



CGIAR Auditing Guidelines

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External Auditing Guidelines

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1. INTRODUCTION

- 1.1.** CGIAR Centers and the CGIAR System Organization ('SO') are required to 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 Centers¹.
- 1.2.** External auditors provide independent assurance to Center Boards and their stakeholders that the financial statements of Centers are free from material misstatement². Auditors express an opinion on whether the financial statements are prepared, in all material respects, in accordance with CGIAR IFRS Reporting Guidelines³.
- 1.3.** External auditors may also be engaged by the Centers to undertake financial audits of particular grants, to satisfy contractual requirements of donors⁴. Although the scope of these audits is different the general principles and responsibilities set out below still apply.
- 1.4.** These External Auditing Guidelines (FG3-A) set out how external audits are conducted and auditors are selected for CGIAR Centers and the SO. They supplement and replace the external audit section of the existing CGIAR Auditing Guidelines (Financial Guidelines Series, No. 3), approved in October 2010, and establish the basis for increased harmonization of approaches to external audit by each CGIAR legal entity, as set out in the Integrated Partnership Risk & Oversight Plan.
- 1.5.** These External Auditing Guidelines (FG3-A) should be periodically reviewed at least once in three years or earlier to align with latest International Standards on Auditing (ISAs), IFAC Code of Ethics, emerging technologies, and regulatory changes. The Integrated Partnership Board's Audit Finance & Risk Committee (IPB-AFRC) together with the Center Boards will conduct the review.

¹ Henceforth, references to 'Center' or 'Centers' refers to all CGIAR Centers and the CGIAR System Organization

² 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.

³ <https://cgospace.cgiar.org/server/api/core/bitstreams/c4d20a44-eb0c-4529-b993-464f040518dc/content>

⁴ Donors may also appoint external auditors of their grants directly. This Guideline does not cover such situations.

2. GENERAL PRINCIPLES AND RESPONSIBILITIES (ISA 200)

- 2.1.** 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 of Accountants (IFAC)⁵. 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.
- 2.2.** External auditors are required to exercise due professional care in the planning and performing the audit, and in preparing the audit report.
- 2.3.** The preparation of financial statements shall comply with applicable accounting standards, (IFRS for all Centers except IFPRI, which follows US GAAP, along with relevant local GAAP requirements). Additionally, advisory guidance notes issued by CGIAR will be considered as part of the applicable accounting framework.
- 2.4.** The Center is responsible for maintaining proper accounting records that accurately reflect its financial position, safeguarding its assets, and ensuring the fair presentation of financial statements free from material misstatements, whether due to fraud or error. This includes designing, implementing, and maintaining a robust system of internal controls, including general IT controls, selecting and applying appropriate accounting policies, and making reasonable accounting estimates and judgments.
- 2.5.** The Center shall implement safeguards to mitigate cybersecurity risks, IT system failures, and fraud risks. This includes maintaining a robust internal control system and an effective whistleblower mechanism to report fraud and financial irregularities, ensuring accountability and transparency in financial and operational activities.
- 2.6.** The purpose of an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an independent opinion in accordance with applicable accounting standards and CGIAR IFRS Reporting Guidelines.

⁵ 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.

- 2.7.** Under the Auditor’s Responsibilities Relating to Fraud (ISA 240 (Revised)), auditors have a clear obligation to identify and assess fraud risks. While Centers retain primary responsibility for safeguarding Centers’ assets, maintaining accurate records, and the prevention and detection of errors and fraud, auditors must apply enhanced fraud detection procedures, particularly where fraud risk indicators exist.
- 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.
- 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.
- 2.10.** Given the increasing complexity of financial fraud (e.g., cyber fraud, financial statement manipulation, and asset misappropriation), auditors must incorporate data analytics, forensic techniques, and industry benchmarks to detect anomalies indicative of fraud.
- 2.11.** 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 though the audit is properly planned and performed in accordance with the ISAs⁶.
- 2.12.** 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 ISAs assist the auditor in identifying and assessing the risks of material misstatement due to fraud and designing procedures to detect such misstatement⁷.

3. SCOPE AND OBJECTIVES OF AN EXTERNAL AUDIT (ISA 200)

- 3.1.** 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

⁶ ISA 240 The Auditor’s Responsibilities Related to Fraud in an Audit of Financial Statements.

⁷ ISA 240

statements, underlying financial records, and internal control systems necessary to provide an opinion on the financial statements.

3.2. 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.

3.3. 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 fulfil their obligations, Centers should recognize that 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.

3.4. 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.

4. RESPONSIBILITY FOR COMPLIANCE WITH LAWS AND REGULATIONS (ISA 250)

4.1. 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 which includes applicable local and

global laws and regulations, Center’s governance instruments, applicable CGIAR guidance documents that determine the reported amounts and disclosures in an entity’s financial statements.

- 4.2.** The requirements in ISA 250 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 preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.
- 4.3.** As noted in 1.2 above the auditor will usually issue an audit opinion on whether the financial statements are prepared, in all material respects, in accordance with CGIAR IFRS Reporting Guidelines. 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 CGIAR IFRS Reporting Guidelines⁸.
- 4.4.** Auditors should assess whether Centers have implemented compliance frameworks to adhere to data protection laws, including the EU General Data Protection Regulation (GDPR) or other applicable cybersecurity standards, regulatory sustainability disclosure requirements where applicable, and anti-money laundering (AML) and counter-terrorist financing (CTF) obligations, particularly in donor-funded transactions.
- 4.5.** If non-compliance with laws and regulations is identified, external auditors should report it to the Audit, Finance and Risk Committee (AFRC) and Board, as per ISA 250 (Revised).

5. LETTER OF ENGAGEMENT (ISA 210)

- 5.1.** 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

⁸ This does not apply to IFPRI. IFPRI follows US-GAAP.

- e) Reference to the expected form and content of any reports to be issued by the auditor.
- f) The expected timing of audit reports.

5.2. The audit engagement letter should now explicitly define the auditor's responsibilities regarding:

- a) Evaluation of IT and cybersecurity controls.
- b) Audit reliance on AI or automated auditing tools.
- c) Conclude on the appropriateness of management's use of the going concern basis of accounting.

5.3. A sample letter of engagement is attached in Annex 1. 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 these Guidelines to ensure the minimally required aspects are incorporated in their own version issued to the Center.

6. AUDIT CONCLUSIONS AND REPORTING (ISA 700)

6.1. 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.

6.2. Audit opinions on Center financial statements should follow the standard format established in the ISA for audit opinions. The auditor issues an unmodified opinion⁹ when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with CGIAR IFRS Reporting Guidelines.

6.3. In particular, the auditor evaluates whether:

- 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;

⁹ Sometimes referred to as an unqualified opinion (which term is used for publicly listed companies).

- 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.

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

6.5. 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.

6.6. 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.

6.7. 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.

6.8. 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

- 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.

6.9. In addition to providing assurance on financial statements, external auditors may also evaluate material cybersecurity risks that may impact financial reporting accuracy as part of the risk assessment under ISA 315 and report significant IT control deficiencies that could lead to material misstatements to the Board, as required under ISA 265.

7. COMMUNICATION WITH MANAGEMENT AND THE CENTER BOARD (ISA 260)¹⁰

7.1. 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.

7.2. 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 AFRC 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.

¹⁰ Communication with those charged with Governance (ISA 260)

7.3. External auditors should be invited to attend the AFRC 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, the AFRC should routinely schedule a closed session with the external auditor as part of their meetings considering the results of the financial statement audit.

8. COORDINATION OF WORK WITH INTERNAL AUDITORS (ISA 610)¹¹

8.1. Centers should ensure that there is appropriate coordination between the external auditors and the Center's internal auditors¹². While the objectives of the internal auditors 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 auditor's terms of reference.

8.2. 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.

9. SELECTION OF EXTERNAL AUDITORS

9.1. The Center external auditor should be formally appointed by the Center Board on an annual basis as per its governing instruments.

9.2. For the purpose of external audit, Centers/the SO in the Integrated Partnership will work towards engagement of a single audit firm, meaning one audit brand

¹¹ Using the work of internal auditors (ISA 610)

¹² The Internal Auditors/IA of the Center can be its own Internal Audit function, or it can be a shared service within the framework of the Integrated Partnership Risk & Oversight Plan.

will be used across all locations¹³. For example, if the audit firm is Auditor A, then Auditor A's local offices, such as Auditor A Nigeria, Auditor A India, and Auditor A Kenya will conduct audits in their respective jurisdictions. However, a single audit team will not be responsible for auditing all Centers globally. This approach enables engagement of a single audit firm while ensuring that External Auditors are fully compliant with local regulations and that Centers receive audit reports that comply with tax, KYC, and other relevant requirements.

- 9.3.** Additional cost incurred in implementing a Center-wide single auditor will be reimbursed through additional W1-2 allocations.
- 9.4.** A fully consolidated financial statement for all Centers/SO is not possible, even though external audits would be conducted by the same Audit brand.
- 9.5.** When external auditors are first engaged by the Center it is usually in anticipation of completing up to seven to eight annual audit assignments, in accordance with the external audit rotation policy¹⁴. 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.
- 9.6.** All external auditors of the Centers should be a member of an internationally recognized public accounting firm. In evaluating the capabilities of the audit firm, the following technical criteria should be considered:
- a)** Affiliation with worldwide firm–nature of professional quality assurance and other interactions to ensure that international auditing standards are maintained as they are evolving;
 - b)** Experience in audit of not-for-profit organizations/international organizations/enterprises reporting according to International Financial Reporting Standards;
 - c)** Number of partners and professional staff; partner-staff ratio, ability to substitute staff at similar levels of qualifications and experience if necessary;
 - d)** Types of clients/sectors, number of large clients/clients spread; and
 - e)** Feedback on performance from other clients.

¹³ To be effective 2027 (or longer based on phasing out of existing external audit arrangements).

¹⁴ As per EU Audit Regulation (Regulation (EU) No 537/2014) the rotation of external auditor should be done within 10 years.

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/ies.

10. EVALUATION OF INCUMBENT EXTERNAL AUDITORS

10.1. Center Boards, through their AFRCs, 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.

10.2. In evaluating the performance of external auditors, AFRCs should consider:

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

11. CHANGES TO THE APPOINTMENT OF EXTERNAL AUDITORS

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

11.2. 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.

12. ROTATION OF EXTERNAL AUDITORS

12.1. All Centers/SOs shall rotate their external auditors every seven to eight years¹⁵, meaning an auditor may be engaged for a maximum of seven to eight consecutive annual financial statement audits before a new auditor is appointed through a competitive bidding process.

13. PROFESSIONAL INDEPENDENCE AND ETHICS (IFAC CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS)

13.1. 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 establish national and international professional standards promoting professional independence and ethics for their members¹⁶. These standards will be part of the selection criteria for external auditors.

13.2. 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.

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

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

13.4. 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.

¹⁵ Proposed as best practice noting that the 2014 EU Audit Regulation sets a maximum time limit of 10 years

¹⁶ Modelled on the IFAC Code of Ethics for Professional Accountants.

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