



## MEMORANDUM

**DATE:** October 24, 2018

**TO:** USAID/Zambia, Mission Director, Patrick Diskin

**FROM:** Regional Inspector General/Pretoria, Robert Mason /s/

**SUBJECT:** Financial Audit of USAID Resources Managed by Luapula Foundation in Zambia Under Cooperative Agreement AID-611-A-13-00005, October 1, 2016, to September 30, 2017 (Report No. 4-611-19-016-R)

This memorandum transmits the final audit report on USAID resources managed by Luapula Foundation. Luapula Foundation contracted with the independent certified public accounting firm KPMG (Lusaka, Zambia) to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards.

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards (GAGAS), except that the audit firm did not have an external quality control review programs that fully satisfied the requirements set forth in GAGAS. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on Luapula Foundation's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>1</sup>

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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.

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

To answer the audit objectives, KPMG (1) audited the fund accountability statement for the award 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 Luapula Foundation as incurred from October 1, 2016 to September 30, 2017; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to Luapula Foundation'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 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 prior period recommendations. Luapula Foundation reported expenditures of \$1,060,828 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 audit firm reported four deficiencies in internal control and four instances of noncompliance. The audit firm also issued a management letter.

During our desk review, we noted several minor issues which the audit firm will need to address in future audit reports. We presented these issues in a memo to the controller, dated October 24, 2018

The four deficiencies in internal control were identical to the four instances of noncompliance. The matters raised are all compliance issues and were not characterized as deficiencies in internal control. However, one instance, reporting of executive compensation, is not valid in our opinion because the recipient did not meet the criteria cited in the finding. Thus, we will not include this instance in our recommendation.

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

**Recommendation 1.** Verify that Luapula Foundation corrects the three instances of noncompliance detailed on pages 30, 31, 33 and 34 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 during the engagement”).

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Information Act Exemption Four, 5 U.S.C. 552(b) (4) (“commercial or financial information obtained from a person that is privileged or confidential”).