



OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

MEMORANDUM

DATE: August 25, 2023

TO: USAID/Nepal Mission Director, Sepideh Keyvanshad

FROM: USAID OIG Asia Regional Office Assistant Director, Rhonda M. Horried/s/

SUBJECT: Financial Audit of USAID Resources Managed by the Department of Health Services and Karnali Provincial Ministry of Social Development in Nepal Under Assistance Agreement 367-013(3670183.00), IL No. 150, July 16, 2021, to July 16, 2022 (5-367-23-024-R)

This memorandum transmits the final report on the audit of USAID resources managed by the Government of Nepal's Department of Health Services, Ministry of Health and Population; and the Karnali Provincial Ministry of Social Development, under Implementation Letter No. 150 issued under Assistance Agreement 367-013 (3670183.00), for the period from July 16, 2021, to July 16, 2022.

The Office of the Auditor General of Nepal conducted the audit. The auditor stated that it performed its audit in accordance with generally accepted government auditing standards (GAGAS), USAID Financial Audit Guide for Foreign Organizations, and the standards issued by the International Organization of Supreme Audit Institutions in conjunction with GAGAS. However, it did not have a continuing professional education program or an external quality control review that fully comply with GAGAS requirements because external quality control reviews are not offered by professional organizations in Nepal. The auditor is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the schedule of expenditures of USAID awards; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

The audit objectives were to: (1) express an opinion on whether the schedule of expenditures of USAID award for the period audited was presented fairly, in all material respects; (2) evaluate and obtain an understanding of internal controls related to USAID awards; and (3) perform tests of

¹ We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items that need clarification or issues that require management attention. Desk reviews are limited to review of the audit report itself and exclude review of the auditor's supporting work papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

compliance with the agreement terms, applicable laws and regulations. To answer the audit objectives, the audit firm performed the subject financial audit that covered project expenditures of \$1,052,438 for the period July 16, 2021, to July 16, 2022.

The auditor concluded that the schedule of expenditures of USAID award presented fairly, in all material respects, program revenues and costs incurred and reimbursed under the agreement for the period audited except for \$16,607 in ineligible questioned costs. The auditor reported 8 significant deficiencies in internal control and 5 instances of material noncompliance. 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 \$16,607 in questioned costs and recover any amount determined to be unallowable. In addition, although we are not making a recommendation for the significant deficiencies noted in the report, we suggest that USAID/Nepal determine if the recipients have addressed the issues noted.

During our desk review, we noted an area for improvement which the auditor should address in future audit reports. We presented the issue in a memorandum to the controller dated August 25, 2023.

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

Recommendation 1: Verify that the Government of Nepal's Department of Health Services and the Karnali Provincial Ministry of Social Development address the identified instances of material noncompliance as presented in pages 16-22 and annexures 1 and 2 of the audit report.

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

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"). In addition, USAID OIG has determined that this transmittal memo and the enclosed report are not subject to notification and reporting requirements under Section 5274 of the National Defense Authorization Act.²

² The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 Pub. L. No. 117-263, §5274. Please direct related inquiries to oignotice_ndaa5274@usaid.gov.