



# EXTERNAL AUDIT

Term of Reference and Audit Tender

Islamic Relief Term of reference for statutory audit in countries and audit tender

International Finance IRW

# 1 Table of Contents

1.1	Purpose .....	2
1.2	Objectives of the audit.....	2
1.3	Audit Methodology .....	2
1.4	Audit Procedure: .....	3
1.5	Expectations/output .....	3
1.6	Audit Scope .....	7
1.7	IRW Consolidation.....	8
1.8	Reporting.....	9
2	Section 2 Audit Tender.....	10
2.1	Requirements for Proposals from prospective auditors.....	10
2.2	RED TEXT to complete by Country Office .....	10
2.3	Terms of Reference for Auditors.....	11
2.4	The financial and accounting year .....	11
2.5	The tender proposal.....	12



## **1 Section A Terms of Reference for Country Office Statutory Audit**

### **1.1 Purpose**

The overall purpose of this assignment is to give the reasonable assurance of the control environment in the management, end use of funds by the grants received cost incurred and income recognized in current fiscal year are in accordance with the relevant policies of Islamic Relief, compliance with local Government rules and regulation and produce a report as with all primary financial statements as per the United Kingdom's SORP.

### **1.2 Objectives of the audit**

The objective of the audit Islamic Relief Country Office to express an opinion whether the organization accounts are prepared in all material respect, in accordance with an international financial reporting standards (IFRS) to ensure that the funds utilized to PPD's activities have been used for their intended purposes.

The phrases used to express the auditor opinion are given a true and fair view in accounting (specifically auditing) means that a financial statement is free from material misstatements and the books of accounts of Islamic Relief provide the basis for preparation of the Islamic Relief Financial Statements. Appropriate accounting records as required by law have been maintained by the organization and also maintain adequate internal controls and supporting documentation for the transactions.

### **1.3 Audit Methodology**

The audit methodology and the audit techniques to be used are those which accord with international auditing standards (ISAs). In order to present the true and fair view on the financial statement/reports the auditor shall conduct accuracy checks, observations, inspection of records and document, and interviewing the beneficiaries, inquiry and analysis, recommendation, comparison, including:

- a) To undertake risk assessment, test controls and substantive procedures as deemed necessary.
- b) Test the internal controls and the assurance framework of the organization along with governance structure and delegation and authorizations.
- c) Undertake an appropriate risk assessment of the organization in country.
- d) Undertake on-site audit visit to country head office and any sub-offices as required for test and substantive procedures relating to vouchers, invoices, and all supporting documents for all the amount expensed and income receipts.
- e) Follow up with the previous audit reports recommendations
- f) Risk assessment test and substantive review of staff, rental, and other relevant contracts as applicable.
- g) Risk assessment test controls and substantive review of payroll and tax compliance to local jurisdiction
- h) Risk assessment, test controls and substantive review of beneficiary's policies and compliances
- i) Risk assessment test controls and substantive review of the inventory list in head office and field offices
- j) Risk assessment test controls and substantive review of ERP and computer system.

## 1.4 Audit Procedure:

Following the completion of the recruitment process the selected auditor/ audit team will start the audit process passing through the following major phases:

- a) Inception/planning phase: The auditor should propose the plan in Letter of interest
- b) The auditor must review and audit the financial statements, transactions for the financial period and coordinate for clarification and discussion with country finance manager or the assigned delegate.
- c) Preparation of draft report and issue the draft report for management comment on agreed timeline.
- d) Receipt of Final Management Comments from Islamic Relief.
- e) Finalize the Management letters with Audit focal of Islamic Relief.
- f) Finalization of report and issue final audit report with certified statements and a management letter for the financial year.
- g) The final audit report should be submitted to local country management for review and international finance team and the Audit and Finance Committee at IRW.
- h) Sign off the report once approved by relevant regional finance manager.

## 1.5 Expectations/output

### 1.5.1 Audit Opinion

The audit report should clearly indicate the auditor's opinion. The opinion on the financial statements should give a true and fair view of the state of the Islamic Relief Country's affairs as at 31 December 2023 and of the incoming resources and application of resources, including the countries income and expenditure and cash flows, for the year then ended;

The opinion should also confirm that the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRC) and. This would include at least the following:

- 1.5.1.1 The title, addressees, and an opening or introductory paragraph containing
  - a) Identification of the financial information audited including the period covered; and
  - b) Statement of the responsibility of the entity's management and the responsibility of the auditor.
- 1.5.1.2 A scope and methodology paragraph describing the nature of the audit referencing
  - a. The accounting standards that have been applied and indicate the effect of any deviations from those standards;
  - b. The audit standards that were applied ISAs, or Sri Lanka accounting standards that comply with one of these in all material respects); and
  - c. The work the auditor performed.
- 1.5.1.3 An opinion paragraph disclosing
  - a. whether the financial statements and supporting schedules fairly present the cash receipts and expenditure in all material respects and that the funds were used for the intended purposes of projects and program;
  - b. whether the financial transactions reflected in the statements are in accordance with financial regulations and procedures, budgetary provisions and other applicable directives; and
  - c. Summary assessment of the efficiency of the management and internal control system.
- 1.5.1.4 The auditor may expand the report to include other information and explanations not intended as a reservation. Audit reports will be provided in English and comparatives both in local currency and GBP.

### 1.5.2 Board Letter

- a) The Auditors will issue a board letter indicating mandatory approvals required separately like, if any confirmation from banks or employees, or donors pending as verification of balances, or donation received or balance deferred grants confirmation from donors, or any legal audit pending and its confirmation etc.
- b) Specific board approval or management approvals required like writing off bad debts, assets procured and disposed off.
- c) Setting off/adjustment of projects funds and intercompany transactions.
- d) Any material policy breach or noncompliance which affect or may affect company operations, governance or its continuity as a going concern.

### 1.5.3 Management Letter

- a) Auditors must issue management letters indicating the weaknesses of internal control environment.
- b) Report on any significant weaknesses in, or observations on, the Country Organization systems like:
- c) Give comments and observations on the accounting records, procedures, systems and controls that were examined during the course of the audit;
- d) An assessment of the efficiency of the administration, management and internal control system of Islamic Relief;
- e) A description of any specific internal control weaknesses noted in the financial management. Recommendations to resolve/eliminate the internal control weaknesses noted should be included;
- f) Management comments/response to audit findings and recommendations;
- g) Report on the degree of compliance with each of the financial, legal and contractual compliances and external matters affecting such compliance;

### 1.5.4 Communicate matters that have come to their attention during the audit which might have a significant impact on the implementation and sustainability of the Program;

- a. Any other issues the auditor finds relevant from their professional judgment;

### 1.5.5 The audited accounts with the audit opinion, board letter and the management letter should be directly sent electronically and printed to

Director of International Programmes  
Director of Finance & Corporate Services  
Islamic Relief Worldwide  
19 Rea Street South  
Birmingham B5 6LB  
United Kingdom

- 1.5.6 It is expected that the audit is undertaken in accordance with International Standards on Auditing (ISA's), and in the absence of local charity legislation have regard to the Statement of Recommended Accounting and Reporting by Charities for the time being applicable, and published by the Charity Commissioners for England and Wales.
- 1.5.7 The auditors are expected to undertake the audit in accordance with the highest professional standards which will include tests of transactions, and of the existence, ownership and valuation of assets and liabilities.
- 1.5.8 Ascertain the accounting system in order to assess its adequacy as a basis for the preparation of financial reports.
- 1.5.9 Report on any significant weaknesses in, or observations on, the Country Organization systems.
- 1.5.10 Undertake an appropriate risk assessment of the organization in country.
- 1.5.11 The audit should include site visits to sub offices, project areas and an assessment of these respective sub offices and projects.
- 1.5.12 Where the Country office is undertaking projects funded by institutional donors, the audit should include the verification of the expenditure incurred on the projects and the income received for the project, including the existence, ownership of any assets purchased for the project.
- 1.5.13 A report is required to be sent to Islamic Relief International Headquarters stating whether, in your opinion, the financial statements of the organization in country, which have been audited by your firm, give a true and fair view of the state of the organization affairs at the period end, and of its income and application of resources for the period then ended.
- 1.5.14 The basic fundamentals for prospective auditors are:

Specialist audit firms with UK standing as recognised audit provider to INGOs with presence in Africa, Asia, Middle East and Eastern Europe. With any affiliated local audit firms operating at the same standards expected from the UK firm. To be leading in understanding the practical implications of INGOs operating in the current VUCA environment and the financial and audit challenges these may create.

## 1.6 Audit Scope

The audit must involve obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the national and international laws, IRW and the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the management and trustees; and the overall presentation of the financial statements.

The scope of the audit should also cover the accuracy and completeness of the IRW consolidation schedule. The Scope may cover the below

### 1.6.1 1. Legal & organisational aspects

- a) Legal positions of (Country Office) and governance structure within country.
- b) Adherence to legal requirements & constitution. For example the keeping of minutes, submission of statutory returns
- c) Right of Assets disposal & decision-making levels/ Authorizations.
- d) Attention paid to national laws like taxation laws, labour laws etc.
- e) Adherence to laws of employment including termination benefit entitlement
- f) The audit report will also help to submit a return under any local regulatory authorities and taxation legislation and deposit the tax.

### 1.6.2 Accounting System

- a) Audit as per IFRS and international standard on auditing, with reference to UK SORP (2019) or later amendments
- b) Organization accounting policies.
- c) Detailed bookkeeping.
- d) Supporting vouchers & other documents, including legal requirements in this regard.
- e) Grants Received, Deferred and Accrued Revenue, Income and Expenditure Account
- f) Statement of Financial position.
- g) The use of all Bank Accounts and the regular reconciliation of banks & cash balances, bank signatories and approval authorizations.
- h) Debtors/ Receivables and aging analysis
- i) Creditors/ Payables and aging analysis
- j) Stocks ( i.e In Kind Donations, others ?)
- k) Fixed Assets (fixed assets register with special reference to the additions, and disposals during the accounting period and depreciation charged for the period)
- l) Grants received, reconciliation, deferred and accrued income, expenses and income recognition.
- m) Project accounting, Project funds balances as per funds report, its reconciliation with net worth.

### 1.6.3 Management Reporting



- a) The auditors are expected to formally issue Management letter report on control weaknesses found during the course of the audit to local country management for management response.
- b) Assessment of the system of internal control & the arrangement of the bank account signatories.
- c) Business like & economic use of the resources.
- d) Assessment of the ERP and accounting system used.
- e) Assessment of the management & the administration.
- f) Adherence to Islamic Relief in country Financial Guidelines and where local guidelines not available then as per Islamic Relief worldwide financial guidelines (copy available at Islamic Relief Country Office).
- g) Assessment of compliance with staff contracts – e.g. are staff benefits and entitlements as stated in contract adequately provided for.

1.6.4 The auditors are expected to undertake the audit in accordance with the highest professional standards which will include tests of transactions, and of the existence, ownership and valuation of assets and liabilities.

1.6.5 Ascertain the accounting system in order to assess its adequacy as a basis for the preparation of financial reports.

1.6.6 Report on any significant weaknesses in, or observations on, the Country Organization systems.

1.6.7 Undertake an appropriate risk assessment of the organization in country.

It is expected that Auditors maintained an open communication approach with the respective Country office Finance Manager and Country Director and ensure that there is no surprises at the end of the audit.

## 1.7 IRW Consolidation

1.7.1 In order to consolidate and compare local country accounts, IRW finance has prepared a consolidation template. Appendix II sets out the template and provides guidance on how this template should be completed.

The IRW consolidation template must be signed by the following to confirm its accuracy and consistency with the audited trail balance:

1. Country Director
2. Country Auditor
3. Country Finance Manager

## 1.8 Reporting

The Audited Financial Statements and the Management and Board Letter should be sent as soon as possible on completion to:

**Audit and Finance Committee**  
**Director of Programmes**  
**Director of Finance and Corporate Services**  
**Islamic Relief Worldwide**  
**19 Rea Street South**  
**Birmingham B5 6LB**  
**United Kingdom**

A copy should be given to the Country Office Finance Manager and Country Director and discussed with them before and during as well as on completion of the audit.

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## 2 Section 2 Audit Tender

### 2.1 Requirements for Proposals from prospective auditors

The prospective auditor is required to submit its understanding about the audit scope, methodology, client resource base and professional fee.

The attached Audit Tender document should be completed and sent to prospective auditors.

### 2.2 RED TEXT to complete by Country Office

#### 2.2.1 Introduction

Islamic Relief initiated its operations in Sri Lanka in the year 2004, soon after Tsunami hit the Country, primarily for Tsunami Emergency response and recovery of the affected communities.

It is legally registered in 2005 under Ministry of Social Service FL97514 and continues its humanitarian work across Sri Lanka. Islamic Relief continues to serve the vulnerable communities with multi- diverse, multi-religious, and multi-ethnic without any kind of discrimination and differentiation, Islamic Relief in this junction expanded its reach to many districts in the country.

#### 2.2.2 Organisational Structure

Islamic Relief initiated its operations in Sri Lanka in the year 2004, soon after Tsunami hit the Country, primarily for Tsunami Emergency response and recovery of the affected communities.

It is legally registered in 2005 under Ministry of Social Service FL97514 and continues its humanitarian work across Sri Lanka. Islamic Relief continues to serve the vulnerable communities with multi- diverse, multi-religious, and multi-ethnic without any kind of discrimination and differentiation, Islamic Relief in this junction expanded its reach to many districts in the country.

#### 2.2.3 Finances

**The last 2 years' accounts are included in the tender pack.**

#### 2.2.4 Auditors

Amongst the essential qualities Islamic Relief will consider are as follows:

#### 2.2.4.1 Technical competency

Islamic Relief expects the auditors to have expertise in its area of charitable activity and being able to provide advice in specialist areas such as taxes, Payroll, NGO accounting and risk management.

#### 2.2.4.2 Cultural fit

Islamic Relief expects the auditors that are appointed to understand and sympathise with the purpose, values and methodology of Islamic Relief.

#### 2.2.4.3 Expertise and experience in the NGO sector

Islamic Relief is an International Relief and Development organization, thus it expects its auditors to have NGO sector specialists within its audit team and an experience and portfolio of clients in the NGO sector.

#### 2.2.4.4 Value for money

Islamic Relief expects its appointed auditors to be proactive in the relationship, sharing experience, knowledge and ideas so that the audit adds more value than just meeting statutory requirements.

Islamic Relief expects the audit to be cost competitive and balanced with a quality professional service. Islamic Relief will expect an open and clear approach to audit costs but will be considering overall value for money of the service provided in making its decision.

#### 2.2.4.5 Partner and manager time

Islamic Relief expects in the proposal a realistic commitment of partner and manager time and consideration of how you will maintain consistent staffing levels.

#### 2.2.4.6 Communication

Islamic Relief places strong emphasis on personal relationship and good communication. We hope that we can develop a free and open two way conversation including such areas as changes in accounting standards, fees, deliverables, timing of audit visits, staffing changes.

#### 2.2.4.7 Risk based approach

We are also seeking to appoint auditors that take a risk based approach to financial audit and have an understanding of risk in a broader context than financial risks of sector.

### 2.3 Terms of Reference for Auditors

Refer to attached Terms of Reference.

### 2.4 The financial and accounting year

Below are key dates in the accounting year for the preparation of accounts and audit reporting, we anticipate a similar pattern to each year in the future? Some countries required

audit early for statutory reporting so the deadline must be communicate accordingly. Ideally Audited signed accounts must be available by March 31 succeeding year

#### 2.4.1 Insert your year dates

	Islamic Relief
<b>Financial year end</b>	<b>December 31 2023</b>
<b>Draft accounts available for audit</b>	<b>Jan 19 2024</b>
<b>Timing of the audit</b>	<b>Jan 22 to Feb 16, 2024</b>
<b>Sign off to draft accounts required from auditors</b>	<b>Mar 1<sup>st</sup> 2024</b>
<b>Approval by Trustees</b>	<b>Latest by April 15, succeeding year</b>

## 2.5 The tender proposal

Please provide the following information in the proposal, in the order identified in this section of the tender pack.

### 2.5.1 Details of your firm

Your proposal should:

- **Audit Firm Profile**
- **Outline your structure, size and capabilities as relevant to us**
- **Identify your firm’s major NGO clients**
- **Describe your audit philosophy and methods**
- **Provide two references of other NGO’s that are your audit clients that can be taken up as required**

### 2.5.2 Staffing

Your proposal should identify:

- **The partner and manager who will be assigned to the audit, including details of their relevant experience and qualifications**
- **The time which the partner and manager identified above will devote to the audit**
- **How you manage succession planning and staff continuity**

### 2.5.3 Audit approach

**Your proposal should identify how you:**

- **Determine audit strategy and undertake audit planning**
- **Address matters of audit scope and materiality**
- **Identify and respond to critical audit issues**
- **Control and co-ordinate the audit process**
- **Ensure appropriate responsibility for decisions on the audit**
- **Conduct the reporting arrangements**
- **Approach the first year of the audit**

### 2.5.4 Fees

**Your proposal should include separate estimates of your total audit fees for reporting on:**

- **The NGO accounts**

**A three-year fee schedule based on the document attached as Appendix 1 should be completed and submitted as part of this section of the proposal.**

In addition in your written proposal you should:

- **Provide an analysis of hours by grade of staff that will be involved on the audit together with details of your hourly charge out rates**
- **Indicate the basis of charging expenses**
- **Provide your proposed billing schedule**
- **Outline your proposals for setting and agreeing fees in future years**

Your proposal should also contain details of other additional relevant services that your firm would propose to provide, but are not a necessary and integral part of the statutory audit, and where appropriate include these in the 'additional services' section in the three-year fee schedule.

## 2.5.5 Timetable for the tender process

Below is outlined the timetable for the audit tender process.

	<b>Activity</b>	<b>Deadline</b>
1.	<b>Invitation to tender despatched</b>	<b>13<sup>th</sup> Oct 2023</b>
2.	<b>Confirmation of interest received</b>	<b>20<sup>th</sup> Oct 2023</b>
3.	<b>Information gathering meetings with Country Director and Finance Manager</b>	<b>25<sup>th</sup> Oct 2023</b>
4.	<b>Tender document received</b>	<b>31<sup>st</sup> Oct 2023</b>
5.	<b>Selection panel review proposals &amp; shortlist</b>	<b>03<sup>rd</sup> Nov 2023</b>
6.	<b>Firms informed of results of short listing exercise</b>	<b>08<sup>th</sup> Nov 2023</b>
7.	<b>Oral presentations / Selection panel agrees recommendation</b>	<b>13<sup>th</sup> Nov 2023</b>
8.	<b>IRW approval is sought</b>	<b>15<sup>th</sup> Nov 2023</b>
9.	<b>Firms are informed of IRW's decision</b>	<b>22<sup>nd</sup> Nov 2023</b>

## 2.5.6 Appendix 1

As part of your written submission you are asked to submit your proposed fees schedule for the next three years.

Audit review

	<i>Year ended 31 December</i>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	Local Currency		
<b>Islamic Relief</b>			
	Equivalent GBP		
<b>Islamic Relief</b>			

Other optional work (eg Taxes, APIT review – please specify on project by project basis)

	<i>Year ended 31 December</i>		
	<b>2023</b>	<b>2024</b>	<b>2024</b>
	£	£	£
<b>Project A</b>			
<b>Project B</b>			
<b>Project C</b>			

**NB: The fees quoted should include all chargeable time, out of pocket expenses (e.g. travel) and be all-inclusive fee only.**