



## The Asia Foundation

# TERMS OF REFERENCE FOR A FINANCIAL AND SYSTEMS AUDIT OF H&M FOUNDATION FUNDED PROJECT

### **1- Introduction**

Audit is one method for exercising control, preventing corruption and ensuring that the financial contribution provided by H&M Foundation is used in the correct way. The Asia Foundation (TAF) is asking request of interest with detail work plan and budget to perform audit of its “Project Coordination of the Disaster Relief and Future Work Pilot Phase” project (funded by H&M Foundation) for the period of July 06, 2020 to September 30, 2021 from interested audit firms by or before **Sunday November 14, 2021** via email to [country.bangladesh.jobs@asiafoundation.org](mailto:country.bangladesh.jobs@asiafoundation.org). The audit shall be conducted by an external, independent and qualified auditor certified by the International Federation of Accountants, IFAC.

The H&M Foundation is a non-profit global foundation, privately funded by the Stefan Persson family, founders and main owners of H & M Hennes & Mauritz AB (H&M Group). Its mission is to drive long lasting positive change and improve living conditions by investing in people, communities and innovative ideas. Through partnerships with organizations around the globe, the H&M Foundation drives change within four focus areas; Education, Water, Equality and Planet. The H&M Foundation signed a project named “Project Coordination of the Disaster Relief and Future Work Pilot Phase” with The Asia Foundation (TAF) under project number Bangladesh-2020-005. Period of the project is July 06, 2020 to September 30, 2021 with a total budget of SEK 4,960,000.00 (equivalent to BDT 48,429,114.00).

### **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 H&M Foundation presents fairly, in all material respects, for the period from July 06, 2020 to September 30, 2021 in accordance with H&M Foundation’s instructions for financial reporting as stipulated in the agreement including appendix between H&M Foundation and The Asia Foundation
- the Internal Control System set up and operated by The Asia Foundation for the purpose of managing risks to the achievement of the objectives of the Project, was suitably designed and operated effectively.

### **3. Scope of the Audit**

The audit shall be reported according to the following two formats in **Appendix 1 and 2** of this document, which includes an audit opinion in the submitted Independent Auditor’s report, and a Report on Factual Findings for agreed-upon procedures. The audit performed is a financial audit and the auditor is not expected to express an opinion on effects and results of the project.

The audit shall result in either two reports from the auditor or one report with two parts:



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## **A. INDEPENDENT AUDITOR'S REPORT**

The auditor shall audit the projects in accordance with (International Standards on Auditing) ISA 800 “Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks” and/or ISA 805 “Special considerations -Audits of single financial statements and specific elements, accounts or items of a financial statement”. The auditor shall submit an “Independent Auditor’s report”, including an audit opinion. Please see [format for an Independent Auditor’s report, appendix 1](#). It is of great importance that the audit has been conducted according to International Standards on Auditing and that this is clearly stated under basis of opinion.

## **B. REPORT OF FACTUAL FINDINGS**

The auditor shall also, attached to the Independent Auditor’s report, submit a Report of Factual Findings according to ISRS 4400. The Report of Factual Findings shall include factual findings for each of the following procedures:

1. Examine if the financial reporting has been done in accordance with the existing agreement with H&M Foundation (All material deviations are to be reported)
2. Examine if the project has been carried out according to the agreement.
3. If applicable, examine if an audit according to the agreement has been performed in all cases where funds have been transferred to another implementing party. Highlight significant findings from the report done by the local auditor. If there are no significant findings, please state this
4. Examine if the funds have been transferred through a bank account to any other implementing party
5. Examine if the organization has signed agreements with other organizations to which it, in accordance with the agreement, channels funds. It is the responsibility of the organization to ensure that correct instructions regarding audit requirements are communicated to such partners
6. Examine if the organization has procurement regulations which have been followed.
7. Examine if the organization has an internal control system in place that is sufficient for the carrying out and reporting of the project, in accordance with the agreement.
8. Examine if the organization has sufficient internal control systems in place relating to fraud and corruption.

Please see [example and format for a Report of Factual Findings, appendix 2](#).

H&M Foundation wants to have information about the selected auditor. We need the name and email address as our auditors in Sweden may want to have direct correspondence. The audit report should be provided to H&M Foundation at the latest three months after the completion of the project and should be provided in one original signed set.

## **4 - 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, H&M Foundation shall approve the ToR and selection of the auditor.

### **4.1 Qualifications and Experience**

The Auditor and/or the firm is a member of ICAB. 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.



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### **4.2 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 - Audit Timeline**

The audit firm should strictly follow the timeline for deliverables as per the list mentioned below:

<b><u>Work</u></b>	<b><u>Timeline</u></b>
Entrance meeting with TAF Management	Monday, November 22, 2021
Providing of list of required documents by the auditor	Monday, November 22, 2021
Providing required documents to the auditor	Monday, November 22, 2021
Field work and communication with TAF Finance (at TAF office)	Tuesday, November 23, 2021 to Tuesday, December 07, 2021
Submission of draft report to TAF Management	Tuesday, December 14, 2021
Exit Meeting with TAF Management	Monday, December 20, 2021
Submission of Final Report to TAF Management for signing	Monday, December 27, 2021

TAF Bangladesh office business hour is 9.00 am to 5.00 pm during the working days. Audit team should follow the business hours. In case of any situation due to Covid-19 that will be discussed with audit team.

Audit team should follow TAF security guidance on Covid-19.



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## APPENDIX 1

### ILLUSTRATION OF INDEPENDENT AUDITOR'S REPORT

#### INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

We have audited the financial report for the project [PROJECT NAME (PROJECT NO)] for the period DD MONTH 20YY- DD MONTH 20YY, indicating total costs of [CURRENCY] [AMOUNT]. The financial report has been prepared by Project Management according to the agreement with H&M Foundation dated DD MONTH 20YY and shall be adapted to current project.

#### *Project Management's responsibility for the financial report*

Project Management is responsible for the preparation of a financial report according to the above-mentioned agreement and for such internal control as Project Management determines is necessary to prepare a financial report which is free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with International Standards on Auditing (with the application of ISA 800/805) and in our view the applicable parts of the agreement between [ORG] and H&M Foundation. This standard requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial report, whether due to fraud or error. In making this risk assessment, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Project Management, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial report is, in all material respects, consistent with the organization's accounts, and has, in all material respects, been prepared in accordance with the agreement between [ORG] and H&M Foundation.

#### *Basis of Accounting and Restriction on Distribution*

Without modifying our opinion, we would like to draw attention to the fact that the financial report has been prepared according to the agreement between [ORG] and H&M Foundation. The financial report is prepared to assist [ORG] to meet the requirements of H&M Foundation. As a result, the financial report may not be suitable for any other purpose. Our report is intended solely for [ORG] and H&M Foundation and should not be distributed to parties other than [ORG] and H&M Foundation.

#### *Other matters*

We have also submitted a Report of Factual findings.

Place, DD MONTH 20YY

[Date of the auditor's report]

[Auditor's signature]

[First name Last name] [Title of auditor]

[Address]



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## APPENDIX 2

### TEMPLATE ACCORDING TO ISRS 4400

For engagement to perform agreed-upon procedures regarding financial information

#### Report of factual findings

To the management of [ORG]

We have performed the agreed-upon procedures as specified below concerning the enclosed financial report to H&M Foundation concerning project number [XXX], for the time period DD MM YYYY to DD MM YYYY showing total expenditure of [currency] [amount]. Our engagement was performed in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements, ISRS 4400. The procedures were performed solely to assist you in your commitment towards H&M Foundation regarding the provision of a report on how funds from H&M Foundation have been used and are summarized as follows:

1. We have examined if the project has been carried out according to the agreement.
2. We have examined if an audit according to the audit instructions from H&M Foundation has been performed in all cases where funds have been transferred to another implementing party.
3. We have examined if the funds have been transferred through a bank account to any other implementing party.
4. We have examined if the organization has signed agreements with other organizations to which it, in accordance with the agreement, channels funds. It is the responsibility of the organization to ensure that correct instructions regarding audit requirements are communicated to such partners.
5. We have examined if the organization has procurement regulations which have been followed.
6. We have examined if the organization has an internal control system in place that is sufficient for the carrying out and reporting of the project, in accordance with the agreement.
7. We have examined if the organization has sufficient internal control systems in place relating to fraud and corruption.

#### Outcome and significant observations

We report our findings below:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

[NB. In cases where observations have been made or if there are uncertainties regarding any of the items, a detailed description of the observation or uncertainty shall be provided.]

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties than H&M Foundation. This report relates only to the financial report specified above.

[Date and place]

[First name Last name]

[Title of auditor]

[Address]