



Good Practice Note No. 17

Evaluation of Incumbent External Auditors

Part of a series of notes to help Centers and their internal auditors review their own Center internal management processes from the point of view of managing risks and promoting value for money, and to identify where improvement efforts could be focused. The good practices described in this series of notes should not be interpreted as minimum standards as not all may be applicable to every Center.

SUMMARY

The purpose of this note is to provide guidance to Centers on the evaluation of their incumbent external auditors and, as such, supplements the CGIAR Financial Guideline No. 3 on Audit (FG3).

Center Boards, through their Audit Committees, evaluate the performance of the external auditors on an annual basis to support decisions to renew the engagement in the years between Board-approved cycles of rotation.

The note includes a suggested questionnaire that considers performance in terms of

- communications with the audit committee,
- planning and conduct of the external audit,
- scope of the external audit,
- composition of the external audit team,
- maintenance of independence, and
- recent or imminent changes to the firm that may have an impact on its relationship with the Center in the future.

The Audit Committee should draw on the inputs of Center management and internal audit to address the items in the questionnaire and may call on them to prepare a preliminary set of responses to support its own analysis. However, the Committee members should apply their own analysis to finalize the questionnaire based on the external auditor's reports, presentations, and interactions with the Committee.



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Acknowledgment

This note has been prepared solely for use by CGIAR Centers and their internal auditors. We thank CGIAR Center managers and staff who provided input and advice on the preparation of this note. The note also draws on material of the American Institute of Certified Public Accountants (AICPA) on external audit evaluation. The questionnaire in this good practice note, although significantly adapted and expanded, took as a starting point one provided by the AICPA for use by Audit Committees in the United States to evaluate external auditors.



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INTRODUCTION

Center Boards, through their Audit Committees, evaluate the performance of the incumbent external auditors on an annual basis to support decisions to renew the engagement in the years between Board-approved cycles of rotation.

Good practice

The Audit Committee of the Board should evaluate the performance of the external auditor in a systematic fashion, against established criteria

The Audit Committee will benefit from a standard questionnaire when evaluating the performance of the external auditor. The questionnaire will also help the Committee structure its questions and discussions with the external auditor in their meetings. The questionnaire should cover:

- communications with the audit committee;
- planning and conduct of the external audit;
- scope of the external audit;
- composition of the external audit team;
- maintenance of independence; and
- recent or imminent changes to the firm which may impact the relationship with the Center in future.

A suggested template for such a questionnaire is annexed to this Good Practice Note. Additional items could be added to the questionnaire by Centers to suit their particular circumstances.



Good practice

The Audit Committee should draw on inputs from the Center management and internal auditor in undertaking evaluation but apply their own judgment to the final analysis

Inputs from the Center management (including the chief financial executive) and internal auditor are important sources of information for the Audit Committee. The chief financial executive in particular will have extensive experience in interacting with the external auditor during the course of the annual audit. Both the chief financial executive and internal auditor will also have the training and experience to make judgments about the technical quality of the external audit.

However the Audit Committee should balance these inputs against possible biases arising from the audit engagement, particularly in the case where there has been a qualified opinion issued on the financial statements or significant disagreements recorded in the external auditor's letter on internal controls (management letter). On the other hand, the Audit Committee also needs to be alert to a too accommodating relationship between the external auditor and the Center. While management or internal auditors may be requested to provide a set of preliminary responses to the questionnaire to assist the Audit Committee, the Committee members should apply their own analysis to finalize the questionnaire based on the external auditor's reports, presentations and interactions with the Committee.

CGIAR Financial Guideline No. 3 on Audit (FG3) provides that Center should invite the external auditors to attend Audit Committee meetings to discuss the conduct and findings of the audit. This is being routinely practiced by the Centers. It is also good practice for Audit Committees to automatically schedule a confidential (closed) session with the external auditor as part of their annual meeting considering the results of the financial statement audit. Where the external auditors are presenting at a semi-annual meeting, the opportunity for a closed session at this meeting should also be considered. This practice is adopted already by some Audit Committees and this helps assure the Audit Committee that all relevant aspects of the audit and the relationship between the external auditors and management are examined.



SUGGESTED QUESTIONNAIRE FOR EVALUATION OF EXTERNAL AUDITORS

Note - The questions are structured so that a “yes” is always positive.

Evaluation Questions	Yes	No	Not Sure	Comments
<i>Quality of Communications between the external auditor and the Audit Committee</i>				
1. Did the external auditor meet with the audit committee when requested?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Were the representatives of the external auditor meeting with the audit committee sufficiently senior and knowledgeable about the Center and the audit to properly represent the audit firm?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Were the external auditors organized and succinct in their presentations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Were the written reports of the external auditor clear and concise?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Were the presentations and other communications by the external auditor to the audit committee clear and consistent?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Did the external auditor give complete responses in the discussions with the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Did the auditor communicate issues freely with the audit committee, or did they seem overly protective of management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Did the auditor adequately discuss issues of the quality of financial reporting, including the applicability of new and significant accounting principles?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	



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<i>Planning and conduct of the external audit</i>				
9. Did the external auditor comply with the requirements as set forth in the proposed engagement plan / the request for proposal adopted when the auditor was first engaged / engagement letter for external audit services?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Did the independent auditor work with the Center Finance team to ensure the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Has the external auditor taken adequate account of the work of internal audit in the planning and conduct of their audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Was the audit and the reporting of results completed on time? Did management have enough time to respond to the audit report and management letter prior to the audit committee meeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13. Based on feedback from Center management, has the audit been conducted professionally (no issues regarding the auditor's adherence to international auditing standards including code of professional conduct, audit staff deal with Center staff in a professional manner)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>Scope of the external audit</i>				
14. Was the scope, nature, extent, and timing of the testing performed adequately explained by the external auditor and, drawing on inputs from management and internal auditor, do these seem appropriate to cover the financial reporting risks of the Center?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. With regard to the non-HQ locations of the Center, was the external audit coverage appropriate (taking into account internal audit coverage, availability of source documents at HQ, materiality of financial activities outside HQ)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	



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16. Did the external auditor address issues of “tone at the top” and anti-fraud measures and controls in place in the Center as part of the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17. Did the external auditor address the enterprise level risks of the Center and their relationship with the financial statements (e.g. donor funding, inform the audit committee of any risks of which the committee was not previously aware?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18. Has the external auditor considered, and provided useful advice on, the Center’s enterprise risk management framework or the results of analysis, particularly as it relates to financial risks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19. Has the external auditor considered, and provided useful advice on, the Center’s internal financial management performance reporting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20. Did the auditor adequately discuss issues relating to the Center’s conformance with CGIAR policies, applicable host country laws and regulations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
21. Did the independent auditor provide constructive observations, implications, and recommendations in areas needing improvement, particularly with respect to the organization’s internal control system over financial reporting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>Composition of Audit Team</i>				
22. Were the knowledge, skills, and abilities of the external audit leadership and staff assigned to the audit sufficient?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
23. If there were changes in the external audit team for the last audit, or during the course of the last audit, did the firm ensure that the transition was smooth?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
24. Did the external audit team have sufficient knowledge of the Center’s business, key risks and CGIAR requirements to ensure adequate coverage of any actual or potential accounting/finance issues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	



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<i>Independence of the External Auditor</i>				
25. Is there an appropriate relationship between the external auditors and management - management does not exercise undue influence on the external auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
26. Are the external auditors willing and able to raise issues that would reflect negatively on management when this is necessary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
27. After considering all audit-related and any non-audit services conducted by the external auditor for the Center, is the audit committee satisfied that the external auditor remains independent and objective both in fact and appearance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
28. Does the external audit firm (member firm) continue to be sufficiently independent on the Center engagement in terms of the materiality of the percentage of its fee income derived from the audit? If not, consider whether this impairs the appearance of independence with respect to the Center.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>Recent or imminent changes to the firm which may impact the relationship with the Center in future</i>				
29. Has the external auditor adequately briefed the audit committee on any actual or imminent significant changes to the firm (e.g, changes in affiliation with international firm, major expansion or reduction in operations)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
30. Has the external auditor adequately briefed the audit committee on the results of any peer review or similar review conducted of the firm as part of the worldwide quality assurance program of its international network?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
31. Has the external auditor adequately briefed the audit committee on the any significant issues in the public news concerning the firm or its international network?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

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 Author: John Fitzsimon