be submitted to specific Federal government agencies by November 15 of each year.

594.3.3 Distribution of USAID's Audited Annual Financial Statements

Effective Date: 01/01/2004

The Chief Financial Officer (CFO) must submit the agency's Annual Financial Report to the Office of Management and Budget, the U.S. Treasury, and the Government Accountability Office by November 15 of each year (**OMB Circular A-136, Financial Reporting Requirements**).

***594.4 MANDATORY REFERENCES**

Effective Date: 11/17/2011

***594.4.1 External Mandatory References**

Effective Date: 11/17/2011

- a. [Chief Financial Officers \(CFO\) Act of 1990, Pub. L. 101-576](#)
- b. [Federal Accounting Standards Advisory Board \(FASAB\)](#)
- c. [Federal Financial Management Improvement Act of 1996 \(FFMIA\), Title VIII of 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. [Federal Financial Management Act of 1994, Title IV of the Government Management Reform Act \(GMRA\) of 1994, Pub. L. 103-356](#)
- g. [Inspector General Act of 1978, as amended](#)
- h. [OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended](#)
- i. [OMB Circular A-136, Financial Reporting Requirements](#)
- *j. [OMB Memo M-09-33, Technical amendments](#)
- *k. [GAO/PCIE Financial Audit Manual \(FAM\)](#)
- *l. [United States Government Standard General Ledger \(USSGL\)](#)

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594.4.2 Internal Mandatory References

*594.5 DEFINITIONS

Effective Date: 11/17/2011

*Annual Financial Report

An annual document comprised of (a) Management Discussion and Analysis, (b) Consolidated Financial Statements and Independent Auditor's Reports (c) Required Supplementary Information, and (d) Other Accompanying Information. (Chapter 594)

*Financial Statements

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

*Management Discussion and Analysis (MD&A)

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)

*Required Supplementary Information (RSI)

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

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