THE INSTITUTE OF INTERNAL AUDITORS

QUALITY AUDITING SERVICES

QUALITY ASSESSMENT

Members of the Consultative Group on International Agricultural Research Internal Audit Consortium

November 9, 2004

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EXECUTIVE SUMMARY

As directed by The Institute of Internal Auditors (IIA), we conducted a quality assessment (QA) of the Internal Audit Unit (IAU or IA Activity) which provides services to those Centers and the Secretariat of the Consultative Group on International Agricultural Research (CGIAR) that comprise the CGIAR IA Consortium. The scope and principal objectives of the QA were to assess the IA Activity's conformity to the IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate the IA Activity's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of the members of the CGIAR IA Consortium), and identify opportunities to enhance its management and work processes, as well as its value to its CGIAR clients.

CGIAR is a strategic alliance of countries, international and regional organizations, and private foundations supporting 15 international agricultural research Centers. These Centers work with national agricultural research systems, the private sector and non-governmental organizations. CGIAR has some 8,500 scientists and other staff members in over 130 locations. Each research Center is a legal entity in the country in which it is headquartered. At the time of the QA 10 of the 15 Centers participated in the CGIAR IA Consortium. The table provided on Attachment A, shows the Centers' headquarters by country, 2002 expenditures (latest available), number of locations and whether the Center is a member of the CGIAR IA Consortium.

In preparation for the QA, the IA Activity prepared a self-study, with detailed documentation, and sent out surveys to a representative sample of Center executives. A summary of the survey results and accompanying comments (without identifying the individual survey respondents), have been furnished to the IA Activity. Prior to commencement of the on-site work on March 29, 2004, the team leader made a preliminary telephone visit with the CAE to gather additional background information, select executives for interviews during the field work, and finalize planning and administrative arrangements for the QA. We visited two of the Centers at their headquarters: the International Rice Research Institute (IRRI) in Los Banos, Philippines and the Center for International Forestry Research (CIFOR) in Bogor, Indonesia. We also visited the CGIAR Secretariat in Washington, D.C. The Centers included in this QA were selected as representative of all the Centers. To the extent this assumption holds true, our comments and recommendations will be applicable to all Centers. During on-site work interviews were conducted with a number of executives (including heads of operating and support divisions), the IA Activity staff, and the external auditors. The Audit Committee Chairmen of IRRI and CIFOR were also interviewed. We also reviewed the IA Activity's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of IA Activity's working papers and reports.

Some of the IA Activity's positive aspects noted during our work were:

- Seeking input from management during the planning phase of the upcoming audit year,
- Partnering with customers in the planning of the engagement,
- Using software tools to expand and enhance the effectiveness of audit testing,
- Endeavoring to provide useful audit tools and implementing appropriate practices,
- Writing final reports in a concise manner with a focus on risk, and
- Utilizing outside consultants to augment internal staff on audits that require specialized expertise.

OPINION AND RECOMMENDATIONS

In our lexicon, "generally conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *Standards*, with some opportunities for improvement. "Partially conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

It is our opinion that, overall, the IAU of CGIAR generally conforms to the Attribute *Standards* and to The IIA's Code of Ethics and partially conforms to the Performance Standards. We believe it is unlikely the IA Activity will be able to attain general conformance with the *Standards* under its current structure.

It is our opinion that within these two major categories, there were deficiencies in the following *Standards*:

- 1311 – Internal Assessments,
- 2040 – Policies and Procedures,
- 2240 – Engagement Work Program,
- 2340 – Engagement Supervision, and
- 2420 – Quality of Communicating.

The issues enumerated in the *Observations and Recommendations* section of the report address each of these five *Standards* in more detail. Implementation of our recommendations will improve the value of the services provided by the IA Activity, and enhance full conformity with the *Standards*.

Our recommendations are intended to build on the IAU's established foundation and are divided into three groups:

- Those that require the attention of the CGIAR Secretariat and the CG Centers Boards' of Trustees,

- Those that concern the Boards of Trustees of the CG Centers that share the IA Activity's services and require actions by the CG Center Boards. Some of these are matters outside the scope of the QA but came to our attention through the survey and interview processes. We include them because we believe they will be useful to the CGIAR Centers' management and because they impact the effectiveness of IA Activity and the value it can add, and

- Those that relate to the IA Activity's structure, staffing, deployment of resources, and similar matters that should be implemented with support from senior management.

Highlights of the more significant of our recommendations are set forth below, with details provided in the *Observations and Recommendations* section of the report.

PART I – MATTER FOR THE CONSIDERATION OF CGIAR SECRETARIAT AND THE CG CENTERS BOARDS' OF TRUSTEES

0. **Enhance the sustainability of the IA Activity** by developing a comprehensive assessment of the risks facing all of the Centers and restructuring the IA Activity in a manner to enable it to meet the needs of the Centers and the Secretariat. Appropriate IA Activity resources should be provided to ensure adequate coverage of all auditable units and compliance with the *Standards*. A more detailed discussion of the sustainability issue is provided in Attachment B.

PART II – MATTERS FOR CONSIDERATION OF THE CG CENTERS BOARDS' OF TRUSTEES

0. **Improve the Audit Committee Charter** quality and content by adopting an approach that is more closely aligned with the Model Audit Committee Charter suggested by the IIA (see Attachment C). Ensure that all Centers adopt a charter that is similar to the model charter.

0. **Issue a Management Control Policy** at each Center to ensure that all employees are aware of management's internal control expectations. An IIA endorsed sample policy is included for consideration (see Attachment D).

PART III – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY

0. **Enhance the IA Activity Charter** to conform to the Model Internal Audit Charter suggested by the IIA (see Attachment E).

1. **Develop an implementation plan for a center-wide risk assessment process** to shorten the timeframe involved in its rollout throughout the CGIAR system.

2. **Expand the audit universe** to assure all auditable units are properly considered in the risk assessment process.

3. **Establish an internal quality assessment program** to assure on-going compliance with the IA Activity's Charter and the *Standards*.

4. **Enhance work paper standards** to ensure documentation criteria are met, supervision is appropriate and documented and opinions are clearly and consistently communicated.

5. **Finalize the IA Activity Auditing Guidelines Manual** to provide consistent policies and procedures across the entire IA Activity.

6. **Improve IA Activity reports** to enhance overall quality and timeliness**.**

We appreciate this opportunity to be of service to the CGIAR. We will be pleased to respond to further questions concerning this report and to furnish any desired information.

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OBSERVATIONS AND RECOMMENDATIONS

These observations and recommendations originated principally from the comments received from the management surveys, our interviews with selected executives, and follow-up of these matters. All are of direct importance to enhancing the effectiveness and added value of the IA Activity.

PART I – MATTERS FOR CONSIDERATION OF CGIAR SECRETARIAT AND THE CENTERS BOARDS' OF TRUSTEES

0. ENHANCE THE SUSTAINABLILITY OF THE IA ACTIVITY

We reviewed the current IA Activity model during this QA. The model is the same that existed in 2000 when the responsibility of the IA Activity was to cover three Centers and provide services to the Secretariat. The current situation is that the IA Activity is now responsible for providing internal audit services to ten of the fifteen Centers as well as the Secretariat. The staff level has gone from two to four. Though the Unit works with in house internal auditors in some of these Centers, the expansion is straining the capacity of the Unit as it is currently structured. We believe the functioning of the IA Activity is very dependent on the personality and professionalism of the current CAE.

Recommendation

The Secretariat and the Committee of the Audit Consortium members should re-evaluate the long-term strategy for having a shared resource, the appropriateness of staffing levels and the expectations of all the participants.

CGIAR IA Consortium Board of Sponsors' Response

The long-term strategy for the IAU will be re-evaluated in the preparation and review of a new business plan for the Unit, which will cover the Unit's next funding triennium (2005-2007). This will take into account various elements which need to be considered together, including:

>) A fresh look at the service expectations, which client Centers are now seeking from the IAU. Demand now includes support for the implementation of risk management frameworks, assessments and reports in the Centers; more good practice

notes; and more advisory work aimed at improving value for money.

a) Emerging demands to provide audit and advisory services in respect of System-wide initiatives such as the ICT-KM Program.

b) The issues flagged in Attachment B concerning dependence of the function on the Director, the Director's reporting and travel burden and the staffing profile of the IAU.

c) Projections over the next three years of the number, distribution and level of in house Center internal auditors who work with and alongside the IAU.

d) Requirements to address the specific recommendations in this QA report, such as improving cycle times on audit work and reporting, implementing a better internal quality review process, and undertaking deeper analysis of Center audit universes for planning and risk assessment purposes.

e) Recent developments such as the filling of the new Associate Director position and the implementation of a new IAU management information system.

f) Expected further evolution in the demand for Unit's services over the next triennium.

PART II – MATTERS FOR CONSIDERATION OF THE CG CENTERS BOARDS' OF TRUSTEES

1. IMPROVE THE AUDIT COMMITTEE CHARTER	Each of the independent CG Centers has its own Audit Committee Charter. Our review indicates that the quality and content of these Charters varies from Center to Center. The suggested Charter contained in the CGIAR Auditing Guidelines Manual (FG-3) is not always followed. We believe the Centers would benefit from having a consistent Charter throughout the system.
Recommendation	*Center Boards of Trustees should consider adopting or revising their Audit Committee charters based on the Model Audit Committee Charter developed by the IIA. A sample of the model charter is included (see Attachment C).*
CGIAR IA Consortium Board of Sponsors' Response	The recommendation will be implemented as follows:

) The model audit committee charter in FG3 will be reviewed by the IAU against the current IIA model and other authoritative good practice guidelines, which have become available since the current version of FG3 was prepared. IAU will report results with recommendations to update the FG3 model.

       Target date for implementation (IAU review): November 2004.

      a) For Centers participating in the CGIAR IA Consortium, the IAU will review the extent of Committees (or their equivalents) of each Center to the recommended model, and make recommendations to Center managements to bring these into alignment where appropriate. For each Center, any new or revised Audit Committee charter will need to be approved by Center

management, the Audit Committee and then the full Board of Trustees of the Center.

Target date for implementation (IAU review): January 2005.

b) Centers outside the Consortium will be invited to self-assess their own Audit Committee charters against the recommended model.

2. ISSUE A MANAGEMENT CONTROL POLICY

Each Center has many written policies and procedures that provide details of management's expectations. However, no single policy exists that establishes the Center's internal control policy and the related environment. In light of current events and the resultant focus on internal controls, we believe a single policy on internal control that defines the responsibilities of the audit committees, management at all levels, and the IA Activity would be of benefit to the Centers in demonstrating management's commitment to good governance.

Recommendation

Center Boards of Trustees should consider issuing a Management Control Policy to ensure that all Center employees are aware of management's internal control expectations. An IIA endorsed sample policy is included for consideration (see Attachment D).

CGIAR IA Consortium Board of Sponsors' Response

This recommendation will be implemented as follows:

) Consortium Centers will adopt Risk Management and Internal Control Policies as part of the implementation (now underway) of enhanced risk management frameworks in each Center. The IAU has prepared a template Policy which draws on the IIA sample internal control policy as well as risk management and control standards and guidelines

in various CGIAR member countries. Center managements, and ultimately the Boards of Trustees, will review and adopt Risk Management and Internal Control Policies drawing on this generic model.

Target date for implementation (completion of Center policy drafting across the Consortium): December 2004.

a) Centers outside the Consortium have been provided with the IAU's generic policy for consideration. They will be informed of this recommendation and encouraged to adopt their own Risk Management and Internal Control Policies.

PART III – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY

1. ENHANCE THE IA ACTIVITY CHARTER

Each Center has its own IA Activity Charter. These charters vary in content and quality and do not always follow the suggested charter established in the CGIAR Auditing Guidelines Manual. We believe that a shared resource should have the same charter from Center to Center. It was also noted that the suggested charter includes most, but not all, of the critical elements recommended by the IIA.

Recommendation

The Board of Trustees of each Center should adopt an IA Activity Charter based on the Model Internal Audit Activity Charter endorsed by the IIA (see Attachment E).

IA Activity Response

This recommendation will be implemented as follows:

) The model IA activity charter in FG3 will be reviewed by the IAU against the current IIA model. IAU will report results, together

with any recommendations to update the FG3 model to align it with the current IIA model.

Target date for implementation (IAU review): November 2004.

a) For Centers participating in the CGIAR IA Consortium, the agreed updated FG3 model will be proposed by the Sponsors to their management, Audit Committees and full Boards for adoption in place of existing charters.

Target date for implementation (across the Consortium): May 2005.

b) Centers outside the Consortium will be invited to self-assess their own IA Activity charters against the recommended model.

1. SHORTEN THE TIME TO IMPLEMENT THE CENTER-WIDE RISK ASSESSMENT PROCESS

The CAE developed a "Good Practice Note" in 2003 relating to Center-wide risk assessment. Its purpose is to promote better risk assessment practices throughout the CGIAR. The process was presented to the Board of Trustees at IRRI during their meeting in March 2004. The Board is expected to approve this process at its September meeting. The CAE is also assisting with the introduction of the process at the remaining nine Consortium Centers. The Center-wide risk assessment will require the approval of each Center's Board of Trustees. If the model seen at IRRI is typical, introduced at one board meeting and approved at the next meeting six months later, the time to implement the Center-wide risk assessment process could take well in to 2005 or longer. We believe the current implementation plan for the Center-wide risk assessment for all Centers will be too long for this important governance process.

Recommendation	*We recommend management and the CAE develop an implementation plan to ensure the Center-wide risk assessment is rolled out throughout the CGIAR system in the shortest possible period of time.*
IA Activity Response	We believe that the current timetable, which envisages that all Consortium Centers will have Risk Management and Internal Control Policy and an initial Board Statement drafted by the end of 2004, is appropriate (to ensure understanding and ownership of the process) and is necessary given the Board of Trustee meeting cycles which are staggered across the Centers. The policy and statement are the formal steps in the process of implementation. However all Consortium Centers currently have a risk assessment process underway involving various staff and this will now be an ongoing, iterative process, supporting an annual Board statement.

The IAU will provide the Sponsors, in its future Unit, status reports with information on the progress with risk management implementation across Centers so there is a System-wide view.

Centers outside the Consortium have been provided with the IAU's good practice notes discussion paper and templates to assist their own implementation.

2. EXPAND THE AUDIT UNIVERSE	The IA Activity has not fully developed an audit universe as an aid to audit planning. The CAE has used an IAU Center-wide risk assessment as the basis for audit planning, which has been focused at a relatively high level. With the introduction of an enhanced risk assessment and management process in the Centers, the CAE intends to draw on this in the future. However, management's risk assessment, which we expect will also be at a relatively high level, is only one part of developing the potential audit universe required for assigning audit risk. For example, management identifies misuse of Center information technology resources (IT) as a risk category and therefore an auditable area. From an audit point of view, IT can be broken down into

applications systems, operating systems, hardware, local and wide-area networks, communication systems and others.

We suggest the IA Activity further develop and maintain a universe of all potential audit areas, entities, and processes. The universe should be developed using data from a number of sources and input from management, including senior executives, the audit committee and the external auditors. Areas for input include lines of business, business processes, organization charts, prior audits, etc. Once the universe is expanded, the audit areas should be evaluated based on a risk assessment process keyed to the CGIAR Center control systems.

Auditable units can be of numerous types, such as the following:

- Locations: branches, divisions, plants, offices,
- Projects: systems, programs, applications, products,
- Activities: business units, functions, processes,
- Assets: physical, accounts, cash, information, resources, people, and
- Any combinations of the above.

Not every asset or every activity of an organization, however, requires the attention of internal auditing. In order to be considered an auditable unit, the unit should:

- Contribute to the organization's goals,
- Have a noticeable impact on the organization (also known as materiality or significance), and
- Justify the cost of control, so that the potential loss should be greater than the expense of control, including the cost of audit.

Organizational units that do not meet these criteria are usually not considered auditable units.

Recommendation	*We recommend the CAE expand the development of the auditable universe to ensure that all auditable units are included and that the risks which management has identified are specifically addressed.*

IA Activity Response

This recommendation will be implemented as part of the implementation of a web-accessible IAU audit planning and audit tracking system, which was moved into production in July 2004. For each Center, the audit universe will link with the risks identified in the Center risk assessment.

Target date for implementation (completion of first iteration of an audit universe for each Center in the IAU planning database): June 2005.

3. ESTABLISH AN INTERNAL QUALITY ASSESSMENT PROGRAM

The IA Activity has not established a plan to perform internal assessments required by *Standard 1311*, which states, in part: "Internal assessments should include ongoing reviews of the performance of the internal audit activity and periodic reviews performed through self assessment." Ongoing reviews typically relate to performance measures that are used to evaluate the IA Activity. They include techniques such as; review of work product, feedback from clients and comparisons of budgets versus actual performance. Periodic reviews are undertaken between external assessments. These periodic reviews can be scheduled and performed by a member of the IA Activity (self-assessment) or other, competent audit professionals assigned elsewhere in the organization.

Recommendations

The CAE should establish a plan to perform periodic internal assessments within each year to ensure the IA Activity has acted on the recommendations of any prior external assessment and is in compliance with its Charter and the Standards. In addition, ongoing quality reviews should be conducted to ensure that work is properly supervised and IA Activity policies and procedures are being followed.

IA Activity Response   This will be implemented as follows:

) Regarding the follow up of external review recommendations – the status of recommendations will be tracked by the IAU for this QA and will be reported in the IAU periodic status reports to Sponsors;

Implemented: October 2004.

a) Regarding the enhancement of ongoing internal quality reviews as all audit ToRs and reports have been reviewed ex ante by the Director (and in the future by either the Director or the new Associate Director), the main areas which have not been subject to internal assessment are the detailed audit programs and audit working papers. For a small but geographically dispersed audit group, developing a cost effective solution to internal assessments is a challenge. This will be addressed in the new IAU business plan.

Target date for implementation (based on approved business plan): January 2005.

4. ENHANCE WORK PAPER STANDARDS   Our review showed that the IA Activity has developed an internal policy, which specifies standards to be used in work paper preparation. Work paper review however is not consistently performed for all audits. As a result the following issues were noted in our review of work papers:

- Not all applicable work papers contained evidence of supervisory review including the work program and supporting detailed work papers. *Standard* 2340 states: Engagements should be properly supervised to ensure objectives are achieved, quality is assured and staff is developed. Due to the CAE's

extensive travel, he has decided to review audit reports in detail and not spend a lot of time in reviewing work papers.

- Review of selected audit work papers also showed that the internal standards are not consistently followed. Some examples are:

  - Preliminary planning and risk assessment at the individual audit level are not documented,

  - Appropriate headers, source, purpose and cross-references were not always included in work paper sections,

  - Non-essential documents such as administrative e-mail communications, and copies of policies and procedures were included in the work papers,

  - Sampling attributes being tested were not clearly defined, and

  - The CAE is considering implementing electronic work papers and other tools to automate the audit process. These tools will help the staff be more efficient. With automation and central storing of work papers, the CAE will be better able to review work as it is being performed, regardless of the location of the work or the location of the CAE.

Recommendations

We recommend the following for consideration:

- *Supervision throughout the engagement and review of the work papers should be enhanced. A checklist should be prepared so that each auditor can verify that all items necessary to be included in the work papers are present. Adding the checklist will enable the CAE to verify the contents of work papers on a test basis.*

- *The CAE should review the current internal work paper standards included in the Auditing Guidelines Manual and on the Internal Audit web site and make any necessary revisions. Staff should be trained to ensure they are aware of and instructed to use the IA Activity's work paper standards.*

- *Audit automation tools, properly implemented, could help enhance work paper standards.*

IA Activity Response

The QA indicates a need to reinforce the IAU's existing requirements to internal audit staff for demonstrating in the filed working papers for each audit, their adherence to standards. The above recommendations will be implemented as follows:

) Internal audit staff was reminded of the working paper requirements.

Implemented: July 2004 (immediate).

a) The existing IA guidelines on working papers will be updated for this purpose (note the guidelines are already closely based on IIA standards and contain detailed cross referencing to these);

Target date for implementation: November 2004.

b) IAs will be required to complete a checklist to be submitted with the draft report.

Target date for implementation: November 2004.

c) The IAU will consider options regarding an electronic working paper system to facilitate review and make recommendations to the Sponsors on this.

Target date for implementation: April 2005.

5. FINALIZE THE IA ACTIVITY AUDITING GUIDELINES MANUAL

The CGIAR Auditing Guidelines Manual (FG-3) has been developed to provide a reference guide on the best practices of auditing functions. The manual provides broad guidelines relating to external and internal auditing. The CAE has begun developing policies to assist him in managing the day-to-day activities of the function. To date, only two policies have been developed.

Recommendation

The CAE should continue developing policies relating to the functioning of the IA Activity. We believe that a broad spectrum of policies should be adopted specifying his expectations for all members of the IA Activity.

IA Activity Response

The IA Manual (which is published on the IAU web page) is being gradually completed after which it will be subject to periodic review/update.

Target date for implementation (first complete Manual): February 2005.

6. IMPROVE IA ACTIVITY REPORTS

Our review determined that the IA Activity uses the best practice of drafting audit reports and discussing them with clients before they are issued. The CAE has also established a program of reviewing all audit reports. Several issues requiring corrective action were noted, however. These include:

- Management believes that reports take too long to be issued after the end of the fieldwork. We noted lengthy delays in issuing the final report including one that took more than six months.

- Management's response included in the audit report frequently states that management agrees with the recommendation but does not indicate any planned action or completion date to correct the issue.

- Management states that there is vast improvement in the quality of the reports between the draft and final report. This improvement is the result of the reports being re-written by the CAE.

- The IA Activity does not include an overall conclusion in the audit report. *Standard 2410A.1* requires: "The final communication of results should, where appropriate, contain the internal auditor's overall opinion and/or conclusions". In addition the IA Activity does not include any indication of the importance of the recommendations made.

Recommendations   *We suggest the CAE consider the following:*

- *The CAE should take steps to ensure that audit reports are issued in a timely fashion.*

- *Management's response should include an action plan and a timetable for addressing the issue.*

- *As part of the continuing education for IA Activity staff, the CAE should consider including a course in report writing.*

- *The CAE should establish criteria for giving an overall opinion or conclusion to each audit. In addition, we believe management would benefit greatly by knowing which of the recommendations represent higher risks. Lastly, we believe criteria should be established for risk ranking each recommendation.*

IA Activity Response   Comments on the above recommendations are as follows:

) We agree that the timeliness of reporting should be improved. IAU will propose reporting standards for preparation of draft reports, management response, and preparation of final reports, for endorsement by Sponsors and immediate implementations thereafter. The new IAU database will allow the Unit to more efficiently monitor and report performance against these standards in the future.

Target date for implementation: November 2004.

a) The IAU audit report formats include an annex for management comments and action plans. While some auditees are very responsive to completing the annex, sometimes the IAU has delayed finalizing reports to receive responses or has issued the reports without the annex completed to avoid delays in reporting. Improvement in this area is something on which the IAU needs the cooperation of Center management.

Implemented: July 2004 (Immediate).

b) An audit report writing guide was distributed to IAU staff and other participants at the last (2003) CGIAR Internal Audit Professional Development Week. The Director is continuing to coach IAU staff on report writing as part of his review of all audit reports. Additional steps will be:
- Director will prepare and issue further reference material to staff to improve their report writing skills.
- IAU staff will be encouraged to identify and attend audit report writing courses offered externally or by CGIAR Centers.
- Training on effective report writing for staff will be explored for implementation in early 2005.

Implemented: July 2004 (Immediate).

c) Current IAU reporting requirements provide that audit reports should always have an overall conclusion, which is linked to the audit objectives. In the future, the audit objectives and therefore the overall audit opinions, will be reoriented to facilitate input into Center risk management assessments. In addition, recommendations will be more explicitly ranked in terms of risk significance. The IAU manual (planning and reporting sections) will provide criteria to audit staff to implement this.

Target date for implementation (linked to next manual installment): November 2004.

The Consultative Group on International Agricultural Research

Summary Listing of Participating Centers

Center	Headquarters Country	2002 Expenditures (Millions US$)	Number of Locations	Sharing IAU Services
CIAT	COLOMBIA	32.3	19	Y
CIFOR	INDONESIA	11.7	4	Y
CIMMYT	MEXICO	41.3	16	Y
CIP	PERU	19.2	13	N
ICARDA	SYRIA	24.3	10	N
ICRISAT	INDIA	24.8	9	N
IFPRI	USA	22.7	6	N
IITA	NIGERIA	32.6	10	N
ILRI	KENYA	27.5	9	Y
IPGRI	ITALY	25.6	17	Y
IRRI	PHILIPPINES	33.4	10	Y
IWMI	SRI LANKA	20.7	11	Y
WARDA	COTE D'IVOIRE	9.8	4	Y
WORLD AGROFORESTRY	KENYA	21.8	7	Y
WORLD FISH	MALAYSIA	12.3	9	Y
TOTAL	15	360	130	10Y

SUSTAINABILITY AND FUTURE VIABILITY
OF THE IAU

The CGIAR IAU (IA Activity) was established in 2000 as a shared service by the CGIAR Secretariat and three research centers (IRRI and World Fish located in Asia and IPGRI located in Italy). These Centers had a total of 36 locations. The staff consisted of the Chief Audit Executive (CAE) and one auditor stationed in the Philippines. Prior to this time, the IA Activity of the three Centers was outsourced. Utilizing a shared service was seen as a cost effective way to obtain professional internal audit services that met the requirements of the *Standards.* The IA Activity was also given the responsibility to help develop the internal audit function in other Centers. In 2001, another Asian based Center joined the consortium for shared audit services and another auditor was hired and stationed in the Philippines. Other Centers joined the consortium in 2002 (1), 2003 (3) and 2004 (3) bringing the total to ten.

The current staff consists of the CAE, a manager (Associate Director) stationed in Ethiopia (hired in 2004) and two auditors stationed in the Philippines. Although the total staff has doubled since inception, the number of Centers has tripled and the number of locations has gone from 36 to 103. Some of the Centers in the consortium have their own in house IA staff, who work with the IAU in providing joint services. Consortium Centers with internal auditors have a total of 12 staff at various levels from audit clerk to senior auditors (and non-consortium Centers have a further seven such staff). These in house IA staff do not report administratively to the CAE, and there are varying degrees of functional reporting to the CAE depending on the Center. In most cases quality control by the CAE is only exercised on joint assignments. The CAE provides training for these auditors.

The current IAU organizational structure does not lend itself to a sustainable, long-term and viable IA Activity. The IAU depends too heavily on the personality and professionalism of the CAE. In the absence of the CAE, the shared services function would suffer badly and may even be at risk of gradually disappearing. Specifically, the following issues impair the future viability of IA Activity and proper discharge of its responsibilities under *the Standards*:

- **CAE reports to 10 different Boards, Audit Committees and Director Generals**. In performing the audit work at each Center, the CAE reports to the Director General and the Finance and Audit Committee of the Board of Trustees. In addition to his reporting relationship to the Secretariat, the CAE currently reports to ten Director Generals and ten Audit Committees.

- **CAE travels worldwide, more than half of the year**. We noted that the CAE has traveled 32 week his first year and 28 weeks the second year. Furthermore, he is currently scheduled to be away 16 weeks in the first six months of 2004. This would put him back to 32 weeks for the year. His travel covers all of the Center headquarters and occasionally remote locations.

- **There is an extensive credibility gap between CAE and the audit staff.** The CAE has a high degree of credibility and effectiveness with the Boards, senior management and staffs in IRRI. The quality of leadership in IAU is ranked high (between 7-9 in a scale of 1-10, 10 being highest) by the management and Board members interviewed. However, staffs are ranked much lower (5-6 in a scale of 1-10) as management noted a gap between the CAE and staff in terms of the quality of work, experience, credibility and areas of expertise. As noted above, IA Activity staff at the other Centers that do not report to the CAE also have limited capabilities.

We recommend that the CG Centers Boards and the CGIAR Secretariat consider developing a long-range vision and strategic plan to assure the sustainability and future viability of the IAU. Such a plan should consider at a minimum:

- Simplify the reporting relationship of the CAE, where possible. Management and the Boards of Trustees should be clear on their expectations of the IA Activity, and as more emphasis is placed on governance and internal controls, more IA Activity time is going to be required in all areas.

- Reduce the amount of time the CAE is required to travel.

- Enhance the capabilities of the staff. Harmonizing and standardizing practices, improving supervision and monitoring and training of staff across the Centers should be envisioned in planning the resources for the IA Activity for the next 3-5 years. All IA Activity staff should have, at a minimum, a dotted-line reporting relationship to the CAE.

CGIAR IA Consortium Board of Sponsors' Response

The hiring in 2004 of an Associate Director is an important step towards strengthening the sustainability of the IAU enterprise. As mentioned in the main report the issues of sustainability and future viability will be more deeply analyzed, and solutions proposed, in a new 2005-2007 business plan for the IAU. With regard to the specific recommendations in this Annex, comments are a follows:

) The Board reporting responsibilities are now being shared between the Director and Associate Director. Recruitment of an additional Associate Director will be considered in the preparation of the new business plan. Consortium Center expectations of the IA function will be revisited and stated in the preparation of the new IAU business plan;

a) The new business plan will aim to address the travel burden of the Director (and ensure this does not also become a problem for the new Associate Director(s)).

b) The CGIAR IA Professional Development Week will be continued, preferably biennially but at least every three years, as a way to harmonize IA practice across the CGIAR Centers The issue of functional reporting relationships of Center in house IAs with the Director will be examined in the preparation of the new business plan, however, we note that implementing this recommendation would have further resourcing implications for the IAU.

MODEL AUDIT COMMITTEE CHARTER

PURPOSE

To assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct.

AUTHORITY

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all auditing and non-audit services.
- Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- Seek any information it requires from employees-all of whom are directed to cooperate with the committee's requests-or external parties.
- Meet with company officers, external auditors, or outside counsel, as necessary.

COMPOSITION

The audit committee will consist of at least three and no more than six members of the board of directors. The board or its nominating committee will appoint committee members and the committee chair.

 Each committee member will be both independent and financially literate. At least one member shall be designated as the "financial expert," as defined by applicable legislation and regulation.

MEETINGS

The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via tele- or video-conference. 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 executive sessions. Meeting agendas will be prepared and provided in advance 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, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing *Standards.*
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.

Internal Control
- Consider the effectiveness of the company's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit
- Review with management and the chief audit executive the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit executive.
- 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.*
- On a regular basis, meet separately with the chief audit executive to discuss any matters that the committee or internal audit believes should be discussed privately.

External Audit
- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance
- Review the effectiveness of the system for monitoring compliance with 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 regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and company legal counsel regarding compliance matters.

Reporting Responsibilities
- Regularly report to the board of directors about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the board of directors.
- Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- Review any other reports the company issues that relate to committee responsibilities.

Other Responsibilities
- Perform other activities related to this charter as requested by the board of directors.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the committee's and individual members' performance on a regular basis.

MODEL MANAGEMENT CONTROL POLICY

0. Management is charged with the responsibility for establishing a network of processes controlling the operations of "XYZ Organization" in a manner which provides the board of directors reasonable assurance that:

    • The organization's resources (including its people, systems, data/information bases, and customer goodwill) are adequately protected.
    • Data and information published either internally or externally is accurate, reliable, and timely.
    • The actions of directors, officers, and employees are in compliance with the organization's policies, standards, plans and procedures, and all relevant laws and regulations.
    • Resources are acquired economically and employed profitably.
    • The organization's plans, programs, goals, and objectives are achieved.
    • Quality business processes and continuous improvement are emphasized.

    Controlling is a function of management and is an integral part of the overall process of managing operations. As such, it is the responsibility of managers at all levels of the organization to:

    • Identify and evaluate the exposures to loss which relate to their particular sphere of operations.
    • Specify and establish policies, plans, and operating standards, procedures, systems, and other disciplines to be used to minimize, mitigate, and/or limit the risks associated with the exposures identified.
    • Establish practical controlling processes that require and encourage directors, officers, and employees to carry out their duties and responsibilities in a manner that achieves the six control objectives bulleted in the preceding paragraph.
    • Maintain the effectiveness of the controlling processes they have established and foster continuous improvement to these processes.

1. The internal auditing function is charged with the responsibility for ascertaining that the ongoing processes for controlling operations throughout the organization are adequately designed and are functioning in an effective manner. Internal auditing is also responsible for reporting to management and the audit committee of the board of directors on the adequacy and effectiveness of the organization's systems of internal control, together with ideas, counsel, and recommendations to improve the systems.

3. The audit committee is responsible for monitoring, overseeing, and evaluating the duties and responsibilities of management, the internal auditing department, and the external auditors as those duties and responsibilities relate to the organization's processes for controlling its operations. The audit committee is also responsible for determining that all major issues reported by the internal auditing department, the external auditor, and other outside advisors have been satisfactorily resolved. Finally, the audit committee is responsible for reporting to the full board all-important matters pertaining to the organization's controlling processes.

MODEL INTERNAL AUDIT ACTIVITY CHARTER

MISSION AND SCOPE OF WORK

The mission of the internal auditing department is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the internal auditing department is to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly.

Opportunities for improving management control, profitability, and the organization's image may be identified during audits. They will be communicated to the appropriate level of management.

ACCOUNTABILITY

The chief audit executive (CAE), in the discharge of his/her duties, shall be accountable to management and the audit committee to:

- Provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.

- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

INDEPENDENCE

To provide for the independence of the internal auditing department, its personnel report to the CAE, who reports functionally and administratively to the president and periodically to the audit committee in a manner outlined in the above section on Accountability. It will include as part of its reports to the audit committee a regular report on internal audit personnel.

RESPONSIBILITY

The CAE and staff of the internal auditing department have responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval.
- Implement the annual audit plan, as approved, including, as appropriate, any special tasks or projects requested by management and the audit committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this *Charter*.
- Establish a quality assurance program by which the CAE assures the operation of internal auditing activities.
- Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the audit committee and management summarizing results of audit activities.
- Keep the audit committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the audit committee.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the audit committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

AUTHORITY

The CAE and staff of the internal auditing department are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the audit committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.

The CAE and staff of the internal auditing department are not authorized to:

- Perform any operational duties for the organization or its affiliates.
- Initiate or approve accounting transactions external to the internal auditing department.
- Direct the activities of any organization employee not employed by the internal auditing department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

STANDARDS OF AUDIT PRACTICE

The internal auditing department will meet or exceed the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors.

_____
Chief Audit Executive

_____
Chief Executive Officer

_____
Audit Committee Chair

Dated _____