



Good Practice Note No. 12

# Selection Criteria for External Auditors

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*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 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.*

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## SUMMARY

The purpose of this note is to provide guidance to Centers on the selection of external auditors and, as such, supplements CGIAR Financial Guideline No. 3 (Auditing Guidelines Manual). The note draws on recent examples of external auditor selection. The note recommends that criteria and their weightings for external auditor selection should be established during the selection planning phase. The note also recommends that a comprehensive Request for Proposal document be used to elicit effective and competitive proposals from prospective firms.

Criterion weightings should ensure that technical criteria are decisive, with price determining the selection only when technical rankings are close. Consistent with CGIAR Financial Guideline No. 6 on Procurement, the criteria should be included in the requests for proposal given to prospective firms to encourage responsive bids and promote transparency in the selection process. Technical criteria should be assessed before price is considered.

## Acknowledgements

*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 sample Request for Proposal attached to this note derives from one developed collaboratively with ICARDA*



### Good Practice Note No. 12

# Selection Criteria for External Auditors

## INTRODUCTION

CGIAR Financial Guideline No. 3 on Audit (FG3) provides that the Center external auditor be rotated every 5-7 years. Section 2.27 of FG3 provides that the Centers may wish to consider the following criteria when selecting a new external auditor:

- The personnel size and qualifications of the firm in the host country;
- The firm's clientele;
- The firm's proven and demonstrated experience in auditing international nonprofit organizations in the host country; and
- The firm's audit methodology, approach, and use of information technology (IT) tools.

The purpose of this note is to provide guidance to Centers on the selection criteria to supplement CGIAR FG 3. The note draws on recent examples of external auditor selection in a number of Centers.

## Good practice

Establish criteria and weightings for the external auditor selection during the selection planning phase

Generally, external audit firms proposing to bid for the Center's external audit should be evaluated on the basis of

- Written proposal submitted in response to a request for proposal
- Presentation(s)
- Any clarifications submitted by the firm concerning the above

Performance of bidders against the selection criteria should be assessed based on all three sources. Criteria weightings should ensure that technical criteria are decisive, with price determining selection only when technical rankings are close. Consistent with CGIAR Financial Guideline No. 6 on Procurement, the criteria should be included in the requests for proposal given to prospective firms to



encourage responsive bids and promote transparency in the selection process. Technical criteria should be assessed before price is considered.

Suggested selection criteria consistent with the recommendations of FG3, items to consider when evaluating against the criteria and criteria weightings, are set out below:

### **Overall capabilities of the firm (suggested weighting: 10%)**

- Affiliation with worldwide firm—nature of professional quality assurance and other interactions to ensure that international auditing standards are maintained as they are evolving (including impacts of the U.S. Sarbanes-Oxley Act and similar requirements in other countries).

#### **What is an “internationally recognized audit firm?”**

CGIAR FG3 Section 2.25 states that all external auditors of the Centers “must be from one of the internationally recognized (e.g., Big-5) public accounting firms”. Since the publication of the latest version of FG3, the Big 5 has shrunk to the Big 4 with the demise of Arthur Andersen. FG3 leaves open the possibility of one of the so-called second-tier international firms being appointed Center external auditor. With only four firms in the first tier and these firms not being strong in the host country or region of the Center, there is growing interest in considering second tier firms where they have a significant presence in the host country and may have provided satisfactory services to the Center in other capacities. At this time, the gap between the Big 4 and the second-tier of international firms is still perceived to be significant, with second tier firms yet to establish the organizational structures that bind member firms and the levels of quality assurance of the Big 4, but this is subject to change. The impact on the perceptions of current and potential donors of having a second-tier firm as Center external auditor will be an important consideration in selecting such a firm.

- Presence of offices in other countries where the Center has operations/offices, and the ease with which those offices could be called on where necessary
- Experience in audit of not-for-profit organizations/international organizations/enterprises reporting according to international financial reporting standards (IFRS – formerly IAS)
- Number of partners and professional staff; partner-staff ratio, ability to substitute staff at similar levels of qualifications and experience if necessary
- Firm specialties that may be advantageous to the audit of the Center (e.g., IT, enterprise risk management)
- Types of clients/sectors, number of large clients/client spread (not overly reliant on few clients)



- Any legal actions or reputational issues relating to firm that may impact the ability of the firm to provide services to the Center
- Feedback on performance from other clients

### **Professional team assigned (suggested weighting: 20%)**

- Organization of team (lead partner, review partner, number of manager-level staff, auditor-in-charge (AiC) and junior staff; whether the team includes staff qualified to review IT systems)
- The curriculum vitae of lead partner, review partner, manager(s), AiC – professional and academic qualifications, years of external audit experience, recent professional development activities, experience with audit of not-for-profit entities, experience with auditing against international financial reporting standards, any experience with the Center or other CGIAR Centers?
- Number of hours allocated in proposal by partners, managers and AiC

### **Proposed methodology (suggested weighting: 20%)**

- Risk assessment methodology–how would they see this fitting in with the Institute’s own risk management activities?
- Balance between reviews of controls and substantive testing
- Reporting approach–interim reports, management reports, presentations to management and Board
- Number of hours allocated to the assignment, breakdown between interim and final audits
- Number of visits to the Center for the audit
- Approach to reviewing the financial system
- Proposed interaction with internal audit function

### **Understanding of the assignment (suggested weighting: 20%)**

- Familiarity or at least knowledge of types of financial reporting and control issues facing an entity like the Center
- Approach tailored to not-for-profit, international organization
- Ability to audit against IFRS and according to international auditing standards, understanding what this entails
- Ability to identify important risks that would affect the audit and ability of the Center to report against IFRS (via compliance with CGIAR Financial Guideline No. 2)



**Costs (suggested weighting: 30% Upper and lower bounds to acceptable fees may be set to avoid the result being skewed by unrealistically low or high fee proposals)**

- Proposed fee
- Relationship to the number of hours (should be neither excessive nor low that the quality of the audit or ability of the firm to deliver within the fee is doubted)
- Estimated out-of-pocket expenses

### Good practice

Include selection criteria in the request for proposal given to prospective firms

Consistent with CGIAR Financial Guideline No. 6 on Procurement, the criteria should be included in the requests for proposal given to prospective firms to encourage responsive bids and promote transparency in the selection process.

### Good practice

Adopt a comprehensive Request for Proposal format to elicit effective and competitive proposals from prospective firms

Using a comprehensive Request for Proposal format, that provides background information on the Center, the CGIAR financial reporting and audit requirements, and the nature and volume of financial activities of the Center will help elicit proposals from external audit firms that:

- effectively respond to Center requirements and are competitive in terms of service and price; and
- ensure proposals are submitted that can be easily compared to each other.

A model Request for Proposal is annexed to this note.



**MODEL REQUEST FOR PROPOSAL FOR EXTERNAL AUDIT SERVICES**

Office of the Director General

Date

Mr. /Ms. ....

.....  
.....

Dear Mr. /Ms. ....,

The [Center] wishes to invite proposals from internationally recognized accounting firms for the conduct of the external audit of the Center, and we extend this invitation to your firm. If you are interested, we would appreciate receiving a written proposal from your firm, comprising technical and financial components.

A detailed request for proposal is attached to this letter.

Please note that the cost of preparing a proposal shall be borne by the offeror, regardless of the outcome of the solicitation process. The proposal should be submitted on or before ..... If you wish to obtain further information about this invitation, please contact ..... (email: .....; tel.....)

We look forward to receiving your proposal.

Yours sincerely,

.....  
Director General



### REQUEST FOR PROPOSAL FOR THE ANNUAL EXTERNAL AUDIT

#### INTRODUCTION

1. Established in 19.., the [Center] is one of 15 centers strategically located all over the world and supported by the Consultative Group on International Agricultural Research (CGIAR). Information about the operations of [Center] can be obtained from [www.....org](http://www.....org). The CGIAR is a consortium of donors comprising national governments, international institutions and private foundations. The centers supported by the CGIAR conduct scientific research and training activities, in agriculture and related fields, to achieve sustainable food security and to reduce poverty in developing countries. Information about the CGIAR can be obtained from [www.cgiar.org](http://www.cgiar.org).
2. The center is an autonomous entity, with an international board of trustees, established as a ..... /under a [charter] in 19.. [Center] has the status and privileges and immunities of an international organization under its host country agreement with ..... as well as with various other countries in which it conducts research and training.
3. With its main [research station and] offices based in ....., [Center] works through a network of partnerships with national, regional and international institutions, universities, non-governmental organizations and governments in the developing world, and advanced research institutes in industrialized countries.
4. [Center]'s mission is to .....
5. [Center] serves the entire developing world for .....
6. In addition to its headquarters in ....., [Center] maintains offices and facilities in.....
7. [Center] is funded by ..... donors. The total revenue in 200.. was US\$... million. An indicative financial transaction volume is as follows:
  - cash vouchers ....
  - journal vouchers ....
  - bank transactions ....

#### ACCOUNTING, FINANCIAL REPORTING AND AUDIT ARRANGEMENTS

8. As a Center supported by the CGIAR, [Center] adheres to a common set of governance principles and financial guidelines. These include guidelines on financial reporting and audit. As with



all CGIAR Centers, [Center] prepares financial statements in accordance with a CGIAR Accounting Policies and Reporting Practices Manual (Financial Guidelines Series No. 2). The Manual requires the Centers to fully adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, as well as make various CGIAR-specific disclosures in its annual financial statements. The CGIAR Auditing Guidelines Manual (Financial Guidelines Series No. 3) requires the Centers' annual financial statements to be subject to independent external audit carried out in accordance with International Standards on Audit published by the International Audit Practices Committee of the International Federation of Accountants. Copies of these and other CGIAR Financial Guidelines can be obtained from [www.cgiar.org/publications/finguide/index.html](http://www.cgiar.org/publications/finguide/index.html)

9. In addition, [Center] is also required, under the terms of some donor agreements entered into for specific research or related projects, to prepare project-specific financial statements according to formats stipulated by the donor, and have these independently audited.

10. The Center's financial accounts are maintained in [system]. [Note here any planned or current system changes].

11. All outreach locations except .... submit original accounting documents to headquarters where the financial transactions are processed. [Note here any cases where outreach offices maintain their own separate accounting system and original documents, where a financial statement for this location is consolidated with that prepared at Headquarters to produce a Center-wide financial statement].

12. [Center] has an internal audit function provided by [an in house unit/outsourced, the CGIAR Internal Auditing Unit (IAU), or jointly by the two].

### **REQUIREMENTS FOR EXTERNAL AUDIT**

13. The requirements for the external audit of [Center] will include the following:

- Examination of the financial statements according to International Standards on Auditing and issue of an opinion thereon in relation to the IFRS and CGIAR FG2;
- Preparation of a memorandum on the review of internal accounting controls and other matters arising from the audit which should be brought to the attention of the Center's Board of Trustees and management;
- Presentation to the Board of Trustees' Audit Committee of the audit report and findings;
- [where permitted locally] Signature of the audit report on the financial statements under the international name of the firm;
- Routine consultation with [Center]'s financial team on developments in accounting, tax and new pronouncements/policies promulgated by accounting standard setters, the CGIAR and other organizations, where these are considered applicable to the Center.



### PREPARATION AND SUBMISSION OF PROPOSAL

14. During preparation of the written proposal, you must give particular attention to the following:

[Center] requires that the offeror to nominate a senior partner who would have overall responsibility in the firm for the quality and timeliness of the audit assignments, and for formal communication on the assignment between the firm and the center.

[Center] requires that an offeror wishing to respond to this proposal must disclose in their proposal any current situations or existing client relationships that may give rise to perceived or actual conflicts of interest in undertaking the assignment.

The working language of [Center] is English and the reporting for the audit will be in English.

[Center] will assess proposals on the basis of the following technical and financial criteria:

Overall capabilities of the firm

Professional team assigned

Proposed methodology

Understanding of the assignment

Cost

Any other specific criteria that may be deemed pertinent during the selection process

15. The technical component of the proposal should address the technical criteria above. In this regard, the proposal should include a completed questionnaire (Appendix 1 of this Request for Proposal) covering various aspects of the criteria.

16. The financial proposal (for fee and estimated “out of pocket” expenses) must be supported with an appropriate breakdown analysis.

17. Technical and financial components of the written proposal must be submitted in both hard copy and electronic format to .....at the following addresses:

Hard copy - (Center mail address here)

Electronic copy – (email addresses here)

18. Upon receipt of your proposal the Center will evaluate it and you may be requested to provide additional information as needed. If you are shortlisted, you will invite to make a presentation to Audit Committee of the Board of Trustees in ..... 200... The Audit Committee and the Board of Trustees will make a decision on the final selection of the external auditor and the decision will be communicated by .... 200...



#### QUESTIONNAIRE FOR OFFERORS

| Overall Capabilities of the Firm   | Response |
|--|----------|
| 1. What is the size of the firm from which the audit would be performed? Please provide information on the number for each level of professional staff in the firm, partner/staff ratio and the number of audits performed annually by the office.   |          |
| 2. How many clients does the firm have, in what sectors does the client base predominate, is the client base dominated by a few clients, and what is the geographical spread of clients?   |          |
| 3. What experience does the firm have in auditing <u>non-profit organization</u> especially those involved in agricultural research or similar endeavors such as universities?   |          |
| 4. What experience does the firm have in relation to such clients, where the clients must report in accordance with International Financial Reporting Standards?   |          |
| 5. What experience does the firm have in auditing clients who use [financial system]?  |          |
| 6. What is the firm's internal quality control procedures for specific audit assignments and the firm's quality assurance program? When was the firm last subject to an independent quality assurance review and what was the nature of that review? |          |
| 7. What is the nature of the firm's affiliation with its worldwide firm?   |          |
| 8. What is the nature of the firm's access to the worldwide firm's knowledge base, quality assurance system, professional development and other resources to support its work?   |          |
| 9. Does the worldwide firm have a presence in the countries in which the Center has offices or facilities? How could the availability of such an international network assist with the cost-effective completion of Center audits?                   |          |



|   |  |
|---|--|
| 10. Does the firm have an internal staff rotation policy? If so what is the period of rotation of partner/managers/auditor in charge for assignments in your firm?  |  |
| 11. What arrangements does the firm have to ensure that if key personnel (partners, managers, auditors in charge, specialist auditors) proposed for the audit can not be made available, must be substituted during the course of the engagement, or must rotate in accordance with the firm's rotation policy, that similarly qualified and experienced staff can be assigned in their place in a timely fashion?  |  |
| 12. Are there any legal actions or potential conflicts of interest relating to the firm that may impact the ability of the firm to provide services to the Center?  |  |
| 13. Can the firm provide client references to support its proposal?   |  |
| <b>Professional Team Assigned</b>   |  |
| 14. What are the size, composition and organization of the professional team proposed for this assignment? Please provide the CVs of the proposed partners, managers, auditors-in-charge and any specialist auditors. Note the professional and academic qualifications, years of external audit experience, recent professional development activities, experience with audit of not-for-profit entities, experience with auditing against international financial reporting standards, and any experience with the audit of the Center or other CGIAR Centers |  |
| 15. What is the time allocation for the various proposed members of the professional team? Please provide a time breakdown by interim and final audit phases.   |  |
| 16. What would be the nature and extent of the involvement of the proposed partners and managers and any specialist auditors in the performance of the Center's audits in the interim and final audit phases?   |  |



| <b>Proposed Methodology</b>   |  |
|---|--|
| 17. What is the firm's approach to incorporating risk assessment into the planning and conduct of financial statement audits? How would this be expected to integrate with the client's own risk management processes?  |  |
| 18. What is the firm's approach to incorporating reviews of the corporate governance arrangements of the Center and the control environment – against good international practice – into the planning and conduct of the financial statement audits?  |  |
| 19. What is the firm's approach to incorporating reviews of compliance with host country agreements and other applicable host country laws and regulations into the planning and conduct of the financial statement audits?   |  |
| 20. What is the firm's approach to the balance of internal control review versus substantive testing for financial statement audits?  |  |
| 21. What is the firm's approach to reviewing the computerized and manual controls over the financial reporting system, including review of the financial system?  |  |
| 22. To what extent does the proposed audit methodology enable the office to provide advice to the Center on internal control processes particularly as they relate to fraud elimination (prevention/detection), efficiency of operations, risk reduction and compliance with Center financial and related policies? |  |
| 23. What is the office's reporting approach as they relate to interim as well as final phases of the audit, and presentations to client management and Boards?  |  |
| 24. What is the office's proposed approach to interaction with the internal audit activity of the Center?   |  |
| <b>Understanding of the Assignment</b>  |  |
| 25. What, in the office's opinion, are the greatest risks for financial integrity and internal control for an enterprise like the Center (non-profit research,  |  |



|  |  |
|--|--|
| university or similar organizations)?  |  |
| 26. What, in the office's opinion, are the greatest challenges to an enterprise like the Center implementing IFRS?   |  |
| 27. What features, if any, of the proposed audit approach does the office wish to highlight in terms of tailoring to the Center's needs as an international non-profit organization which must report according to IFRS?   |  |
| 28. What processes or access to knowledge databases does the office provide to keep the clients informed of the recent developments in the fields as external audit, IFRS, internal audit, financial management, corporate governance, enterprise risk management? |  |
| <b>Cost</b>  |  |
| 29. What is the proposed fee to perform the Center's annual audit?   |  |
| 30. For how many years can the proposed fee(s) be kept at the same level?  |  |
| 31. What would be the basis for fee increases in subsequent years?   |  |
| 32. What are the estimated "out of pocket" expenses to perform the Center's annual audit? Please provide a breakdown of estimate by relevant expense categories.   |  |
| 33. What fee(s) would be charged to perform a donor requested audit of project financial statements? For this purpose the office may quote fees for different categories of projects by financial size.  |  |
| 34. What are the estimated "out of pocket" expenses for these project audits? Please provide a breakdown as per 30. above  |  |

Exposure Draft: August 2004  
First Update: March 2005  
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