



MEMORANDUM

DATE: March 27, 2018

TO: USAID/Bangladesh Mission Director, Janina Jaruzelski

FROM: Acting Regional Inspector General/Manila, Emily Gardiner /s/

SUBJECT: Financial Audit of the Innovation for Improving Early Grade Reading Activity Project in Bangladesh Managed by the Bangladesh Rural Advancement Committee, Grant Agreement AID-388-G-15-00001, June 1, 2015, to December 31, 2016 (5-388-18-014-R)

This memorandum transmits the final audit report on the Innovation for Improving Early Grade Reading Activity Project in Bangladesh. The Bangladesh Rural Advancement Committee (BRAC) contracted the independent certified public accounting firm of S.F. Ahmed & Co. to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

S.F. Ahmed & Co. stated that it performed its audit in accordance with GAGAS except that it did not fully comply with the requirement on having a continuing professional education program. Based on our review of the audit report, the firm should have also stated that it did not comply with the requirement on external quality control reviews. S.F. Ahmed & Co. is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the recipient's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, was initiated before that date and follows the Guidelines.

² We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit objectives were to (1) express an opinion on whether BRAC's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate BRAC's internal controls; (3) determine whether BRAC complied with agreement terms and applicable laws and regulations (including cost sharing contributions); and (4) determine if BRAC has taken corrective actions on prior audit recommendations. To answer the audit objectives, S.F. Ahmed & Co. reviewed project documents and procedures; examined the fund accountability statement including revenues received from USAID and costs incurred during the period; reviewed and documented the internal control systems; and tested compliance with agreement terms and applicable laws and regulations. The audit covered project revenues and costs of \$911,422 and \$1,068,069, respectively, from June 1, 2015, to December 31, 2016.

S.F. Ahmed & Co. concluded that the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the agreement for the period audited. The audit firm did not identify any questioned costs, significant deficiencies or material weaknesses in internal control, or material instances of noncompliance.

In Appendix E (pages 33 to 39) to the report, the audit firm identified five other internal control matters. Based on our review of the audit firm's descriptions of the issues, we consider two issues to be material weaknesses in internal control; hence, we are making a recommendation for corrective action. The material weaknesses in internal control pertained to (1) a lack of adequate documentation for approving office salaries amounting to \$26,922 to be charged to this project (Observation 01) and (2) a lack of adequate supporting invoices for purchases amounting to \$2,782 (Observation 02). Also, the expenses related to these two material weaknesses totaling \$29,704 should have been identified as questioned costs (unsupported) in the fund accountability statement. Accordingly, we are including these questioned costs in Recommendation I below.

Regarding the review of cost-sharing contributions which is required under the agreement, the cost-sharing schedule reported a budgeted amount of \$89,871 for the first 24 months of the agreement (June 1, 2015 to May 31, 2017) and cost-sharing contributions of \$62,668 for the period audited of 19 months (June 1, 2015 to December 31, 2016). The audit firm neither reported any questioned costs on these cost-sharing contributions nor a cost-sharing shortfall. However, in answer to our inquiry, the mission indicated that the budgeted amounts for the first and second year of the agreement based on the annual cost-sharing budget were \$43,318 and \$47,650. Thus, we are making a recommendation to the mission to establish the amount of shortfall (the excess of budgeted contributions over actual contributions) for the period audited, determine allowability, and recover, as appropriate.

Finally, the audit firm reported that (1) BRAC did not have a USAID-authorized provisional indirect cost rate (BRAC should charge indirect costs equivalent to no more than 10 percent of the total direct costs as provided in the agreement) and (2) since this is the first year of the audit, there were no prior audit recommendations that was followed-up.

During our desk review, we noted numerous inconsistencies and deficiencies in the audit report which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated March 27, 2018.

To address the issues identified in the report and discussed in this memorandum, we recommend that USAID:

Recommendation 1. Determine the allowability of \$29,704 in questioned costs (unsupported) discussed on page 2 of this memorandum and detailed in Observations 01 and 02 on pages 34–36 in Appendix E of the report, and recover any amount that is unallowable.

Recommendation 2. Establish the amount of cost-sharing shortfall (the excess of budgeted contributions over actual contributions) for the period audited, determine allowability, and recover, as appropriate.

Recommendation 3. Verify that Bangladesh Rural Advancement Committee corrects the two material weaknesses in internal control (Observations 01 and 02 on pages 34–36 in Appendix E of the report).

We ask that you provide written notification of actions planned or taken to reach management decisions. We appreciate the assistance extended to audit staff during the engagement.

The OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) (“commercial or financial information obtained from a person that is privileged or confidential”).

Attachment: a/s