



TERMS OF REFERENCE FOR A FINANCIAL AND SYSTEMS AUDIT OF WOMEN'S ECONOMIC EMPOWERMENT THROUGH STRENGTHENING MARKET SYSTEMS (WEESMS) PROJECT

1. Introduction

The Women's Economic Empowerment through Strengthening Market Systems (WEESMS) programme is a five-year (2016-2021) initiative funded by the Embassy of Sweden, designed to increase women's participation in the labour market in rural and peri-urban Bangladesh, with a significant focus on reducing gender inequality in the country's entrepreneurship ecosystem. The WEESMS programme aims to i) increase the number of women entrepreneurs and growth of women-led SMEs, ii) improve women's access to formal and informal employment opportunities, and iii) increase retention rates of women already in the labor market across the targeted sectors.

The programme is being implemented through a partnership of iDE Bangladesh and The Asia Foundation across nine districts under the Khulna and Rangpur divisions of Bangladesh. During its inception phase, the programme conducted a thorough market research to narrow down its focus from over hundreds of industries to specifically the sub-sectors of home textiles and jute diversified products, and, processed and packaged foods.

iDE wishes to engage the services of an audit firm for the purpose of conducting a financial and systems audit of the WEESMS project, as stipulated in the agreement between Sida and iDE. The audit shall be carried out in accordance with international audit standards issued by IAASB¹. The following are the terms of reference ('ToR') on which iDE and the implementing partner, The Asia Foundation, agrees to engage the Auditor to perform a financial and systems audit for the WEESMS project.

2. Objectives

The objectives of this audit are to enable the Auditor to express an opinion according to IAASB 800/805 on whether:

- the Financial Report submitted to Sida presents fairly, in all material respects, for the period from January 1st, 2018 to December 31st, 2018 in accordance with Sida's instructions for financial reporting as stipulated in the agreement including appendix between Sida and iDE.
- the Internal Control System setup and operated by iDE and The Asia Foundation for the purpose of managing risks to the achievement of the objectives of the Project, was suitably designed and operated effectively in the period from January 1st, 2018 to December 31st, 2018.

¹ The International Auditing and Assurance Standards Board (IAASB)

3. Scope of the Audit

The Auditor should obtain a preliminary understanding of the **engagement context** on the basis of Annex IV of this ToR. This annex contains key information including the reason for the audit, logistics requirements, the Contractual Conditions for the Project, grant agreement details and key documents.

The Contractual Conditions for this Project are set out in:

- The grant agreement signed by Sida and iDE on July 19th, 2016 including Annex I Project Document including Budget and Results Framework and Annex II General Conditions;
- The sub-grant agreement signed by iDE and The Asia Foundation on September 2nd, 2016 including Annex I Project Document including Budget and Results Framework and Annex II General Conditions.

The project subject to audit covers:

- the expenditure and revenue as stated in the Financial Report of the Project for the period from January 1st, 2018 to December 31st, 2018; and
- the design and operating effectiveness of the Internal Control System in the period from January 1st, 2018 to December 31st, 2018.

Additional Assignment: according to Agreed upon procedures ISRS 4400, review the following areas:

- Follow up whether salary costs debited to the project/programme are recorded throughout the duration of the year in a systemized way and examine whether the salary costs can be verified by sufficient supporting documentation.²
- Examine whether the financial report includes a comparison, for every budget item, between the actual costs/expenditures of activities and the budgeted costs/expenditures as approved by Sida for the period.
- Based on materiality and risk the auditor shall examine whether there is supporting documentation related to incurred costs.
- Follow up whether iDE has implemented the following recommendations from the assessment of internal controls: maintained a good spirit of collaboration within the consortium. The examination includes reviewing whether iDE has implemented the action points as described in iDE's management response that has been submitted to Sida.
- Examine whether foreign exchange gains and losses are disclosed in accordance with what is stipulated in agreement including appendices.
- iDE's compliance with the applicable tax legislation in regard to taxes (e.g. PAYE)³ and social security fees.
- Follow up whether iDE has adhered to the procurement guidelines annexed to the grant agreement between Sida and iDE.
- Review if outgoing balance for previous period is the same as incoming balance for the current period.
- If iDE applies modified cash basis as accounting principle, the auditor shall motivate whether the applied accounting principle is acceptable for the type of financial report.

² if the budget includes salary costs to be debited to the project, the auditor shall always examine salary as stipulated here.

³ Pay As you Earn

The Auditor will inform iDE as soon as possible about any limitations in the scope of work he/she may find prior to or during the audit. The Auditor will also inform whether changes in the audit scope or the timetable are necessary.

4. Audit Procedures

The Auditor should perform the audit in accordance with IAASB, which covers audit planning, fieldwork and reporting. The Auditor should exercise due professional care and judgment and determine the nature, timing and extent of audit procedures to fit the objectives, scope and context of the audit.

The Auditor's attention is drawn to the **specific** aspects set out in Sections 4.1 and 4.2 below.

4.1 Planning and Fieldwork

A. Preparatory meeting with iDE and The Asia Foundation

The Auditor should arrange for an opening meeting with iDE and The Asia Foundation to discuss and explain the planning, fieldwork and reporting. The Auditor will explain the nature, objectives and scope of the audit. During the preparatory and opening meeting the Auditor may request additional information and documents that he/she considers necessary or useful for the planning and fieldwork of the audit.

B. Planning Activities, Audit Plan and Audit Work Programmes

The Auditor should have an audit plan (or a similar planning document such as an audit work plan or a planning memorandum) documenting the audit approach and key principles of audit planning, fieldwork and reporting. The Auditor should have audit work programmes, which detail and document the audit tests and procedures.

C. Materiality

Financial Audit

The Auditor should apply materiality and its relationship with audit risk to detect material errors and misstatements in the expenditure and revenue stated in the Financial Report, whether caused by error or fraud. As a standard practice the Auditor will be requested to apply a materiality threshold of 2% of the total amount of gross expenditure for the Project with a confidence level of 95%. The Auditor uses professional judgment to assess whether a finding of non-compliance is material and applies the materiality threshold and confidence level.

Systems Audit

For the purpose of determining what is material weakness or deficiency in the Internal Control System, the Auditor should assess whether the absence or failure of a control or a series of controls results in a significant risk of material error, irregularity or fraud in the use of the Project funds provided by the Sida.

D. Risk Assessment

The Auditor should assess the risks of material errors or misstatements in the expenditure and revenue stated in the Financial Report, whether caused by error or fraud. The Auditor should assess the main risks to the achievement of the objectives of the Project including the risks set out below. This work involves an assessment of the risks that:

- the Financial Report of the Project is not reliable i.e. that it does not present, in all material respects, the actual expenditure incurred and the revenue received for the Project in conformity with applicable Contractual Conditions;
- the Project funds provided by the Sida have not in all material respects, been used in conformity with applicable Contractual Conditions;
- fraud and irregularities can occur or have occurred which have an impact on Project expenditure and income and which are not detected and corrected in a timely manner
 - the relevant Contractual Conditions for the Project are not complied with. For this purpose the Auditor can concentrate on the Contractual Conditions described in the ToR Section 4.1 (Planning and Fieldwork, obtaining an understanding of the engagement context).

The Auditor should assess whether the design of the Internal Control System sufficiently mitigate those risks and whether it is operating effectively. The Auditor should consider the risks of weaknesses and deficiencies in the design or operating effectiveness of internal controls to determine the nature, timing and extent of evidence gathering procedures. A deficiency in internal control exists when:

- An internal control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, errors and misstatements in the financial report for the Project on a timely basis; or
- An internal control necessary to prevent, or detect and correct, errors and misstatements in the financial report for the Project on a timely basis is missing.

The assessment should be sufficient to design and perform further audit procedures and to determine the nature, timing and extent of test of controls and substantive (including analytical) procedures.

4.2 Reporting

The scope of the audit shall be stated in the report and the methodology used shall be presented. The reporting shall be signed by the responsible auditor (not just the audit firm) and title.

The report will be in one document covering the whole period and both of the organizations. It should include the following:

- A consolidated Statement of Financial Position (Balance Sheet) as at 31st December 2018 and Statement of Income & Expenditure, Cash Flow Statement and Variance Analysis of iDE Bangladesh and TAF for the year ended 31st December 2018.
- Separate Statement of Financial Position (Balance sheet) as at 31st December 2018 and Statement of Income & Expenditure, Cash Flow Statement and Variance Analysis for both iDE and TAF for the year ended 31st December 2018 with details notes to the accounts.

The reporting from the auditor shall include an independent auditor's report in accordance with the format in standard ISA⁴ 800/805 and the auditor's opinion shall be clearly states, as well as a Management letter with the audit findings and weaknesses identified during the audit process. The auditor shall regardless of materiality, quantify the amount for the costs lacking sufficient supporting documentation. The auditor shall make recommendations to address the weakness identified and the recommendations shall be presented in priority order. If the auditor assesses that no findings or weaknesses have been identified during the audit that would result in no Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

⁴ International Standards of Auditing

The additional assignment according to agreed upon procedures ISRS 4400 under 3. Scope of the audit, shall be reported separately in a "Report of factual findings."

If the auditor conducts an additional assignment according to ISRS 4400 and assesses that the observations presented in the "Report of factual findings" includes the information that would have been included in a Management Letter, a Management Letter does not need to be developed. In such a case, the "Report of factual findings" shall include an explanation of why a Management Letter has not been developed.

Auditor shall also verify on follow up of funds that are channelled to implementing partners of contributions equivalent of a minimum of 30% of the total of disbursed funds as well as 30% of the number of contributions. The review shall also include any observations from auditors that Sida should be informed about.

5. Standard and Requirements for the Auditor

The audit shall be carried out by an external, independent and qualified auditor and in accordance with IAASB. If the audit is performed using national audit standards, which have been assessed to be equivalent, Sida shall approve the ToR in advance. Sida will approve the selection of the auditor. Sida's standard ToR for financial audit shall be used, Annex IV of the WEESMS grants agreement.

5.1 Qualifications and Experience

The Auditor and/or the firm is a member of ICAB⁵. The Auditor will employ staff with appropriate professional qualifications and suitable experience, in particular ISA and with experience in auditing financial information of entities comparable in size and complexity to the Entity.

5.2 Team Composition

The team of auditors required for this engagement will be composed of a category 1 auditor who has the ultimate responsibility for the audit and an audit team which is composed of an appropriate mix of category 2 – 4 auditors, who have the qualifications and experience as set out below:

Category 1 – Audit Partner

An audit partner should have relevant professional qualification and with senior and managerial responsibilities in public audit practice. He/she should be a member of ICAB and must have at least 12 years of professional experience as a professional Auditor or accountant in public audit practice.

Category 2 - Audit Manager

Audit managers should have relevant professional qualification and with senior and managerial responsibilities in public audit practice. They should have at least 10 years experience as a professional auditor.

Category 3 – Senior Auditor

Senior auditors should have relevant university degree or professional qualification and at least 5-7 years professional experience in public audit practice.

Category 4 – Assistant Auditor

Assistant auditors should have a relevant university degree and at least 2 years of professional experience in public audit practice.

⁵ Institute of Chartered Accounts of Bangladesh

6. Assignment Timeline:

The audit will **commence from 21st January 2019 and shall be completed by 24th February 2019**. The Auditor shall adhere to the timetable for the consultation and submission of the draft and final audit report as set out below. The WEESMS Internal Audit Committee (IAC) will organize a kick-off meeting between the IAC members and the auditors before the audit commences.

Proposed Timeline:

No.	Activity	Deadline
1	WEESMS Audit Kick- Off Meeting with IAC	15/01/2019
2	Audit Start –iDE	21/01/2019
3	Audit Start- TAF	27/01/2019
4	Debriefing Session on Observations with IAC	12/02/2019
5	Submission of 1st Draft Audit Report	14/02/2019
6	Management Responses to Auditors- TAF and iDE	18/02/2019
7	Exit Meeting with IAC	20/02/2019
8	Final Report	24/02/2019