



## MEMORANDUM

**DATE:** July 25, 2019

**TO:** USAID/India Acting Mission Director, Keith E. Simmons

**FROM:** USAID OIG Asia Regional Office Acting Audit Director, Emily Gardiner /s/

**SUBJECT:** Financial Audit of the Project Sambhuya: Engaging Private Sector to Improve Reproductive, Maternal, Neonatal, Child and Adolescent Health Outcomes in India Managed by Solidarity and Action Against the HIV Infection in India, Cooperative Agreement AID-386-A-15-00006, April 1, 2017, to March 31, 2018 (5-386-19-049-R)

This memorandum transmits the final audit report of the Project Sambhuya: Engaging Private Sector to Improve Reproductive, Maternal, Neonatal, Child and Adolescent Health Outcomes in India. Solidarity and Action Against the HIV Infection in India (SAATHII) contracted with the independent certified public accounting firm Kumar Mittal & Co. to conduct the audit. The contract required the audit firm to perform the audit in accordance with the U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

Kumar Mittal & Co. stated that it performed its audit in accordance with GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. Kumar Mittal & Co. is responsible for the enclosed auditor's 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 award, laws, and regulations.<sup>2</sup>

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. The mission, however, asked the auditors in its contract to follow the Guidelines, and this contracted audit followed that Guidelines.

<sup>2</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 recipient's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate the recipient's internal controls; (3) determine whether the recipient complied with agreement terms and applicable laws and regulations; and (4) determine if the recipient had taken adequate corrective actions on prior audit recommendations. To answer the audit objectives, Kumar Mittal & Co. reviewed project documents and procedures; examined the fund accountability statement; evaluated the recipient's internal control systems; tested compliance with agreement terms and applicable laws and regulations; and assessed the status of prior audit recommendation. The audit covered project revenues and costs of \$1,506,192 and \$1,163,726, respectively, from April 1, 2017, to March 31, 2018.

Kumar Mittal & Co. concluded that the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the agreement for the period audited. The audit firm did not identify any questioned costs. However, the audit firm identified five material weaknesses in internal control related to (1) minor excess rent charged to the project; (2) goods receipt note not attached to voucher; (3) staff advances settled late; (4) expenses booked before being incurred or in the next financial year and invoices issued not in chronological order; and (5) selection process documentation not available on file. The audit firm also identified four material instances of noncompliance which relate to (1) cash payment above Rs. 10,000 prohibited by Section 40(A) (3) of Income Tax Act, 1961; (2) provident fund not paid within due date; (3) professional tax paid late; and (4) reports submitted late to USAID. The audit firm also issued a management letter to SAATHII identifying two other internal control matters.

The audit firm reported that (1) the agreement did not require cost-sharing contributions although the recipient contributed \$119,750 during the period audited; and (2) all outstanding prior audit recommendations had been addressed. Further, in response to our inquiry, the mission confirmed that SAATHII did not have a USAID-authorized provisional indirect cost rate.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated July 25, 2019.

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

**Recommendation 1.** Verify that the Solidarity and Action Against the HIV Infection in India corrects the five material weaknesses in internal control identified in the report on internal control on page 21 and detailed in Findings 1–5 on pages 23–29 of the report.

**Recommendation 2.** Verify that the Solidarity and Action Against the HIV Infection in India corrects the four material instances of noncompliance identified in the report on compliance on page 30 and detailed in Findings 1–4 on pages 31–35 of the report.

We ask that you provide 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").

Attachment: a/s