

Standard Terms of Reference (ToR) for Annual Audit of PACTA Project

Annexure-01

AUDIT OF FINANCIAL STATEMENTS AND REVIEW ON FINANCIAL MATTERS/ ISSUES of Participatory Action against Corruption: Towards Transparency and Accountability (PACTA) by Transparency International Bangladesh (TIB) for the period from 01 January 2025 to 31 December 2026.

Background of TIB

Transparency International Bangladesh (TIB), accredited national chapter of Berlin-based Transparency International (TI), began its activities as a Trust in 1996. TIB obtained the approval from the Government of Bangladesh for registration as a non-governmental organization in 1998.

Mission-Creating Anti-Corruption Demand

TIB's mission is to catalyze and strengthen a participatory social movement to raise and strengthen voice and intensify demand for accountability through strengthening institutions, laws and practices and establishing an efficient and transparent system of governance, politics and business. TIB's research, campaign and advocacy initiatives are geared to policy and institutional reforms for controlling corruption, and thereby reducing poverty and promoting sustainable development.

TIB's Work:

Among the many NGOs that work on rights and governance related issues in Bangladesh, Transparency International Bangladesh (TIB) is the only organization, which singularly works with the core mandate of good governance and anti-corruption. Since its inception in 1996, TIB's combined role of research and advocacy has contributed significantly to the generation of anti-corruption knowledge, development of policy recommendations for good governance and engagement with stakeholders in driving social movement against corruption. In spite of often being visibly on a collision course with a section of the high and mighty, TIB has earned proven skills and capacity to work with the government as well as political and other stakeholders, and has succeeded to bring legal, policy and institutional reforms. Application and enforcement however remain a major concern, on which TIB's current and forthcoming programme is targeted. Working in partnership with the government, civil society organisations and citizens is fundamental to TIB's approach. To this end, it has been consistently working to strengthen both the demand and supply sides of anti-corruption, by building citizen's capacity to demand for anti-corruption and at the same time assisting the government to identify governance risks and deficits and initiate necessary law and policy reforms. Achievements gained in the process demonstrate the need for sustained and strategic engagement on corruption.

Geographic location:

In PACTA, activities at the central level will remain very similar to what it is today, with an important difference however, which is the inputs used in TIB's interactions with the central Government will now be informed in greater detail by the analysis derived from the data collected during ACGs' monitoring.

At the local level, TIB's interventions will progressively become granular. While during the first two years of the new programme, a large part of the work will be devoted to testing and improving on the methodology, training and capacity building, and setting-up instruments for a smooth scale-up, the third, fourth and fifth years will be dedicated to deepening the work in TIB's 45 CCC locations (38 districts and 7 sub-districts). After the first 5 years of the programme implementation, TIB will focus on expanding PACTA to the remaining districts of Bangladesh and eventually deepen its work there also.

TIB's PACTApp intervention will also target Dhaka and gradually other urban centres. The methodology will be adapted, as the dynamics of beneficiaries in rural and urban settings will invariably differ. Feasibility of the pilot monitoring will be tested starting in year 03 in Dhaka and Chittagong where a large part of the population lives and experience the impact of public services deficiencies.

Objective of PACTA Project

TIB is currently implementing its proposed project, Participatory Action against Corruption: Towards Transparency and Accountability – PACTA (2022-2026), with aiming at improving the governance capacity and practices by catalysing further legal, policy and institutional reforms and application through national level research and knowledge-based advocacy, at improving delivery of services at grassroots level by reducing irregularities and corrupt practices, specifically focusing on the governance challenges of ensuring rights and entitlements for women, Persons with Disability, ethnic minorities, and other marginalized people, as well as ensuring inclusive and improved governance of relevant institutions involved in service delivery. The project will mark a paradigm shift in TIB's interventions by transforming voice into action with a greater engagement of people by the application of a tailor-made information technology tool called PACTApp.

Source of Funding

The main source of funding is donors' contribution for implementing specific project. TIB's current activities within the PACTA project are funded by contributions from: FCDO of the UK, SIDA of Sweden, The state of Netherlands, Open Society Foundation (OSF), USA and SDC of Switzerland.

TIB raises funds only from donors who share its anti-corruption values and goals. It does not accept funds that might impair the independence of TIB, nor are any contributions accepted that require TIB do anything inconsistent with its mission. Audited financial reports and accounts are available for information to anyone who may be interested.

Budget

Total budget for PACTA from 2025 to 2026 is BDT 1,078,289,515 for 2 years. Total budget for the year from 1st January 2025 to 31st December 2025 is BDT 548,144,790.

Year wise budget:

Year	Budget amount
Year 4 (01-01-2025 to 31-12-2025)	548,144,790
Year 5 (01-01-2026 to 31-12-2026)	530,144,725
Total in BDT	1,078,289,515

Control system of TIB

TIB has an Operations & Management Manual (Budget Manual, Procurement Manual, Transport and Travel Manual, CCC Finance Manual, Finance Manual, Property and Stores Manual) and a HR Manual.

Control activities are:

Approval/authorization/verification, Reconciliation, Review of performance, Security of assets, Segregation of duties etc.

TIB has Internal Audit unit to strengthen its internal control system.

TIB Accounting System

TIB presently uses accounting software SAGE 300 for recording the accounting information and preparing the accounts like receipts & payments accounts, income & expenditure statement and balance sheet. TIB being a non-profit organization, donations are shown as income and all expenditure including capital ones are shown as expenses.

The financial statements are prepared on cash basis except the outstanding bills and Payable to staff.

Field offices' expenditures are adjusted against advance to field offices transferred quarterly and/or as need based. Each field office maintains cash book, general ledger and other relevant registers for recording transactions, reporting and managing inventory. Each field office maintains separate bank accounts, which are used for managing fund/advance. Financial reports are prepared monthly and based on the report, advance is adjusted in TIB Dhaka Office in each month.

1. Fundamental principles

1.1 The audit of financial statements and the review on specific financial matters of project ("audit and review") is to be carried out by an independent auditor ("the auditor"), having the required professional competency and experience and in accordance with generally accepted international auditing standard.

1.2 These Terms of Reference ("TOR") define the mandate of the auditor in connection with the audit and financial review of projects/programs of cooperation/implementing partner ("the partner"), financed by the Donors¹. The audit and financial review is based on the professional requirements and guidelines governing the professional work to be undertaken by an auditor in relation to an audit and review engagement.

1.3 In planning, conducting and reporting on the audit and financial review, the auditor shall give due considerations to the following auditing and other standards promulgated by international professional bodies and shall carry out the audit in accordance with those standards:

- International Standards on Auditing, assurance and ethics issued by IFAC (International Federation of Accountants)
- International Accounting Standard (IAS)/ International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) .

In addition, the relevant standards of the local accounting profession as well as the local legislation on accounting and reporting in force in the country in which the audit and financial review is carried out need to be taken into consideration by the auditor.

2. Overall principles of the audit and financial review

The auditor is required to plan, execute and report on the audit and review engagement in order to form a professional judgment and express an independent audit opinion (as per ISA 700 or National standards on auditing) on the financial statements with application of ISA (reporting according to ISA 800/805) and a separate assignment according to ISRS 4400 under section II as a whole whether the financial statements give a true and fair view supporting with a review report on the following matters relating to the activities and the organization of TIB.

¹ The donors are represented by FCDO of the UK, SIDA of Sweden, The state of Netherlands, Open Society Foundation (OSF) of USA and SDC of Switzerland.

3. Documents of reference

The following documents and matters are to be considered by the auditor as basic references for performing the audit and financial review:

Legislation: the audit and review engagement (as per ISA 700 or National standards on auditing) on the financial statements with application of ISA (reporting according to ISA 800/805) and a separate assignment according to procedure of ISRS 4400 under section II.

Project/program: Cooperation agreement relative to the project or to the partner organization; Project Document/ Terms of Reference (TOR), budgets, financing plans, programs of project activities; project management procedures; any other documents concerning the project/program.

Accounting: Accounting documents subject to the audit and financial review; financial and operational reports concerning the project/program.

Auditor: The present terms of reference and the related mandate for audit and financial review; prior internal and external audit reports of the partner; any other information requested from the partner by the auditor.

4. Planning the audit and financial review

The auditor shall adequately plan the audit and financial review engagement well in advance of the work and ensure the execution of the audit and financial review of highest professional quality in an economical and efficient manner and within the agreed timetable.

On the basis of the information received during the planning phase, including review risk assessment, the auditor shall determine:

- the type of transactions to be reviewed and the review method (full or random sample);
- the type of physical verifications and the sites to be selected;
- number of site visits to be planned.

The auditor undertakes to ensure continuity in the audit and review approach of the audit & financial review engagement and the audit and review team, even if there is a change in the leader of the audit & review team from the prior year.

5. Place of audit and financial review

The audit & financial review is to be carried out within the project environment (administrative offices and/or decentralized sites, if applicable). Field office/CCC offices visit is optional as all the financial documents shall be available in Dhaka office.

6. Management representation of full disclosure

The auditor shall obtain a management representation letter signed by the management of the audited and reviewed organization, certifying:

- a) the acknowledgement of the organization's responsibility for the keeping of accounts and financial documents that are correct, complete, fair, representing the true facts, in conformity with the objectives of the project, the documents of reference (description of the project, contracts, budgets, etc.) and national legislation.
- b) that all accounting records, supporting and other documents, minutes and any other pertinent information necessary for the review be at the disposal of the auditor.
- c) the completeness of information concerning property and goods.
- d) the completeness of information concerning financing received or due and own financing concerning the reviewed period, for the project being examined.
- e) the availability of any information and explanations, either orally or by written confirmation, which might be required by the auditor in the execution of his mandate.

The consolidated financial statements, including balance sheets and profit and loss statements of the project are to be annexed to the declaration and form an integral part thereof. This declaration shall be included in the audit and financial review report.

7. Detailed audit and financial review procedures

Appropriate audit and review procedures are to be applied by the auditor in order to form a professional judgment on the matters outlined below. These procedures applied, either on a full scope or random basis, may include: controls, checking, evaluation, inspection, interview, analysis and other review techniques. When selecting the review procedures, the auditor shall consider the results of his review risk assessment (during planning stage and during the course of the audit and review work).

Accordingly, he must define and carry out suitable review tasks in order to obtain an overview of the aforementioned aspects before he assesses the individual findings and reaches a final independent decision on the review.

The auditor is expected to select and apply any other audit and review procedures that he may consider necessary in the professional execution of the audit and financial review engagement.

Upon receipt of the audit and financial review report, the Donors or any third persons designated by the Donors reserve the right to request other audit and review procedures to cope with the change in circumstances in the project or of the organization of the partner.

Examples of possible review procedures are:

7.1 Principles of orderliness (financial regularity) – Principle 2.1

Project related matters:

- a) Authorizations/approvals of expenditures and validity with supporting documents,
- b) Details of funds received for the project and reconciliation with the information supplied by the donor(s),
- c) Physical existence and movements of the goods representing the property of the project (fixed assets, inventory items, current assets);

- d) Allocation of expenditures in conformity with the agreed budget(s),
- e) Conformity of local contracts with local legislation currently in force,
- f) Disposition and implementation of observations, adjustments and recommendations resulting from previous financial review reports.

Accounting related matters:

- a) Arithmetic exactitude of the accounts, supporting documents and financial statements and reports,
- b) Correctness of the accounting entries,
- c) Timeliness of recording economic events and transactions in the general ledger accounts,
- d) Financial statements and report information in agreement with the general ledger accounts,
- e) Adequacy and completeness of revenues, revenues are booked correctly
- f) Assessment of accounts receivable and advances; justification for overdue/unpaid amounts in excess of one month,
- g) Reconciliation of balances of cash in hand and in banks with the general ledger accounts,
- h) Disposition and implementation of observations and recommendations as well as adjustments and recommendations resulting from previous financial review and/or audit reports.

7.2 Existence, adequacy and effectiveness of the Internal Control System (ICS) - Principle 2.2

- a) Adequacy of the internal organization (structures, functions, tasks, authority, responsibilities, methods, procedures, segregation of duties etc.),
- b) Effectiveness of project and financial accounting and reporting processes,
- c) Adherence to applicable laws, regulations and instructions,
- d) Physical safeguard of assets,
- e) Prevention of accounting errors and financial fraud,
- f) Adequacy and completeness of information and financial reporting system.

7.3 Conformity with the project objectives and adherence to the contract conditions – Principle 2.3

- a) Agreement of transactions, expenditures and receipts by comparison with the basic project documents (project description, programs of activities, contracts, terms of reference, budgets etc.);
- b) Verification that goods purchased with allocated funds are utilized within the defined objectives and are still available or have been disposed/sold in conformity with the procedures defined in the project agreement/contract;
- c) Verification whether the clauses of the project agreement/contract have been respected;
- d) Verification that the annual and accumulated expenditures correspond to the agreed budgets. Analysis of deviations between budgeted and actual expenses and substantiation of major budget variations (+/- 10 % of the budget).

7.3 Economical conduct of business and effective use of financial resources – Principle 2.4

- a) Financial resources are utilized for the activities, as stipulated in the project agreement, contract with the consultant/implementer and terms of reference, always ensuring an appropriate level of cost and benefits;
- b) Existence and application of adequate measures in the internal control system (ICS) in respect of the utilization of committed resources;
- c) Application of management procedures relative to the various project transactions. In particular, adequate segregation of duties for vital functions and processes, like entering commitments, authorizing and accounting of expenditures, reconciliation of cash on hand and in banks, follow-up on long outstanding debtors and creditors, physical control over inventories, etc.);
- d) Expenditures are in line with the agreed budget positions;
- e) Any deviations of actual expenses from the agreed budget are reasonably explained and adequately documented by the project management
- f) Existence of adequate bid and purchasing procedures. e.g. best cost/benefit ratio for materials and services, conformity of price offers with local practices and cost levels;
- g) Confirmation that prices and rates are subject to regular verification and that the accounting system in use is adequate to the requirements of a management tool, particularly as it concerns cost analysis;
- h) Review and substantiation of expenditures of local and foreign experts/consultants (rent, travel expenses, accommodations, allowances etc.);
- i) Review and substantiation of expenditures related to national staff (gross salary, Provident fund contribution, income taxes etc.);
- j) Existence of the vehicle logbook and verification that private use of vehicles has been invoiced and paid;
- k) Verification that IT systems under development meet the objectives of the project/organization.
- l) Review of hardware and software inventory related to the project's needs

7.5. Findings and recommendations

In the audit and financial review report, the auditor is expected to

- explain and quantify any adjusting and/or reclassification entries, and to
- formulate recommendations for the improvement of the internal control system (ICS) as well as of project and accounting procedures.

In addition to audit and financial review opinion, the auditor will also provide a management report containing the matters that may not affect auditor's opinion, but need to disclose to TIB management. The management report will include findings, consequences of the findings and

recommended action and response from TIB management. A statement of follow up of previous year's auditor's observations with comments whether adequate measure have been taken, will also be included in that management report.

8. Additional assignment; according to agreed upon procedures ISRS 4400

Mandatory procedures that must be included:

1. Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget.
2. Observe and inspect whether the financial report provides information regarding:
 - a) Financial outcome per budget line (both incomes and costs) for the reporting period and columns for cumulative information regarding earlier periods under current agreement.
 - b) When applicable, compare if the opening fund balance for the reporting period matches with what was stated as closing fund balance in the previous reporting period.
 - c) A disclosure of exchange gains/losses. Inquire and confirm whether the disclosure includes the entire chain of currency exchange from Sida's disbursement to the handling of the project/programme within the organization in local currency/ies, if applicable.
 - d) Explanatory notes (such as, for instance, accounting principles applied for the financial report).
 - e) Amount of funds that has been forwarded to implementing partners, when applicable.
3. Regarding salary calculation and relevant documents:
 - a) Inquire and inspect with what frequency salary costs during the reporting period are debited to the project/programme (By choosing three individual and different months).
 - b) Inquire and inspect whether there are supporting documentation for debited salary costs.
 - c) Inquire and inspect whether actual time worked is documented and verified by a manager. Inquire and inspect within which frequency reconciliations between debited time and actual worked time is performed
 - d) Inspect whether the Cooperation partner comply with applicable tax legislation with regard to personal income taxes (PAYE).
4. Regarding unspent fund balance and reporting exchange gain:
 - a) Inspect and confirm that the unspent fund balance (according to the financial report) at the end of the financial year is in line with information provided in the accounting system and/or bank account.
 - b) Applicable in final year: Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that shall be repaid to the respective donor.

9. Closing meeting

After the completion of the audit and financial review engagement, but before leaving the project or the premises of the partner, the auditor may hold a closing meeting with the persons responsible for the project/program (directors) and the staff responsible for accounting and reporting. The meeting shall address the results of the project review, discuss major weaknesses in the project, administrative and financial management, and propose recommendations to improve the project management, the accounting procedures and the internal control system (ICS).

10. Audit and Financial review report

The review report and audit report of the auditor shall explicitly be responsive to the overall principles applicable to the audit and review engagement, as stated under # 2.

The principle of orderliness (financial regularity) and the existence of the ICS have to be positively confirmed by the auditor.

The aspects adequacy and effectiveness of ICS, the conformity with the project objectives and adherence to the contract conditions and the economical conduct of business and effective use of financial resources are to be expressed in a so called "negative confirmation" based on the executed audit actions.

We expect the following paragraph to be included in the report:

"Based on our review, nothing has come to our attention that causes us to believe that

- the Internal Control System (ICS) is not adequately or effectively organized
- the project execution is not in conformity with the project objectives and does not adhere to the contract conditions
- the business is not economically conducted and the financial resources are not effectively used."

In reporting on the results of the financial review, the auditor shall address the following matters and follow the following structure in the review report:

10.1 Content and structure of auditor's financial review and audit report

10.1.1 Auditor's opinion (specifically addressing the four overall principles stated under 2. above)

10.1.2 Name of project and partner, incl. subcontractor(s)

10.1.3 Brief description of relevant information on the partner (history, management, accounting system, internal control system, activities unrelated to the project sponsored by the Donors etc.)

10.1.4 Period covered by the financial review

10.1.5 Date and place of review, name of audit firm, deviations from original review programme

10.1.6 Description of review procedures applied and findings on financial information subject to the review

- Balance sheet
- Statement of income and expenses (statement of operations)
- Receipts and payments account
- List of proposed adjustments and reclassifications
- Other relevant matters

10.1.7 Analysis of the statement of funds received from each Donor, including possible interest income

10.1.8 Analysis of the current ICT systems (ERP, accounting-, HR-systems etc.) which determines if information systems are safeguarding assets, maintaining data integrity, and operating effectively to achieve the project/organization's goals or objectives and its effectiveness

10.1.9 Recommendations on project management, accounting procedures, and internal control system (ICS)

10.1.10 Comments with regard to adherence to project agreement/contract and terms of reference

10.1.11 Budget comparison of the project, including comments on major variations

10.1.12 List of inventories and fixed assets acquired by the project during the accounting period under review

10.1.13 Minutes of the closing meeting, as discussed under 9 above.

10.1.14 Management's general representation letter in relation to the financial review, as discussed above.

10.2 Currency and language of the financial review and audit report

The financial information contained in the financial review report and audit report of the auditor is to be expressed in the currency provided for in the contract. The financial review and audit report of the auditor and all other documents resulting from the financial review engagement and audit must be in English.

10.3 Duration of Audit

The financial review and audit for the period from 1 January 2025 to 31 December 2025. **The 1st year audit will start from 1st February 2026 and will be finished by 26th February 2026** including submission of draft audit report. Any further period extension may be allowed with proper justification and approval by TIB.

Final report will be submitted within two days after finalize and confirm the draft report by TIB.

10.4 Fees & Payment:

TIB will pay Audit fees excluding VAT and tax to Auditor after completion of audit and submission of final audit reports and MLs for both periods. VAT and Tax will be applicable as per prevailing GoB Rules.

10.5 Deliverables

Deliverables and deadline will be as follows:

Name of Report	Number of copies	Whom submit to	Delivery date
Final Draft Audit, Review and Management report	-1 (One) soft copy [Report in MS-Word/excel format]	One (01) soft copy will be provided to Executive Director TIB and Representative of DP by the auditors directly	Within the date given in # 10.3
Final Audit, Review and Management report	-6 signed hard copies of each report - 1 (One) soft copy [in MS-Word/Excel format] -1 (One) soft copy in PDF format	Executive Director, TIB	Within 2 days of receipt of confirmation on final draft report from TIB.

Place and date:

Dhaka Bangladesh