



ASIA INDIGENOUS PEOPLES PACT FOUNDATION

112 Moo 1, Tambon Sanpranate, Amphur Sansai, Chiang Mai 50210, Thailand

Tel. No.: +66(0)53 343539; Fax no.: +66(0)53 343540

Email: aippmail@aippnet.org Website: www.aippnet.org

TERMS OF REFERENCE (TOR)

to perform

Audit of individual projects of Asia Indigenous Peoples Pact for the year ended December 2021

1. Fundamental Principles

- 1.1 The audit is to be carried out by an independent auditor (“the auditor”), having the required professional competence and experience, and in accordance with generally accepted international auditing standards.
- 1.2 In planning, conducting, and reporting on the audit, the auditor shall consider the following auditing and other standards promulgated by international professional bodies:

ISA - International Standards on Auditing,
IFAC – International Federation of Accountants

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 financial review is carried out need to be taken into consideration by the auditor.

2. Overall Principles

The auditor is required to plan, execute, and report on the audit engagement in order to form a professional judgment on the following matters relating to the activities and the organisation:

- a) Principles of orderliness (financial regularity)
- b) Existence, adequacy, and effectiveness of the Internal Control System (ICS)
- c) Conformity with the project objectives and adherence to the contract conditions
- d) Economical conduct of business and effective use of financial resources

3. Documents of reference

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

Legislation: National legislation



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Project/Programme:

- a) Agreement with the donors relative to the project,
- b) Agreement with the partner organisations.
- c) Terms of Reference for Audit prescribed by the donor for the particular project
- d) Project Document / Terms of Reference (TOR),
- e) Budgets, financing plans, programs of project activities.
- f) Project management procedures.
- g) Any other documents concerning the project/program.
- h) Accounting documents subject to the financial review.
- i) Financial and operational reports concerning the project/program.

AIPP:

- a) Constitution of AIPP
- b) The present terms of reference.
- c) Prior audit reports carried out by AIPP and the system/others audits carried out directly by donors
- d) Executive Committee, Board Meeting and General Assembly Meeting Minutes
- e) Financial Policy, Human Resource Policy, and other applicable documents for the purpose of audit

4. Planning the Financial Review

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

Based on the information received during the planning phase, including the review of 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.
- the site visits to be planned, if any.

5. Place of Financial Review

The financial review is to be carried out within the AIPP environment (administrative offices and/or decentralized project sites, if applicable).

6. Management Representation of Full Disclosure

The auditor shall obtain a management representation letter signed by the management of the 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



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- 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.
 - f) the completeness of information concerning financing received or due and own financing concerning the reviewed period, for the project being reviewed.

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

7. Detailed Auditing Procedures

Appropriate audit procedures are to be applied by the auditor in order to form a professional judgement 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 techniques. When selecting the audit procedures, the auditor shall consider the results of her/his review risk assessment (during the planning stage and in the course of the review work).

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

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

Upon receipt of the audit report, AIPP reserves the right to request other review procedures to cope with the change in circumstances in the project or of the organisation.

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),



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- 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:

- g) Arithmetic exactitude of the accounts, supporting documents and financial statements and reports; and Correctness of the accounting entries,
- h) Appropriateness of current accounting system i.e., accrual basis of accounting and suggest if alternative option is better for the organization.
- i) Timeliness of recording economic events and transactions in the general ledger accounts,
- j) Financial statements and report information in agreement with the general ledger accounts,
- k) Adequacy and completeness of revenues, revenues/income from donors are booked correctly
- l) Assessment of accounts receivable and advances; justification for overdue/unpaid amounts in excess of one month,
- m) Reconciliation of balances of cash in hand and in banks with the general ledger accounts,
- n) 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 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.



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- c) Verification whether the clauses of the project agreement/contract have been respected.
- d) Verification that the expenditures correspond to the agreed budgets. Analysis of deviations between budgeted and actual expenses and substantiation of major budget variations (+/- 10 % of the budget line items).

7.4 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, social and pension contributions, income taxes etc.).
- j) Verification that private use of vehicles has been invoiced and paid.

7.5. Findings and Recommendations

In her/his 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.
- check and recommend on appropriateness of the system being applied for charging overhead expenses.

8. Closing meeting

After the completion of the audit, but before leaving the premises of AIPP, the auditor shall hold a closing meeting with the management team and the staff responsible for accounting and



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reporting. The meeting shall address the results of the audit, discuss major weaknesses in the project, administrative and financial management (including the deficiencies of individual staff members) and propose recommendations to improve the project management, the accounting procedures, and the internal control system (ICS).

The content of the closing meeting is to be summarized in writing and signed both by the representative of the implementing partner and the leader of the review team. These minutes shall be annexed to the financial review report (see 9.1.10).

9. Audit Report

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

The principle of orderliness (financial regularity) and the existence of the ICS must 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:

9.1 Content and Structure of Auditor’s Report

- a) Auditor’s opinion (specifically addressing the four overall principles stated under 2. above)
- b) Brief description of relevant information on AIPP (history, management, accounting system, internal control system, activities etc.)
- c) Date and place of review, name of audit firm, deviations from original review programme
- d) Description of audit procedures applied and findings on financial information subject to the review of



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- Balance sheet
 - Statement of income and expenses (statement of operations)
 - Notes to the Accounts and Significant Accounting Policies
 - List of proposed adjustments and reclassifications
 - Other relevant matters
- e) Analysis of the statement of funds received from other donors, if applicable
 - f) Recommendations on project management, accounting procedures and internal control system (ICS)
 - g) Comments regarding adherence to project agreement/contract and terms of reference
 - h) Budget comparison of the project, including comments on major variations
 - i) List of inventories and fixed assets acquired during the accounting period under review
 - j) Minutes of the closing meeting, as discussed under 8. above.
 - k) Management's general representation letter in relation to the financial review, as discussed under 6. above.

9.2. Currency and Language of the Audit Report

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

10.2. Violation of Terms; Termination:

AIPP reserves the right to discontinue or withhold any payments or to require repayment of funds in the event of non-compliance of the TOR or non-implementation of the contract. In such case, notice of termination shall be given in writing, stating the applicable circumstances.