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TERMS OF REFERENCE FOR ANNUAL AND MANAGEMENT AUDIT OF PALLI KARMA-SAHAYAK FOUNDATION (PKSF) BY STATUTORY AUDITOR (EFFECTIVE FROM FY 2017-2018)

Annex-1

TERMS OF REFERENCE FOR
ANNUAL AND MANAGEMENT AUDIT OF PKSF BY STATUTORY AUDITOR

INTRODUCTION

Palli Karma-Sahayak Foundation (PKSF), an apex development organization, was established by the Government of Bangladesh (GoB) in May 1990 for sustainable poverty reduction through employment generation. Legally, PKSF is a "company not for profit" and is registered under the Companies Act 1913 (as replaced by the Companies Act 1994) with the registrar of Joint Stock Companies. The legal structure of PKSF allows flexibility and authority to undertake programmes in a dynamic environment, implementing them throughout the country and manage its affairs as an independent organization.

BACKGROUND OF AUDIT

The financial statements of PKSF are prepared in accordance with International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) as adopted in Bangladesh as Bangladesh Accounting Standards (BAS)/Bangladesh Financial Reporting Standards (BFRS). The Annual Audit Reports to the members of the General Body of PKSF shall be submitted directly to the Deputy Managing Director (Admin) with a CC to the Managing Director, PKSF. The auditor would maintain working papers in a systematic manner and if required, these will be made available for review by PKSF, GoB and Donors/Funders.

A. ANNUAL AUDIT

1. General Guidelines for Financial Audit

The Audit of PKSF shall be carried out in accordance with the International Standards on Auditing (ISA) as adopted in Bangladesh as Bangladesh Standards on Auditing (BSA), the Companies Act 1994 and other relevant Rules and Regulations. The auditor is expected to give opinion on the Consolidated Financial Statements of PKSF inclusive of its core program and all project activities, for the twelve month period ending June 30, 2018. The auditor shall also issue a report regarding PKSF's compliance of IAS/IFRS (BAS/BFRS). The Financial Statements would include:

a) Statement of Financial Position;
b) Statement of Profit or Loss and other Comprehensive Income;
c) Statement of Cash Flows;
d) Statement of Changes in Equity and
e) Notes to the Financial Statements.

2. Auditor's Compliance Certification

Simultaneous with the issuance of the Independent Auditor's Report along with audited financial statements of PKSF, the auditor will issue a certification as to PKSF's compliance with the eligibility criteria as mentioned in Annex-1 & 2.

B. THE MANAGEMENT AUDIT

PKSF appoints Chartered Accountants firms to audit PKSF funded programs and projects of its Partner Organizations. PKSF has also an Internal Audit Department to carry out internal audit of its POs development programs and projects funded by PKSF. Internal Audit Department also does system audit and transactional pre-audits in PKSF to ensure transparency, to prevent and minimize errors. PKSF recognizes the need for a management audit that would enhance the institution-wide objective of good governance, efficiency and transparency. To this end, the external auditor would design an audit plan that would cover various aspects of operations including internal control. PKSF's management is expected to make its comments on the audit findings.

Reporting on the Management Audit shall be in two parts:

I. Management Report on Internal Control
II. Management Audit

I. Management Report on Internal Control:

The Management report shall include observations on the following aspects:

a) overall review of PKSF's Financial Accounting Reporting system;
b) PKSF's Financial Reporting Compliance with IAS/IFRS (BAS/BFRS);
c) investments (FDR and Fixed assets);
d) payables and accruals;
e) contractual obligations;
f) utilization of fund received from GoB/Donors/Funders;
g) suggestions for improvement in Fund Administration;
h) suggestion for effective implementation of PKSF MIS and FMS software packages;
i) adequacy of MIS reporting;
j) adequacy of reports on the funding of POs;
k) assessing training needs of PKSF staffs on financial management, MIS, FMS, Internal Audit and VAT/Tax etc;
l) report on Compliance of the prior years audit observations and report on implementation status; and
m) report on providing grant for education, health, sports and other services to the targeted peoples through its POs.

II. Management Audit:

The Management Audit should cover the following areas as the minimum:

a) the minutes of meetings of the Governing Body and various management committees to determine key aspects of policy directions, governance and major decisions;
b) compliance of operations and transactions with policies and resolutions adopted by the Governing Body;

c) the incidence of formal stipulations, influence or consultative privilege/power by PKSF and/or its officers and staff over the interest rates charged by POs;

d) the extent to which new loans approved by PKSF would tend to increase the likelihood of provisioning for doubtful accounts and the extent to which PKSF utilizes the loan classification and provisioning methodology consistent with the methodology used in these ToRs;

e) the adequacy of steps taken to collect overdue loans and improve the chances of recovery of problematic loans;

f) practices, developments (including significant ones within Large, Medium, Small Category POs), transactions or patterns which could significantly affect loan collection rates and the quality of the loan portfolio;

g) the extent to which PKSF's staff recruitment and development meet measures of productivity and work standards that serve as the basis for judging staffing adequacy, redundancy and performance;

h) the extent to which organization-wide operations (including top/senior management down to the lowest staff level) comply with internal controls and procedures, accounting and administrative controls, authorized budgets, and arms' length transactions that avoid insider conflicts of interest;

i) the extent to which PKSF is able to satisfactorily manage its Information Technology (IT) risks;

j) implementation progress of programs/projects;

k) implementation progress of the institutional development program;

l) adequacy of loan files covering the minimum documentation needed to protect the interests of PKSF as a creditor;

m) satisfactory arrangements for the placements of deposits and other liquid assets;

n) the conduct of liquidity management;

o) adequacy of internal audit and the audit of POs;

p) other important aspects of PKSF's operations and systems, which in the judgment of the auditor, should be addressed by the management;

q) other aspects of operations which could have a material bearing on PKSF's financial performance and soundness and

r) the progress made in correcting operational and control deficiencies disclosed during past annual audits.

C. ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL AUDIT FUNCTIONS

The internal audit department of Palli Karma-Sahayak Foundation (PKSF) is an independent unit of PKSF headed by a senior official who directly reports to the Managing Director (MD), who is also the member-secretary of the Governing Body and the General Body of PKSF. PKSF internal audit department primarily safeguards the interest of PKSF, its Partner Organizations (POs) and the Development Partner Agencies as well. The core objective of PKSF's internal audit department is to ensure the accuracy, relevance & transparency of all sorts of financial transactions made by the various Programs/Projects of PKSF and its Partner Organizations (POs). Through meticulous examination and cross-checks, PKSF internal audit department ensures desired utilization of all funds in accordance with the budgetary allocation, systems and policy framework approved by the Governing Body of PKSF.

The Statutory Auditor assesses, inter alia, the effectiveness of internal audit functions of PKSF. In particular, the auditor will check monitoring of audit process and quality of internal audit functions.

REPORTING

The Statutory Auditor will issue:

(i) An interim assessment report on monitoring and effectiveness of overall internal audit functions of PKSF which will be submitted to PKSF within 15th February 2018. This interim assessment report will be finalized through a standard validation process that involves operation division and internal audit department of PKSF.

(ii) An assessment report on monitoring and effectiveness of overall internal audit functions of PKSF which will be submitted to PKSF with the annual audit reports.

Annex-2

TERMS OF REFERENCE FOR AUDIT OF PROJECT ACCOUNTS
Related Statement of Expenditures and Special Account (CONTASA, SAFE, IMPREST etc.)

I. INTRODUCTION

Palli Karma-Sahayak Foundation (PKSF) is an apex organization for promoting appropriate financing. Beside its core program, with the objective of and generating income, employment opportunity and reducing poverty, PKSF is implementing other projects which will provide support to target poor with access to credit & services and employment opportunities and which will help institutional development of PKSF and capacity building of its Partner Organizations to provide sustainable financial services.

II. OBJECTIVE OF AUDIT SERVICES

The objective of the audit of Project Financial Statements (PFSs) is to enable the auditor to express an independent opinion on the financial position of the Projects as at June 30 of each financial year and the sources and application of funds of the Project during the year. In preparing the audit opinion, the auditor will ensure that the procurement procedures used are satisfactory, review the funds received and expenditures incurred during the reporting period as reported by the PFSs as well as furnish separate opinions on the Statement of Expenditures (SoEs) and Special Accounts (SAs) (if any) e.g., CONTASA, SAFE, IMPREST etc. The auditor would maintain working papers in a systematic manner and if required, which would be made available for review by PKSF, GoB and Donors/Funders.

III. SCOPE OF AUDIT SERVICES

1. The audit would cover all projects run by PKSF during the financial year i.e. covering all receipts and application of funds from whatever source. The auditor would visit the project related field offices of at least 05 (five) Partner Organizations (POs) for the audit. The audit for the first year would also cover transactions, which occurred before the commencement of the project and financed retroactively or under Project Preparation Facility Advances (if any).
2. The auditor will audit the following PFSs of the project:
    - a Summary of funds received from Donors/Funders through GoB and a Summary of Expenditures shown under the categories of expenditures including the procurement methods employed;
    - a statement of the SA showing: opening balance, funds received and disbursed and closing balance with a reconciliation to the actual Special Account balance;
    - a list of SoEs used (if any);
    - all withdrawal applications accurately reflect expenditures and activities of the project;
    - all financial reporting to Donors/Funders (if any) and

- the auditor will certify that all financial reporting used as the basis for the submission of withdrawal applications, accurately reflect expenditures and activities of the project.

3. PKSF will also prepare a reconciliation statement with the amounts shown as "Received from Donors/Funders" and "Disbursed by Donors/Funders". The auditor will review this reconciliation, which will include a review of the mechanisms for the disbursements, i.e. SAs, SoEs and direct reimbursement.

4. The audit should be carried out in accordance with the International Standards on Auditing (ISA) as adopted in Bangladesh as Bangladesh Standards on Auditing (BSA). Specific areas of coverage of the audit will include the followings:

   a) An assessment of whether the PFSs have been consistently prepared in accordance with the applicable International Accounting Standards (IAS)/International Reporting Financial Standards (IFRS) as adopted in Bangladesh and give a true and fair view of the operations of the project during the year and the financial position of the project at the end of the fiscal year. Any material deviations from IAS/IFRS (BAS/BFRS) and the impact of such deviations on the PFSs as presented would be stated;

   b) An assessment of the adequacy of the project financial management systems including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls and any need for revision; level of compliance with established policies, plans and procedures; reliability of accounting systems, data and financial reports; methods of remedying weak controls or creating them where there is none; verification of assets and liabilities; and integrity, controls, security and effectiveness of the operations of the computerized system. This would be done every year of project implementation and a specific report on this aspect would be provided by the auditor annually and

   c) An assessment of compliance with provisions of financing agreements (SGA, LA, SLGA etc.), especially those relating to accounting and financial matters. This would, inter alia, include verification that:

      - all credit funds have been used in accordance with the conditions of SGA, LA, SLGA etc. with due regard to economy, effectively and efficiency and only for the purposes for which the financing was provided;
      - matching funds have been provided and used in accordance with the relevant financing agreements, with due regard to economy, effectively and efficiency and only for the purposes for which they were provided;
      - expenditures charged to the project are eligible expenditures and have been correctly classified;
      - goods and services financed have been procured in accordance with the Donors/Funders procurement guidelines and the provisions of SGA, SLGA etc.;
      - all necessary supporting documents, records and accounts have been kept in respect of the project. Clear linkages exist between the books of account and reports presented to Donors/Funders;

- the SoEs submitted during the fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals;
- the SA (CONTASA, SAFE, IMPREST etc.) has been used and maintained in accordance with the provision of SGA, SLGA etc. and
- when Interim Unaudited Financial Reporting (IUFR) based disbursements are followed, the auditor will certify that all IUFRs used as the basis for the submission of withdrawal applications, accurately reflect expenditures and activities on the project.

5. Management Letter:

In addition to the independent auditor's reports and audited financial statements of the project, the auditor will prepare a "management letter," in which the auditor will:

(i) give comments and observations on the notes to the accounts, accounting records, systems, internal controls and PO's field visits that were examined by the auditor during the course of the audit and place the comments separately to the management;

(ii) identify specific deficiencies and areas of weakness in systems and internal controls and make recommendations for improvement;

(iii) report on the degree of compliance of each of the financial covenants in the SGA, LA, SLGA etc. and give comments, if any, on internal and external matters affecting such compliance and

(iv) communicate matters that have come to the attention during the audit which might have a significant impact on the implementation of the Project.

IV. REPORTING

The auditor's report should cover the followings:

(i) Individual Auditors' Report and audited financial statements of all projects run by PKSF;

(ii) Individual Management Report on all projects run by PKSF;

(iii) Certification of Statement of Expenditures (SoEs) of the projects including Projects' Special Accounts on projects run by PKSF.

Acronyms

- PKSF: Palli Karma-Sahayak Foundation
- PO: Partner Organization
- SGA: Subsidiary Grant Agreement
- LA: Loan Agreement
- SLGA: Subsidiary Loan And Grant Agreement
- SA: Special Account
- PFS: Project Financial Statement