



Good Practice Note No. 13

Internal Audit Charters

Part of a series of notes to help Centers review their own internal management processes from the point of view of managing risks and promoting good governance and value for money, and to identify where improvement efforts could be focused.

SUMMARY

Corporate governance best practice, as identified in a number of CGIAR member countries, identifies written internal audit (IA) charters as an important element. A written charter describing the purpose, authority, and responsibility of the IA, is also required by the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors (IIA), the worldwide professional body, and by CGIAR Finance Guideline No. 3.

The model charter accompanying this Note provides a benchmark to Centers for assessing their Audit Committee charters and identifying where the charter could be improved.

Acknowledgment

This note has been prepared solely for use by CGIAR Centers and their internal auditors. We thank the Institute of Internal Auditors for the model internal audit charter used as the basis of the model described in this Note.



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INTRODUCTION

Corporate governance best practice as identified in a number of CGIAR member countries identifies written internal audit (IA) charters as an important element. A written charter is also required by the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors (IIA), the worldwide professional body.

Attribute Standard 1000 states that “the purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the Board.” The standard goes on to state that the charter should define the nature of the audit and advisory services provided by the internal audit activity.

An IIA Practice Advisory (1000-1) provides further guidance saying that a formal, written Internal Audit charter should

- establish the internal audit activity’s position within the organization;
- authorize access to records, personnel, and physical properties relevant to the performance of engagements; and
- define the scope of internal audit activities.

The Practice Advisory also recommends that the head of internal audit should periodically assess whether the purpose, authority, and responsibility, as defined in the charter, continues to be adequate to enable the internal audit activity to accomplish its objectives.

These points are reiterated in the CGIAR Financial Guideline No. 3-CGIAR Auditing Guidelines Manual (FG3), which adopts the IIA Standards for the CGIAR.

INTERNAL AUDIT CHARTER

Good practice

Have a written charter, approved by the Board of trustees, specifying the purpose, authority, and responsibility of the Internal Audit function



Annex I of this note provides a template for an IA charter, which is closely based on one developed by the IIA.

The model proposes that the IA charter should address following

- Mission and scope of work
- Accountability
- Independence
- Responsibility
- Authority
- Standards of audit practice

This model should be used to assess any existing charter, to identify areas where the charter might be enhanced to bring it up to current best practice.



Model Internal Audit Charter

(This is based on a model prepared by the Institute of Internal Auditors. Modifications have been made to the IIA model to make it more relevant to a CGIAR Center and to incorporate good practice from existing center IA charters).

Establishment of the Internal Audit Function

It is the policy of the Center to support internal audit as an independent, objective, assurance and consulting activity to examine and evaluate the activities of the Center as a service to management and the Board of Trustees.

Mission and Scope of Work

The mission of the Internal Auditing Unit is to provide independent, objective assurance and advisory services designed to add value and improve the Center's operations. It helps the Center accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, control, and accountability processes.

The Internal Auditing Unit provides assurance services as to whether the Center's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure that

- 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.
- Employees' actions are in compliance with Center 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 Center's control process.
- Significant legislative or regulatory issues impacting the Center are recognized and addressed properly.



Opportunities for improving management control, value for money, revenue enhancement and the Center's image may be identified during audits. They will be communicated to the appropriate level of management.

The Internal Auditing Unit also provides advisory services to assist management in meeting its objectives. Examples of such services may include facilitation, training, and research services on prospective issues facing the Center or on external developments with regard to governance, risk management, internal control, and value for money, or accountability processes.

Accountability

The head of Internal Audit, in the discharge of his/her duties, shall be accountable to the Center's director general and (through the Audit Committee) to the Board of Trustees¹ to:

- Provide assessments on the adequacy and effectiveness of the Center's processes for controlling its activities and managing its significant risks;
- Report significant issues related to risk management and internal control processes, including potential improvements to those processes, and provide recommendations and follow up the status of implementation by the Center through to their resolution;
- Report the results of advisory services provided to the Center;
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of the Internal Audit Unit's resources; and
- Coordinate with, and assess the scope of, other control and monitoring functions and review activities (such as external and Center-commissioned reviews, external audit, impact evaluation, risk management committees, security offices, legal offices, and biosafety and environmental committees).

Independence

To provide for the independence of the Internal Auditing Unit, its personnel report to the head of the Internal Audit, who reports functionally ...and administratively² ... to the director general. The head of

¹ The titles of Boards and Audit Committees may vary from Center to Center.



Internal Audit reports to the Director General and the Board in a manner outlined in the above section on Accountability.

Responsibility

The head and staff of the Internal Auditing Unit have responsibility to

- Develop flexible rolling medium term and annual audit plans, providing for review of Center business units at appropriate intervals, using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Director General for review and approval, and (through the Audit Committee) for review andendorsement/approval³ of the Board.
- Implement the annual audit plan, as approved, including, as appropriate, any special tasks or projects requested by management and the Audit Committee. Major changes to the plan should be agreed with management and the Audit Committee.
- Maintain a professional audit staff, supplemented by short term expert consultancies, which collectively have sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Establish a quality assurance program by which the Head of Internal Audit assures the operation of internal auditing activities.
- Evaluate and assess significant new or changing operations, processes and systems coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the director general and the Audit Committee summarizing results of audit activities and status of implementation of past audit recommendations.
- Keep Center management and 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.

² In some cases administrative reporting may be assigned by the Director General to another senior manager in the Center. In the case of the CGIAR Internal Auditing Unit, this may be manager who is the Center's representative on the Unit's Board of Sponsors, which exercises administrative oversight over the Unit.

³ The preferred wording may vary from Center to Center.



- Assist in the investigation of significant suspected fraudulent activities within the Center 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 Center at a reasonable overall cost.

Authority

The head of Internal Audit and staff of the Internal Auditing Unit are authorized to

- Have unrestricted access to all functions, records, property, and personnel. Documents and information given to internal auditors are handled in the same prudent manner as by those employees normally accountable for them.
- Have full and free access to the Audit Committee and Board chair.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish the audit objectives.
- Obtain the necessary assistance of personnel in units of the Center where they perform audits, as well as other specialized services from within or outside the Center.

The head of Internal Audit and staff of the Internal Auditing Unit are not authorized to Perform any operational duties for the Center.

- Initiate or approve accounting transactions external to the Internal Auditing Unit.
- Direct the activities of any Center staff not employed by the Internal Auditing Unit, except to the extent such staff has been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Standards of Audit Practice

The head of Internal Audit and staff of the Internal Auditing Unit shall adhere to the Institute of Internal Auditors' *Code of Ethics and International Standards for the Professional Practice of Internal Auditing*.

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