



MEMORANDUM

DATE: May 26, 2020

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

FROM: USAID OIG Asia Regional Office Audit Director, James C. Charlifue /s/

SUBJECT: Financial Audit of Nurturing Early Literacy Project in India Managed by Centre for Microfinance, Cooperative Agreement AID-386-A-15-00020, April 1, 2018, to March 31, 2019 (5-386-20-043-R)

This memorandum transmits the final audit report on the Nurturing Early Literacy Project in India managed by Centre for Microfinance (CMF). CMF contracted with the independent certified public accounting firm of Kumar Mittal & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and the USAID Financial Audit Guide for Foreign Organizations. However, it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on CMF's fund accountability statement; the effectiveness of its internal control; or its compliance with the awards, laws, and regulations.¹

The audit objectives were to (1) express an opinion on whether CMF's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate CMF's internal controls; (3) determine whether CMF complied with award terms (including leverages) and applicable laws and regulations; (4) review leverages and report on whether the leverage schedule was presented fairly, in all material respects; and (5) determine whether CMF had taken corrective actions on prior audit report recommendations. To answer the audit objectives, the audit firm examined the fund accountability statement and supporting documentation; evaluated CMF's internal control system and assessed all related risks; tested compliance with award terms and applicable laws and regulations; reviewed leverages; and assessed the status of prior audit report recommendations. The audit covered project revenues and costs of \$892,417 and \$825,644, respectively, from April 1, 2018, to March 31, 2019.

¹ 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 firm concluded that except for the effects of the questioned costs of \$3,601 (ineligible), the fund accountability statement presented fairly in all material respects, project revenues and costs incurred under the award for the period audited. The audit firm identified four material weaknesses in internal control: two findings are related to the questioned costs in the fund accountability statement and two findings pertained to (1) an interest-bearing bank account for the project funds not opened by a sub-partner, and (2) expenses recorded in the wrong budget component. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making recommendations on the questioned costs and on the two related material weaknesses in internal control. Nevertheless, we suggest that the mission determine the allowability of the \$3,601 in questioned costs and recover any amount determined to be unallowable and determine if the recipient addressed the two related internal control issues.

The audit firm also identified five instances of material noncompliance which pertained to (1) expenses recorded in the wrong budget component; (2) reports not submitted timely to the mission; (3) tax at source deducted in the name of a person other than the proprietor; (4) leverages reported to USAID exceeded actual leverages; and (5) local laws to form an internal complaint committee were not strictly followed. We are not making a recommendation on the first material instance of noncompliance since this finding was already reported as a material weakness in internal control. Although we are not making a recommendation for the one significant deficiency noted in the report, we suggest that the mission determine if the recipient addressed the issue noted. The audit firm also issued a management letter to CMF identifying three other internal control matters or immaterial instances of noncompliance. Finally, the audit firm reported that all prior audit recommendations were resolved.

During our desk review, we noted issues that the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated May 26, 2020.

To address the issues identified in the report, we recommend that the mission:

Recommendation 1. Verify that Centre for Microfinance corrects the two material weaknesses in internal control detailed on pages 34 and 37-39 (Findings 3 and 4) of the audit report.

Recommendation 2. Verify that Centre for Microfinance corrects the four instances of material noncompliance detailed on pages 41 and 42-46 (Findings 2-5) of the audit report.

We ask that you provide your written notification of actions planned or taken to reach a 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").

Attachment: a/s