



MEMORANDUM

DATE: October 18, 2018

TO: Millennium Challenge Corporation, Acting Vice President, Department of Compact Operations, Kyeh Kim

FROM: Principal Director, Donell Ries /s/

SUBJECT: Financial Audit of MCC Resources Managed by MCA-Zambia Under the Compact Agreement, January 1, 2017, to December 31, 2017 (M-611-19-001-N)

This memorandum transmits the final audit report on MCC Resources Managed by MCA-Zambia, for the period for the period January 1, 2017, to December 31, 2017. MCA-Zambia contracted with the independent certified public accounting firm KPMG Chartered Accountants to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and MCC's Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities.¹

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards except that the audit firm did not have an external peer review, because no such program is offered by professional organizations in Zambia. The audit firm reported it did not believe that the effect of this departure was material because the audit firm participates in KPMG International's audit quality performance review program and is subjected to an extensive quality review at least once every 3 years. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on MCA-Zambia's fund accountability statement; the effectiveness of its internal control; or its compliance with the agreement, laws, and regulations.²

¹ On July 14, 2017, MCC OIG rescinded its Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function.

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 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 MCA-Zambia's internal controls; and (3) determine whether MCA-Zambia complied with agreement terms and applicable laws and regulations. To answer the audit objectives, the audit firm conducted an audit of MCC resources managed by MCA-Zambia for the period from January 1, 2017, to December 31, 2017. Costs incurred for this period were \$88,257,227.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by MCC for the period audited. The audit firm did not identify any significant deficiencies or material weaknesses in internal control and noted one instance of material noncompliance. The audit firm issued a management letter that noted three matters involving internal control.

To address the problem identified in the report, we recommend that MCC:

Recommendation I. Verify that MCA-Zambia corrects the one instance of material noncompliance detailed on page 20 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.

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").