



MEMORANDUM

DATE: May 7, 2021

TO: USAID/Nepal Mission Director, Sepideh Keyvanshad

FROM: USAID OIG Asia Regional Office USDH NFA Coordinator, James C. Charlifue /s/

SUBJECT: Financial Audit of National Society for Earthquake Technology – Nepal Under Multiple USAID Agreements, July 17, 2019, to July 15, 2020 (5-367-21-025-R)

This memorandum transmits the final audit report of the National Society for Earthquake Technology – Nepal (NSET) under the following awards.

Award Name	Award No.	Audited Period
Program for Enhancement of Emergency Responses – Stage 4 (PEER IV)	AID-OFDA-G-14-00201	July 17, 2019 – July 15, 2020
Housing Reconstruction Technical Assistance Program (HRTAP)- Baliyo Ghar in Nepal	AID-367-A-15-00005	July 17, 2019 – July 15, 2020
Technical Support for Building Code Implementation in Nepal (TSBCIN) Daro Ghar, Digo Basti, - Strong House, Resilient Settlement	AID-OFDA-G-17-00251	July 17, 2019 – July 15, 2020
Technical Support for Resilient Community Program (TESRECT) – “My Village is Resilient Program”	Grant No. 720FDA19GR00207	October 1, 2019 – July 15, 2020

NSET contracted with the independent certified public accounting firm of PKF T R Upadhyya & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards and USAID Financial Audit Guide for Foreign Organizations. However, it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. The audit firm is

responsible for the enclosed 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 awards, laws, and regulations.¹

The audit objectives were to: (1) express an opinion on whether NSET's fund accountability statements for the periods audited, were presented fairly, in all material respects; (2) evaluate NSET's internal controls; (3) determine whether NSET complied with the agreement terms (including cost-sharing contributions), and applicable laws and regulations; and (4) perform and audit of indirect costs rate; (5) express an opinion on whether the NSET's general purpose financial statements (GPFS) for the period audited was presented fairly, in all material respects; and (6) determine whether NSET had taken corrective actions on prior audit report recommendations. The audit firm stated that the agreements did not require cost-sharing contributions. To answer the audit objectives, the audit firm examined NSET's fund accountability statements and supporting documentation; evaluated the effectiveness of the design and operation of the internal control systems; conducted tests of the recipient's compliance with agreement terms and applicable laws and regulations; determined the actual indirect cost rate for the year ended July 15, 2020; examined the GPFS and supporting documentation; and assessed the status of prior audit report recommendations. The audit covered program revenues and costs of \$1,844,303 and \$1,836,965, respectively, from July 17, 2019, to July 15, 2020.

PKF T R Upadhy & Co. concluded that except for the effect of the questioned costs of \$22,428 (ineligible), the fund accountability statements presented fairly, in all material respects, program revenues and costs incurred under the agreements for the periods audited. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that USAID/Nepal determine the allowability of the \$22,428 in questioned costs and recover any amount determined to be unallowable.

The audit firm identified one material weakness in internal control related to the understatement of indirect costs charged to the programs, and two material instances of noncompliance related to the questioned costs in the fund accountability statements and lack of a policy on anti-terrorism vetting of vendors. Although we are not making a recommendation for three significant deficiencies noted in the report, we suggest that USAID/Nepal determine if the recipient addressed the issues noted. The audit firm also issued a management letter to the recipient identifying an internal control issue and two immaterial instances of noncompliance.

The audit firm reported that all programs have USAID-authorized provisional indirect cost rates and that the schedule of the computation of the indirect cost rate was fairly stated in all material respects. The audit firm issued an unmodified audit opinion on the GPFS with an

¹We 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.

Emphasis of Matter on the basis of financial statements preparation. Finally, the audit firm noted that the prior audit findings were not repeated during the audit period.

During our desk review, we noted issues that the mission and the audit firm will need to address in future audit reports. We also have a suggestion to the mission. We provided these issues and suggestion in a memorandum to the controller dated May 7, 2021.

To address the issues identified in the report, we recommend that USAID/Nepal:

Recommendation 1. Verify that National Society for Earthquake Technology – Nepal corrects the one material weakness in internal control detailed on pages 25 and 26 of the audit report.

Recommendation 2. Verify that NSET corrects the two instances of material noncompliance detailed on pages 34 and 35 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decisions.

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”).