



## MEMORANDUM

**DATE:** August 16, 2019

**TO:** USAID/Nepal Acting Mission Director, Adriana Hayes

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

**SUBJECT:** Financial Audit of National Society for Earthquake Technology – Nepal under Multiple USAID Awards, July 16, 2017, to July 16, 2018 (5-367-19-054-R)

This memorandum transmits the final audit report on the multiple USAID awards managed by National Society for Earthquake Technology – Nepal (NSET). NSET contracted the independent certified public accounting firm of CSC & Co., Chartered Accountants, to conduct the audit. The contract required the audit firm to perform the audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

CSC & Co., Chartered Accountants, stated that it performed its audit in accordance with U.S. GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. CSC & Co., Chartered Accountants, 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 statements; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether the recipient's fund accountability statements for the periods audited were 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; (4) perform an audit of the indirect cost rates; and (5) determine if the recipient had taken adequate corrective actions on prior audit recommendations. To answer the audit objectives, CSC & Co., Chartered Accountants,

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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 On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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 those 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.

examined the fund accountability statement and supporting documentation; evaluated the recipient's internal control system; determined compliance with agreement terms and applicable laws and regulations; determined the actual indirect cost rates for the year ended July 16, 2018; and assessed the status of prior audit recommendations. The audit covered revenues and costs of \$4,955,320 and \$3,685,871, respectively, from July 16, 2017, to July 16, 2018, pertaining to four programs that NSET managed.<sup>3</sup>

CSC & Co., Chartered Accountants, concluded that the fund accountability statements presented fairly, in all material respects, program revenues and costs incurred under the four agreements for the periods audited. The audit firm did not identify any questioned costs and material weaknesses in internal control. However, it identified one material instance of noncompliance related to the delay in the implementation of new labor laws. Since the mission and the audit firm confirmed that NSET had subsequently implemented the new labor laws from effectivity date and there was no financial impact for the audited period due to these changes, we are not making any recommendations on this procedural finding. The audit firm also identified two other internal control matters which were discussed in the Summary of Findings and Recommendations.

The audit firm reported (1) that three of the four agreements (PEER IV, Baliyo Ghar, and TSBCIN) have USAID-authorized provisional indirect cost rates and that the schedule of the computation of the indirect cost rate was fairly stated in all material respects and (2) that none of the four agreements had a cost-sharing requirement. Further, all prior audit recommendations had been satisfactorily addressed.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We also made a suggestion to the mission. We presented the issues and suggestion in a memorandum to the controller dated August 16, 2019.

Given the above results of the audit, we are not making any recommendations for inclusion in USAID's Consolidated Audit and Compliance Tracking System. We appreciate the assistance extended during the engagement.

The 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

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<sup>3</sup> The audit covered four NSET programs: (a) financial audit of Program for Enhancement of Emergency Response (PEER IV) under Agreement AID-OFDA-G-14-00201 for the period from July 16, 2017, to July 16, 2018; (b) financial audit of Housing Reconstruction Technical Assistance Program (Baliyo Ghar) under Cooperative Agreement AID-367-A-15-00005 for the period from July 16, 2017, to July 16, 2018; (c) initial audit of Technical Support for Building Code Implementation in Nepal (TSBCIN) under Agreement AID-OFDA-G-17-00251 for the period from August 1, 2017, to July 16, 2018; and (d) closeout audit of Building Code Implementation Program in Municipalities of Nepal (BCIPN) under Agreement AID-OFDA-G-12-00177 for the period from July 16, 2017, to September 30, 2017.