

Critical Ecosystem Partnership Fund

Fourteenth Meeting of the Donor Council
World Bank Headquarters, Washington, DC
10 November 2008
2 p.m. – 5 p.m. EST

Terms of Reference for CEPF External Audit

Recommended Action Items:

The Donor Council is asked to **review and approve** the Terms of Reference for the CEPF External Audit.

The Council is also asked to **approve** the use of interest earned from the CEPF Bank Account to pay for the compliance testing part of the audit costs each year, and for the compliance-specific costs to be considered as a budget item separate from the operational expenses of the Fund.

Background:

In accordance with Operational Manual Section 5.1 *CEPF Donor Council Terms of Reference*, the powers and duties of the Donor Council shall include reviewing and approving the terms of reference for the External Audit.

As detailed in Operational Manual Section 2.1 *Overview of Financial Management*, the External Audit will be conducted annually by independent auditors to provide assurance on the financial statements of CEPF. In addition, the Terms of Reference have been expanded as part of the conditions for the new GEF financing to include compliance with certain provisions of the CEPF Financing Agreement and the related internal controls.

The Secretariat developed the attached Terms of Reference in consultation with the CI-Finance Department and PricewaterhouseCoopers as the current auditor. Consultations were also undertaken with the World Bank as the implementing agency for GEF.

The estimated annual cost of the audit is about \$20,000 for the financial statements and an additional \$40,000-60,000 for the compliance testing, a total of about \$80,000 per year or \$400,000 for five years.

As these costs are beyond the expenses originally planned during CEPF budget development and CEPF is managing at a capped level of operational expenses, this agenda item includes a request for the additional compliance testing to be charged against interest earned and to be considered as a budget item separate from the operational expenses of the Fund. This would be similar to the way in which External Evaluation is presented.

Once approved by the Donor Council, the Terms of Reference will be included in the Operational Manual.

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CEPF External Audit Terms of Reference

Background

The Critical Ecosystem Partnership Fund (CEPF) is a joint initiative of l'Agence Francaise de Developpement, Conservation International, the Global Environment Facility, the Government of Japan, the John D. and Catherine T. Mac Arthur Foundation and the World Bank. As one of the founding partners, Conservation International administers the initiative.

Purpose of the Audit

The purpose of this external audit is to express an opinion on the fair presentation of the special purpose financial statements of CEPF. In addition, the audit will test CEPF's compliance with certain provisions of the CEPF Financing Agreement and consideration of its related internal control. If that report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreement, or abuse, the auditor will obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

Objectives

The overall objectives of the audit are: (i) to enable the auditor to express an opinion on the fair presentation of the CEPF fund accountability statement. The audit will be conducted in accordance with auditing standards generally accepted in the United States, (ii) to enable the auditor to express an opinion on compliance and report on the internal control over compliance in accordance with certain provisions of the CEPF Financing Agreement(s) and CEPF Operational Manual that have a direct and material financial effect on the CEPF special purpose financial reports (or Fund Accountability Statement).

Scope

The auditor will conduct a program audit based on the standards of OMB circular A-133. The opinion on the special purpose financial statements will cover the funding of all CEPF donor partners. The opinion on compliance will cover funding received for the second phase of CEPF and will include CEPF monitoring of sub-grantees in accordance with the CEPF Financing Agreement. The audit will be carried out in accordance with the AICPA Auditing Standards and will include such tests as the auditor considers necessary.

Planning and conducting the audit will be in accordance with a risk-based framework with a detailed audit work program. The audit coverage will consider the risk of material misstatement as a result of fraud or error. The audit program should include procedures that are designed to provide reasonable assurance that material misstatements are detected. Specific areas of coverage of the audit will include the following:

CEPF Financing Agreement Articles:*¹

- The Fund Account
- Annual Spending Plan
- RIT Subprojects and Subprojects within Approved Ecosystem Profiles
- Withdrawals from the Fund Account; Refunds; Events of Default
- Financial Covenants (includes testing of IFR/PMR as applicable)
- Schedule III: Withdrawal and Use of the Funds

Project Financial Statements

Project Financial Statements prepared by CI would be based on information from the accounting records and related documentation as reflected in the accounting system. The required financial statements are the 1) CEPF Fund Accountability Statement which reports revenue and expenditures, fund balance, cash held, pledges receivable and grants payable for the fiscal year and 2) a schedule of CEPF grant awards for the period covered by the financial statements.

Audit Report

The audit report shall contain the auditor's opinion on whether the project financial statements listed in detail above presents fairly in accordance with the terms and conditions of the CEPF Financing Agreement. The report will also include an opinion on CEPFs compliance with selected provisions of the CEPF Financing Agreement(s) and a separate opinion on internal control over compliance with those selected provisions.

The auditor will present the report to Conservation International's Audit Committee and CI's Board of Directors. Once approved by CI's Board of Directors, CI will promptly forward a copy of the audited accounts and report to the CEPF Donor Council. . It shall be sent no later than five months after the end of the fiscal year.

Management Letter

In addition to the auditor's report, the auditor will prepare a "management letter," in accordance with SAAS 112.

Exit Conference

Upon completion of the fieldwork, the auditor shall hold a closing or exit conference with senior officials of Conservation International. Conservation International will document the exit conference for inclusion in the audit workpapers.

General

The auditor shall be given access to all legal documents, correspondence, and any other information associated with the fund and deemed necessary by the auditor.

¹ *Article numbers differ by financing agreement, but the titles remain the same. The article referring to RIT Subprojects only applies to the GEF Financing Agreement.