



MEMORANDUM

DATE: September 23, 2018

TO: USAID/Afghanistan Mission Director, Herbert Smith

FROM: Regional Inspector General/Frankfurt, James C. Charlifue /s/

SUBJECT: Fund Accountability Statement Closeout Audit of the Ministry of Agriculture, Irrigation and Livestock in Afghanistan, Under Agricultural Development Fund, Implementation Letter 306-IL-10-OAG-16, July 18, 2010 to June 30, 2015 (Report No. 8-306-18-059-R)

This memorandum transmits the final fund accountability statement closeout audit of Ministry of Agriculture, Irrigation and Livestock in Afghanistan, under Agricultural Development Fund (ADF), implementation letter 306-IL-10-OAG-16, from July 18, 2010 to June 30, 2015. The auditee contracted with the independent certified public accounting firm Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants to conduct the audit. The audit firm stated that the contract required them to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards, except for not participating in an external quality control review program and did not have a continuing education program. The audit firm explained that Afghanistan does not offer such a review program and they are taking appropriate steps to implement a continuing education program that fully satisfies the requirement. The audit firm is responsible for the enclosed auditor's report and the conclusions stated. We do not express an opinion on the auditee's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws,

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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.

and regulations.²

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate the auditee internal controls; (3) determine whether auditee complied with award terms and applicable laws and regulations; and (4) determine if the recipient has taken adequate corrective action on prior audit recommendation. To answer the audit objectives, the audit firm performed the subject closeout audit that covered \$ 99,114,661 in USAID funds from July 18, 2010 to June 30, 2015.

The auditors expressed an unmodified opinion on the fund accountability statement and identified a total of \$1,329,286 in ineligible questioned costs; the audit firm identified three material weaknesses and one significant deficiency in internal control related to accounting application used by the recipient; and three instances of material noncompliance.

To address the issues identified in the report, we recommend that USAID/Afghanistan do the following:

Recommendation 1. Determine the allowability, and collect as appropriate, \$1,329,286 in ineligible questioned costs, as detailed on pages 18 of the audit report.

Recommendation 2. Verify that the Ministry of Agriculture, Irrigation and Livestock corrects the three material weaknesses (1. the recipient has not exercised its right to liquidate the collaterals against the loans written off over the project period, 2. the recipient has no documented financial statement closing process, and 3. the recipient has weaknesses in information technology general controls) and one significant deficiency in internal control related to the accounting application used by the recipient as detailed on pages 27 to 32 of the audit report.

Recommendation 3. Verify that the Ministry of Agriculture, Irrigation and Livestock corrects the three instances of material noncompliance (1. loans and advances were written off in excess of the allowed 5% threshold of loans portfolio, 2. operating expenditure included in the fund accountability statement that were not included in the approved budget, and 3. advances paid to staff and prepayment to contractors against operational expenses. These payments were not provided in the budget) as detailed on pages 37 to 39 of the audit report.

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

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 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").