

Annex XXVII: Terms of reference of External Auditors

I. Introduction

1. These terms of reference are prepared in accordance with the decision GCF/B.06/03.

II. Scope of Services Required by the Fund

2. The External Auditor shall audit the Financial Statements (FS) of the Fund, in accordance with the International Standards on Auditing (ISA). The FS include the Statement of Financial Position (including the Fund's Assets & Liabilities), the Statement of Activities (including the Fund's Income & Expenditures), the Statement of Movements of Net Assets and the Statement of Cash Flows, together with explanatory notes and schedules in support of the FS. The audit of the Statement of Financial Position includes those funds held in trust by the Fund's Trustee. The Fund's Income & expenditures includes both the administrative budget as well as all of its programmatic income and expenditures.
3. The ISA are professional standards for the performance of a financial audit of financial information. These standards are issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). The standards are listed in Appendix 1.
4. The External Auditor may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general the administration and management of the Fund.
5. The Board and or the Ethics & Audit Committee (EAC) may request the External Auditor to perform certain specific examinations and issue separate reports on the results.
6. The audit reports will be reflected in the Board annual reports to the COP.

III. Terms of Reference of External Audit

7. The Fund's external auditor will be appointed by the Board of the Fund.
8. The external auditors will report to the Board and the EAC on an annual basis.
9. The External Auditors of the Fund should be an internationally recognized public accounting firm. In evaluating the capabilities of the audit firm the following technical criteria should be considered:
 - (d) Experience in audit of multilateral funds, international financial institutions, international organizations or other organizations which report in accordance with International Financial Reporting Standards;
 - (e) Number of partners and professional staff; partner-staff ratio, ability to substitute staff at similar levels of qualifications and experience if necessary;
 - (f) Firm specialities that may be useful to the Fund (e.g. IT, enterprise risk management, advice on hedging instruments);
 - (g) Types of clients/sectors, number of large clients/client spread; and
 - (h) Feedback on performance from other clients.

IV. Evaluation of Incumbent External Auditors

10. The Board, through the Ethics & Audit Committee, will evaluate the performance of the external auditors every three years. This evaluation supports the decision to renew the engagement in the years between Board-approved cycles of rotation.
11. In evaluating the performance of external auditors; the Ethics & Audit Committee will consider:
 - (a) Communications with the EAC;
 - (b) Planning and conduct of the assignment;
 - (c) Scope of the external audit;
 - (d) Composition and experience of the external audit team;
 - (e) Maintenance of independence;
 - (f) Recent or imminent changes to the firm that may have an impact on its relationship with the Fund in the future;
 - (g) Efficiency and quality of the reports; and
 - (h) Potential conflict of interest if the incumbent external auditors are also the external auditors of an implementing entity selected by the Fund. The external audit firm must disclose any conflict of interest.

V. Changes to the Appointment of External Auditors

12. The rules of professional conduct relating to the resignation and removal of external auditors are designed to protect the interests of the Fund.
13. The Fund's external auditors may resign with a written notice of resignation. In order to be effective the notice should include a statement of any circumstances connected with the resignation.
14. Within 14 days of receipt of a notice of resignation, the Fund's Secretariat must send a copy of the notice to the Ethics & Audit Committee. The external auditors may request the Board to be heard at any Board meeting which will consider the FS of the Fund of any given year which was being audited by the External Auditor who resigned.
15. The authority for the removal of external auditors rests solely with the Board.
16. Should the external auditor position become vacant before the expiry of the term, the Board will, in consultation with the Ethics & Audit Committee, appoint another external auditor to fill the vacancy.
17. In selecting an external auditor, the Fund should conduct a competitive process, according to a pre-established set of selection criteria.

VI. Rotation of External Auditors

18. The Fund's external auditors will serve two three year annual audit assignments. The rotation of auditors means that auditors are engaged to undertake a maximum of six annual financial statement audits, and thereafter another auditor should be appointed through competitive bidding

VII. Prohibited Non-Audit Services

19. The external auditor shall not perform the following non-audit services for the Fund:
- (a) Bookkeeping;
 - (b) Financial information system design & implementation;
 - (c) Internal audit services;
 - (d) Management functions or human resource related services;
 - (e) Legal services and expert services unrelated to the audit; and
 - (f) Any other services the EAC may determine to be not permissible.