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## Terms of Reference for the CGIAR System Internal Audit Function arrangements

### Purpose

These proposed terms of reference define a risk-focused System function, building on existing capacity at Centers (whether in-house and/or regional arrangements) whenever possible, as part of a broad suite of System-wide assurance processes.

### Action Requested

The System Management Board is invited to review, and if considered appropriate, approve, the terms of reference for the CGIAR System Internal Audit Function arrangements as set out in this document.

Prepared by: CGIAR System Management Office under the oversight of the System Management Board's Audit and Risk Committee<sup>1</sup> and in consultation with CGIAR's Centers

**Document category:** There is no restriction on the circulation of this document

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<sup>1</sup> Comprised of three Center Board of Trustee Audit Committee Chairs and one independent member.

## Definitions

1. **Internal Audit Function** means the arrangements agreed between the System Council and the System Management Board to provide independent and objective **assurance services** and **advisory and consultative services** to the System Council and the System Management Board (**‘Board’**).<sup>2</sup>
2. **Assurance services** involve a structured examination of a process, system or other; and **advisory and consultative services** take the form of preventative and supportive analysis and/or reviews.
3. **Audit and Risk Committee (‘ARC’)** as defined by the *Charter of the CGIAR System Organization* is a standing committee of the Board, the “purpose of which shall be to provide the System Management Board with independent assurance of adequate internal audit capacity, System-wide governance, risk management and internal controls.” It operates according to detailed Terms of Reference approved by the Board.<sup>3</sup>
4. **Assurance Oversight Committee (‘AOC’)**, as defined by the *CGIAR System Framework*, is a standing committee of the System Council, with a majority of external independent members, the “purpose of which shall be to provide:
  - a. The System Council with assurance of the completeness and effectiveness of the Internal Audit Function and the independence of external audit functions;
  - b. A structured reporting line between internal and external auditors and the System Council; and
  - c. Oversight of System-wide governance, risk management and internal controls.”<sup>4</sup>

## General principles

5. The Internal Audit Function arrangements are established according to the following principles:
  - CGIAR’s Centers have the mandate and responsibility to ensure that Center-own internal audit needs are met and funded through appropriate arrangements, whether provided via in-house; a series of regional teams; and/or third-party assurance providers;

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<sup>2</sup> Article 2(q) of the Charter of the CGIAR System Organization; and ‘Definition’ (o) of the CGIAR System Framework

<sup>3</sup> [http://library.cgiar.org/bitstream/handle/10947/4641/SMB-ARC\\_TOR\\_approved17Dec2016.pdf?sequence=1](http://library.cgiar.org/bitstream/handle/10947/4641/SMB-ARC_TOR_approved17Dec2016.pdf?sequence=1)

<sup>4</sup> Article 8.2(a) of the CGIAR System Framework.

- The CGIAR System Organization (**‘System Organization’**) has the mandate and responsibility to ensure that its own internal audit needs are met and funded through appropriate arrangements, whether in-house or out-sourced;
- The Internal Audit Function operates on a demand-driven, and not supply-led, basis to ensure that cost-efficiency and value for money are embedded; and
- The Guiding Principles of the CGIAR System, as set out Annex A of the *CGIAR System Framework*, include that responsibilities should be assigned to those entities that can most efficiently and effectively fulfil them, and duplication is to be avoided.

### Purpose and client of the Internal Audit Function

6. **Purpose:** The primary purpose of the Internal Audit Function is to identify strategic recommendations that add value and improve CGIAR System-wide operations, achievable only by reason that the Internal Audit Function arrangements take a cross-System view. Internal Audit Function recommendations may result from conducting engagements commissioned by the ARC or from analysis undertaken at the request of the ARC but which draws upon pre-existing information.
7. **Link to the risk management framework of the CGIAR System:** The Internal Audit Function delivers part of the CGIAR System’s assurance framework. The preferred model for CGIAR Center and CGIAR System Organization operations in respect of risk-taking is a combined assurance model, to provide visibility on whether the System is receiving adequate cost-effective reasonable assurance.
8. **Clients:** The Internal Audit Function exists to support the Board in carrying out its oversight mandate for CGIAR System risks where internal audit represents the most appropriate assurance process. Through the Board, the Internal Audit Function also supports the System Council’s Assurance Oversight Committee to discharge its mandate under the CGIAR System Framework.
9. **Professional 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 have been adopted by CGIAR since 2001. The CGIAR internal audit community has developed a common CGIAR Internal Auditing Manual to operationalize these standards. Those standards apply to the delivery of the Internal Audit Function.

## Organizational arrangements

10. **As determined by the Board’s ARC in consultation with Assurance Oversight Committee of the System Council, the Internal Audit Function will be provided by the most appropriate and cost-effective means from among one or more of the following options:**
  - a. **An outsourced model**, supported through a consultancy or retainer basis; or
  - b. **A full or part time experienced ‘staff’ resource**, with cost-efficiency driving the location for that resource; or
  - c. **An in-sourced model**, provided on a full or part-time by contracting part of the services of an existing Head of Internal Audit of one of the Centers/regional teams.
11. **Periodic review of arrangements:** The ARC will review the organizational arrangements every three years, or earlier should capacity needs or other circumstances require, to ensure ongoing optimal arrangements.
12. **Key competencies:** Without limiting the ARC’s decision-making in respect of the person or persons who are engaged from time to time to support the Internal Audit Function, minimum competencies include:
  - a. **Capacity to consolidate and filter the most relevant information:** to identify the most strategic and relevant opportunities for value-add, taking the organizational, political and institutional considerations into context.
  - b. **Instill confidence:** based on a capacity to hold in-confidence and/or more detailed materials within the Internal Audit Function and the ARC, with aggregated materials providing anonymized thoughtful analysis and System-wide strengthening recommendations.
  - c. **Relationship builder and respectful communicator:** Capacity to understand CGIAR and support the System’s efforts to achieve cost-effective appropriate results in the context of an ever-evolving dynamic environment. A crucial element includes demonstrating a sound understanding of the basis for differing views, and communicating alternate points in a way that brings out the respective merits of those views.
  - d. **Solution-focused:** a person who is skilled at synthesizing information and knowledge to present cost-effective pragmatic solutions in the context of an extended enterprise environment.
13. **Reporting line:** The Internal Audit Function provider is supervised by the Board through the ARC.

## Implementation arrangements: assurance plans and funding

14. **Rolling multi-year plan informed by Center multi-year assurance plans:** Delivery of assurance engagements via the Internal Audit Function will be according to a System-wide multi-year assurance plan focused on System-wide opportunities and risks where internal audit is the most appropriate assurance mechanism. The Internal Audit Function's multi-year rolling work plan must be informed by the Centers' multi-year assurance plans.
15. **Linkages with System-wide evaluations:** The ARC will ensure that each annual Internal Audit Function activity plan takes into account System-wide assurance that is provided through the System Council's agreed evaluation arrangements.
16. **Annual Activity Plan Approvals:** The Board approves the Internal Audit Function costed annual activity plan for System assurance engagements upon the recommendation of the ARC and in consultation with the AOC and the Centers' Audit Committee Chairs.
17. **Optimizing assurance engagement work planning:** By end-January of each year, the Centers' Audit Committee Chairs and the Heads of their respective Internal Audit arrangements will engage with the Internal Audit Function and the SMB Audit and Risk Committee Chair to inform the ARC's advice to the Board on key areas of focus for the Internal Audit Function for the year ahead taking into account Center-own assurance plans for that same year. In some years, Board (and any additional System Council) identified assurance requirements may require a range of System-focused engagements via the Internal Audit Function arrangements. In other years, the number may be small.
18. **Information needs:** The annual activity plan of the **Internal Audit Function** will include a summary of the nature of the information that will be required to deliver on the respective engagements over the year. Once endorsed by the Board, the ARC has delegated authority from the Board to develop and approve the Terms of Reference ('TOR') for each engagement that includes specific information needs to deliver an effective engagement.
19. **Revising the Internal Audit annual activity plan:** Any proposed major revisions to the approved Internal Audit Function activity plan during a calendar year must be approved by the Board, based on input from the CGIAR Center Audit Committee Chairs.
20. **Budget:** The annual budget for delivery of the Internal Audit Function is met from the CGIAR System Organization sub-group of System entity accounts. It will be paid from Unrestricted Funding as defined in the *Charter of the CGIAR System Organization*.

## Types of assurance engagements

21. Taking into the implementation arrangements set out above, assurance engagements to be conducted by the Internal Audit Function that may be requested by the Board (and the System Council) periodically in line with the CGIAR business plan cycle include:
  - a. Verifying the integrity and effectiveness of shared information systems (active directory, OCS, hosting services): vulnerability, contractual arrangements and monitoring, and identifying systemic opportunities for cost-effective value-added improvements;
  - b. Providing a systemic view of the overall independence of external audit providers for the Centers and the CGIAR System Organization;
  - c. Analysis of information collected through each Center’s whistleblowing process to assess the overall appropriateness of System-wide whistleblowing processes related to System opportunities and risk-taking (using anonymized information);
  - d. Considering the effectiveness and communications quality of the CGIAR System-wide escalation and de-escalation policy;
  - e. Effective implementation of agreed CGIAR System-wide Results Reporting systems (e.g. MARLO);
  - f. The overall effectiveness of cross-Center programming and project management as a means to ensure effective implementation of CGIAR Research Programs and/or Platforms; and/or
  - g. Reporting process on the outputs and outcomes of country coordination: reliability of information reported and value added.
22. **Commissioning of investigations:** When necessary and mandated to do so by the Board due to the prevailing circumstances, investigate suspected fraudulent or unethical practices spanning several Centers or the CGIAR System Organization, implementing the Uniform Principles and Guidelines for Investigations issued by the Conference of International Investigators.
23. **Assurance, advisory or more limited investigation engagements related to System-wide risks are performed either by teams assembled from Center internal audit services or by external resources, depending on availability and the subject matter.** Such teams are assembled by the Internal Audit Function at the direction of the ARC.
24. **Center-specific matters which may be identified during System-wide engagements:** In the unlikely event that information comes to light during an Internal Audit Function engagement that is specific only to a particular Center, that information will be kept within the specific Center context and will not form part of the consolidated reporting through to the Board and, as appropriate, to the System Council.
25. **Maintaining confidentiality:** Delivery of Internal Audit Function engagements will be supported by appropriate confidentiality arrangements to ensure that matters that

are only relevant to a particular Center remain under the oversight of the relevant Center's Board.

26. **Formal reporting on engagements:** Material presented for the Board, and, when relevant, the System Council, will be delivered in a way that provides a System-wide view on the subject matter of the report, with solution-based pragmatic recommendations for action when relevant. Material presented to the System Council must be first reviewed and approved by the Board. In recognition that the purpose of the Internal Audit Function is to address systemic topics that can enhance the efficiency of the CGIAR System as a whole, recommendations will relate only to System-wide benefits. Individual Centers will not be identified in reporting to the System Council but rather the System-wide topic that requires attention.

### Access to key stakeholders

27. **ARC:** A representative of the Internal Audit Function will participate in relevant sessions of ARC and Board meetings. On invitation of the Chair of the System Council's AOC, a representative of the Internal Audit Function will participate in relevant sessions of the AOC also. Participation may be in person or virtually, at the decision of the relevant meeting Chair.
28. **Center Audit Committee Chairs and internal audit assurance providers:** The Internal Audit Function requires effective communication channels with Center Audit Committee Chairs and Heads of Internal Audit. Communications will be required:
  - a. To discuss the scope of specific engagements, to support the ARC's approval of appropriate terms of reference;
  - b. To seek clarifications on information supplied to the Internal Audit Function to facilitate synthesis of information into System-focused cost-effective reporting;
  - c. To ensure the appropriate formulation of pragmatic recommendations that add value and improve overall System effectiveness and efficiency.
29. **Engaging with the Heads of Internal Audit Community of Practice:** The Internal Audit Function works collaboratively with the Community of Practice through its Chair; the purpose of this engagement is to ensure effective cooperation, appropriate information-sharing and avoiding duplication in time and cost.