



CGIAR Auditing Guidelines  
Financial Guidelines Series, NO.3<sup>1</sup>  
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[1] These Guidelines were developed by the former CGIAR Secretariat prior to the CGIAR reforms that took place in 2009, and are part of the **Financial Guidelines Series** which consists of:

No.1 CGIAR Financial Management (1999)

No.2 CGIAR Accounting Policies and Reporting Practices Manual (March 2004)

No.3 CGIAR Auditing Guidelines Manual (July 2001)

No.5 CGIAR Indirect Cost Allocation Guidelines (August 2001)

No.6 CGIAR Procurement of Goods, Works and Services (December 2002)



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## INTRODUCTION

### BACKGROUND

Since the first edition of the CGIAR Auditing Guidelines (FG3) appeared in 2001 there have been a number of significant issues which needed to be addressed in an update. Firstly the scope and quality of generally accepted international accounting and auditing guidelines has evolved. As a result CGIAR Centers have been able to call on comprehensive set of standards based on IFAC International Standards of Auditing and IIA International Standards for the Professional Practice of Internal Auditing. This update links all Center audit requirements to these international benchmarks, which are cross referenced throughout this update.

The Center's internal auditing arrangements have also developed and matured since 2001. The CGIAR Internal Auditing Unit (IAU) was established in 2000. It is a voluntary shared internal audit service for the CGIAR which provide all or part of the internal audit requirements of each participating Center. The IAU has, through the development of a CGIAR IA Manual, the establishment of a more cohesive professional network of internal auditors in the CGIAR System, and the publication of various good practice notes, promoted application of evolving best practice for audit and oversight.

At the time of issuing this update the CGIAR is implementing major structural reforms, which will lead to significant changes in the CGIAR governance arrangements. The update anticipates these changes, however the basic auditing principles outlined in this guideline are unlikely to significantly change.

### PURPOSE OF FG3

FG3 provides a reference guide on the basic principles of the audit function in CGIAR. It provides the framework which should be in place to organize an effective Audit Committee and internal/external audit function. The Guideline is not a detailed "how to" manual however auditors' detailed policies and procedures should align with the overarching principles set out below. In addition,



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it is hoped that the Guidelines serve as a useful overview of audit policy for all members of Center Boards<sup>1</sup>, Audit Committees, managers, staff, external auditors, and internal auditors.

## ABOUT CGIAR AND CORPORATE GOVERNANCE

Each Center is autonomous, operating under the authority of a legally constituted Center Boards which are charged with fiduciary responsibility for the work of the Center. The effectiveness of each Center rests on the efficacy of its boards.

*Corporate governance* the system by which a Center directs, manages, controls, and monitors its activities. A typical corporate governance structure specifies rights and obligations, responsibilities and accountabilities, and decision-making among the different participants in a Center. The different participants include the Center Board, Director General, management, and other stakeholders.

Good corporate governance by Center Boards is crucial to the success of the CGIAR system. In 1997 CGIAR Secretariat published nine reference guides on the roles and operations of CGIAR Center Boards, prepared in line with best practices of institutional governance. These were updated in March 2007. In addition the financial roles and responsibilities of Boards and management of Centers are covered extensively in Financial Guideline No 1.

FG3 does not repeat the extensive coverage of CGIAR's approach to corporate governance; instead the focus is on (1) the role of the Audit Committee; (2) the role of external audit and (3) the role of internal audit.

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<sup>1</sup> Centers have Boards of Trustees or Boards of Governors'. The term Center Board is used throughout FG3.



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# **CHAPTER ONE:**

# **Audit Committees**

**Introduction**

**The Role of the Audit Committee**

**Effectiveness of Audit Committee Meetings**



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# AUDIT COMMITTEES

## INTRODUCTION

1.1 A key feature of any effective Center financial management system is a strong, independent thinking standing committee drawn from the Center Board which provides an overview and control of the Center's resources on behalf of the Board. This Guideline does not cover activities which are normally within the purview of a Finance Committee. The CGIAR Guideline on Center Governance No 1 (2007 update) promotes a separation of these Committees, though for practical reasons a number of Centers have preferred to retain one Finance and Audit Committee<sup>2</sup>.

1.2 The role of finance and audit committees are different. The audit committee is concerned with the integrity of financial statements, the Center's risk management and internal financial control system, and the internal and external audit function<sup>3</sup>. By contrast the finance committee's activities focus on activities such as reviewing budgets, financial planning and funding prospects.

1.3 The Audit Committee should comprise at least two financial experts with a professional qualification in financial management<sup>4</sup> and all members should be

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<sup>2</sup> In the interests of brevity the FG3 refers to the Audit Committee throughout.

<sup>3</sup> CGIAR Guidelines on Center Governance: Roles, Responsibilities and Accountability of Center Boards p 17 (March 2007).

<sup>4</sup> "Professional qualification in financial management" means that a Committee member should have one of the following qualifications: (1) a recognized accounting or financial qualification provided by a member of the International Federation of Accountants (in particular a national professional accounting body) such as a CPA, CA or equivalent and/or (2) have substantial experience (at least 10 years) as a Chief Financial Officer or equivalent in a public or private sector organization, or in other senior positions responsible for the analysis of financial statements or financial management of such



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financially literate<sup>5</sup>. The Audit Committee consists of trustees/governors (other than the Director General) appointed by the Board and may include others who are external to the Center. These arrangements ensure that the committee membership is independent of the Center executive. The Committee should not be given any management responsibilities that could impair this independence.

1.4 The Center charters or equivalent governing documents set out the arrangements for the Audit Committee including the number of members, their tenure, the appointment of the chair of the audit committee, frequency of meetings and quorum requirements. The chair may require or invite any member of the Center's management or staff, or internal and external auditors, to attend meetings.

## THE ROLE OF THE AUDIT COMMITTEE

1.5 Typical areas of responsibilities of the Audit Committee include:

- a) Review the performance of the incumbent external auditor, approve and oversee the process for selecting a new external auditor, review the proposed terms of engagement and recommend appointment of external auditors for approval by the full Board.
- b) Review the external auditor's proposed scope and approach, coordination with the internal auditor, quality control/assurance process, and provide advice to assist the external auditor with its engagement planning.

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organizations, or as a faculty member of a higher education institute with responsibilities to teach on such analysis.

Committee members who have qualifications or professional/academic experience in public finance or macroeconomics without meeting one of the above requirements will not be considered "professionally qualified in financial management" as the focus of the qualification is on members who have substantial experience at organizational level. Persons with Masters of Business Administration or Public Administration would be accepted provided they meet criteria (2) above."

<sup>5</sup> Financial literacy is the ability to understand finance. More specifically, it refers to an individual's ability to make informed judgments and effective decisions about the use and management of their money.



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- c) Monitor management responses related to issues raised in internal audit reports and the external auditor's management letter.
  - d) Review (with management and the external auditors) the audited financial statements, the audit opinion and management letter, significant audit adjustments, management judgments, accounting estimates, significant new accounting policies, disagreements with management and any difficulties encountered in the audit.
  - e) Recommend to the full Board the adoption of the annual financial statements and acceptance of the external auditor's report.
  - f) Engage in a dialogue with the external auditors with respect to any disclosed relationships or services that may impact their objectivity and independence.
  - g) Review the circumstances whereby the external auditor resigns or declines to be considered for further appointment.
  - h) Review, and recommend approval by the full Board of, the internal audit charter and the internal auditors' plans, as well as ensuring they have adequate budget to conduct their work.
  - i) Monitor the organizational framework of the internal audit function, including the appointment and removal of internal auditors, and the adequacy of staff in terms of qualifications and competencies.
  - j) Receive and review external assessments of the quality of the internal audit function and its compliance with international standards.
  - k) Monitor the implementation of a Board-approved risk management framework and monitor the necessary actions taken by the Center to address risks where these are considered insufficiently mitigated. The audit committee, as part of this monitoring role, also reviews the risks relating to financial reporting and overall financial integrity of the Center.
  - l) Receive and review, with Center management and auditors, reports from external and internal auditors on the adequacy of the Center's systems for risk management and internal control.



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- m) Recommend to the full Board the adoption of board statements on risk management and internal control, and chairman's statements on the annual financial statements.
  - n) Review the Center's systems for compliance with host country laws, and adherence to the Center's policies on conflict of interest and codes of conduct, including whistle-blowing systems, and monitor management action plans for improvement where applicable.
  - o) Obtain updates from management on litigation and its potential to give rise to contingent liabilities that should be recognized in the Center's financial statements and its financial provisioning.
  - p) Promote a culture that values objective analysis of the management of the Center.
  - q) Report to the full Board on the activities of the Audit Committee on significant issues that have emerged from these activities, and matters which may require a full Board decision.

1.6 The Audit Committee should have formal written terms of reference approved by the full Board and which are reviewed on a periodic basis<sup>6</sup>. These should specify the membership and the duties and responsibilities delegated to the Committee by the Board. The terms of reference should state the authority of the Audit Committee, including free and unrestricted access to information from Center staff, internal and external auditors or other outside expertise. A sample terms of reference is attached in Appendix 1<sup>7</sup>.

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<sup>6</sup> CGIAR Internal Audit Unit Good Practice Note 14.

<sup>7</sup> This model Terms of Reference has been taken from CGIAR IAU Good Practice Note 14 . The CGIAR IAU has also prepared Good Practice Note No 27 for use by Audit Committees in developing meeting agendas which ensure that all items in the Terms of Reference are adequately covered in their meetings over time.



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## EFFECTIVENESS OF AUDIT COMMITTEE MEETINGS

1.7 To improve the effectiveness of the Audit Committee, members should receive an orientation program on finance, accounting, internal controls, audit and risk management issues relevant to the Center.

1.8 CGIAR Center Boards committees are encouraged to self assess the effectiveness of their operations. Audit Committees should self-assess their performance against their terms of reference and other benchmarks they think relevant, to document this and report the results to the full Board<sup>8</sup>.

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<sup>8</sup> The CGIAR IAU has prepared a Good Practice Note No 27 which provides a model questionnaire for use by Audit Committees to assess their effectiveness and document the results.



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# **CHAPTER TWO:**

# **External**

# **Auditing**

**Introduction**

**General Principals and Responsibilities**

**Scope and Objectives**

**Responsibility for Compliance with Laws and Regulations**

**Letter of Engagement**

**Audit Conclusions and Reporting**

**Communication with Management**

**Coordination of Work with Internal Auditors**

**Selection of External Auditors**

**Changes to the Appointment**

**Rotation of External Auditors**

**Professional Independence and Ethics**

**Peer Review of Audited Financial Statements**



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## EXTERNAL AUDITING

### INTRODUCTION

2.1 CGIAR Centers should have their annual financial statements audited by independent (external) auditors. Requirements for independent, annual financial audits are typically included in the constitutions or other establishment documents of the Centers.

2.2 External auditors provide independent assurance to Center Boards, and their stakeholders that the financial statements of Centers are free from material misstatement<sup>9</sup>. Auditors express an opinion on whether the financial statements are prepared, in all material respects, in accordance with CGIAR Accounting and Reporting Practices Manual (Financial Guidelines No. 2). The Consortium periodically updates FG2 to ensure its consistency with the latest authoritative accounting pronouncements of the International Accounting Standards Board.

2.3 External auditors may also be engaged by the Centers to undertake financial audits of particular grants, to satisfy contractual requirements of donors<sup>10</sup>. Although the scope of these audits is different the general principles and responsibilities set out below still apply.

### GENERAL PRINCIPLES AND RESPONSIBILITIES (ISA 200)

2.4 External auditors of the CGIAR Centers should follow International Standards of Auditing (ISA). The ISAs are promulgated by the International Auditing and Assurance Standards Board (IAASB) of the International Federation

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<sup>9</sup> A material misstatement is a material difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.

<sup>10</sup> Donors may also appoint external auditors of their grants directly. This Guideline does not cover such situations.



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of Accountants (IFAC)<sup>11</sup>. The use of ISAs ensures that audits are conducted in accordance with internationally recognized guidelines and ensures that external auditors apply a consistent approach to their work.

2.5 External auditors are required to exercise due professional care in the planning and performing the audit, and in preparing the audit report.

2.6 An audit in accordance with ISAs is conducted on the premise that Center management have responsibility:

- For the preparation of the financial statements in accordance with the FG2; and;
- For such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement.

2.7 The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements, through the expression of an opinion by the external auditor on whether the financial statements are prepared, in all material respects, in accordance with FG2.

2.8 Examination of financial records by external auditors is not primarily or specifically designed, and cannot be relied upon, to disclose all fraud and errors. The responsibility for safeguarding and maintaining a Center's assets, its records, and the prevention and detection of errors and fraud rests with the Center.

2.9 An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even

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<sup>11</sup> The International Federation of Accountants (IFAC) is the worldwide organization for the accountancy profession. The ISAs are widely adopted in national standards and the worldwide policies of international accounting firms.



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though the audit is properly planned and performed in accordance with the ISAs<sup>12</sup>.

2.10 When obtaining reasonable assurance, the auditor is responsible for maintaining professional scepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. The ISA's assist the auditor in identifying and assessing the risks of material misstatement due to fraud and designing procedures to detect such misstatement<sup>13</sup>.

2.11 The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance on misstatements, whether caused by errors or fraud, that are not material to the financial statements. They have a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud. If fraud is discovered, they must report either to the Center Board or the management of the Center, as appropriate, in a timely manner.

#### SCOPE AND OBJECTIVES OF AN EXTERNAL AUDIT (ISA 200)

2.12 External auditors should be free to determine the scope of their audits as necessary to give an opinion on the Center's annual financial statements. The scope of an external audit is to examine each Center's annual financial statements, underlying financial records, and internal control systems necessary to provide an opinion on the financial statements.

2.13 As the annual financial statements include comparative figures from the previous year, each annual external audit should also cover these figures as well as those for the current year.

2.14 External auditors should be given full access to information and unrestricted access to persons from whom the auditor determines it necessary to obtain audit evidence. To fulfill their obligations, Centers should recognize that

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<sup>12</sup> ISA 240 The Auditor's Responsibilities Related to Fraud in an Audit of Financial Statements.

<sup>13</sup> ISA 240.



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external auditors are accorded certain rights in order to carry out their duties for the Board. These rights include:

- a) A right of access to the accounting records, accounts, and vouchers of the Center.
- b) A right to acquire from the Center's officers such information and explanations as the auditors consider necessary to perform their duties. If this information and explanations are refused, the auditors must state this in their report and consider issuing a modified opinion as to whether the accounts show a true and fair view.
- c) A right to be heard at any Board annual meeting on matters relating to the audit. Further, an auditor who is removed or replaced has certain rights to make representations to the Board.
- d) A right to visit the Center offices at any time, without formal prior notice, to inspect the Center's accounting records or to carry out spot checks.

2.15 External auditors can also be asked to make a more detailed examination of certain aspects of the activities than they would normally make for the purpose of their audit, or to examine records, which would not routinely come under the scope of their audit. In addition to the financial statement audit, some donors may require Centers for an external audit of the restricted funds administered by Center to ensure that the funds have been properly applied to those purposes and, if relevant, managed in accordance with relevant regulations and procedure.

#### RESPONSIBILITY FOR COMPLIANCE WITH LAWS AND REGULATIONS (ISA 250)

2.16 It is the responsibility of Center management, with the oversight of the Center Board, to ensure that the Center's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.

2.17 The requirements in this ISA are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for



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preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

2.18 As noted in 2.1 above the auditor will usually issue an audit opinion on whether the financial statements are prepared, in all material respects, in accordance with FG 2. In a small number of cases the external auditor may be required by host country regulations to provide an opinion in accordance with national accounting standards. If this is the case, an additional note to the financial statements should describe the conformance between these accounting standards and FG2.

#### LETTER OF ENGAGEMENT (ISA 210)

2.19 A Center should agree the terms of engagement in writing in an audit engagement letter. This letter records the terms of reference for the auditor and should include:

- (a) The objective and scope of the audit of the financial statements;
- (b) The responsibilities of the auditor;
- (c) The responsibilities of management;
- (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- (e) Reference to the expected form and content of any reports to be issued by the auditor.
- (f) The expected timing of audit reports.

A sample letter of engagement is attached in Annex 3. Many audit firms use their own template for a letter of engagement. In this case the external auditor should be invited to consider the sample letter in this Guideline to ensure the relevant aspects are incorporated in their own version issued to the Center.



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## AUDIT CONCLUSIONS AND REPORTING (ISA 700)

2.20 The external auditors' report, including the audited financial statements, are presented to the Center Board. The report should provide an opinion on the truth and fairness of the financial statements as whole. These include the Statement of Financial Position, the Statement of Activities, the Statement of Movements of Net Assets and the Statement of Cash Flows, together with explanatory notes and schedules in support of the financial statements.

2.21 Audit opinions on Center financial statements should follow the standard format established in the ISA for audit opinions. The auditor issues an unmodified opinion<sup>14</sup> when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with FG2.

2.22 In particular, the auditor evaluates whether, in view of the requirements of Financial Guidelines No 2;

- (a) The financial statements adequately disclose the accounting policies;
- (b) The accounting policies are consistent with the applicable financial reporting framework and are appropriate;
- (c) The accounting estimates made by management are reasonable;
- (d) The information presented in the financial statements is relevant, reliable, comparable and understandable;
- (e) The financial statements provide adequate disclosures to enable intended users to understand the effect of material transactions and events which are conveyed in the financial statements; and
- (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

2.23 The absence of any comment in the audit report with respect to these matters is equivalent to a positive affirmation by the auditors.

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<sup>14</sup> Formally known as an unqualified opinion



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2.24 ISA 706 (Emphasis of Matter Paragraph) deals with additional communication in the auditor's report when the auditor considers it necessary to:

- (a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
- (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

2.25 Examples of (the rare) circumstances where the auditor may consider it necessary to include an emphasis of matter paragraph are:

- (a) An uncertainty relating to the future outcome of exceptional litigation or regulatory action;
- (b) Early application of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date; or;
- (c) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

2.26 A modified opinion in the external auditors' report (ISA 705) would mean that the external auditor:

- (a) Concludes that the, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or
- (b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

2.27 There are *three categories of modified opinions* that the auditors could express:

- a) A *qualified opinion* is expressed when:
  - (i) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or



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- (ii) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
  - b) A *disclaimer of opinion* is expressed when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
  - c) An *adverse opinion* is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, either individually or in the aggregate, are both material and pervasive to the financial statements.

#### COMMUNICATION WITH MANAGEMENT AND THE CENTER BOARD (ISA 260)<sup>15</sup>

2.28 The auditors are required to communicate the following matters in relations the financial statement audit:

- (a) Auditor's responsibilities in relation to the financial statement audit;
- (b) Planned scope and timing of the audit;
- (c) Significant findings from the audit;
- (d) Matters relating to audit independence.

2.29 After the completion of each audit, the external auditors should report promptly to the Center Board and the Center their audit opinion as well as any significant financial accounting and control issues arising during the audit by way of a management letter. External auditors should issue the letter, with appropriate management responses, to the Audit Committee in time for the Center Board annual meeting. Further, the management letter could be used as a communication tool to provide Centers with constructive advice on other issues which they have identified during the audit.

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<sup>15</sup> Communication with those charged with Governance (ISA 260)



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2.30 External auditors should be invited to attend the Audit Committee meetings to discuss the conduct and findings of the audit and (following their re-appointment) their plans for the next audit. External auditors may be required to discuss certain information relating to the auditor's judgments about the quality, and not just the acceptability of the accounting principles. In addition it is recommended that the Audit Committee routinely schedule a closed session with the external auditor as part of their meetings considering the results of the financial statement audit<sup>16</sup>.

#### COORDINATION OF WORK WITH INTERNAL AUDITORS (ISA 610)<sup>17</sup>

2.31 Centers should ensure that there is appropriate coordination between the external auditors and the Center's internal auditors. While the objectives of the IAU and external auditors are different, some of the ways in which the internal audit function and the external auditor achieve their respective objectives may be similar. If external auditors plan to place reliance on the internal audit function they should evaluate their objectivity, capacity and technical competence during the planning process. In some cases a positive assessment of the internal auditor can enable the external auditor to place reliance on their procedures and thereby reduce external audit testing (e.g., audit of regional locations). Coordination between the external and internal auditors might be translated into specific areas and procedures which should be documented in the external auditors terms of reference.

2.32 Further, the external auditors should consult the internal audit reports during the planning process to identify areas where internal control systems are inadequate. Consulting the work of internal auditors is therefore an important part of planning which ensures that external auditors conduct their work effectively.

#### SELECTION OF EXTERNAL AUDITORS

2.33 The Center external auditor should be formally appointed by the Board on an annual basis. When external auditors are first engaged by the Center it is

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<sup>16</sup> This practice has been included in the CGIAR IAU Good Practice Note No. 14 on Audit Committee Agendas. Where audit committee meetings are held away from Headquarters consideration should be given to have a teleconference with the external auditors if their physical presence is not feasible.

<sup>17</sup> Using the work of internal auditors (ISA 610)



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usually in anticipation of completing up to 5 to 7 annual audit assignments, in accordance with the external audit rotation policy. However, at each annual meeting of the Center Board, at which the Center's audited financial statements are presented, the Center should formally recommend, and Board approve, the appointment of an external auditor to hold office from the conclusion of that meeting until the next annual meeting. A retiring external auditor may be reappointed at the annual meeting subject to the external audit rotation policy.

2.34 All external auditors of the Centers should be a member of an internationally recognized public accounting firms. In evaluating the capabilities of the audit firm the following technical criteria should be considered:

- Affiliation with worldwide firm—nature of professional quality assurance and other interactions to ensure that international auditing standards are maintained as they are evolving;
- Presence of offices in other countries where the Center has operations/offices, and the ease with which those offices could be called on where necessary;
- Experience in audit of not-for-profit organizations/international organizations/enterprises reporting according to International Financial Reporting Standards;
- Number of partners and professional staff; partner-staff ratio, ability to substitute staff at similar levels of qualifications and experience if necessary;
- Firm specialities that may be useful to the Center (e.g. IT, enterprise risk management, advice on hedging instruments);
- Types of clients/sectors, number of large clients/client spread;
- Feedback on performance from other clients.

In addition to the “Big 4” public accounting firms, “second tier” international firms may meet the above criteria and have a significant presence in the host country.

2.35 Should the external auditor position become vacant before the expiry of the term, the Center Board will, in consultation with the Audit Committee, appoint another external auditor to fill the vacancy.



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2.36 In selecting an external auditor, Centers should conduct a competitive process, according to a pre-established set of selection criteria. The process should be consistent with the CGIAR procurement principles<sup>18</sup>.

#### EVALUATION OF INCUMBENT EXTERNAL AUDITORS<sup>19</sup>

2.37 Center Boards, through their Audit Committees, should evaluate the performance of the external auditors on an annual basis. This evaluation supports decisions to renew the engagement in the years between Board-approved cycles of rotation.

2.38 In evaluating the performance of external auditors; Audit Committees should consider:

- Communications with the audit committee,
- Planning and conduct of the assignment;
- Scope of the external audit;
- Composition of the external audit team;
- Maintenance of independence;
- Recent or imminent changes to the firm that may have an impact on its relationship with the Center in the future.

#### CHANGES TO THE APPOINTMENT OF EXTERNAL AUDITORS

2.39 The rules of professional conduct relating to the resignation and removal of external auditors are designed to protect the interest of the Center Board. It is the right of the Board to appoint the external auditor of their choice. This right is

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<sup>18</sup> CGIAR IAU Good Practice Note No 12 on Selection of External Auditors. This Good Practice Note also provides advice on the selection process.

<sup>19</sup> See also CGIAR IAU Good Practice Note No 17 Evaluation of Incumbent External Auditors.



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protected by preventing the possibility of the auditor being removed without the Board's consent.

2.40 A Center's external auditors may resign with a written notice of resignation at the Center's head office. In order to be effective the notice should include the following:

- a) A statement that there are no circumstances connected with the resignation of the external auditors which they consider should be brought to the notice of the Center's creditors or donors; or
- b) A statement of any circumstances connected with the resignation.

2.41 Within 14 days of receipt of a notice of resignation, the Center must send a copy of the notice to the Audit Committee. The external auditors may request the Center Board or its Audit Committee to convene a meeting to receive and consider any explanation of the circumstance connected with the resignation. External auditors who have resigned are entitled to attend and to be heard at any part of the Center Board meeting which concerns them as the former Center auditor.

2.42 The authority for the removal of external auditors rests solely with the Center Board. The reasons for this are to preserve the right of the Center Board to appoint the external auditors of their choice. Additionally, this ensures external auditors' independence from management.

#### ROTATION OF EXTERNAL AUDITORS

2.44 All Centers should have a formal Board-approved policy on the rotation of external auditors once every five to seven years. The rotation of auditors means that auditors are engaged to undertake a maximum of five to seven annual financial statement audits, and thereafter another auditor should be appointed through competitive bidding (see above).

#### PROFESSIONAL INDEPENDENCE AND ETHICS (IFAC CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS)

2.45 The purpose of this section is not to replicate all the rules on professional independence and ethics of the accounting profession. External auditors should belong to IFAC affiliated international accounting associations with committees that



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establish national and international professional standards promoting professional independence and ethics for their members<sup>20</sup>. These standards will be part of the selection criteria for external auditors.

2.46 The fundamental principles with which the auditor is required to comply by the IFAC Code are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality;
- (e) Professional behavior.

2.47 The external auditor must be independent of the Center. The IFAC Code also provides specific guidelines on maintaining auditor's independence, such as:

- The official, professional and personal relationships causing the auditor to limit the scope or character of the audit.
- Avoiding any role as an executive manager at the Center.
- Avoiding any interest, financial or non-financial, direct or indirect, in the Center.

2.48 Centers should not engage external auditors to carry out consultancies or other work that is not directly related to their role as external auditor. With regard to internal audit outsourcing or co-sourcing, a Center's external auditor cannot assume responsibilities for performing internal auditing in that Center.

2.49 Public interest requires that external auditors' independence be protected, and situations jeopardizing that independence be reported publicly.

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<sup>20</sup> Modeled on the IFAC Code of Ethics for Professional Accountants.



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## PEER REVIEW OF AUDITED FINANCIAL STATEMENTS

2.50 A peer review is undertaken on the final version of the annual financial statements and serves as an additional check on the quality of the financial statements, their conformance with FG2 and on the external auditor's report. The recommendations of the peer review process should be considered for adoption in the financial statements for the following year.



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# **CHAPTER THREE:**

# **Internal Auditing**

**Definition and Role of Internal Audit**

**Internal Audit Charter**

**Internal Audit Policies and Procedures**

**Medium Term and Annual Audit Planning Process**

**Center Internal Audit Activity Reporting**

**Internal Audit Support to Good Center Governance**

**Internal Audit Support to Enterprise Risk Management**

**Internal Audit Support to Financial Fraud Prevention and  
Detection**

**Managing Internal Audit Activities**

**Quality Assurance and Compliance**



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# INTERNAL AUDITING

## DEFINITION AND ROLE OF INTERNAL AUDIT

3.1 Center Boards should ensure that management establishes an internal auditing function.

3.2 The Institute of Internal Auditors defines internal auditing as “...an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

3.3 The principal function of the internal audit activity of the Centers is to provide an agreed level of assurance to the Boards and management that key processes for mitigating the highest risks identified by the Centers are adequately addressed and operating effectively. Internal audit also provides, where requested by Centers and included in work programs, consulting services to the Centers to help them strengthen risk management, control and governance processes, and investigations.

3.4 The internal audit function in each Center remains the responsibility of the Center Board and management. The CGIAR Centers<sup>21</sup> have established a shared service unit, the CGIAR IAU, to provide all or some of their internal audit requirements. This has been seen as the best way by which they can obtain, in a cost effective manner, the inputs of internationally recognized internal auditors, and at the same time benefit from the sharing of organizational learning from internal audit activities across the Centers.

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<sup>21</sup> Along with the CGIAR Secretariat, under the CGIAR System structure that was in place up until December 2009. The Secretariat contributed to the budget of the IAU, and participated in the administrative oversight of the Unit, from 2000 through 2010. From 2011 the arrangements will change, consistent with the CGIAR reforms.



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## INTERNAL AUDIT CHARTER

3.5 The purpose, authority, and responsibility of the internal auditing function should be formally defined and approved by the Center Board. Internal auditors should report at a level within the Center that allows them to accomplish their responsibilities (e.g. Director General). Also, to enhance the independence of the internal auditing function, internal auditors should also have free access to the Audit Committee of the Center Board.

3.6 Because each Center is independent and has varying expectations from the internal auditing function, it is essential for internal auditors to hold discussions with management and the Audit Committee on their requirements from internal audit. An internal audit charter is one mechanism to formalize the agreement. The charter is a formal written document that defines the purpose, authority, and responsibility of the internal auditing function. The Center Board, on the recommendation of the Audit Committee, should approve the Charter. A sample Internal Audit Charter is provided in Annex 2.

## INTERNAL AUDIT POLICIES AND PROCEDURES

3.7 Internal auditors should comply with the IIA Standards. The Institute of Internal Auditors (IIA)'s International Standards for the Professional Practice of Internal Auditing and the Code of Ethics, which form part of the IIA's Professional Practice Framework<sup>22</sup>, have been adopted by the CGIAR since 2001 and these Guidelines conform to the principles contained therein. The CGIAR internal audit community has developed a common CGIAR Internal Auditing Manual to operationalize the IIA standards. The current version of the Manual is published on the CGIAR internal audit website and is therefore accessible not only to the internal auditors but to other stakeholders in the internal audit function. Specifically the Manual:

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<sup>22</sup> The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative and other guidance promulgated by The Institute of Internal Auditors.



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- Promotes adherence to the Code of Ethics and International Standards;
  - Guides internal auditors and consultants on professional expectations;
  - Ensures a consistent approach to internal audit across the CGIAR Centers;
  - Provides a reference for Center managers and staff to understand internal audit process; and;
  - Establishes a benchmark for internal and external quality assurance reviews of the internal auditing activities.

The Manual covers the assurance, advisory and investigative functions of internal audit, administration and reporting on the internal audit activity, and quality assurance arrangements. Sections of the Manual are updated periodically through a consultation process outlined in the introductory section of the Manual.

3.8 The policies and practice requirements set out in the Manual will be observed by all CGIAR internal auditors. This comprises the internal auditors of the CGIAR Internal Auditing Unit (IAU), Center-hired internal auditors and those providing outsourced internal audit services under their supervision.

3.9 This Manual is a living document and may be updated at any time, in accordance with the process set out in the Manual's introduction. At a minimum it will be subject to a full review at least every two years.

#### MEDIUM TERM AND ANNUAL AUDIT PLANNING PROCESS (CGIAR IA MANUAL SECTION G.1)

3.10 Preparing an auditing plan, whether a multi-year strategic or one-year annual plan, is an important activity for internal auditors. Internal auditors should establish risk-based plans aligned to Center risk assessment which will accomplish the objectives of the internal auditing activity. This is not only consistent with the Center's goals, but also ensures that plans are driven by Center needs. These plans should be approved by Center management, the Audit Committee and the full Center Board.

3.11 The first step towards ensuring plans are relevant to Center needs is to focus on the entire internal control system. In doing so internal auditors are required to consider all risks the Center may face. From here, the risk assessment could be used to direct the internal auditing resources to those critical areas identified by Center management and the Audit Committee.



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3.12 Second, internal auditing services should be closely aligned to the Center's objectives, strategies, work processes, and circumstances. The appropriateness of the services offered depends on covering the Center's significant functions, and the contexts in which the Center operates.

3.13 Thirdly, internal auditing services could add substantive value to the Center by providing assurance that its risk exposures are understood and managed appropriately. Substantive internal auditing services, therefore, promote organizational understanding about and focus on risk exposures and their management. The services also contribute to the improvement of risk management and control systems.

3.14 The Head of Internal Audit shall reconcile the priority areas identified in the Center's risk register with the internal audit resources available, indicating any gaps in assurance due to resource constraints. Audit work schedules should be based on, amongst other factors, an assessment of risk, priority and exposure. Where resource constraints do not permit internal audit to provide assurance over all areas identified as within its domain, audits shall be scheduled over a number of years.

3.15 The intent of the FG3 is not to prescribe the format, content, timeline or form of the auditing plan, since it is driven by the needs of each Center. More important, however, is the recognition that an auditing plan serves the following purposes:

- Highlighting key activities to be reviewed.
- Incorporating input from management to ensure that the plan is in accordance with the priorities of Center management.
- Allowing comparisons between work completed and the scheduled assignment.
- Providing direction and control for internal auditing activities.
- Facilitating communication with other review activities e.g. external auditing.



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## CENTER INTERNAL AUDIT ACTIVITY REPORTING (CGIAR CENTERS IA AUDIT MANUAL – SECTION G.2)

3.16 There is an increasing awareness by Center Board members of their responsibilities and the need to be better informed about the quality of internal controls. Internal auditors should report periodically to the Audit Committee (and Center management) on the internal auditing activity's purpose, authority, responsibility, and performance relative to its Annual Auditing Plan and Internal Audit Charter. Reporting may include significant risks and control issues, corporate governance issues, planned audit/consulting engagements, results of completed engagements, implementation of audit recommendations by management, and other matters needed or requested by the Audit Committee (and Center management).

3.17 The Head of Internal Audit should review the draft Audit Committee minutes, and provide suggested changes where necessary to ensure information conveyed and the decisions made are properly captured. This will also assist with internal audit follow up of requests by the Audit Committee.

## INTERNAL AUDIT SUPPORT TO GOOD CENTER GOVERNANCE (CGIAR CENTERS IA AUDIT MANUAL – SECTION H.1)

3.18 Important aspects of Center governance include:

- Composition of Center Boards;
- Board operations, including the functioning of standing and ad hoc Board committees;
- Board secretariat operations;
- Board-Center reporting arrangements and delegations of authority;
- Codes of Conduct/Ethics and their system of implementation;
- Policy framework established for the Center;
- Enterprise risk management systems and related Board reporting;



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- Executive reporting on Center performance (ideally linked to risk management);
  - Management leadership, including operations of senior management teams;
  - Whistleblower systems.

3.19 Good governance is a necessary, overarching requirement for the effective operations of a Center, and internal auditors have a role, in their areas of competence, to provide advice to strengthen the Center governance and to periodically review how existing governance arrangements are working. In this respect internal audit can be a useful tool for Boards and management to prepare for external program and management reviews of the Centers.

3.20 Good practice, which both Internal Auditors and Center audit clients can draw upon when assessing Center governance, can be identified from a variety of sources, including:

- CGIAR Center Governance Guidelines;
- Results of past Center external program and management reviews;
- CGIAR Board Member training courses;
- CGIAR leadership courses;
- External sources of good governance in the public and private sectors;
- Past internal audits of governance and management topics;
- CGIAR IAU Good Practice Notes on Center governance-related topics.

3.21 Internal Audit shall undertake assessments of Center governance elements, either generally in support of its review of Center risk management, or as focused topics in its annual Center work plans, including those elements relating to:

- Implementing the Center's constitutional documents including by-laws;
- Policy framework for the Center;



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- Board effectiveness;
  - Ensuring effective organizational performance management and accountability;
  - Promoting appropriate ethics and values within the organization;
  - Promoting integrity in business activities;
  - Ensuring compliance with applicable host country laws and regulations;
  - Effectively communicating risk and control.

INTERNAL AUDIT SUPPORT TO ENTERPRISE RISK MANAGEMENT (CGIAR CENTERS IA  
AUDIT MANUAL – SECTION H.2)

3.22 Risk management is a key responsibility of management. To achieve its business objectives, management should ensure that sound risk management processes are in place. Boards and Board committees, including Audit Committees, have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective.

3.23 Internal audit shall promote the Center's adoption and maintenance of an enterprise risk management system. To do this internal auditors should assist Centers to look at the whole enterprise risk; ensure they are adequately covered and assess whether additional validation steps are needed. Internal auditors should also assist the Center management and the Board by examining, evaluating, reporting, and recommending improvements on the adequacy and effectiveness of management's risk processes.

3.24 Internal Audit shall undertake or facilitate assessments of the Center's management of Information and Communication Technology (ICT) risks, either generally in support of the Center's enterprise risk management system, or as focused topics in annual Center work plans (See CGIAR Centers Support to the Management of Information and Communication Technology Risks – CGIAR IA Audit Manual – Section H.4).



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INTERNAL AUDIT SUPPORT TO FINANCIAL FRAUD PREVENTION AND DETECTION  
(CGIAR CENTERS IA AUDIT MANUAL – SECTION H.3)

3.25 Fraud encompasses a range of irregularities and illegal acts characterized by intentional deception or misrepresentation, which an individual knows to be false or does not believe to be true. Fraud is perpetrated by a person knowing that it could result in some unauthorized benefit to him or her, to the organization, or to another person, and can be perpetrated by persons outside and inside the organization.

3.27 Internal Auditors shall support Center Boards and management in relation to the prevention and detection of financial fraud by:

- Providing guidance on the management of financial fraud risks;
- Providing guidance on whistle-blowing systems, providing support to these systems, and reviewing their operation;
- Assessing whether Center enterprise risk assessments adequately address the risks of financial fraud across the organization;
- Providing advice to improve Center financial fraud risk assessments;
- Proposing audits in medium term and annual internal audit work plans that will provide assurance regarding financial fraud risk management;
- Incorporating appropriate examination and testing of controls against financial fraud relevant to the scope of assurance engagements;
- Incorporating, in consulting engagements, consideration of controls against financial fraud relevant to the scope of the engagement;
- Maintaining an attitude of professional scepticism – recognizing the possibility of financial fraud in the area being audited despite the auditor’s knowledge of, and past experience with, the audit client staff.



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## MANAGING INTERNAL AUDIT ACTIVITIES

3.28 The Head of Internal Audit (“the Head”) of each Center is responsible for managing the internal auditing activity<sup>23</sup> in each Center. In this regard, according to the IIA Standards, the Head should:

- Establish risk-based plans to accomplish the objectives of the internal auditing activity, consistent with the Center's goals.
- Communicate the internal auditing activity’s plans and resource requirements, including significant interim changes, to Center management and to the Audit Committee for appropriate review and approval. The Head should also communicate the impact of any resource limitations.
- Ensure that internal auditing resources are appropriate, sufficient, and effectively deployed.
- Establish policies and procedures to guide the internal auditing activity.
- Coordinate with other internal and external providers of assurance and relevant consulting services to ensure proper coverage and minimize duplication<sup>24</sup>.
- Report periodically to the Audit Committee and Center management on the internal auditing activity’s purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risks and control issues, corporate governance issues, and other matters needed or requested by the Audit Committee and Center management.

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<sup>23</sup> Internal Auditing Activity is a department, division, team of consultants, or other group of internal audit practitioners that perform the internal auditing function for an organization.

<sup>24</sup> Center management often appoints external consultants and experts to perform internal reviews (e.g., Center-commissioned external reviews) and their recommendations could influence the Center’s governance, organization, policies, and procedures.



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## QUALITY ASSURANCE AND COMPLIANCE

3.29 The Head of Internal Audit should develop and maintain a quality assurance program designed to achieve compliance with the CGIAR Internal Audit Manual. The program should provide assurance that the internal auditing activity adds value and improves the Center's activities. A quality assurance program could be achieved by:

- a) Periodic internal reviews through self-assessment or by persons within the Center and outside the internal auditing activity or an internal auditor from another Center<sup>25</sup>. Such internal reviews should be performed by persons with knowledge of internal auditing practices.
- b) Independent reviews to ensure that the internal auditing activity's compliance with the Standards and the Code of Ethics should be evaluated at least once every five years by a qualified, independent, outside reviewer, using appropriate guidelines and tools.

3.30 The quality assurance program should consist of supervisory procedures and internal reviews embedded into the internal auditing process. In addition, the Head should ensure that internal auditing staff receive the appropriate guidance to perform their audit work. Enrollment of all Center internal auditors (or at the least, the Head of Internal Audit) with the IIA should be a Center corporate policy.

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<sup>25</sup> The CGIAR has a community of internal auditors that comprise of internal auditors from all the Centers with in-house internal auditing function.



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## APPENDIX 1: MODEL AUDIT COMMITTEE TERMS OF REFERENCE

*Source: CGIAR INTERNAL AUDIT UNIT GOOD PRACTICE NOTE No. 14*

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### **Model Audit Committee Terms of Reference**

*(This is based on a model prepared by the Institute of Internal Auditors. Modifications have been made where the IIA model is not relevant to international nonprofit organizations or to incorporate good practice drawn from other sources identified in this Good Practice Note).*

#### **Purpose**

To assist the Center Board of Trustees in fulfilling its oversight responsibilities for the financial reporting process, the system of risk management and internal control, the audit process, and the monitoring process for compliance with laws and regulations and the code of conduct.

#### **Authority**

The Audit Committee has authority to commission investigations into any matters within its scope of responsibility. It is empowered to

- Seek any information it requires from Center management and staff (all of whom are directed to cooperate with the committee's requests) or external parties.
- Meet with Center management and staff, external auditors, or outside counsel, as necessary.



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- Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.

### **Composition**

The Audit Committee will be appointed by the Board of Trustees and will consist of at least three members of the Board.

To strengthen the independence of the Committee, the Board chair and the director general will not be members of the Committee. Appointments to the Board will also be made with a view to ensuring that each Committee member is or can be quickly oriented to be able to read and understand fundamental financial statements, and that at least one members of the Committee include substantial accounting or financial management expertise.



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## Meetings

The Committee will meet at least as frequently as the Board of Trustees meetings (prior to full Board meetings, with sufficient time to report on the results to the Board), with authority to convene additional meetings, as circumstances require. The Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and in executive sessions. Meeting agendas will be prepared and provided in sufficiently advance time to members, along with appropriate briefing materials. Minutes will be prepared.

## Responsibilities

The Committee will carry out the following responsibilities:

### Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, developments in CGIAR and other applicable accounting and financial reporting policies, and understand their impact on the financial statements.
- Review with management and external auditors the results of the audit, including any difficulties encountered.
- Review the external auditor's report on the financial statement and any supplementary report (management letter) outlining the findings, observations and recommendations and management's responses, and the status of any action plans where implementation of agreed recommendations cannot be immediate.
- Review the annual financial statement, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting and disclosure policies, in particular the CGIAR accounting and financial reporting guidelines.



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- Review with management and external auditors all matters required to be communicated to the Committee under international auditing standards.
  - Recommend the adoption of the annual financial statements to the Board.
  - Review interim financial reports with management, including ... (monthly/quarterly)... reports on cash flow, and budgeted versus actual income and expenditure and consider whether they are complete and consistent with the information known to Committee members.

#### Risk management and internal control

- Review the most significant risks that could prevent the Center from achieving its objectives, and in the light of this consider the effectiveness of the Center's risk management and internal control system, including implementation of related Board-approved policy and the Center's control environment ("tone at the top").
- Understand the scope of internal and external auditors' review of risk management and internal control systems, and obtain reports on significant findings and recommendations, together with management's responses.
- Review the status of any action plans where implementation of agreed audit recommendations cannot be immediate, and assess management responsiveness.
- Review management reports on risk management and internal control and proposed public Board statements and advise the Board on the adoption of such statements.



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## Internal Audit

- Review with management and the internal auditor the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Ensure that there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the head of the internal audit function.
- Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
- As part of the routine committee meeting agenda, meet separately with the head of internal audit to discuss any matters that the committee or internal audit believes should be discussed privately

## External Audit

- Review the external auditor's proposed audit scope and approach, including coordination of audit effort with internal audit, and its audit quality control/assurance processes
- Review the performance of external auditors and make recommendations to the Board of Trustees regarding their appointment, discharge, or rotation (in accordance with CGIAR audit guidelines).
- Recommend to the Board the terms of engagement and remuneration of the external auditor.
- Where the external audit appointment is to be rotated, recommend to the Board the tendering process, including the process for evaluating the proposals, and recommend to the Board the selection decision.
- Review the circumstances where an external auditor resigns an engagement and advise the Board if any action related to these circumstances is warranted



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- Review and confirm the independence of the external auditors by obtaining written statements from the auditors on relationships between the auditors (individuals, the audit firm or its network of firms) and the Center, including non-audit services, discussing the relationships and the firm's own internal procedures (including internal rotation policies) for maintaining the independence of its staff.
  - Set the principles relating to provision of non-audit services by the external auditor.
  - As part of the routine Committee meeting agenda, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

#### Compliance and litigation

- Review the effectiveness of the Center's system for monitoring compliance with any applicable host country laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by host country regulatory agencies and any auditor observations on compliance.
- Review the process of communicating to staff and others the Center's code of conduct, including policies on (i) managing conflicts of interest and (ii) receiving and acting on confidential information from staff, suppliers, partners and others about noncompliance, and the Center's process for monitoring compliance therewith.
- Obtain regular updates from management regarding compliance matters, including results of investigations of identified or alleged noncompliance with the code of conduct (in particular noncompliance that may have significant financial implications for the Center).
- Obtain regular updates from management regarding any litigation in which the Center is engaged, including assessments of contingent liabilities associated with such litigation in the event of judgments against the Center.



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### Reporting responsibilities

- Report to the Board of Trustees, at least at the conclusion of each Committee meeting, about Committee activities, issues, and related recommendations, confirming that all responsibilities outlined in this charter have been carried out.
- Provide an open avenue of communication between internal audit, the external auditors, and the Center Board.
- Review any other reports the Center issues that relate to the Committee's responsibilities.

### Other responsibilities

- Perform other activities related to this charter as requested by the Board of Trustees.
- Commission and oversee special investigations relating to risk management, internal control, and compliance as needed.
- Review and assess the adequacy of the Committee charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosures about the Committee's membership and functioning where relevant host country laws or regulations apply.
- Evaluate the Committee's and individual members' performance on a regular basis.



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## APPENDIX 2: SAMPLE INTERNAL AUDIT CHARTER

**Source: IRRI**

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### IRRI INTERNAL AUDIT CHARTER

#### *ESTABLISHMENT OF THE INTERNAL AUDIT FUNCTION*

It is the policy of the International Rice Research Institute (IRRI) to support Internal Audit as an independent, objective, assurance, and consulting activity to examine and evaluate the activities of IRRI as a service to management and the Board of Trustees.

#### *REPORTING RELATIONSHIPS*

The Internal Audit Team is headed by the Director of Internal Audit who reports functionally to the Director of Finance, and administratively to the Director General and the Finance and Audit Committee of the Board of Trustees of IRRI.

#### *AUTHORITY GRANTED TO INTERNAL AUDIT*

Internal Audit has full, free, and unrestricted access to all the records (manual and electronic), property, and personnel of IRRI. Documents and information given to internal auditors are handled in the same prudent manner as by those employees normally accountable for them.



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## OBJECTIVE OF THE INTERNAL AUDIT ACTIVITY

The primary objective of the Internal Audit activity is to help management and the Board of Trustees of IRRI discharge their responsibilities and accomplish the objectives of IRRI by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes. Internal Audit furnishes them with analyses, recommendations, counsel, and information concerning the activities reviewed.

## SCOPE OF WORK OF INTERNAL AUDIT

Internal Audit will review the business units within IRRI at appropriate intervals to determine whether the functions of planning, organizing, directing, and controlling are efficiently and effectively carried out according to management instructions, policies, and procedures, and in a manner consistent with the objectives of IRRI. To this end, the Internal Audit Team shall:

- Assess the reliability and integrity of financial and control information and the means to identify, measure, classify, and report such information.
- Assess the effectiveness of the management controls and systems used to account for and safeguard from losses IRRI assets, and as appropriate, verify the existence of assets.
- Determine the internal control systems established to ensure compliance with IRRI policies, procedures, and guidelines, and assess the degree of compliance of IRRI business units with such systems.



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- Assess the economy and efficiency with which IRRI resources are employed pursuant to the internal control systems of IRRI.
  - Review the operations and programs of IRRI to ascertain whether from the viewpoint of internal control systems, results are consistent with established objectives and goals, and whether the operations and programs are being (or have been) carried out as planned.

Internal Audit will carry out any specific audit requests or investigation upon the request of management and the Board of Trustees.

Internal Audit will carry out its work according to the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, Inc.

#### RESPONSIBILITY OF INTERNAL AUDIT

Internal Audit will develop an annual internal audit plan for the review and approval of management and the Board of Trustees. The audit plan shall:

- Be developed for the audit cycle using an accepted risk assessment process that is based on an evaluation of the risks associated with each business unit.
- Update the audit plan annually and submit it to the management and the Center Board for approval.
- Provide a segment of special requests by management.



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- Require written approval of the management and the Center Board on any major changes in the audit plan.

Internal Audit will prepare reports on results of projects and provide recommendations for improvement, comment on whether appropriate action has been taken on audit findings, and follow up on audit findings, including the timing for corrective action to be taken on reported weaknesses.

Internal Audit is responsible for maintaining a team that collectively possesses the necessary knowledge, skills, and disciplines for the achievement of the Internal Audit activities.

Under normal conditions, Internal Audit work is to be carried out by the Internal Audit Team. In cases of special need, Internal Audit resources may be supplemented by: (a) assistance of other suitable staff within IRRI, and (b) the engagement of consulting services.

Internal Audit will coordinate efforts with the external auditors of IRRI.



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## APPENDIX 3: SAMPLE LETTER OF ENGAGEMENT

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Dear Sirs

### **CGIAR Center Engagement Letter**

The purpose of this letter is to set out the basis on which we are to act as auditors of the above organisation and the respective areas of responsibility of the organisation and of ourselves. Our audit is carried out with the objective of expressing an opinion on the financial statements of the organisation.

### **Responsibilities of the Board of trustees and auditors**

1. As the Board of trustees of the organisation you are responsible for maintaining proper accounting records and preparing financial statements that reflect a true and fair view. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the organisation.

You are also responsible for making available to us, as and when required for our audit purposes, all accounting records and all other records and related information, including minutes of all management and Board of trustees meetings of the organisation.

2. We have a responsibility to report whether, in our opinion, the financial statements of the organisation give a true and fair view of the state of the organisation's affairs at the date of the balance sheet and of the results for the period then ended and whether those accounts comply with the requirements of the CGIAR Accounting Policies and Reporting Practises Manual Financial Guidelines No.2 (Revised February 2006).
3. In arriving at our opinion, we are required to consider the following matters, and to report on any in respect of which we are not satisfied:
  - (a) Whether proper accounting records have been kept by the organisation;
  - (b) Whether the organisation's financial statements are in agreement with the accounting records and returns;



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(c) Whether the financial statements have been prepared in conformity with appropriate and acceptable accounting standards and principles; and,

(d) Whether we have obtained all the information and explanations that we considered necessary for the purpose of our audit.

4. We have a professional responsibility to report if the financial statements do not comply in any material respect with CGIAR Accounting Policies and Reporting Practises Manual -Financial Guidelines No.2 (Revised February 2006) unless in our opinion, the non-compliance is justified.

### **Scope of audit**

Our audit will be conducted in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. The audit will be conducted in such a manner as we consider necessary to fulfil our responsibilities and will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities as we consider necessary.

Our audit will include:

- evaluating the appropriateness of the accounting policies;
- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the reasonableness of significant estimates;
- considering the appropriateness of the overall financial statement presentation.

We shall obtain an understanding of the accounting system in order to assess its adequacy as a basis for the preparation of the financial statements and to establish whether proper accounting records have been maintained. We shall expect to obtain such relevant and reliable evidence as we consider sufficient to enable us to draw reasonable conclusions there from.

The nature and extent of our tests will vary according to our assessment of the organisation's accounting system and its system of internal control (where we wish to place reliance on it) and may cover any aspect of the business operations.

We shall report to you any significant weaknesses in, or our observations on, the organisation's internal control systems which come to our notice and which we think should be brought to your attention.



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Our work will be planned in advance and incorporated into an audit plan. This may be varied on the basis of our findings during the course of an audit and from year to year. Accordingly, we may modify our audit scope, rotate our audit emphasis and propose matters of special audit emphasis, as the circumstances dictate.

### **Management representations**

The information used by the Board of trustees in preparing the financial statements will invariably include facts or judgements, which are not themselves recorded in the accounting records. As part of our normal audit procedures, we shall request appropriate Board of trustees or senior officials to confirm to us in writing each year such facts or judgements and any other oral representations which we have received from them during the course of the audit on matters having a material effect on the financial statements. We will also ask them to confirm in that letter that all important and relevant information has been brought to our attention.

### **Other requirements**

In order to assist with the examination of your financial statements, we shall request sight of all documents or statements, including any statements prepared by organisation management, which are due to be issued with the financial statements.

Once we have issued our report we have no further direct responsibility in relation to the financial statements for that financial year. However, we expect that you will inform us of any material event occurring between the date of our report and the date of issue of the financial statements which may affect the financial statements.

### **Detection of fraud, error and non-compliance with laws and regulations**

The responsibility for safeguarding the assets of the organisation, the maintenance of adequate internal controls and the prevention and detection of fraud, error and non-compliance with laws or regulations rests with yourselves. Management is also responsible for identifying and ensuring that the organisation complies with the laws and regulations applicable to its operations.

We shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records resulting from irregularities, but our examination should not be relied upon to disclose irregularities that may exist. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.



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## **Preparation of financial statements**

Unless otherwise agreed, your staff will be responsible for all book-keeping and accounting functions and the preparation of financial statements which comply with the CGIAR Accounting Policies and Reporting Practises Manual -Financial Guidelines No.2 (Revised February 2006) and supporting schedules.

## **Other services**

For the purposes of our audit responsibilities, we shall not be treated as having knowledge of information and communication provided to members of our firm other than those engaged on the audit (for example information provided in connection with accounting, taxation and other services).

## **Fiduciary responsibilities**

Because our audit is directed at forming an opinion on the organisation's financial statements, our audit procedures will not normally extend to assets or documents of title in respect of assets that are in the organisation's possession, but owned by others.

## **Responsibility relating to electronic distribution of audit opinion**

If the organisation intends to publish or reproduce, in printed form or electronically, our report together with the financial statements or otherwise make reference to [name of auditor] in a document that contains other information, management agrees to (a) provide us with a draft of such document to read, and (b) obtain our approval for inclusion of our report, before the document is finalised and distributed. Where our audit report is reproduced in any medium, the complete financial statements, including notes, must also be presented.

## **Electronic communications**

During the engagement we may from time to time communicate with you electronically. However as you are aware the electronic transmission of information cannot be guaranteed to be secure or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Accordingly whilst we will use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically and notwithstanding any collateral contract, warranty or representation, [name of auditor], their partners, employees, agents or servants shall not have any liability to you on any basis, whether in contract, delict (including negligence) or otherwise, in respect of any error or omission arising from or in connection with the electronic communication of information to you and your reliance on such information and including (but not limited to) the acts or omissions of our service providers. Such exclusion of liability shall not apply to [name of auditor] in the event of such acts,



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omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of [name of auditor] partners, employees, agents or servants.

If the communication relates to a matter of significance on which you wish to rely and you are concerned about the possible effects of electronic transmission you should request a hard copy of such transmission from us. If you wish us to password protect all or certain documents transmitted you should discuss this with us and we will make appropriate arrangements.

### **Timetable**

We will agree with you, on the specific timetable for undertaking and completing the work. We will not accept any liability for any delay caused by any limiting factors beyond our control that would prevent us from completing the engagement in the time specified.

We reserve the right to charge additional fees when delays within your control resulting in us incurring additional costs.

### **Fees**

Our fee, which will be billed as work progresses, is based on the time required by the individuals assigned to the engagement plus direct out-of-pocket expenses and VAT. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

### **Acknowledgement and acceptance**

This letter forms the entire agreement and understanding between us with respect to the subject matter hereof. This letter supersedes all previous arrangements and understandings between the parties with respect to the subject of this letter, which shall cease to have any further force or effect. Any variations to the terms of this letter shall be made in writing and will not be effective unless signed by a Partner of [name of auditor] and by a duly authorised representative of [name of CGIAR Center]. We shall be obliged if you will confirm in writing your agreement to the terms of this letter by signing the copy in the space provided and returning it to us. If you wish to discuss the terms of our appointment further before replying, please let us know.

We look forward to continued full co-operation with your staff and trust that they will make available to us whatever records, documentation and other information we may request in connection with our audits.

Yours faithfully