

## REQUEST FOR PROPOSALS

### Audit of Financial Statement of SEED Foundation

#### Call for Proposal: Audit of Financial Statement of SEED Foundation

**Reference: ERB-22-0013**

**Date: Sep 14, 2022**

#### 1- Assignment Overview

SEED Foundation seeks an international audit firm to conduct an Audit of SEED's Financial Statements and resources managed by the Foundation, Erbil – Kurdistan – Charity Reg. # K2097 for the period from 01/01/2022 to 31/12/2022.

The awarded audit firm will enter into a two years' service agreement with SEED Foundation to conduct the audit engagements for the fiscal years (2022 and 2023). The same criteria/methods used for preparing the financial proposal of the year 2022 will be applied on the year ended on Dec 31, 2023 audit engagements financial proposal.

SEED Foundation in the Kurdistan Region is implementing programs and activities with fundings from various donors to promote the social, educational and economic development for Kurdistan Region residents.

Please provide your expression of interest via email by no later than 22 of Sep, 2022, and SEED will provide you with the needed information for the technical and financial proposals:

SEED's certificate of registration - Authority Matrix / Organization chart - Last year audited financial statements 2021 - Summary of the year 2022 awards / Number of projects implemented and the coverage periods/Main donors - Average Number of transactions during the year 2022.

The audit should conform to the international donor's agencies, standard audit guidelines, program guidelines, 2CFR200 (Annex B) the audit is a single audit for all SEED Foundation resources and programs, the audit should be done and submitted to SEED management based on the below timeline:

## 2- RFP Timeline

Activity	DATE	TIME (City)
Distribution of RFP	Sep 15, 2022	<b>04:00 PM- Erbil</b>
Closing date for clarifications/questions through <a href="mailto:procurement@seedkurdistan.org">procurement@seedkurdistan.org</a>	Sep 30, 2022	<b>04:00 PM Erbil</b>
Response for any clarifications through email	Oct 06, 2022	<b>04:00 PM Erbil</b>
Deadline of submitting technical & cost proposals.	Oct 13, 2022	<b>04:00 PM Erbil</b>
Signing the Engagement Letter	Nov 10, 2022	<b>04:00 PM Erbil</b>
Audit Implementation	Feb 15, 2023	<b>04:00 PM Erbil</b>
Submit Draft Audit Report	April 30, 2023	<b>04:00 PM Erbil</b>
Submit the Final Audit Report	May 30, 2023	<b>04:00 PM Erbil</b>

## 3- Submission Process

Bids **must** be submitted through email to [procurement@seedkurdistan.org](mailto:procurement@seedkurdistan.org).

The subject of the email should be **ITB-ERB-22-0013**

All bidders must submit all documents listed in Annex A: Table (1), (2) and (3).

## 4 - Selection Criteria:

#	Criteria	Credits
4-1	Past performance including methodology	20 points
4-2	Past experience, including past USAID and/or USG audits, international Foundations funds, etc	20 points
4.3	Proposed audit team with their proposed level of effort per hour on the engagement and qualifications	25 points
4-4	Proposed completion schedule from the contract commence date	20 points
4-5	Proposed cost: Please keep note that the prices should be in USD for the fiscal year 2022 only	15 points
	<b>Total Scoring</b>	100

Language: All documents shall be submitted in English.

This RFP in no way obligates SEED Foundation to award a contract, nor does it commit SEED Foundation to pay any costs incurred in the preparation and submission of a proposal.

**5- Split Awards**

SEED is not bound to contract with one offeror and can split the award between one or more

**6- Confidentiality**

Bidders must treat the invitation to tender and all associated documentation supplied by SEED in a confidential way

**7- Payment Terms:**

- Payment will be made after receiving, inspecting, and accepting requested services.
- Payments will be made through bank transfer, check or cash according to SEED policy.
- Payment will be made within (30) days after submitting the invoice

Annex A

**Table (1)- Applicants Information**

<b>Bidder Name:</b>	
<b>Focal Points name:</b>	
<b>Email</b>	
<b>Phone:</b>	
<b>Address:</b>	

**Table (2): Mandatory documents for submission (Administration)**

#	Description	If you attached, please tick below by (✓)
1	Company Registration (Certification)	
2	Tax clearance for 2021	
3	Bank account details	
4	Three similar experiences with INGOs (please submit a PO or contract)	
5	References according to Table (3)	

**Table (3): References**

#	Referee Name	Phone number	Email	Name of the client/company
1				
2				
3				

## **TERMS OF REFERENCE (TOR)**

### **I. AUDIT TITLE**

Audit of the Financial Statement of SEED Foundation a non-profit charity organization for the period from 01/01/2022 to 31/12/2023 (two years).

### **Background**

SEED Foundation is a locally-registered NGO in the Kurdistan Region of Iraq. SEED's mission is to protect, empower, and support the recovery of survivors of violence and others at risk. SEED is committed to delivering quality and holistic approaches, combining international expertise and local know-how to achieve results for the people of Iraq and Kurdistan. SEED's programming focuses on four key objectives:

- 1) the delivery of transformational, comprehensive MHPSS services including case management, mental health, and legal services, as well as psychosocial support activities;
- 2) strengthening the capacity of service providers through education, training, and capacity-building programs;
- 3) promoting policy and social change to strengthen the rights of, and protections for, vulnerable groups and individuals;
- 4) supporting the protection and recovery of survivors of trafficking, including through SEED's shelter for victims of trafficking and those at risk, after-care services, and prevention work to reduce the risk of trafficking through public awareness, technical assistance, and advocacy for legal, regulatory, policy, process, and institutional changes.

### **II. OBJECTIVES**

The objective of this engagement is to conduct a financial audit of SEED Foundation. The engagement shall include the audit of the recipient/subrecipient locally incurred costs for the award(s) in Iraqi Kurdistan. Locally incurred costs include; (1) costs incurred and paid locally, (2) costs incurred locally and paid outside Kurdistan, if material (the audit firm is responsible for defining the materiality threshold). Locally incurred costs do not include expatriate costs (such as salaries and allowances) paid outside Kurdistan if any.

The auditor must evaluate and obtain a sufficient understanding of the recipient's internal controls related to the awards/grants, assess control risk, and identify reportable conditions, including material internal control weaknesses. The auditor must perform tests to determine whether the recipient complied, in all material respects, with awards terms and applicable laws and regulations related to the different donor-funded programs that have a direct and material effect on SEED Foundation financial statements.

#### **A. Audit of donor funds**

A financial audit of the funds provided by donors shall be performed in accordance with attached 2CFR200 (Annex B) and SEED Foundation guidelines and accordingly includes such tests of the accounting records as deemed necessary under the circumstances.

The auditor must design audit steps and procedures in accordance with applicable rules, regulations and mandatory procedures, to provide reasonable assurance of detecting situations or transactions in which fraud or illegal acts have occurred or are likely to have occurred. If such evidence exists, the auditor should notify SEED Foundation Board of Directors and should exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both.

#### **B. Review of Cost-Sharing Schedule**

A review of cost-sharing contributions shall be performed in order to determine whether cost-sharing contributions were provided and accounted for by the recipient in accordance with the terms of the awards and project needs.

### **III. AUDIT SCOPE**

The auditors should use the following steps as the basis for preparing their audit programs and their review. They are not considered all-inclusive or restrictive in nature and do not constitute relief from exercising due professional care and judgment. The steps shall be modified to fit local conditions and specific project design, implementation procedures, and award provisions which may vary from project to project. Any limitations in the scope of work shall be communicated as soon as possible to the Board of director president or designee and will try to resolve the issue with the auditee first.

### **IV. AUDIT REPORTS**

The auditors should submit to the auditee one Adobe Acrobat® (\*.pdf) file containing the scanned image of the draft audit report in English. The auditors shall submit the draft report to SEED finance department on the following email: mohamad@seedkurdistan.org

### **V. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND THE REPORT**

The Board of Directors is responsible for assuring that the work performed under this statement of work complies with applicable rules, regulations and mandatory procedures. To accomplish this objective, the board of directors or its designee will perform desk reviews on every final audit report and will perform quality control reviews of the working papers of a sample of audit reports received from the independent auditors. The audit firm must ensure that all records related to the various donor programs are available, and must provide any necessary photocopies requested by the public firm auditors to enable them to complete and support their review.

The final audit report will be subject to approval and acceptance by the board of directors

## **VI. RELATIONSHIPS AND RESPONSIBILITIES**

The client for this contract is/the auditee. The audit firm will work in coordination with the auditee. The liaison for audit concerns will be the board of directors or its designee and the liaison for information and assistance from SEED Foundation will be the finance director or his/her designee.

The audit firm shall provide a list of key/essential personnel who will be directly involved with this award to the auditee. All key/essential personnel shall be fluent in the English language. Unless otherwise agreed to in writing by the auditee, the audit firm shall be responsible for providing such personnel for performance at the level-of-effort and for the term required. Failure to provide the key/essential personnel may be considered non-performance by the audit firm unless such failure is beyond the control, and through no fault or negligence of the audit firm. The audit firm shall immediately notify the auditee and board of director or it's designee of any key/essential Personnel's departure and the reasons therefore. The audit firm shall take steps to immediately rectify this situation and shall propose a substitute candidate for each vacated position along with an impact statement in sufficient detail to permit evaluation of the impact on the program.

The board of directors may also provide written comments on the draft audit report concerning the facts and conclusions contained in the report in order to obtain the best possible end product. The board of director's president or representatives may also attend the exit conference for the same purpose. However, the board of directors' comments on the draft report and at the exit conference will not be binding on the public accounting firm.

The public accounting firm must properly maintain and store the working papers for a period of three years from the completion of the audit. During this three-year period the audit firm shall immediately provide the working papers when requested by the board of directors. Public accounting firms that are not responsive or do not provide timely responses to

questions raised by the board of directors shall be temporarily or permanently excluded from performing additional engagements and or audits.

## **VII. TERMS OF PERFORMANCE**

The period of performance shouldn't exceed two months starting from the Engagement letter effective date until the audit firm issues the final draft audit report. Nonetheless, the audit firm remains obligated to perform per this scope of work and under the audit contract until the board of directors issues the approval of the final audit report to public or two years from the date of the audit contract, whichever is earlier or comes first.

It is the responsibility of the audit firm to communicate to the auditee all necessary information regarding records and documentation which will be required for the audit firm to begin its work in accordance with the approved work schedule.

The audit firm and the auditee are both/all responsible for the timely performance and submission of the audit report(s) to the Board of Directors.

## **Annex B: CFR (Code of Federal Regulations) 514-520**

§200.514 Scope of audit.

(a) General. The audit must be conducted in accordance with GAGAS. The audit must cover the entire operations of the auditee, or, at the option of the auditee, such audit must include a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered Federal awards during such audit period, provided that each such audit must encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and other organizational unit, which must be considered to be a non-Federal entity. The financial statements and schedule of expenditures of Federal awards must be for the same audit period.

(b) Financial statements. The auditor must determine whether the financial statements of the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles. The auditor must also determine whether the schedule of expenditures of Federal awards is stated fairly in all material respects in relation to the auditee's financial statements as a whole.

(c) Internal control. (1) The compliance supplement provides guidance on internal controls over Federal programs based upon the guidance in Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States and the Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(2) In addition to the requirements of GAGAS, the auditor must perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs.

(3) Except as provided in paragraph (c)(4) of this section, the auditor must:

(i) Plan the testing of internal control over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and

(ii) Perform testing of internal control as planned in paragraph (c)(3)(i) of this section.

(4) When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph (c)(3) of this section are not required for those compliance requirements. However, the auditor must report a significant deficiency or material weakness in accordance with §200.516 Audit findings, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.

(d) Compliance. (1) In addition to the requirements of GAGAS, the auditor must determine whether the auditee has complied with Federal statutes, regulations, and the terms and



conditions of Federal awards that may have a direct and material effect on each of its major programs.

(2) The principal compliance requirements applicable to most Federal programs and the compliance requirements of the largest Federal programs are included in the compliance supplement.

(3) For the compliance requirements related to Federal programs contained in the compliance supplement, an audit of these compliance requirements will meet the requirements of this part. Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor must determine the current compliance requirements and modify the audit procedures accordingly. For those Federal programs not covered in the compliance supplement, the auditor must follow the compliance supplement's guidance for programs not included in the supplement.

(4) The compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance.

(e) Audit follow-up. The auditor must follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with §200.511 Audit findings follow-up paragraph (b), and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor must perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.

(f) Data Collection Form. As required in §200.512 Report submission paragraph (b)(3), the auditor must complete and sign specified sections of the data collection form.

#### §200.515 Audit reporting.

The auditor's report(s) may be in the form of either combined or separate reports and may be organized differently from the manner presented in this section. The auditor's report(s) must state that the audit was conducted in accordance with this part and include the following:

(a) An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

(b) A report on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements. This report must describe the scope of testing of internal control and compliance and the results of the tests, and, where applicable, it will refer to the separate schedule of findings and questioned costs described in paragraph (d) of this section.

(c) A report on compliance for each major program and a report on internal control over compliance. This report must describe the scope of testing of internal control over compliance, include an opinion or disclaimer of opinion as to whether the auditee complied with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program and refer to the separate schedule of findings and questioned costs described in paragraph (d) of this section.

(d) A schedule of findings and questioned costs which must include the following three components:

(1) A summary of the auditor's results, which must include:

(i) The type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);

(ii) Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements;

(iii) A statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee;

(iv) Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit;

(v) The type of report the auditor issued on compliance for major programs (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);

(vi) A statement as to whether the audit disclosed any audit findings that the auditor is required to report under §200.516 Audit findings paragraph (a);

(vii) An identification of major programs by listing each individual major program; however in the case of a cluster of programs only the cluster name as shown on the Schedule of Expenditures of Federal Awards is required;

(viii) The dollar threshold used to distinguish between Type A and Type B programs, as described in §200.518 Major program determination paragraph (b)(1), or (b)(3) when a recalculation of the Type A threshold is required for large loan or loan guarantees; and

(ix) A statement as to whether the auditee qualified as a low-risk auditee under §200.520 Criteria for a low-risk auditee.

(2) Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

(3) Findings and questioned costs for Federal awards which must include audit findings as defined in §200.516 Audit findings, paragraph (a).

(i) Audit findings (e.g., internal control findings, compliance findings, questioned costs, or fraud) that relate to the same issue must be presented as a single audit finding. Where practical, audit findings should be organized by a Federal agency or pass-through entity.

(ii) Audit findings that relate to both the financial statements and Federal awards, as reported under paragraphs (d)(2) and (d)(3) of this section, respectively, must be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form with a reference to a detailed reporting in the other section of the schedule.

(e) Nothing in this part precludes combining of the audit reporting required by this section with the reporting required by §200.512 Report submission, paragraph (b) Data Collection when allowed by GAGAS and Appendix X to Part 200—Data Collection Form (Form SF-SAC).  
§200.516 Audit findings.

(a) Audit findings reported. The auditor must report the following as audit findings in a schedule of findings and questioned costs:

(1) Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs. The auditor's determination of whether a deficiency in internal control is a significant deficiency or material weakness for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the Compliance Supplement.

(2) Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program. The auditor's determination of whether a noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the compliance supplement.

(3) Known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor must include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

(4) Known questioned costs that are greater than \$25,000 for a Federal program which is not audited as a major program. Except for audit follow-up, the auditor is not required under this part to perform audit procedures for such a Federal program; therefore, the auditor will normally not find questioned costs for a program that is not audited as a major program. However, if the auditor does become aware of questioned costs for a Federal program that is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$25,000, then the auditor must report this as an audit finding.

(5) The circumstances concerning why the auditor's report on compliance for each major program is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards.

(6) Known or likely fraud affecting a federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards. This paragraph does not require the auditor to report publicly information which could compromise investigative or legal proceedings or to make an additional reporting when the

auditor confirms that the fraud was reported outside the auditor's reports under the direct reporting requirements of GAGAS.

(7) Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with §200.511 Audit findings follow-up, paragraph (b) materially misrepresents the status of any prior audit finding.

(b) Audit finding detail and clarity. Audit findings must be presented in sufficient detail and clarity for the auditee to prepare a corrective action plan and take corrective action, and for Federal agencies and pass-through entities to arrive at a management decision. The following specific information must be included, as applicable, in audit findings:

(1) Federal program and specific Federal award identification including the CFDA title and number, Federal award identification number and year, name of Federal agency, and name of the applicable pass-through entity. When information, such as the CFDA title and number or Federal award identification number, is not available, the auditor must provide the best information available to describe the Federal award.

(2) The criteria or specific requirement upon which the audit finding is based, including the Federal statutes, regulations, or the terms and conditions of the Federal awards. Criteria generally identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding findings.

(3) The condition found, including facts that support the deficiency identified in the audit finding.

(4) A statement of cause that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action.

(5) The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action. A statement of the effect or potential effect should provide a clear, logical link to establish the impact or potential impact of the difference between the condition and the criteria.

(6) Identification of questioned costs and how they were computed. Known questioned costs must be identified by applicable CFDA number(s) and applicable Federal award identification number(s).

(7) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified must be related to the universe and the number of cases examined and be quantified in terms of dollar value. The auditor should report whether the sampling was a statistically valid sample.

(8) Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and if so, any applicable prior year audit finding numbers.

(9) Recommendations to prevent future occurrences of the deficiency identified in the audit finding.

(10) Views of responsible officials of the auditee.

(c) Reference numbers. Each audit finding in the schedule of findings and questioned costs must include a reference number in the format meeting the requirements of the data collection form submission required by §200.512 Report submission, paragraph (b) to allow for easy referencing of the audit findings during follow-up.

§200.517 Audit documentation.

(a) Retention of audit documentation. The auditor must retain audit documentation and reports for a minimum of three years after the date of issuance of the auditor's report(s) to the auditee, unless the auditor is notified in writing by the cognizant agency for audit, oversight agency for audit, cognizant agency for indirect costs, or pass-through entity to extend the retention period. When the auditor is aware that the Federal agency, pass-through entity, or auditee is contesting an audit finding, the auditor must contact the parties contesting the audit finding for guidance prior to destruction of the audit documentation and reports.

(b) Access to audit documentation. Audit documentation must be made available upon request to the cognizant or oversight agency for audit or its designee, cognizant agency for indirect cost, a Federal agency, or GAO at the completion of the audit, as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this part. Access to audit documentation includes the right of Federal agencies to obtain copies of audit documentation, as is reasonable and necessary.

§200.518 Major program determination.

(a) General. The auditor must use a risk-based approach to determine which Federal programs are major programs. This risk-based approach must include consideration of: current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. The process in paragraphs (b) through (h) of this section must be followed.

(b) Step one. (1) The auditor must identify the larger Federal programs, which must be labeled Type A programs. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the levels outlined in the table in this paragraph (b)(1):

Total Federal awards expended	Type A/B threshold
Equal to or exceed \$750,000 but less than or equal to \$25 million	\$750,000.
Exceed \$25 million but less than or equal to \$100 million	Total Federal awards expended times .03.
Exceed \$100 million but less than or equal to \$1 billion	\$3 million.
Exceed \$1 billion but less than or equal to \$10 billion	Total Federal awards expended times .003.
Exceed \$10 billion but less than or equal to \$20 billion	\$30 million.
Exceed \$20 billion	Total Federal awards expended times .0015.

(2) Federal programs not labeled Type A under paragraph (b)(1) of this section must be labeled Type B programs.

(3) The inclusion of large loan and loan guarantees (loans) must not result in the exclusion of other programs as Type A programs. When a Federal program providing loans exceeds four times the largest non-loan program it is considered a large loan program, and the auditor must consider this Federal program as a Type A program and exclude its values in determining other Type A programs. This recalculation of the Type A program is performed after removing the total of all large loan programs. For the purposes of this paragraph a program is only considered to be a Federal program providing loans if the value of Federal awards expended for loans within the program comprises fifty percent or more of the total Federal awards expended for the program. A cluster of programs is treated as one program and the value of Federal awards expended under a loan program is determined as described in §200.502 Basis for determining Federal awards expended.

(4) For biennial audits permitted under §200.504 Frequency of audits, the determination of Type A and Type B programs must be based upon the Federal awards expended during the two-year period.

(c) Step two. (1) The auditor must identify Type A programs which are low-risk. In making this determination, the auditor must consider whether the requirements in §200.519 Criteria for Federal program risk paragraph (c), the results of audit follow-up, or any changes in personnel or systems affecting the program indicate significantly increased risk and preclude the program from being low risk. For a Type A program to be considered low-risk, it must have been audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit), and, in the most recent audit period, the program must have not had:

(i) Internal control deficiencies which were identified as material weaknesses in the auditor's report on internal control for major programs as required under §200.515 Audit reporting, paragraph (c);

(ii) A modified opinion on the program in the auditor's report on major programs as required under §200.515 Audit reporting, paragraph (c); or

(iii) Known or likely questioned costs that exceed five percent of the total Federal awards expended for the program.

(2) Notwithstanding paragraph (c)(1) of this section, OMB may approve a Federal awarding agency's request that a Type A program may not be considered low risk for a certain recipient. For example, it may be necessary for a large Type A program to be audited as a major program each year at a particular recipient to allow the Federal awarding agency to comply with 31 U.S.C. 3515. The Federal awarding agency must notify the recipient and, if known, the auditor of OMB's approval at least 180 calendar days prior to the end of the fiscal year to be audited.

(d) Step three. (1) The auditor must identify Type B programs which are high-risk using professional judgment and the criteria in §200.519 Criteria for Federal program risk. However, the auditor is not required to identify more high-risk Type B programs than at least one fourth the number of low-risk Type A programs identified as low-risk under Step 2 (paragraph (c) of this section). Except for known material weakness in internal control or compliance problems as discussed in §200.519 Criteria for Federal program risk paragraphs (b)(1), (b)(2), and (c)(1), a single criteria in risk would seldom cause a Type B program to be considered high-risk. When

identifying which Type B programs to risk assess, the auditor is encouraged to use an approach which provides an opportunity for different high-risk Type B programs to be audited as major over a period of time.

(2) The auditor is not expected to perform risk assessments on relatively small Federal programs. Therefore, the auditor is only required to perform risk assessments on Type B programs that exceed twenty-five percent (0.25) of the Type A threshold determined in Step 1 (paragraph (b) of this section).

(e) Step four. At a minimum, the auditor must audit all of the following as major programs:

(1) All Type A programs not identified as low risk under step two (paragraph (c)(1) of this section).

(2) All Type B programs identified as high-risk under step three (paragraph (d) of this section).

(3) Such additional programs may be necessary to comply with the percentage of coverage rule discussed in paragraph (f) of this section. This may require the auditor to audit more programs as major programs than the number of Type A programs.

(f) Percentage of coverage rule. If the auditee meets the criteria in §200.520 Criteria for a low-risk auditee, the auditor need only audit the major programs identified in Step 4 (paragraph (e)(1) and (2) of this section) and such additional Federal programs with Federal awards expended that, in aggregate, all major programs encompass at least 20 percent (0.20) of total Federal awards expended. Otherwise, the auditor must audit the major programs identified in Step 4 (paragraphs (e)(1) and (2) of this section) and such additional Federal programs with Federal awards expended that, in aggregate, all major programs encompass at least 40 percent (0.40) of total Federal awards expended.

(g) Documentation of risk. The auditor must include in the audit documentation the risk analysis process used in determining major programs.

(h) Auditor's judgment. When the major program determination was performed and documented in accordance with this Subpart, the auditor's judgment in applying the risk-based approach to determine major programs must be presumed correct. Challenges by Federal agencies and pass-through entities must only be for clearly improper use of the requirements in this part. However, Federal agencies and pass-through entities may provide auditors guidance about the risk of a particular Federal program and the auditor must consider this guidance in determining major programs in audits not yet completed.

§200.519 Criteria for Federal program risk.

(a) General. The auditor's determination should be based on an overall evaluation of the risk of noncompliance occurring that could be material to the Federal program. The auditor must consider criteria, such as described in paragraphs (b), (c), and (d) of this section, to identify risk in Federal programs. Also, as part of the risk analysis, the auditor may wish to discuss a particular Federal program with auditee management and the Federal agency or pass-through entity.

(b) Current and prior audit experience. (1) Weaknesses in internal control over Federal programs would indicate higher risk. Consideration should be given to the control environment over Federal programs and such factors as the expectation of management's

adherence to Federal statutes, regulations, and the terms and conditions of Federal awards and the competence and experience of personnel who administer the Federal programs.

(i) A Federal program administered under multiple internal control structures may have higher risk. When assessing risk in a large single audit, the auditor must consider whether weaknesses are isolated in a single operating unit (e.g., one college campus) or pervasive throughout the entity.

(ii) When significant parts of a Federal program are passed through to subrecipients, a weak system for monitoring subrecipients would indicate higher risk.

(2) Prior audit findings would indicate higher risk, particularly when the situations identified in the audit findings could have a significant impact on a Federal program or have not been corrected.

(3) Federal programs not recently audited as major programs may be of higher risk than Federal programs recently audited as major programs without audit findings.

(c) Oversight exercised by Federal agencies and pass-through entities. (1) Oversight exercised by Federal agencies or pass-through entities could be used to assess risk. For example, recent monitoring or other reviews performed by an oversight entity that disclosed no significant problems would indicate lower risk, whereas monitoring that disclosed significant problems would indicate higher risk.

(2) Federal agencies, with the concurrence of OMB, may identify Federal programs that are higher risk. OMB will provide this identification in the compliance supplement.

(d) Inherent risk of the Federal program. (1) The nature of a Federal program may indicate risk. Consideration should be given to the complexity of the program and the extent to which the Federal program contracts for goods and services. For example, Federal programs that disburse funds through third party contracts or have eligibility criteria may be of higher risk. Federal programs primarily involving staff payroll costs may have high risk for noncompliance with requirements of §200.430 Compensation—personal services, but otherwise be at low risk.

(2) The phase of a Federal program in its life cycle at the Federal agency may indicate risk. For example, a new Federal program with new or interim regulations may have higher risk than an established program with time-tested regulations. Also, significant changes in Federal programs, statutes, regulations, or the terms and conditions of Federal awards may increase risk.

(3) The phase of a Federal program in its life cycle at the auditee may indicate risk. For example, during the first and last years that an auditee participates in a Federal program, the risk may be higher due to start-up or closeout of program activities and staff.

(4) Type B programs with larger Federal awards expended would be of higher risk than programs with substantially smaller Federal awards expended.

§200.520 Criteria for a low-risk auditee.

An auditee that meets all of the following conditions for each of the preceding two audit periods must qualify as a low-risk auditee and be eligible for reduced audit coverage in accordance with §200.518 Major program determination.



- (a) Single audits were performed on an annual basis in accordance with the provisions of this Subpart, including submitting the data collection form and the reporting package to the FAC within the timeframe specified in §200.512 Report submission. A non-Federal entity that has biennial audits does not qualify as a low-risk auditee.
- (b) The auditor's opinion on whether the financial statements were prepared in accordance with GAAP, or a basis of accounting required by state law, and the auditor's opinion on the schedule of expenditures of Federal awards were unmodified.
- (c) There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS.
- (d) The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern.
- (e) None of the Federal programs had audit findings from any of the following in either of the preceding two audit periods in which they were classified as Type A programs:
  - (1) Internal control deficiencies that were identified as material weaknesses in the auditor's report on internal control for major programs as required under §200.515 Audit reporting, paragraph (c);
  - (2) A modified opinion on a major program in the auditor's report on major programs as required under §200.515 Audit reporting, paragraph (c); or
  - (3) Known or likely questioned costs that exceeded five percent of the total Federal awards expended for a Type A program during the audit period.