

CGIAR System Management Board Audit and Risk Committee Terms of Reference

A. Purpose

1. The purpose of the Audit and Risk Committee (“**ARC**”) of the System Management Board (“**Board**”) of the CGIAR System Organization (“**System Organization**”) is to:
 - i. Provide the Board with independent assurance of adequate internal audit capacity, system-wide governance, risk management and internal controls¹; and
 - ii. Provide oversight of the financial management of Unrestricted Funding² and research-program specific funding³.
2. The ARC serves the Board in all matters covered by this Terms of Reference. In so doing, it shall be the responsibility of the ARC Chair to maintain regular and open communication among ARC members and with the Board.

B. Interpretation and operational context

3. Words and expressions used in this ARC Charter shall, unless the context requires otherwise, have the meaning attributed to them in the Charter of the CGIAR System Organization (“**Charter**”).
4. Without limiting paragraph 3, a reference to:
 - a. “**System Council**”, means the strategic-decision making body of the CGIAR System, as described in the CGIAR System Framework (“**Framework**”), that keeps under the review the strategy, mission, impact and continued relevancy of the CGIAR System; and
 - b. “**Internal Audit Function**”, means the arrangements agreed between the System Council and the Board to provide independent and objective assurance and advisory services to the System Council and the Board.

¹ Article 9.11(a) of the Charter of the CGIAR System Organization (“Charter”).

² As defined in the Charter, and typically called “Window 1” funding

³ Typically called “Window 2”.

5. Pursuant to the Framework, the purpose of the System Council's Assurance Oversight Committee ("AOC")⁴ is to provide the System Council with: (i) assurance of the completeness and effectiveness of the Internal Audit Function and the independence of external audit functions; (ii) a structured reporting line between internal and external auditors and the System Council; and (iii) oversight of system-wide governance, risk management and internal controls.
6. The System Organization, including the Board and the ARC, work in consultation with the System Council, including the AOC, in accordance with the terms of the Charter and the Framework, and in good faith in the interests of the CGIAR System⁵.

C. System-wide Functions

7. In respect of CGIAR System-wide matters, the Board delegates authority to the ARC to exercise the following powers and perform the following functions.

CGIAR System audit and assurance matters

- a. Provide recommendations to the Board on the completeness and effectiveness of arrangements for the CGIAR Internal Audit Function taking into account the audit arrangements of the Centers and the risk management framework of the CGIAR System;⁶
- b. Periodically provide recommendations to the Board on the organizational structure, multi-year work plans, and appropriate funding for the ongoing delivery of the Internal Audit Function;
- c. Approve the annual work plan and budget for delivery of the Internal Audit Function after consultation with the Board and Center Audit Committee Chairs;
- d. As relevant to the nature and scope of the Internal Audit Function as agreed between the Board and System Council, recommend to the Board the appointment and/or termination of the head of the Internal Audit Function (who shall report to the Board through the ARC), and annually assess his/her performance on behalf of the Board;
- e. Provide advice to the Board on the criteria for assessing the capacity and quality standards for internal audits to be undertaken by the Centers in conformity with international audit standards and guidelines, and oversee as directed by the Board, external quality assurance of that capacity to be carried out under the Internal Audit Function;

⁴ Nomenclature changes made in this document to reflect the November 2017 System Council decision to change the name of the System Council's Audit and Risk Committee to the Assurance Oversight Committee.

⁵ As required pursuant to Article 7.8 of the Charter.

⁶ This includes recommendations on the initial establishment of the Internal Audit Function, and on an ongoing basis, the ARC's consideration of combined assurance principles/frameworks.

- f. Recommend to the Board the criteria upon which the Board provides periodic assurance to the AOC that an effective Internal Audit Function is in place that is consistent with the risk management framework of the CGIAR System;⁷
- g. Advising the Board on the appropriateness and timing of any further escalation to the System Council of events that reach the System Organization through audit, risk and/or whistleblowing escalation processes;
- h. Facilitate, when requested by a Center, the provision of guidance, technical assistance and advisory support by the Internal Audit Function;

CGIAR System risk related matters

- i. Provide advice to the Board on an appropriate risk management framework for the CGIAR System (including financial, reputational, legal, regulatory, compliance, operational, ethical and strategic risks) and escalation procedures for recommendation to, and approval by, the System Council;
- j. Recommend for approval by the Board, a process by which the Board may continually obtain reasonable assurance from the management of Centers and the System Organization that all known and emerging risks have been identified and mitigated or managed;
- k. Periodically review compliance with the CGIAR System risk management framework across the Centers and System Organization, and annually present to the Board a report that comments upon: (i) the adequacy of crises preparedness and recovery plans; (ii) material risk disclosures made by the Centers and System Organization, and the adequacy of associated mitigation strategies reported by the disclosing entity; and (iii) identified risk management deficiencies or deviations from the System-wide risk management framework, and recommended corrective action to be taken by the Board as relevant;⁸

CGIAR System financial performance matters

- l. Provide advice to the Board on the establishment, and periodically thereafter, the ongoing effectiveness of the process for the preparation and approval of multi-year, consolidated business plans and budget projections for the administrative costs of the CGIAR System and the means by which such costs can be financed, recognizing the collective responsibility of the System Council and the System Organization for such costs;

⁷ Required of the Board pursuant to Article 8.1(m) of the Charter.

⁸ The Board's role in taking corrective action in respect of System-wide or Center-wide policies, procedures and guidelines is set out in Article 8.1(r) of the Charter.

- m. Based upon the approved process from time to time, recommend to the Board the annual work programs and budgets for the financing of the administrative and System entity costs of the CGIAR System;
- n. Recommend for endorsement by the Board and approval by the System Council, CGIAR system-wide formats for, and the periodicity of, financial reporting for the CGIAR System that accord with internationally recognized financial standards;
- o. Review on behalf of the Board, the consolidated System-level annual financial reports on CGIAR Research, in advance of submission of such reports to the System Council for approval;
- p. Review the proposed annual work programs and annual financing plans for the CGIAR Portfolio, alerting the Board to any perceived risks in the proposed allocation of financial resources having regard to System Council approved uses of funding allocations;
- q. Periodically review the ongoing appropriateness and application of CGIAR System financial reporting guidelines, and recommend proposed or required changes to the financial reporting guidelines in order for them to accord with the applicable accounting standards and CGIAR's agreed overall financial reporting framework;
- r. Periodically review forecasts of available resources for the CGIAR Portfolio and monitor the financial position of the System Organization and the Centers, recommending to the Board appropriate corrective action to be taken in the circumstances of an adverse financial position; and
- s. Review and if considered appropriate, recommend to the Board the budget and work plans for shared services that enhance effectiveness and efficiency within the CGIAR System, together with advice on the means by which such costs could be funded.

System-wide collaboration

- t. Establish and maintain an effective consultation model with:
 - i. Center Audit Committee Chairs; and
 - ii. the AOC to facilitate delivery on the respective mandates of the two committees,⁹

thus ensuring open and transparent communications, and the appropriate escalation and de-escalation of matters as relevant to the differing oversight responsibilities within the CGIAR System; and

⁹ It is envisaged that a memorandum of understanding will be agreed to support effective engagement.

Other responsibilities

- u. If it is appropriate to do so, investigate any complaint or allegation made to it, in consultation with the Board Chair where appropriate to do so.

D. System Organization specific matters

- 8. In respect of System Organization specific matters, the Board delegates authority to the ARC to exercise the following powers and perform the following functions:

System Organization Audit and assurance matters

- a. Recommend to the Board the appointment and/or termination of the external auditor and the terms of the external auditor's engagement;
- b. Approve the annual external audit plan, and the scope of any non-audit services that the external auditor may provide without impairing, or giving risk to the appearance or perception of impairment, of the external auditor's independence;
- c. Obtain an independent opinion from the external auditor on:
 - i. the acceptability and appropriateness of the accounting policies and principles put forward by management and the System Organization generally; and
 - ii. the appropriateness and clarity of the current and/or proposed financial disclosure practices put forward by management;
- d. Assess any significant estimates or judgments in the financial reports of the System Organization by:
 - i. querying management on how they were made and the assumptions underpinning those estimates or judgments;
 - ii. testing, where appropriate, the estimates or judgments; and
 - iii. querying the external auditors on how they concluded that those estimates or judgements were fair and reasonable;
- e. Discuss any draft audit opinion letter with the external auditors before it is finalized, and receive and review the final reports of the external auditor;
- f. Monitoring and reporting to the Board on management's response to external audit findings and recommendations;
- g. Follow up on any matter raised by the Board regarding the System Organization's financial reports audit opinions and management letters;

System Organization Risk related matters

- h. Provide input into the Board's framing of a risk appetite statement for the organization;
- i. Understand and approve management's definition of the risk-related reports that the ARC receives regarding the full range of risks the organization faces, as well as their form and frequency;
- j. Oversee the organization's risk management and internal compliance and control systems, and ensure that there is a mechanism for assessing the efficiency and effectiveness of those systems;
- k. Review and report to the Board on significant financial and operational risk exposures and the steps taken by management to monitor and control such exposures;
- l. Regularly assess the need for an internal audit capability and if it is determined that there is a need, the method of its introduction and scale, scope and resourcing of the internal audit capability;

System Organization financial performance matters

- m. Periodically assess the appropriateness and application of the organization's accounting policies and principles and any changes proposed or required in order for them to accord with the applicable accounting standards and financial reporting framework; and
- n. Review and recommend to the Board the approval of the organization's annual financial statements.

E. Composition and Chair

Composition and qualifications

- 9. Subject to paragraphs 10 and 11, the ARC shall be comprised of up to 5 members, including
 - a. At least one member of the Board; who could be one of the independent members provided that they bring the relevant skills as set forth in Article 10;
 - b. At least two members who are also Center Boards of Trustee Audit Committee members to bring CGIAR System institutional knowledge to the work of the ARC;
 - c. At least one external independent person, with no affiliation to the CGIAR System in the three years prior to his/her appointment as a member of the ARC; and
 - d. One additional member from any of the above categories.

10. Each committee member shall be determined by the Board to possess solid financial acumen and/or experience, with a strong preference for people to hold relevant professional qualifications in accounting and/or business administration. The external independent members must hold a formal financial or accounting qualification, and bring a minimum of 10 years' expertise in risk management practices in the private, government and/or not-for-profit sectors.
11. Taking note of the independence element of the ARC's mandate set out in Article 9.11(a) of the Charter, no Center or System Organization staff member shall be appointed as a member of or expert advisor to the ARC. Without limiting the generality of this provision, none of the Board members who are also Center Directors General may serve on the ARC.

Term

12. The members of the ARC shall be appointed by the Board to serve a term of up to three years and shall serve until their successors shall be duly appointed or until such member's earlier resignation or removal. Subject to article 12.3, these members may be reappointed by the Board once for up to an additional three years. The precise appointment term will be determined by the Board taking into account the desirability of achieving a staggered rotation of ARC members.
13. An effective rotation should take into account the following principles:
 - i. Ensure some continuity (do not change all members at same time)
 - ii. Ensure at least one of the continuing members is a current SMB member
 - iii. Have a mix between Center Internal Audit arrangements (regional/own) among the Center Audit Committee members
 - iv. Ensure diversity (e.g. region, gender) of members where possible
 - v. Aim for not more than a maximum of 3 of the 5 members rotating during any one calendar year
 - vi. Be pragmatic about the application of these principles – apply them as soon as practicable, not necessarily all at once.
14. ARC members who are Center-affiliated members may not be reappointed to the ARC when their term as Center Board of Trustee member ends, but may complete their current term.

Chair

15. Unless a Chair is designated by decision of the Board, the ARC Chair shall be elected by its members for a term of two years. The Chair may be re-appointed for one additional two-year term if supported by all other members of the ARC and endorsed by the Board.
16. Whenever possible, the ARC Chair should be drawn from the external independent members of the ARC. Where this is not possible, the ARC Chair should be drawn from amongst the ARC members who are also members of the Board.

F. Operations

The ARC shall be governed by the following provisions:

17. **Meetings:** The ARC shall meet in person at least twice per year, and more often electronically as determined by the Chair in consultation with the other ARC members. The Executive Director shall designate a resource person, typically, the Director of Finance and Corporate Services of the System Office, to serve as the secretariat officer for all meetings.
18. **Quorum:** A majority of members shall constitute a quorum for the transaction of business provided such majority includes the ARC Chair.
19. **Agenda:** The ARC Chair shall develop an annual rolling agenda, and for each meeting a draft Agenda in consultation with the System Office and distribute that draft to committee members not less than 14 days before the meeting.
20. **Meeting documents:** Documents for each meeting will, to the extent practicable, be posted on the CGIAR ARC meeting site by the System Office not less than 7 days prior to each meeting so as to permit meaningful review in advance of the meeting.
21. **Decision-making on matters for recommendation to the Board:** The Chair should aim for consensus on all decisions resulting in a recommendation being formally put to the Board. If consensus cannot be reached, both the majority and minority positions shall be reported to the Board.
22. **Observers:** The Board Chair and Executive Director of the System Organization may attend some part or all of meetings of the ARC at the invitation of the ARC Chair. A representative of the Internal Audit Function may attend agenda sessions as determined appropriate by the ARC Chair. Other external observers may attend meetings under exceptional circumstances and contingent upon the ARC Chair granting prior approval after consultation with the other ARC members.
23. **Authority:** The ARC may seek any information it considers necessary to fulfil its responsibilities. The ARC has unrestricted access to:
 - a. Management of the System Organization to seek explanations and information from management; and
 - b. The System Organization's external auditors to seek explanations and information from them, without management being present.
24. **Access to expertise, including consultants:** The ARC in fulfilling its duties under this Charter will draw on expertise the System Management Office, and subject to budget resources permitting, external consultants, individuals and institutions as appropriate.

25. **Reporting:** The ARC formally reports to the Board. The ARC shall provide the Board with each meeting summary and regularly report on its meetings and other activities to the Board. As such, ARC meeting summaries may form public record documents of the System Organization.
26. **Meeting summary:** To the extent possible, the meeting summary shall be prepared as follows:
 - a. Provided to the ARC Chair by the System Office within 10 days after the close of the meeting;
 - b. Reviewed by the ARC Chair and circulated to the ARC members by the System Office for consultation within 4 days thereafter; and
 - c. Finalized between the ARC Chair and the System Office within a further 7 days of receiving ARC member inputs.
27. **Delegation of Authority:** The ARC shall have the power to delegate on an exceptional basis its authority and duties to the ARC Chair or individual ARC members as it deems appropriate.

G. [Declarations of interests and independence](#)

28. **Declarations of interests:** All ARC members must ensure that at the commencement of each meeting they declare any personal or professional interests that may result in a potential or actual conflict of interest with their respective duties as a member of the ARC, and comply at all times with any CGIAR policy on conflicts of interest.
29. **Declarations of independence:** All external independent members will be required to sign a declaration of independence in the format approved by the Board.

H. [Remuneration](#)

30. **Honorarium:** Non-Board members of the ARC may receive an honorarium for service in accordance with an honorarium framework approved by the Board, in addition to travel expenses and per diem according to the System Organization's travel and expenses policy from time to time.

I. [Performance and Review and Changes to the Terms of Reference](#)

31. **Performance:** The ARC will review its own performance on an annual basis having regard to the principles and the purpose of these Terms of Reference and report the outcome of such reviews to the Board.
32. **Amendment:** The ARC will review these Terms of Reference from time to time and recommend any proposed changes to the Board. The Board may amend these Terms of Reference in accordance with the provisions of the Charter.