



## **Asian Farmers' Association for Sustainable Rural Development**

### **Empowering small scale women and men farmers in Asia**

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## **Terms of Reference for the Financial Audit and Factual Findings of the Asia Pacific Farmers' Programme (APFP) project financed under Grant No. 2000002365 and Assuring Resiliency of Family Farmers (ARISE-Farmers) under Grant No. 2000003473**

### **1. BACKGROUND**

- The **International Fund for Agricultural Development (IFAD)** is aiding the **Asian Farmers' Association for Sustainable Rural Development (AFA), Inc.** in the form of a grant.
- A grant agreement has been signed between **IFAD** and **AFA** (refer to Annex 4).
- As per the Project Implementation Manual and the terms of the grant agreement, AFA shall have the APFP and ARISE accounts audited on a yearly basis in accordance with auditing standards acceptable to IFAD and the Conceptual Framework for Financial Reporting and Auditing of IFAD-financed projects and related Handbook.
- The reporting entity is **AFA**.
- The entity prepares its financial statements in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities.
- The auditor conducts its audit in terms of Philippine Standards on Auditing (PSAs).

### **2. OBJECTIVE**

The objective of this audit is to enable the auditor to express an opinion on whether the financial statements (including additional disclosures as outlined in section 5) present fairly, in all material aspects, the financial position of the APFP and ARISE as at 31 December 2021, and/or the results of its operations and its cash flows for the year then ended, in conformity with the Philippine Financial Reporting Standards for Small and Medium-sized Entities. Separate audit opinions shall be provided by the auditor for each of the grants referred to in these TORs.

### **3. RESPONSIBILITIES OF AFA**

#### **I. General**

- Provide financial statements for the activities financed by the grant that are reconcilable to its records and accounts.
  - Provide the auditor with access to all legal documents and correspondence with consultants, contractors and other persons or firms engaged by the project, and any other information associated with the project and deemed necessary by the auditor.
  - Ensure that the accounting policies are consistently applied and disclosed.
  - Ensure that appropriate internal controls are implemented to prevent misstatements and susceptibility to fraud.
  - Ensure compliance with all relevant laws and regulations that are applicable to AFA, as well as with the grant agreement between **IFAD** and **AFA**.
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- Provide the financial statements to the auditor within a reasonable time and be available for any queries that the auditor may have.

## **II. Financial Statements**

AFA shall:

- Prepare the institutional financial statements covering the reporting period January 1 to December 31, 2021, in accordance with IPSAS “Financial Reporting under the Accrual Basis of Accounting” standards. In addition, the following specific disclosures will be included in the financial statements:
  - Withdrawal application statement
  - Sources and uses of funds statement
  - Designated Account statement and reconciliation
  - Statement of Expenditure
  - Expenditure Transaction List

## **4. RESPONSIBILITIES OF THE AUDITOR**

### **I. Auditing Standards**

The auditor is responsible for the formulation of an opinion on the financial statements in accordance with Philippine Standards on Auditing (PSAs).

### **II. General Principles**

By agreeing to these terms, the auditor confirms that:

- The firm is independent from the project, its staff and activities, in accordance with international best practices.
- The firm is not providing consultancy services to the project or preparing its project financial statements (nor has it done so in the previous two years).
- The auditor is suitably qualified, and a member of a professional body affiliated with the Philippine Institute of Certified Public Accountants.
- The auditor is able to conduct the audit in line with auditing standards acceptable pursuant to paragraph 4.I.
- The firm can assign an audit team to the audit that has the necessary competence and skills.
- The firm has a proven track record in conducting audits of a similar nature and complexity.

### **III. Management Letter**

The management letter is an integral part of the audit package that documents accounting and internal control issues identified by the auditor. The management letter should:

- Outline the auditor’s recommendations to improve identified accounting and internal control issues;
- Include the responses of project management to the identified control issues, and its proposal to address the issues identified within a specific time period.
- Where applicable, follow up on the issues identified in the previous year’s management letter.

### **IV. Reporting**

The Auditor is required to deliver an audit package that includes:

- The audited financial statements, including additional disclosures as outlined in paragraph 3.II;
  - An audit opinion on the financial statements, within the scope as outlined in paragraph 5;
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- A separate audit opinion on the SOEs, for each of the two herein identified Grants
- A report on factual findings, within the scope of agreed-upon procedures as outlined in paragraph 6. Any ineligible expenditure identified should be clearly mentioned.
- A management letter, including the information outlined in paragraph 4.III.

The audit report should provide sufficient detail as to the nature and extent of the procedures performed by the auditor. The auditor is required to provide the audit package by no later than May 15, 2022. Reports are to be delivered in English.

## 5. SCOPE OF THE FINANCIAL AUDIT

In performing the audit, at a minimum the auditor shall:

- Obtain an understanding of the internal controls related to the financial reporting process, to identify and assess any weakness in internal controls that might result in misstatements, whether due to fraud or to error;
- Design and conduct audit procedures in response to any weaknesses identified in the internal controls relating to the financial reporting process, to obtain audit evidence that the financial statements are fairly presented and free from material misstatements, in accordance with the applicable accounting framework;
- Verify whether expenditure that was incurred in the name of the project is in line with the terms of the grant agreement and incurred for the purposes intended in this agreement. Both **IFAD** and third-party funding should be taken into consideration;
- Verify that the inventory and fixed assets held by the entity exist, are complete, are properly accounted and are used for the project purposes;
- Note any weaknesses in the internal control environment and in the financial reporting process, and communicate those in the management letter.

## 6. SCOPE OF THE AGREED-UPON PROCEDURES

The auditor is required to perform the following specific procedures and report on factual findings as required in paragraph 4.IV.

### I. Withdrawal Application Statement

The auditor is requested to obtain the individual withdrawal applications (WAs) submitted to **IFAD**, as summarized in the withdrawal application statement, and develop test procedures to:

- Determine whether the Designated Account currency equivalent was determined using the historical exchange rate of transfers to the operating account;
- Determine whether goods and services have been purchased through the SOE mechanism in line with the stipulated SOE threshold;
- Determine whether the expenditures claimed through SOE procedures were properly and appropriately authorized, classified and supported by audit documentation;
- Identify any ineligible expenditure.

### II. Designated Account Statement and Reconciliation

The auditor is requested to review the activities to the designated account(s) associated with the project, including the advances, replenishments, interest that may accrue on the outstanding balances, and the year-end balances. The auditor is requested to develop test procedures to:

- Check the accuracy of the Designated Account reconciliation(s);
- Confirm that the Designated Account(s) have been maintained in accordance with the provisions of the grant agreement;
- Check that advance reconciliations are being prepared regularly.

### III. Certified Statement of Expenditure

The auditor is requested to obtain the certified Statement of Expenditure as submitted to **IFAD**, and develop test procedures to:

- Determine whether the Designated Account currency equivalent was determined using the historical exchange rate of transfers from IFAD;
- Determine if expenditures incurred are related to the project description in accordance with the grant agreement;
- Determine whether goods and services have been purchased through the SOE mechanism in line with the stipulated SOE threshold;
- Determine whether the expenditures claimed through SOE procedures were properly and appropriately authorized, classified and supported by audit documentation;
- Identify any ineligible expenditure.

#### **IV. Expenditure Transaction List**

The auditor is requested to obtain the expenditure transaction list submitted to IFAD and develop test procedures to:

- Determine if the expenditure incurred is related to the project description in accordance with the grant agreement and annual work plan and budget
- Determine if the exchange rate used is the rate applied when funds were received, on a first in, first out basis.

#### **V. Audit Report from the National Implementing Agencies (NIAs)**

The auditor is requested to obtain the NIAs' audit reports for the period under examination and:

- Confirm that the subgrant recipients' (NIAs') audited financial statements and related audit reports have been reviewed.
- Issue observations, if any, on these audited financial statements and related audit reports.

#### **VI. Others**

- Confirm that the e-archiving system is of sufficient quality and substance.
- Confirm the level of exchange gains or losses that have been incurred by the recipient.
- Confirm the degree of compliance with the recipient's procurement policy and identify non-compliance.

### **7. PUBLIC DISCLOSURE**

IFAD promotes public disclosure of project financial information to enhance the level of transparency and accountability. IFAD will disclose project audit reports, as appropriate, in line with its disclosure policy. Management letters issued by auditors are not subject to public disclosure by IFAD. In agreeing to the terms of reference, the auditor explicitly acknowledges IFAD's right to publicly disclose audit reports (audited financial statements and audit opinion) and will issue reports without a limitation of use clause.

To facilitate the public disclosure process, the auditor is requested to submit two separate files as follows:

- audited financial statements and audit opinion; and
- management letter.

### **8. APPENDICES**

**Annex 1: Information about the subject of the audit**

**Annex 2: IFAD Guidelines on Project Audits**

**Annex 3: Project Implementation Manual**

**Annex 4: Grant Agreement**

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## Annex 1: Information about the Subject of the Audit

Information about the Subject of the Audit	
Reference number and date of the Agreement	Grant Agreement No. 2000002365 signed on July 5, 2019 Grant Agreement No. 2000003473 signed on September 19, 2020
Service agreement title	Asia Pacific Farmers' Programme (APFP) Assuring Resiliency of Family Farmers (ARISE-Farmers)
Country	Philippines
Consultant	
Legal basis for the Agreement	
Start date of the Agreement	
End date of the Agreement	
Maximum agreement value	
Total amount of the invoice and invoice date	
Total amount received to date by the Service Provider from Contracting Authority	
Contracting Authority	
Auditor	