



# OFFICE OF INSPECTOR GENERAL

## U.S. Agency for International Development

### MEMORANDUM

**DATE:** September 20, 2022

**TO:** USAID/Malawi, Acting Mission Director, Natasha de Marcken

**FROM:** USAID OIG Africa Regional Office, Audit Director, Robert Mason /s/

**SUBJECT:** Financial Audit of USAID Resources Managed by Farmers Union of Malawi Under Cooperative Agreement 72061219CA00004, December 1, 2019, to September 30, 2021 (Report No. 4-612-22-096-R)

This memorandum transmits the final audit report of USAID resources managed by Farmers Union of Malawi (FUM), under Strengthening Inclusive Agriculture Sector Growth and Sustainable Natural Resources Governance in Malawi Project. FUM contracted with the independent audit firm Graham Carr, Lilongwe, Malawi to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards. However, it did not have an external peer review or a continuing professional education program that fully satisfy the standards' requirements. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on FUM's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

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 FUM's internal controls; (3) determine whether FUM complied with award terms and applicable laws and regulations; (4) review the indirect cost rate; and (5) review the implementation status of the prior period recommendations.

To answer the audit objectives, Graham Carr (1) audited the fund accountability statement including the budgeted amounts by category and major items and the revenues received from USAID for the period covered by the audit and the costs reported by FUM as incurred from December 1, 2019, to September 30, 2021; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to FUM's ability to report financial data consistent with the assertions embodied in each account of the fund accountability statement; (3) identified the award terms and pertinent laws and regulations and

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<sup>1</sup> 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.

determined which of those, if not observed, could have a direct and material effect on the fund accountability statement; (4) determined that the review of the indirect cost rate was not applicable; and (5) reviewed the implementation status of the prior period recommendations. FUM reported expenditures of \$925,835 in USAID funds during the audited period.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited. The auditors identified \$52,108 in total questioned costs (\$19,485 ineligible and \$32,623 unsupported); one material weakness in internal control; and four instances of material noncompliance. In addition, although we are not making a recommendation for significant deficiencies noted in the report, we suggest that USAID/Malawi determine if the recipient addressed the issues noted. The audit firm also issued a management letter.

During our desk review, we noted several areas for improvement which the audit firm should address in future audit reports. We presented these areas in a memo to the controller, dated September 20, 2022.

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

**Recommendation 1.** Determine the allowability of \$52,108 in questioned costs (\$19,485 ineligible, \$32,623 unsupported) on pages 24 and 29 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that Farmers Union of Malawi corrects the one material weakness in internal control detailed on page 33 of the audit report.

**Recommendation 3.** Verify that Farmers Union of Malawi corrects the four instances of material noncompliance detailed on page 36 of the audit report and pages 1 to 4, and 6 to 7 of the management letter.

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

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").