



TERMS OF REFERENCE FOR EXTERNAL AUDITOR

1. BACKGROUND

The Association of Southeast Asian Nations (ASEAN) Secretariat is the nerve centre of ASEAN, a regional inter-governmental organization founded in 1967, to promote peace and stability, sustained economic growth, shared prosperity and socio-cultural progress. It comprises the ten countries of Southeast Asia.

The entry into force of the ASEAN Charter in 2008 has provided new impetus to ASEAN's integration efforts by establishing a legal and institutional framework needed to achieve the ASEAN Community by 2015. This includes the approved organizational structure of the ASEAN Secretariat (ASEC) that is aligned with the requirements of the ASEAN Charter and the three Blueprints of the ASEAN Political-Security Community (APSC), the ASEAN Economic Community (AEC), and the ASEAN Socio-Cultural Community (ASCC). ASEC provides the necessary functions required to effectively support the community building process under the ASEAN Charter and the Blueprints.

ASEC employs about 350 international and national staff. It is hosted by the Government of Indonesia under a host country agreement signed by the Indonesian Minister for External Affairs in 1979. The Annual Operational Budget (AOB) contributed by the 10 ASEAN Member States (AMS) is around US\$ 20+ million to cover the operational expenses of ASEC. ASEC is also supported by a larger number of partnership Trust and Project Funds to implement ASEAN programmes towards ASEAN Community 2015 and beyond.

Chapter 10 of the 2018 ASEAN Secretariat Financial and Administrative Rules and Procedures (AFARP) sets out the definition, procedures on selecting the external auditor, audit process, audit query and audit report. According to the AFARP 2018, the ASEAN Audit Committee (AAC) will consider the report of the external auditor. Amongst the various areas of responsibilities of the AAC are as follows:

- Consider its reports, findings, and recommendations made by the external auditor; and
- Make observations and recommendations where necessary, on the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of ASEC.

2. OBJECTIVE OF THE AUDIT

The objective of the audit is to:

- Express an independent opinion on the financial statements of ASEC for the year ended 31 December 2021 and 31 December 2022;
- Report any significant weaknesses on the effectiveness of internal control over compliance with requirements that could have a direct and material financial effect on the financial statements as well as control over financial reporting

3. RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

The responsibility for the preparation of ASEC's financial statements, AOB, Trust and Project Funds and Extra Budgetary Income (EBI) in accordance with the AFARP 2018 lies with ASEC. ASEC is also responsible for:

- The preparation of financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and
- Implementing accounting, administrative and financial procedures in accordance with the AFARP 2018.

4. SCOPE OF AUDIT AND PRESENTATION OF AUDIT REPORT

4.1. SCOPE OF AUDIT

To audit the ASEC's financial statements comprising its AOB, Trust Funds, Project Funds, EBI and other funds, including other voluntary contributions and donations for the periods FY 2021 and FY 2022. Subsequent appointment for the conduct of audit for FY 2022 shall be subjected to past and current performance review and other considerations by the AAC.

All figures in the financial statements are presented in USD Currency.

The ASEC's financial statements shall be prepared on accrual basis of accounting and consists of the:

- Statements of Financial Position
- Statements of Financial Performance
- Statements of Cash Flows
- Statements of Changes in Net Assets/Equity
- A comparison of the budget amounts to the actual amounts, a comparison of year to year actual expenditure, also provide the cause of the variances
- Notes to Financial Statements

The ASEC's financial statement shall also include the following:

- Analytical procedure of significant increase/decrease of the relevant accounts
- Maturity analysis for derivative financial liabilities as required by Paragraph 46 (b) IPSAS 30 - Financial instruments

4.2. RESPONSIBILITY OF THE AUDITOR

The external auditor will:

- Conduct the audit in accordance with international standards such as International Standards of Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI) or International Standards on Auditing (ISAs);
- Comply with ethical requirements, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement;

- Report on ASEC's compliance with the AFARP 2018, other ASEC regulations, approved budget and funding agreements that have a direct and material financial effect on the financial statements;
- Report on the effectiveness of internal control over compliance with requirements that could have a direct and material financial effect on the financial statements as well as control over financial reporting
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements; and
- Convey any significant deficiencies in internal control relevant to the audit of the financial statements.
- Present highlights on financial statements to the AAC during its annual meeting.

While the audit procedures depend on the external auditor, such procedures shall include obtaining audit evidence about the amounts and disclosures in the financial statements, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

4.3 AUDIT REPORT

4.3.1 Content of Audit Report

The audit report is required to include at least the following:

- Audit opinion to state whether or not the above financial statements present fairly ASEC's financial positions as at the end of the period audited and the results of operations for the said period; and
- Opinions on whether ASEC had complied with the International Public Sector Accounting Standards (IPSAS).

4.3.2 Management Letter

When significant weaknesses come to attention of the external auditor during the course of audit and these are not reflected in the audit opinion, they should be reported in the Management Letter and should include the following:

- A description of specific internal control weakness noted in the financial statements and recommendations to resolve/eliminate the internal control weakness;
- Findings on inappropriate accounting policies and practices and effectiveness of the accounting records system in providing useful and timely information for proper management;
- Recommendations to improve the financial reporting in accordance with International Public Sector Accounting Standards (IPSAS);
- Issues regarding compliance with the AFARP 2018, other ASEC regulations, rules and procedures and other provisions of funding agreements;
- Report on significant matters arising from previous audits which have not been dealt with effectively; and

- Any other matters that external auditor considers should be brought to the attention of ASEC.

4.4 AUDITOR'S EXPERIENCE AND QUALIFICATIONS

- The audit firm should be registered and have a license from a recognised national or regional professional accountancy body;
- The audit firm should have relevant experience in accounting and auditing similar organizations; and
- In the event that the external auditor uses an affiliate to audit the financial statements of ASEC, the affiliate must have the same qualifications and standards as that of Tier 1 external auditor.
- The external auditor shall be a Tier One audit firm and have at least two (2) years' relevant experience in auditing similar international organizations that follow IPSAS as an accounting standard.
- The external auditor shall be independent and provide their objective opinion of the financial statements.

5. EXPECTED RESULTS

The external auditor will provide CPR, AAC and ASEC with a complete audit report consisting of the auditor's opinion, audited financial statements, notes to financial statements and Management Letters for (1) AOB and (2) Trust and Project Funds. The working papers shall also be made available to the AAC. The working papers and audit report shall be prepared in English. The external auditor will provide 25 copies of the financial statements of the AOB and Trust and Project Funds including electronic copies with the digital signatures.

6. TIME TABLE AND PAYMENT

In accordance with the AFARP 2018, the timetable plan for the audit is as follows:

- Submission of year-end financial statements to the external auditor: 1st week of March
- Completion of external audit: 3rd week of April
- Submission of the draft report of the external auditor to the Secretary-General of ASEAN for discussions on the audit findings and recommendations: 4th week of April
- Exit conference with SG or his/her authorized representative at the DSG level: 1st week of May
- Invitation to AMS to convene AAC meeting and send copies of the final report including auditor's certificate: 2nd week of May
- The 47th and 48th AAC Meetings: in the second week of June 2022 and June 2023 or at a suitable date as may be set by the ASEAN Chair

Upon receipt of invoices and bank information from the external auditor, payment will be made as follows:

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| • First Billing, upon commencement of the audit field | 30% |
| • Second Billing, upon submission of draft audit report | 40% |
| • Final Billing, upon presentation to the AAC | 30% |
