

COVER MEMO¹

Results of External Quality Assessment of Internal Audit functions at CGIAR Centers

To: **CGIAR System Management Board and Audit and Risk Committee members**

In 2018, the Chairs of CGIAR's Audit Committees² agreed to commission a single firm to carry out an External Quality Assessment ('EQA') of all Center Internal Audit services. This was to support the Audit Committee Chairs in delivering on the Business Plan Action 7, Align and Enhance Assurance Systems.

The Audit Committee Chairs mandated a Working Group composed of Bob Semple (CIMMYT Audit, Finance and Risk Committee Chair and member of the System Management Board's Audit and Risk Committee), Doug van den Aardweg (Bioversity Finance & Audit Committee Chair) and Hilary Wild (ICARDA Finance & Audit Committee Chair, and chair of the Working Group) to steward the overall process on their behalf. Madina Bazarova, Head, CGIAR System Internal Audit Function provided overall supervision as well as invaluable support to the Working Group.

The Working Group oversaw a procurement process, in line with the System Organization's procurement operations, and with support from the System Organization legal team. PwC was selected as the best qualified, best value for money contractor and, was appointed to carry out the EQA in late 2018/early 2019.

CGIAR's Centers are committed to complying with the quality standards set by the Institute of Internal Auditors 'International Standards for the Professional Practice of Internal Auditing', which require an external quality assurance review every 5 years. This supports the Centers to undertake internal audits that not only comply with the standards but that there is appropriate competency and capacity, thus supporting the System Management Board's responsibilities in this regard.³

¹ This Cover Memo accompanies the Consolidated and Summary reports issued by PwC on their quality assessment of CGIAR Center Internal Audit units/teams.

² Terminology is used for convenience. It is noted that some committees are termed 'Audit and Risk'; 'Audit and Risk Management'; 'Finance and Audit'; 'Finance, Audit and Development'; but a majority (8) are titled simply 'Audit'.

³ The System Management Board's responsibility to keep under review the capacity and quality standards of internal audits to be undertaken by Centers is set out in Article 8.1.l) of the Charter of the CGIAR System Organization.

With the completion of this review, and implementation of the recommendations the Centers will have met this requirement. A crucial part of the review was to enable the Internal audit units to further improve and increase the maturity and value that Internal Audit can bring to providing assurance to Center Boards and Management, the System Management Board and the System Council as well as other stakeholders. The CGIAR System Internal Audit Function will undergo a similar review in 2020 overseen by the System Management Board.

Each Center Audit Committee has reviewed the individual report relating to their Center, as well as the plans developed by their Head of Internal Audit to implement recommendations. The Audit Committee Chairs are committed to following up this important initiative and will review progress collectively at their meeting in February 2020 and will provide a progress report to the System Management Board in 2020.

Hilary Wild, Chair of the EQA Working Group and the Audit Committee Chair of ICARDA on behalf of the CGIAR Center Audit Committee Chairs

SYSTEM COUNCIL DOCUMENT

CGIAR

External Quality Assessment of
Internal Audit Functions at
CGIAR Centers

Confidential
27 March 2019

Consolidated Report

Executive Summary
For the CGIAR System Council

27 March 2019

Dear Sir/Madam,

Please find enclosed an executive summary of our consolidated report regarding the External Quality Assessment of Internal Audit functions at CGIAR Centers.

Our work was executed in accordance with the terms as set forth in the agreement for services dated 29 October 2018 and the related Terms and Conditions. The objective of the engagement was to formally assess the conformance of CGIAR Center Internal Audit functions with the International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors. In addition, we addressed good practices of the profession based on the PwC's 8 Attributes of Excellence.

This executive summary is not intended to be used for any other purpose or to be distributed to any other parties outside of the CGIAR. The distribution or sharing of one of our deliverables with any other parties outside of the CGIAR requires our prior written consent.

We would like to thank the Center Audit Committees, the CGIAR EQA Working Group, the CGIAR Internal Audit Function, the Heads of Internal Audit of the 15 Centers as well as their key stakeholders for their cooperation throughout the review.

PricewaterhouseCoopers Ltd

Richard Thomas
Partner

Océane Martinoty
Manager (on the behalf of Charles Salvaudon)

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Executive summary

Introduction

PricewaterhouseCoopers Ltd (“PwC”) has been engaged to perform External Quality Assessments (EQAs) of the Internal Audit functions of the 15 CGIAR Research Centers on their conformance with the International Standards for the Professional Practice of Internal Auditing (the Standards) as published by the Institute of Internal Auditors (“IIA”). The EQAs were performed by validating a self-assessment made by the Center Internal Audit Units (“IAU”) on their conformance with the Standards. In addition, PwC assessed the IAUs’ activities based on the PwC’s 8 Attributes of Excellence. The EQAs were conducted from 26 November 2018 to 25 January 2019.

A consolidated report was prepared with the objective to highlight, on an anonymous basis, the overall results of the 15 EQAs conducted at the Centers, identify areas of good practice and make recommendations to support the Center Internal Audit functions in their further development. The consolidated report was presented at the CGIAR Centers’ Audit Committee Chair Meeting on February 14, 2019.

The purpose of this document is to summarise for the CGIAR System Council the overall results and recommendations for further improvement as noted in the consolidated report.

Executive summary

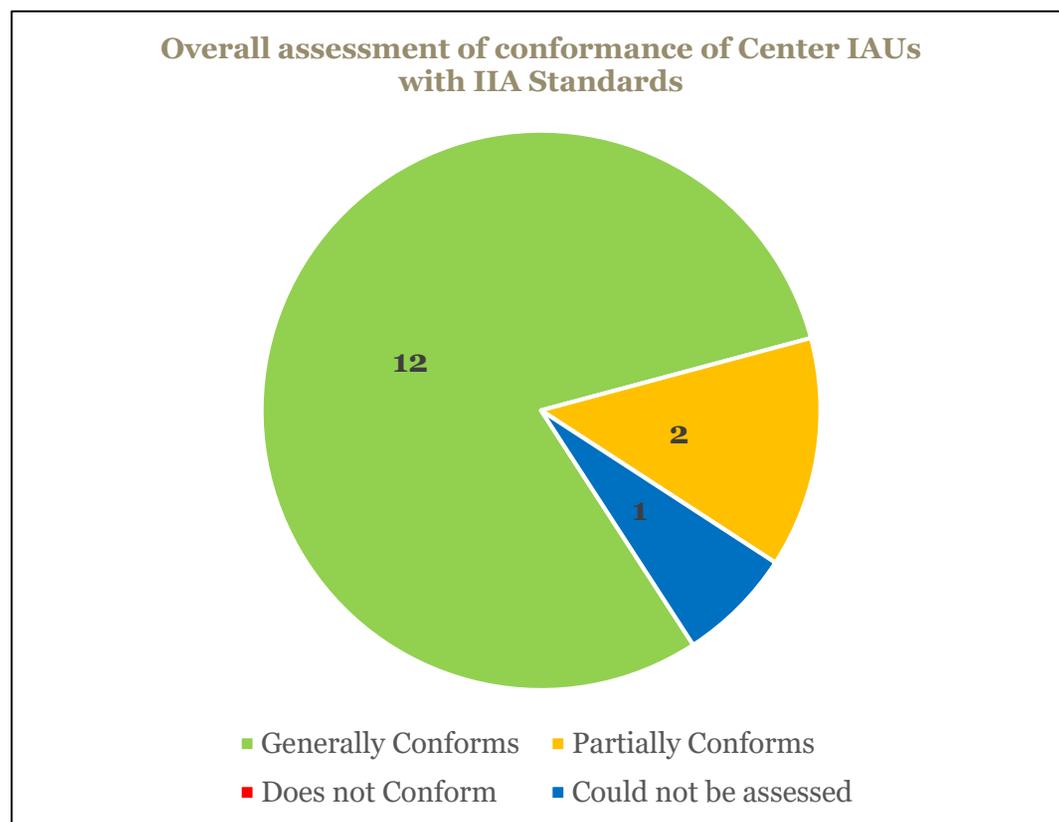
Conformance with IIA Standards

PwC Assessment	Number of Center IAUs	Definition / Comments
Generally conforms	12	“Generally conforms” is the highest achievable rating when assessing the compliance with the IIA Standards. There are improvements needed in our view, but they do not represent situations where IAU has not implemented the IIA Standards, is not applying them effectively, or is not achieving its stated objective.
Partially conforms	2	“Partially conforms” means the activity is making good faith efforts to comply with the requirements of the individual IIA Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives.
Does not conform	0	“Does Not Conform” means we have concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual IIA Standard or element of the Code of Ethics, section, or major category. Identified deficiencies have a significant negative impact on the activity’s effectiveness and its potential to add value to the organization.
Could not be assessed	1	Due to the loss of 3 of its 4 IAU personnel in the period immediately before we conducted our review, the IAU of one Center was not able to complete the self assessment. As such, a validation of the self-assessment could not be conducted. Since our review, we understand a new Head of Internal Audit has been appointed and is actively working to ensure full compliance. In addition, the Audit Committee has taken steps to deal with the issues, including contracting an external firm to provide IAU services to address the shortfall in resources. The Center IAU’s goal is to be compliant with the IIA Standards by October 2019.

Executive summary

Conformance with IIA Standards (continued)

The following graph shows our overall conclusion on conformance with the relevant IIA Standards for the IAUs of the 14 CIGAR Research Centers*.



The following **improvement areas** were identified that are common themes amongst the Centers where actions could be addressed as a whole. The key opportunities for improvement to align with the Standards are:

- We recommend formalizing **the Quality Assurance and Improvement Programs (QAIP)** by defining an adequate framework that outlines internal assessments, external assessments and reporting requirements to comply with the IIA Standards. The QAIP toolkit prepared by CGIAR Internal Audit Service Support can be used and adapted across all Centers for consistency.
- We noted that several Centers have a considerable backlog of overdue unimplemented management actions. We recommend formally defining and **implementing a follow-up process** for Management to ensure actions agreed from Internal Audit findings are implemented (e.g. including roles and responsibilities, follow-up frequency, escalation process if actions are not implemented as agreed, monitoring, reporting).

Executive summary

Conformance with IIA Standards (continued)

PwC Assessment per Standard, all IAUs	Generally Conforms	Partially Conforms	Does not Conform	Could not be assessed
Attribute Standards				
1000 – Purpose, Authority and Responsibility	9	5	0	1
1100 – Independence and Objectivity	13	1	0	1
1200 – Proficiency and Due Professional Care	12	2	0	1
1300 – Quality Assurance and Improvement Program	6	8	0	1
Performance Standards				
2000 – Managing the IA Activity	13	1	0	1
2100 – Nature of Work	13	1	0	1
2200 – Engagement Planning	12	2	0	1
2300 – Performing the Engagement	6	8	0	1
2400 – Communicating Results	14	0	0	1
2500 – Monitoring Progress	9	5	0	1
2600 – Communication the Acceptance of Risks	14	0	0	1

Executive summary

Responding to CGIAR transformation & PwC's 8 Attributes of Excellence

The CGIAR System recently approved an inaugural CGIAR System 3-Year Business Plan (2019-2021). This plan represents a transformational moment, with CGIAR's stakeholders committing to working in an increasingly aligned and far more strategic manner. To keep pace with this transformation, IAUs will need to further evolve from compliance-focused functions to more of a business partner. In this regard, the IAUs' talent models will also have to be re-assessed to ensure the IAUs can effectively deliver on this remit and support the Centers in achieving their objectives. Below are our key recommendations that Centers should address for going forward:

- Expand risk assessment and risk-based audit planning to address IT, research and strategic risks as well as consulting/advisory services
- Improve collaboration among Center IAUs in audit planning as well as audit results
- Re-assess the structure of Internal Audit as well as resourcing models at the Centers

Other considerations

Although not within our scope of the EQA, we noted that the maturity of the Risk Management processes and the Internal Control System (ICS) at Centers can vary, we recommend that the Centers adopt the following:

- Assess and strengthen risk management process, introduce a more formal process
- Assess maturity of internal control system & introduce a more structured, formal and risk-based ICS
- Better align control and audit activities through a combined assurance model

Next steps to general conformance and beyond

The current structural arrangement of the IAUs poses a challenge to continuously maintaining adherence to the IIA Standards.

To raise the contribution of Internal Audit to the Centers and the CGIAR, attention should be given to advancing the maturity of the Risk Management and the Internal Control Framework across all Centers as well as ensuring the full Audit Universe is included for consideration in Internal Audit plans – in particular: research, IT and governance.

Agile resource models should be introduced to allow Internal Audit to more effectively deliver on its risk-based audit plan.

The adoption of a 3-year Business Plan should accelerate attention to these aspects so that the Center boards and executive management receive the risk and control assurance they will require as the Plan is operationalized.

Regarding the one Center IAU that could not be assessed, we understand that the Center's Audit Committee and the newly appointed Head of Internal Audit have agreed on a work plan with the goal to achieve conformance with the IIA Standards by October 2019. At that time, we would recommend that the IAU complete a self-assessment and an External Quality Assessment be conducted.



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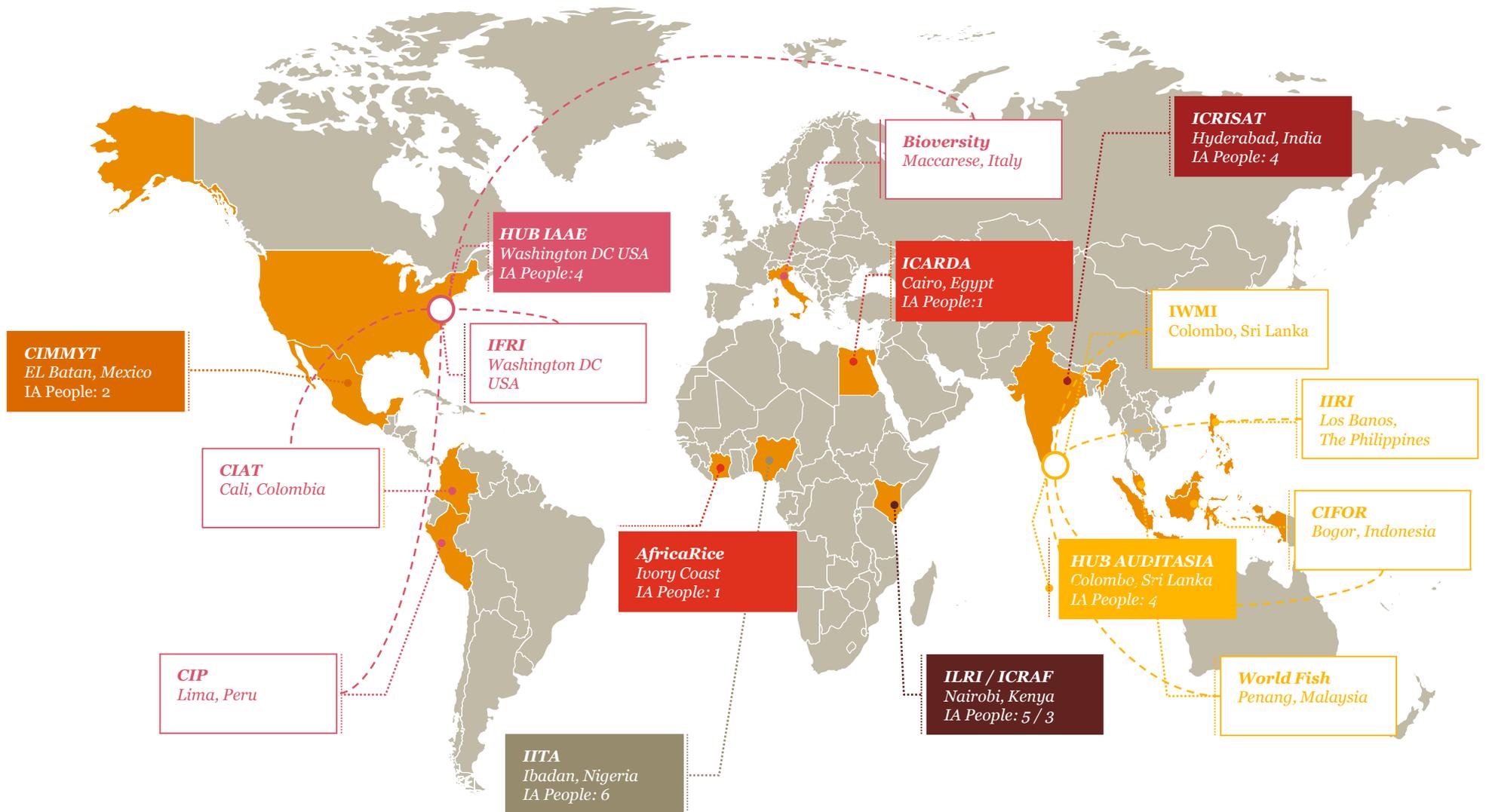
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Appendix

8 Attributes of Excellence – going forward

Internal Audit Units FTE and footprint



8 Attributes of Excellence – going forward

