



Consultative Group on International Agricultural Research (CGIAR)

CGIAR FINANCIAL MANAGEMENT

FINANCIAL GUIDELINES SERIES, No. 1

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Table of Contents

I.	Introduction.....	1
II.	Governance.....	3
	1) Background.....	3
	2) Board of Trustees	4
	3) Center Management.....	5
	4) Budget Holders	5
	5) Internal Audit Services.....	6
	6) Staffing the Finance Team.....	6
	7) Designation of Financial Responsibilities in the CGIAR.....	6
	8) Further Materials.....	8
III.	The Financial Management Cycle.....	9
	1) Overview.....	9
	2) Element 1 - Financial Planning (How the Centers plan their finances).....	9
	3) Element 2 - Resource Allocation (How to allocate resources to meet service demands and achieve desired outcomes).....	10
	4) Element 3 - Management Monitoring and Internal Reporting (How to manage allocated resources to achieve outcomes).....	10
	5) Element 4 – External Financial Reporting (How the Centers report to donors and other stakeholders).....	10
IV.	Element 1 – Financial Planning.....	11
	1) Introduction.....	11
	2) Strategic Plan.....	11
	3) Medium Term Plans.....	12
	4) Developing the Annual Financing Plan.....	13
	5) Further Materials.....	14
V.	Element 2 – Resource Allocation.....	15
	1) Annual Operating Budget.....	15
	2) Introduction.....	15
	3) Reasons for Budgeting.....	15
	4) The CGIAR Budget Cycle.....	16
	5) Annual Capital Budget.....	17
	6) Cash flow Analysis.....	17
VI.	Element 3 – Management Monitoring and Internal Reporting.....	18
	1) Financial Information Systems.....	18
	2) Internal Control Framework.....	20
	3) Internal audit.....	23
	4) Performance measures and monitoring financial health.....	24
	5) Treasury Management.....	27
	6) Management Financial Reporting.....	29
	7) Further Materials.....	31
VII.	Element 4 – External Financial Reporting	32
	1) Introduction.....	32
	2) Accounting Policies and Reporting Practices.....	32
	3) Contents of financial statements.....	33
	4) Further Materials	34

Section I – Introduction

Since the first edition of this manual appeared in December 1999 the landscape of financial accountability for public and private sector institutions has changed dramatically. The corporate scandals at the start of the new millennium have shaped new thinking in the form of regulatory requirements and the operations of the Board and management in the world's largest corporations. The lessons of the corporate governance and accounting scandals of recent years have not been lost on the not for profit sector. A dominant theme of recent developments in not for profit sector is the demand which is being placed upon Trustees, Chief Executives and their managers for the implementation and maintenance of sound financial systems and processes, and the discharge, through financial reporting, of accountability for the efficient and effective use of resources which are controlled by their agencies.

Against this background there have been a number of profound changes that affect the financial management practices of the CGIAR Centers (“Centers”):

- **Evolution in the structure of financing.** Since 1999 there has been a significant decline in the percentage of unrestricted funding from Members from 54% to 43% in 2005. Unrestricted funding is the main source of financial flexibility for the Centers. The substantial change to restricted funding requires a shift in the approach to financial planning, cash management and reporting. One key implication for the Centers is the need for full cost budgeting and cost recovery from restricted projects.
- **Emphasis in partnerships in the CGIAR business model.** There is also an increasing emphasis on broadening mobilization of resources beyond financial resources to include science, partnerships, human resources, etc as a means of raising the CGIAR's effectiveness and impact. Key examples of this shift in the business model are the Challenge Programs, and the emerging Alliance (of Centers) that seeks to increase synergies and improve collective action.
- **Structural changes in central administration and operations.** An increasing amount of funding (currently around \$170 million per year) is now handled through World Bank procedures either through tailored trust funds or Development Grant Facilities (DGF). The operational and accountability arrangements of the Bank need to be factored into the Center's overall financial management arrangements.

These changes in the business and operating models of the CGIAR Centers have resulted in an increased focus on transparency, accountability, efficiency of operations and drive for results. Suitably scaled for the size of operations and types of financing of the Centers, application of the approaches aimed at strengthening these aspects in the public and private sectors in CGIAR member countries will help maintain confidence in Centers as good stewards of the resources entrusted to them. A number of initiatives are underway within the CGIAR System in this regard. The CGIAR Centers are now implementing more formal risk assessment and reporting frameworks. A Performance Management System (PM System) is now in place, the main objective of which is to promote Center performance and accountability in achieving goals, and provide CGIAR Members an additional tool for decision-making and oversight. The CGIAR's accounting

policies and guidelines have been updated to bring financial reporting practices in conformity with generally accepted best practice.

This Financial Management Guideline is aimed at providing an overview of financial management practice and therefore covers all aspects of finance – planning/budgeting, managing oversight, monitoring, reporting, and resource mobilization. It sets out broad principles and guidelines and provides a snapshot of best financial management practices in the Centers. It is presented in the form of a framework that goes beyond the more formalistic fiduciary and control oriented nature of traditional financial management to embrace performance, efficiency and effectiveness. Modern financial management has moved way from a “chief accountant as controller” mindset toward a more mature concept in which the finance department is viewed as a service department that helps the organization achieves its goals. This concept envisages that the finance function has the mandate to ensure the appropriate mitigation of key financial risks, including a properly functioning control environment; and to promote the principles of individual, functional and collective accountability of both management and staff for the prudential use of financial resources. The managers themselves are responsible for designing and operating these controls efficiently and effectively.

This Guideline is not intended to be a static document. It will continue to be reviewed and reissued periodically to reflect continuing changes in financial management policies and practices in CGIAR.

Although this manual sets forth overall policy guidelines, individual center are expected to establish their own detailed financial policies and procedures.

Section II – Governance

Background

“Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.¹”

The above definition offers a broad view of governance in organizations. This Financial Guideline however focuses on a particular aspect of governance – the financial responsibilities of the trustees, management and staff of the Centers – and through the critical lens of managing resources within the Centers. .

Board of Trustees

The Centers are the implementing arm of the CGIAR System. Each Center is autonomous; each is also a nonprofit organization that derives its financial support from the CGIAR Members and non-members. Each Center operates under the authority of a legally constituted board which is charged with fiduciary responsibility for its work.

The effectiveness of each Center rests in large part on the effectiveness of its board. Good performance by Center boards is, therefore, crucial to the continued success of the CGIAR system. The role and responsibilities of the Board of Trustees and various committees with regard to effective management of Center finances are outlined in The Role, Responsibilities, and Accountability of Center Boards of Trustees; *Reference Guide for CGIAR Agricultural Research Centers and Their Board of Trustees No. 1*; and Building Effective Committees; *Reference Guide for CGIAR Agricultural Research Centers and Their Board of Trustees No. 4*.

The importance of financial expertise at all levels of an organization has been highlighted as a result of the numerous corporate scandals in the private sector over the last few years. A common theme of these scandals has been that directors were not effectively performing their role of oversight and monitoring of company management and that financial managers often slavishly followed legal accounting requirements rather than fundamental accounting principles. In the United States an important objective of the Sarbanes-Oxley Act of 2002 was to improve the performance of the gatekeepers, and ensure that sufficient financial expertise is available in organizations. Similar regulations exist in a number of other CGIAR member countries, including the United Kingdom², Canada and Australia. Consistent with these trends, the role of Boards of Trustee in the oversight of the financial operations and conditions of the Centers has become much more emphasized and scrutinized.

¹ Sir Adrian Cadbury in 'Global Corporate Governance Forum', World Bank, 2000

² See the London Stock Exchange Combined Code on Corporate Governance (updated 2003).

A key feature of any effective financial management system in a Center is a strong, independent thinking standing committee drawn from the Board of Trustees to provide the necessary overview and control of the Center's finances. Committee structures vary from Center to Center; some have separate Finance and Audit Committees; others have a joint Finance and Audit Committee. Through their Committees the Boards of Trustees review investment policies, monitor the Center funding, provides independent oversight of the Center's accounting and financial reporting and oversees the organization's annual audits (both external and internal). The Committees are also delegated responsibility from the Board to ensure that there is a framework for accountability; for examining and reviewing all systems and methods of risk analysis, risk management, for evaluating the adequacy of internal controls relating to financial risks (and other control activities not reviewed by other Board committees or task groups); and for ensuring that the Center is complying with all aspects of the law, relevant regulations and good practice.

Finance and Audit Committees consists of trustees appointed by the Board and may include others who are independent and external of the Center. At least one member of the committee should be a financial expert³ and all audit committee members should be financially literate. The board appoints the chair of the audit committee. The chair may require or invite any member of the Center's management or staff to attend meetings.

The main duties of Board Finance/Audit committees include:

- to take the lead in reviewing and overseeing the implementation of policies with respect to enterprise risk assessment and risk management;
- to approve overall guidelines for the preparation of annual Center budgets and recommend budgets for approval of the Board;
- to ensure that appropriate action is being taken to obtain adequate financing for planned operations, and to adjust spending where necessary;
- to approve overall financial guidelines for the Center;
- to ensure that treasury activities are performed according the established Center policies;
- to ensure that an adequate accounting system and internal controls are in place;
- to review findings and recommendations provided by the Center's internal audit activity with regard to Center governance, risk management, internal control and accountability, and advising the board of trustees accordingly;
- to ensure that appropriate controls are in place to safeguard the financial and physical assets of the Center from misappropriation;
- to determine the frequency of tendering of external audit services; considering tenders; and making recommendations to the board of trustees which public accounting firm should carry out the audit;

³ One who possesses an understanding of the financial statements, internal controls and procedures that impact the preparation of the statements and application of the principles on which they are based. A person who has experience in preparing in-depth analysis and/or evaluation of the financial statements with the level of complexity comparable to the organization of his board membership, or supervising others in preparing the same tasks

- to ensure that the Center's accounts and financial statements are properly audited by the external auditors; and
- to review the external audit report and management letter and advising the board of trustees accordingly.

Center Management

With regard to financial management, the Center management is responsible for ensuring that:

- the Center has prepared an overall financial plan (comprising strategic plan; Medium Term Plan; Annual Financing Plan; and detailed Operating and Capital Budgets), a cash flow analysis, and a fund-raising plan;
- an adequate accounting system and system of internal controls is in place;
- all financial transactions are recorded completely and accurately and assets are safeguarded;
- professional treasury management practices are observed;
- annual audited financial statements are produced;
- the Center understands the financial risks and has plans in place to mitigate these risks;
- the Center is in compliance with all legally applicable fiscal obligations;
- expenditures are controlled through the production of timely and accurate management accounts; and
- investments in information technology to automate the financial management systems of the Center are well planned and managed.

Budget Holders

Budget holders (e.g. research managers) should be clearly identified, their responsibilities and authorities appropriately aligned, and be made accountable for all aspects of programs that they manage. Budget holders can expect to receive guidance and support on financial matters from the Centers' financial management staff. This can take the form of formal training courses (for example, induction courses for new staff) and ad-hoc day to day help and advice.

Such accountability includes financial aspects of the program including:

- formulation of budget requirements (in coordination with the finance department) and agreement with Center management. Two key principles of budget planning and formulation in the CGIAR are:
 - appropriate application of restricted resources before drawing upon unrestricted resources; and
 - restricted projects must pay their share of institutional costs;
- compliance with CIGAR financial guidelines including internal financial procedures, risk management and procurement procedures;
- monitoring the use of resources through periodic management accounts and reporting of issues to Center management in a timely manner.

Internal Audit Services

The CGIAR Centers receive internal auditing services from a global network of internal audit professionals. The network comprises:

- full-time staff recruited both centrally, through the CGIAR Internal Audit Unit and through individual Centers;
- expert international and local short term consultants supervised by the CGIAR and Center Internal Audit Units.

The role of internal audit is discussed further in Section VI. - C.

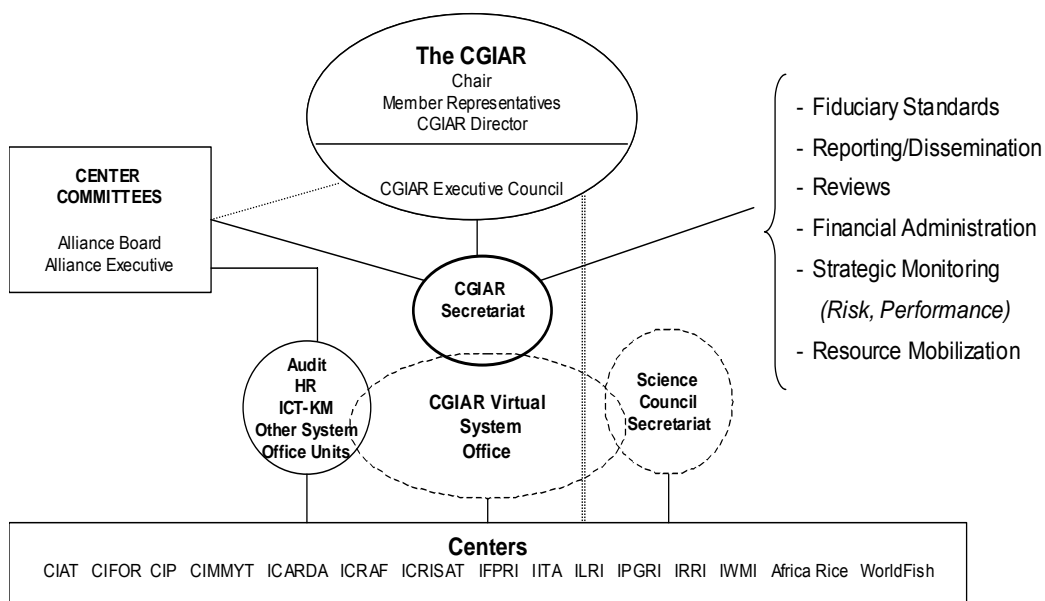
Staffing the Finance Team

Computerized financial management systems allow financial transactions to be processed more efficiently and effectively than previously. This has freed up financial staff time and enabled them to move beyond just transaction processing to also focusing on analytics and problem solving that provides support to the strategic aspects of Center financial management. Modern finance functions typically consist of small teams of highly skilled accountants and finance professionals supporting a professionally well qualified and experienced chief financial officer. Centers need to ensure they are able to recruit and retain high quality finance staff that can fulfill these expectations.

Designation of Financial Responsibilities in the CGIAR

The CGIAR Secretariat, based in Washington DC also has an important role in ensuring an overall consistency of approach to fiduciary standards, reporting and dissemination of aggregated financial information.

Table 1. Designation of Financial Responsibilities in the CGIAR



The CGIAR Secretariat's designated financial responsibilities include:

- Oversight of the updating and promotion of fiduciary standards;
- System level financial reporting and dissemination of financial information about the CGIAR;
- Ensuring the appropriate coverage of financial issues in reviews (e.g. EPMRs; System and Adhoc reviews);
- Management and administration of financial resources flowing through the World Bank;
- Monitoring system-level trends in financial issues and facilitating system-level approaches to addressing these trends; and
- Mobilizing resources for the CGIAR system as a whole.

Further Materials

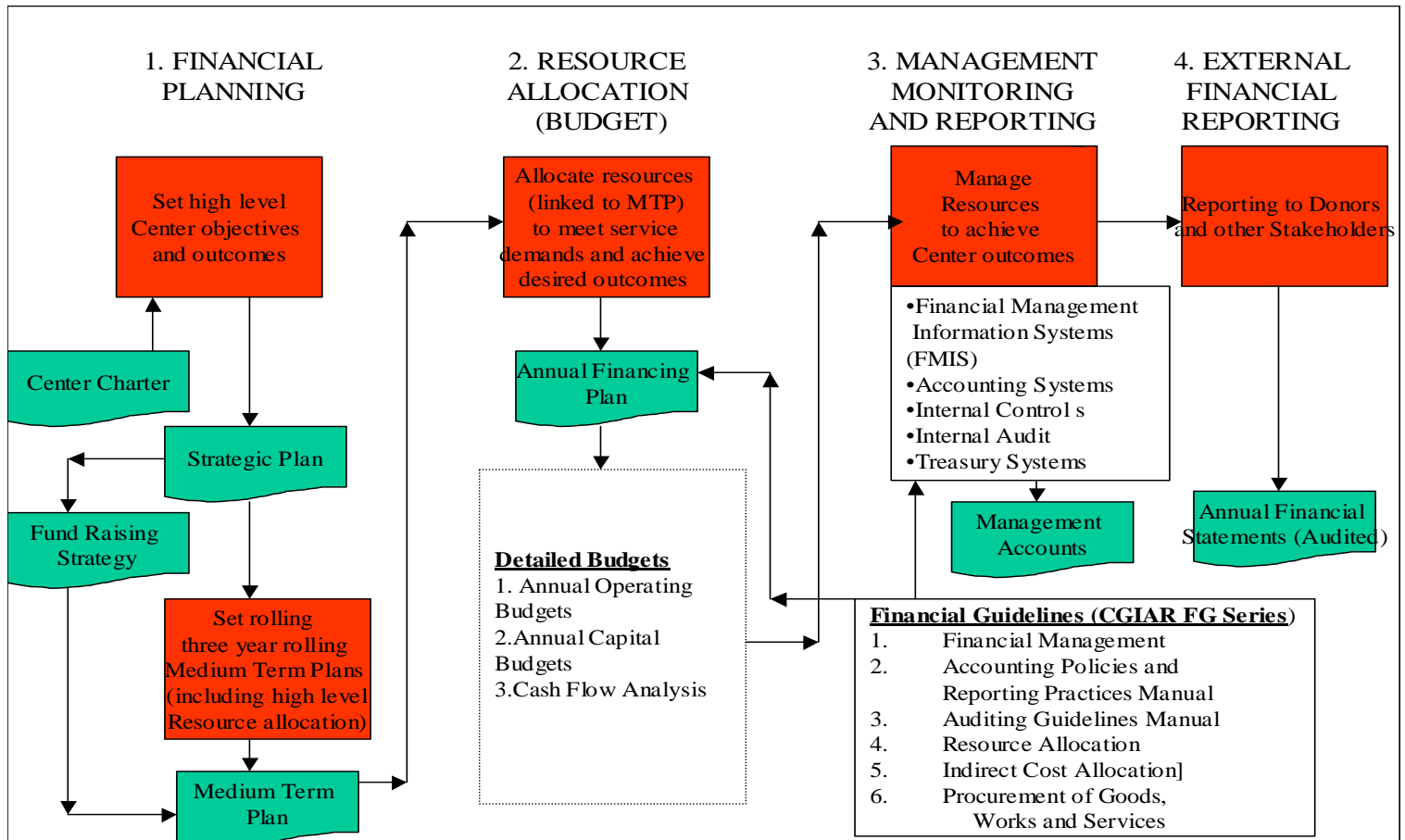
Role, Responsibilities, and Accountability of Center Boards of Trustees; Reference Guide for CGIAR Agricultural Research Centers and Their Board of Trustees No. 1; Building Effective Committees; Reference Guide for CGIAR Agricultural Research Centers and Their Board of Trustees No. 4; Good Practice Note on Audit Committee Terms of Reference. CGIAR Internal Auditing Unit.

Section III – The Financial Management Cycle

Overview

Financial management is the set of activities by which a Center manages its finances. The CGIAR Financial Management Cycle divides financial management activities into 4 main elements that are illustrated in Table 2 below.

Table 2. CGIAR Financial Management Cycle



Element 1 - Financial Planning (How the Centers plan their finances)

Financial planning comprises the high-level activities which the Centers undertake to estimate their resource needs and develop plans for how they will obtain those resources. These activities are an integral part of Centers' long-term strategy and medium term plans and are closely linked to the annual financing plans. A long-term appraisal of a Center's future physical capital requirements should also be prepared. The activities will be reflected in the Center's strategic plan, financing plans, and ad-hoc planning documents which lay out the longer term financing requirements for Center strategies and guide the balancing of these requirements based on expected and actual funding in the nearer term.. Medium term plans (MTPs) are prepared which provide a three-year planning horizon for

the implementation of the research agenda. This rolling three-year plan is linked into the annual operating budget (element 2).

Element 2 - Resource Allocation (How to allocate resources to meet service demands and achieve desired outcomes).

Resource Allocation (Budgeting) is the process of translating overall objectives into detailed plans, usually for a period of one year. These are linked to the overall strategy and to the resources allocated in the MTP. Detailed budgets should be prepared for each operating unit and set of research activities. These detailed plans are usually expressed in financial terms and will be combined in a single financial plan – the master budget – for the whole Center. Operating and capital budgets are also prepared annually and are supported with an analysis of the cash flow requirements for the year. Each Center has a written fund raising strategy describing how it intends to raise funding sufficient to finance its operations.

Element 3 - Management Monitoring and Internal Reporting (How to manage allocated resources to achieve outcomes).

Management Recording, Monitoring, and Control are concerned with establishing financial management systems and internal controls that:

- Record financial transactions throughout the year;
- Compare actual expenditures against budget;
- Measure the financial performance and financial health of the Centers;
- Ensure that all items of expenditure and income are reported completely, accurately, and on a timely basis and that Center financial and physical assets are safeguarded from fraud or misappropriation;
- Ensure that there is sufficient cash for day-to-day operations, provide for investing surplus cash to maximize investment returns while staying within acceptable risk limits, and manage foreign currency transactions (Treasury Management);
- Provide management and other internal users of financial information with reports needed for internal management purposes;
- Identify financial risk and formulate strategies for dealing with these risks.

Financial Compliance is the implementation of processes that ensure a Center's compliance with accepted financial standards and practices and with donor agreements. CGIAR has developed a series of Financial Guidelines that provide a framework for the management of the financial aspects of the Centers.

Element 4 – External Financial Reporting (How the Centers report to donors and other stakeholders).

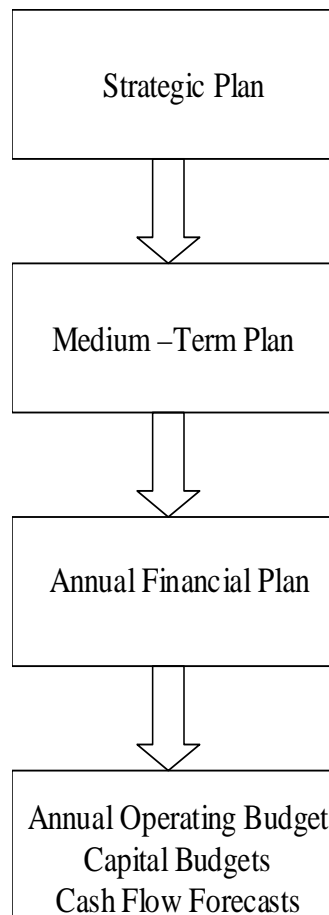
Transparent annual financial reports, prepared in compliance with agreed Financial Guidelines and audited to international standards by an independent auditor, are the key element in establishing management accountability and maintaining donor confidence in the Center's stewardship of funds.

Section IV Element 1 – Financial Planning

Introduction

The business of managing Centers is becoming increasingly complex as a result of greater competition for funds, rapid technological changes, and a more sophisticated and well-informed investor community. In this environment, Centers must have a clear sense of direction that is supported by a thorough planning process. Centers also need to develop effective strategies to compete for, and effectively manage scarce resources.

The CGIAR financial planning cycle for Centers may be represented schematically as follows:



Financial planning involves preparation of several documents for external and internal use. Documents that all Centers should prepare are a strategic plan, a three-year rolling MTP, an annual financing plan, annual operating and capital budgets; a cash flow analysis, and a fund-raising strategy.

Strategic Plan

Strategic planning establishes the long-term direction of a Center and the scope of its activities. In this process the Center matches its resources to its changing business environment and the needs of its stakeholders. Strategic planning decisions:

- Relate to the scope of a Center’s activities as defined in its Charter, and approved by the CGIAR (i.e. mandate, research priorities, etc),
- Consider the fit between the activities of a Center and its business environment, and
- Re-evaluate the Center’s current and planned activities with its resource capability.

Effective strategic planning requires financial considerations to be integrated with scope, environmental, and operational decisions. Center Finance departments prepare financial information for input into the Center’s strategic plans and, often through an iterative process, ensure that proposed activities and projected financing needs are in line.

The Board of Trustees should periodically review the strategic plan to confirm that it remains appropriate. A long-term plan should be a reference point to ensure that short-term activities are a good fit with the overall strategic direction of the Center. The financial management system should assist in ensuring that the long-term strategy of a Center is linked to day-to-day budgets and operational decisions.

Medium Term Plans

The CGIAR follows a forward planning horizon of three years for the implementation of the research agenda. It does this through a rolling MTP where the research agenda is reviewed and adjusted in the context of the CGIAR’s priorities and strategies, progress in science and funding opportunities. The annual Work Plan is the “first year” of the rolling MTP.

The research agenda outlined in the MTPs should be consistent with the likely available financial resources to implement the plan. Each project is to be fully costed to assist management in policy decisions. The financial requirements of each Project in the MTP Portfolio and the projected financial resources are to be submitted through the CGIAR financial online database. Financial tables on cost allocation and investments should be submitted as part of the MTP. A summary of the MTP package is shown in Table 3 below:

Table 3. CGIAR Medium Term Plan (MTP)

A. MTP Overview

The MTP is the main instrument for operationalizing the Center's approved Strategic Plan. The CGIAR follows a three-year rolling MTP whereby the third year is added to the planning horizon each year the plan is updated, consistent with the Strategic Plan and CGIAR Priorities. The thrust of the MTP is the elaboration of the work program during the plan period in the context of the Center's strategy as well as its past and current performance. In addition to providing the pathway from outputs to outcomes and intended impacts, elaboration involves costing of the work program over the plan period, and putting forward a realistic plan for financing the first year of the MTP. It also provides an opportunity to assess past performance (e.g., implementation of the recommendations of the last External Program and Management Review, and latest actual year performance based on indicators in the CGIAR Performance Measurement system, including financial performance).

B. Project Portfolio

(i) The Project Portfolio provides the programmatic content of the work plan and links it to the Center's strategy and CGIAR priorities. Each project in the portfolio is the basic unit of costing. Changes in the MTP project portfolio should be rationalized (e.g., changes due to shifts in strategy, external factors, partnerships, business processes, achievement of intended outcomes and impacts, etc).

(ii) Financing Plan - A full costing of the Project Portfolio at the time of preparing the MTP (discussed further in section 5 below), and the financing sources for the first year should be elaborated.

Developing the Annual Financing Plan

After developing its three year rolling plan, each CGIAR Center is required to present a detailed and realistic forecast of the financial resources that it believes will be available to finance the first year of the rolling three-year MTP. This forecast is based on a combination of historical trends, continuing dialogue and commitments from Members and potential Members, updated information from specific Members, as well as System-level and exogenous trends and developments. Therefore, development of a realistic financing plan requires an integrated approach involving management, finance, resource mobilization and program implementation units. The financing plan should be consistent in outline and content with the standard set forth in CGIAR Financial Guidelines No. 4 (Resource Allocation). Center financing plans are approved as part of an overall CGIAR Financing Plan at the CGIAR's Annual General Meeting.

Further Materials

Guidelines for Preparing 2007-9 Medium Term Plans and 2007 Financing Plans Science Council Secretariat and CGIAR Secretariat, January 11 2006. Updated annually.

Section V Element 2 – Resource Allocation

Annual Operating Budget

Introduction

Simultaneous with the preparation of the annual financing plans, detailed budgets are prepared for each of the Center activities and service units for the coming year. Budget schedules indicate the expected financial performance of each of these projects and units. In addition each Center prepares a detailed schedule setting out expected income (both donor and Center generated) for the coming year. The detailed budgets should be in line with the financing plan.

Reasons for Budgeting

Planning: Budgets provide a framework that requires management, program and project leaders and administrative cost center managers to identify their resource needs for the following year. Given the funding modalities of the CGIAR (unrestricted and restricted), it is important to apply the principles of maximizing the application of restricted resources before using unrestricted funds, and setting up a cost recovery system to enable the restricted portfolio contribute its share of institutional costs.

Resource Allocation: Provides the opportunity for Centers to plan and rationalize the use of resources.

Forecasting: Budgets provide the base data necessary to draw up cash flow forecasts.

Performance measurement: Budgets provide one of the yardsticks for measuring performance. The information on actual results against budget can be used to:

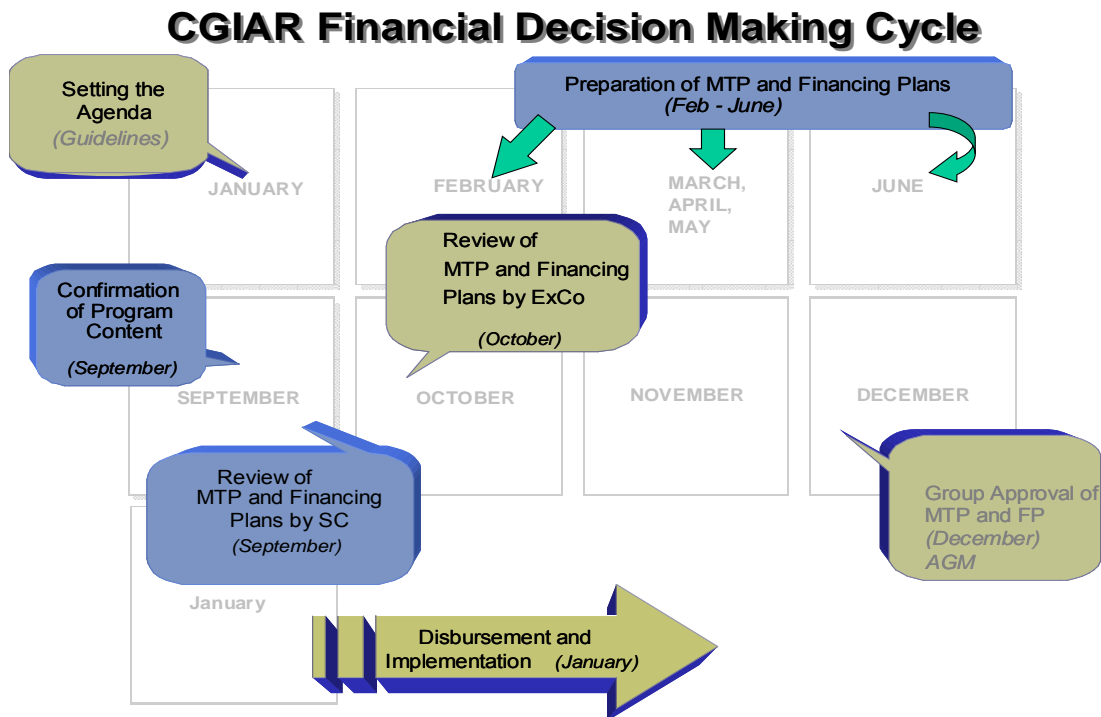
- Take action to correct adverse variances
- Hold managers to account for the results of their activities

Control: Budgets help with control within the Center and provide an objective measure as to whether programs/projects are achieving financial objectives.

The CGIAR Budget Cycle

The typical budget cycle for a CGIAR Center as a whole is presented in Table 4 below. The key processes of the financial decision making cycle are as follows:

Table 4.



- **Setting the Agenda (January):** On the basis of the CGIAR-approved priorities the Science Council (SC) and CGIAR Secretariats issue to the Centers the guidelines for preparing the following year's detailed work plans, budgets and financing plans, and for extending (rolling) the MTP into the next third year.
- **Preparation of the MTPs and Financing Plans (February to June):** Centers prepare their detailed work plans and budgets and, on the basis of interactions with CGIAR Members and other partners, prepare detailed financing plans to support the work plan (and the related project portfolio) and budget for the upcoming year (the first year of the new MTP period). They also update their MTPs, or prepare new ones, as necessary. Following this, the FP and MTP are submitted to the SC and CGIAR Secretariats for review.
- **Confirmation of the Program Content by the Science Council (September):** The objective of the SC's review is to ensure consistency of the MTP and annual work plan with the approved priorities. Concurrently, the CGIAR Secretariat jointly with a collaborating Center (rotated periodically), reviews the financial content of the submissions, to ensure alignment of the programmatic content with the resources that are expected to finance the first year of the MTP. The financial review also looks at the projected cost of the second and third years of the MTP period for reasonableness (detailed financing projections are not required for these two years). The programmatic and financial reviews are summarized for ExCo's review during its fall meeting.

- **Review of Financing Plans and MTPs by the CGIAR Executive Council (ExCo) (October):** ExCo reviews the programmatic and financial summaries, receives clarifications from Centers through the SC and CGIAR Secretariats, and recommends adjustments to the proposals, as necessary. It then recommends the FP and MTPs to the CGIAR for approval at the upcoming CGIAR Annual General Meeting (AGM).
- **Group Approval of FP and MTP at AGM (December):** Based on ExCo's recommendation and their discussion at AGM, the Consultative Group approves the CGIAR Financing Plan (comprised of individual Center plans) for the following year, and the CGIAR's Medium-Term Plans for the following three years.
- **Disbursement and Implementation:** Centers begin implementation of the approved work plan for the new financial year and CGIAR Members and other financial supporters begin disbursement of financial resources. Concurrently, a new planning cycle and reporting on the activities for the year just ended are launched.

Annual Capital Budget

In addition to preparing annual operating budgets, Centers prepare annual physical capital budgets. The budgets indicate a Center's capital needs for the coming year and are prepared in the context of longer-term needs. These needs will have been addressed in the Center's strategic plan and MTP. Like the annual operating budget, the annual capital budget should be prepared from the bottom up but with guidance from senior management.

Capital budgets should be presented by program/project and by administrative service unit cost Center. Centers should situate their annual capital budget within the context of a three to five-year capital planning horizon. As a rule of thumb, Centers should aim to renew their capital base by an amount approximately equal to the annual depreciation charge. Typically, in the CGIAR, capital budgets are financed from reserves. For management purposes, this component of reserves is earmarked as a "reserve for capital acquisitions", which is funded through set-asides of funds equivalent to annual depreciation charges and sometimes other designated funds. In rare instances capital projects are funded through restricted grants from Members specially earmarked for these purposes.

Cash flow Analysis

An essential element is to ensure that the Center has sufficient cash to meet its obligations on a day-to-day-basis. This requires monitoring and forecasting cash flows from both income and expenditure streams. An annual cash flow analysis should be prepared for at least a twelve month horizon and updated regularly throughout the year. Monitoring and working capital management is discussed further in Section 6 below.

Section VI Element 3 – Management Monitoring and Internal Reporting

A. Financial Information Systems

Computerization and Information Management

The CGIAR Centers use information and communications technology (ICT) extensively for both scientific and business purposes, and ICT is critical for effective global connectivity within and between the Centers, and with their partners and investors. Each Center governs its ICT policies and management, but there is a growing trend of collective action, harmonization and shared services among the Centers concerning ICT. This agenda is promoted by the CGIAR Chief Information Officer (CIO) and the Center ICT Manager community.

ICT plays an important role in improving the quality, timeliness and accessibility of financial information. Selecting and implementing new accounting software is a critical business decision that carries considerable risks if the wrong decision is made.

Selection and Implementation of Accounting Software

Internationally there have been a number of system investments decision-making and system design methods developed to provide organizations with a framework for the sequence of analysis of requirements, design and implementation of new accounting information systems. These have an overall objective of ensuring that new computer systems are acquired, customized and/or developed economically and are fit for purpose. Guidelines for the seven steps in selecting and implementing new accounting software are summarized below.

- 1. Project planning and organization:** A project team should be selected and provided with clear terms of reference. The team should include financial, IT technical staff and business users. At the outset the project objectives, scope, and overall approach should be established, and a project implementation plan drawn up. The project team should be led by someone with successful experience in managing IT projects and, where necessary, supported on a consultancy basis with a knowledgeable implementation partner.
- 2. Systems strategy (also known as the feasibility stage):** The team should ensure that the specifications for any new accounting software are consistent with the overall IT strategy of the Center. At this stage the Center should evaluate all acquisition options, including the harmonization and convergence of systems with other Centers. In particular, it should:
 - Establish the status of existing systems; in particular what problems associated with the current environment are to be resolved by the new system;
 - Determine the overall target system's structure;
 - Outline the key functional information requirements;
 - Consider the potential use of some or all of the existing hardware;

- Determine the budget;
- Outline change management and training needs; and
- Address points for immediate and short-term action.

The team should reach consensus on information needs and provide managers and all main users with details on the scope, scale, and approximate budget for the new software.

3. **Statement of system requirements:** To assist management to make a sound choice, a number of business system options, each describing the scope and functionalities by a particular development/implementation approach are prepared and presented. Detailed requirements for the software and criteria for selection of vendor should then be established. The requirements will form the basis for a formal invitation to tender (ITT), which will be sent to vendors to obtain detailed quotations.
4. **Evaluation:** The proposals received from the suppliers should be evaluated against pre-identified technical selection criteria for accounting software, which typically would include:
 - multi-dimensional reporting capability;
 - multiple currency facility;
 - ease of use;
 - flexibility of modules to meet the Center's business needs, including availability of automated workflow and report generation modules;
 - ease of interface with other Center systems which will not be replaced by this system, and which will provide or use data in the accounting system;
 - ease of implementation in multiple regional locations as well as Center headquarters;
 - audit trail and audit query functionality;
 - quantity, quality and location of vendor support; and
 - customer references;
 as well as price.
5. **Final selection** – The final selection process should begin with software demonstrations by short-listed suppliers. Following these demonstrations, more detailed demonstrations using the Center's own test data maybe useful, together with discussions to resolve outstanding issues. Following these investigations, a preferred supplier will be chosen based on greatest responsiveness to the selection criteria.
6. **Implementation** -- Project managers from the Center and the software supplier manage the implementation of the project, under the oversight of a project steering committee. A detailed implementation plan should be prepared and monitored through regular, minuted project team progress meetings. Critical to the success of the implementation are the involvement of the supplier and Center staff during the final systems design. Also important is the preparation and execution of comprehensive project quality assurance, testing and acceptance, and Center personnel training plans.

7. **Post-implementation review** - A few months after implementation of the software, a post-implementation review should be performed to provide assurance that the system's performance, integrity and security meets the planned standards, identify potential areas of improvement in the system based on experience to date, confirm that the system is meeting users' expectations, and identify early on any further user training requirements.

Center internal and/or external auditors should desirably be involved in the various stages summarized above to provide timely advice on project management and system internal control considerations.

Business Continuity

Many Centers operate in locations where the risks to operations due to natural disasters or political turbulence are heightened. All Centers rely heavily on the ongoing availability of information and communication technology (ICT) for their operations.

As part of Center business continuity management activities, appropriate measures should be implemented to back up all important financial information systems software and data, and have alternative locations identified for transaction recording and financial reporting in the event of emergencies. The availability of financial systems and information will be factored highly in Center business continuity plans to support the continuity or re-start of operations in the event of disaster events, and ensure the Center can continue to meet its financial reporting obligations effectively and without undue strain in such situations.

B. Internal Control Framework

Internal control is broadly defined as a process - affected by the Center's Board of Trustees, management and other personnel - designed to provide reasonable assurance regarding the achievement of the Center's objectives in the following categories:

- Effectiveness, efficiency and economy of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

The framework therefore covers, but is not exclusively restricted to, financial controls, and is applicable to the full extent of a Center's activities which in one way or another represent a use of the Center's human, financial, physical and other resources. The first category above addresses a Centers' basic business objectives, including performance goals and safeguarding of resources. The second relates to the preparation of reliable published financial statements. The third deals with complying with those laws and regulations to which the Center is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs.

The COSO Framework

CGIAR endorsed the definition of internal control as defined by the Internal Control Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). It provides a common definition, originating in the United States but used quite widely in many CGIAR member countries, by which Centers can assess their internal control systems and determine how to improve them. In the context of Center risk management, the COSO Framework is the organizing framework by which the adequacy of internal controls in place to address the identified risks can be evaluated and reported.

Typical financial management-related risks encountered by Centers include operational shortfalls due to liquidity problems, lack of sufficient reserves to finance replacement of enhancement of capital assets, loss of funds from poor investment decisions, financial institution failures and exchange rate volatility, misappropriation of funds, surprise budget overruns, and fraudulent financial reporting.

Internal control consists of five inter-related components below. They are derived from the way management runs a Center, and are integrated with the management process. Although the components apply to all Centers each Center may implement them differently:

- Control Environment,
- Risk Assessment,
- Control Activities,
- Information and Communication, and
- Monitoring.

Controls may be less formal and less structured, yet a small Center can still have effective internal control. Each element of the internal control framework is discussed in Table 5 below:

Table 5. The Five Components of COSO

Control Environment

Control environment sets the tone of a Center, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the Center's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the Board of Trustees.

Risk Assessment

Every Center faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is the establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the Center's objectives. Control activities occur throughout the Center, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Information and Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the research activities. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the Center. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as donors, collaborators, and other stakeholders.

Monitoring

Internal control systems need to be monitored, a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the Board of Trustees.

Although finance managers have always had the primary responsibility for establishing and maintaining appropriate financial controls, managers throughout the Center's should assume responsibility for implementing these controls as well.

Internal controls are defined in Section 4 of CGIAR's Audit Policies and Procedures, Financial Guidelines Series No. 3; (see page 39 in particular).

Source: Committee of Sponsoring Organizations of the Treadway Commission

Risk management

The development of an adequate financial management system within the Centers' is a key element to ensuring that financial risks are adequately managed. A systematic approach to internal controls therefore ensures:

- Adequate funds are available to meet medium term plans and short-term obligations;
- Compliance with financial obligations to staff; and
- Compliance with financial reporting obligations.

CGAIR Centers manage opportunities and risks systematically through an enterprise risk management process which is led by Center management. However because of the professional background of financial staff they can often become champions of the process along with the internal audit unit. A detailed discussion of the various elements of enterprise risk management goes beyond the remit of FG1⁴.

C. Internal audit

Introduction

The CGIAR Centers receive internal auditing services from a global network of internal audit professionals. The network comprises:

- full-time staff recruited both centrally, through the CGIAR Internal Auditing Unit, and through particular Centers;
- expert international and local short term consultants.

As well as providing services to individual Centers, the CGIAR Internal Auditing Unit - as a CGIAR System Office unit - provides professional leadership to the network and internal audit services for CGIAR System-wide programs and initiatives; coordinates internal audit activities with other review activities and special initiatives within the System; and works closely with the other System Office units to promote good governance, risk management, internal control and accountability within the CGIAR System. Internal audit services are conducted in accordance with medium term and annual work plans. The Unit is headquartered at the International Rice Research Institute in Los Banos, Philippines, although some of its staff is hosted in other Centers as well.

Internal Audit Work

Internal audit services to the Centers cover a wide range of functions including reviews of non-financial aspects of Center activities. With regard to financial management, internal audit may:

- review of the accounting system and related internal controls, monitoring of their operation, and recommendation of improvements; Examples of areas which could be the subject of specific audits include accounts payable and expenditures, accounts receivable and revenue, treasury functions (investments, bank accounts, cash flow management and protection of cash on hand), payroll processing, accruals and provisions, and use of designated reserves;
- examine financial and operating information for management, including the means by which financial and operating information is identified, measured, classified, and reported. This may include inquiry into individual items, including detailed testing of transactions, balances, and procedures;
- evaluate the economy, efficiency, and effectiveness of the use of Center resources;

⁴ The CGIAR Internal Auditing Unit will shortly (as at July 2006) issue a revised Good Practice Note on Enterprise Risk Management.

- assess business continuity arrangements;
- review of the implementation of corporate policies, plans, and procedures; and
- conduct special investigations (e.g. fraud protection and detection).

The Different Roles of Internal and External Audit

The external auditors are responsible for forming an independent opinion on the financial statements and are responsible for ensuring that they undertake appropriate audit procedures to enable this according to international standards. The external auditors' work focuses on reviewing the risk of material misstatement in the Center's annual financial statements. Internal auditor's work focuses on other risks not covered by the external audit. There is a mutual interest by the external and internal auditors to ensure that there are no important gaps in review coverage across the range of risks facing the Centers. However, from time to time more in depth testing of financial transactions by internal audit may be requested by Centers to help prepare for, or support, the external audit. A typical area where this is the case is the audit of the controls over, and reporting on, financial activities and fixed asset holdings in locations outside Center headquarters.

Internal Audit Reporting

The internal auditor has a dual reporting line to the Director General of the Center and the Audit Committee of the Board of Trustees. To maintain independence, the internal audit activity should not report directly to the chief financial officer or director of finance. The internal auditor should have access to the Board of Trustees and best practice would be for the internal auditor to participate in the Finance/Audit Committee meetings, and meet at least annually with the Finance/Audit Committee with management not being present at the meeting.

D. Performance measurement and monitoring financial health

Introduction

The Consultative Group on International Agricultural Research (CGIAR) introduced a Performance Measurement (PM) System in 2004. The PM system uses eight performance indicators: four refer to results of the work of each Center, and four refer to the Centers' potential to perform (see box below).

The PM System is designed to serve multiple purposes, but the primary objective is to promote and enhance Center performance and accountability. It will be an important tool for performance management used by the Centers to stimulate learning and change and serve as an input to decision-making by CGIAR Members and the CGIAR System.

Results	Potential to Perform
<ul style="list-style-type: none"> • Outputs • Outcomes • Impacts • Stakeholders perceptions 	<ul style="list-style-type: none"> • Quality of research and managerial staff • Quality and relevance of programs • Institutional health (diversity, culture of learning and change, governance) • Financial health

The rest of this section discusses the common financial information and performance measures used by Centers to evaluate Center financial health and make risk management decisions.

Financial health – a key to managing risk

A key element of risk management is making good decisions. Good decision-making depends on accurate information and proper analysis. By building financial health measurement into management reporting, Centers are more likely to address at an early stage emerging adverse financial trends, and to analyze and act on the causes rather than addressing only the symptoms.

Using financial indicators

Centers should evaluate their financial health over time. Comparing financial statements from past years is useful because it reveals trends or patterns. Balance sheets reveal changes in liquidity and long-term financial stability and therefore exposure to risk; statements of activities reveal trends in operational surpluses or deficits; and cash flow statements can help the Centers understand the timing of cash availability and needs.

The information from these three key elements of the financial statements can be used to prepare additional financial measures that reveal the financial strengths and weaknesses of the Centers. These can be used to make several comparisons. First the current performance can be compared to its historical and budgeted performance. This comparison helps the Centers understand how and why the actual outcome of the Center differs from what they had expected. Second, the Center's performance can be compared to that of its peers, to determine its relative status. The key is to identify why differences between the Centers occur and take appropriate action. The advantage of drawing indicators directly from the financial statements is that the figures used in the calculations are independently audited.

Financial Health Indicators in the CGIAR Performance Measurement (PM) System

1. Short term solvency (liquidity)

This indicator measures the ability of an organization to meet its short-term obligations which are generally requiring settlement in cash or similar liquid assets. It is computed as the total of current assets plus long term investment minus current liabilities, divided by per day operating expenses excluding depreciation. Long-term investments are

included because the types of such investments made by CGIAR Centers can be liquidated before their term is ended (albeit at a cost).

2. Long-term financial stability (adequacy of reserves)

This indicator measures the ability of an organization to respond to new opportunities or risks arising from changes in its operating environment, such as breakthroughs in research or unexpected changes in its funding base. Without a financial cushion (i.e., reserves) a Center will lack the flexibility to respond to these changes appropriately. The indicator is computed as the total of unrestricted net assets less net fixed assets, divided by per day operating expenses.

3. Indirect cost ratio

This ratio seeks to measure how much research program activity a Center is able to support on its institutional cost base. This indicator is computed and audited⁵ as the ratio of indirect costs to direct costs (indirect costs divided by direct costs) expressed as a percentage.

4. Cash Management of Restricted Operations

This indicator measures the extent to which a Center pre-finances its restricted portfolio (which affects its overall cash flow). It is computed as the amount of restricted donors' accounts receivable divided by the amount of restricted donors' accounts payable, expressed as a ratio.

The indirect cost ratio and the cash management or restricted operations were piloted in 2006 and have been adopted in the PM System

Other Indicators under consideration for the PM System.

5. Audit Opinion

The external auditor's opinion on the Center's financial statements indicates whether the Center's financial accounting and reporting processes meet required standards. Depending on the nature of any qualification made, it may indicate financial "going concern" issues, the ability of the Center to account of its financial or physical assets, or the appropriateness of computations and estimates used in preparing the financial statements. Although an unqualified opinion does not provide absolute assurance about the reliability of the financial statements, a qualified opinion indicates an increase in the risk that the statements do not fairly present the true financial picture of the Center.

⁵ See Financial Guideline No. 3.

E. Treasury Management

Introduction

Treasury management is concerned with

- managing short term liquid assets (i.e., ensuring there is sufficient cash to run operations on a day-to-day basis),
- investment management (i.e., investing surplus cash so as to maximize investment returns while staying within acceptable risk parameters), and
- management of foreign currency transactions.

Liquidity

Liquidity measures the ability of a Center to meet its financial obligations as they come due, without disrupting the normal ongoing operations of the Center. The CFO will ensure that the Center has sufficient cash to meet its obligations on a day-to-day-basis and that future debt maturities are matched by the rate that Center assets need to be converted to cash. Centers must be able to monitor and predict cash flows from both income and expenditure streams.

An annual cash flow analysis should be prepared for the coming year and updated regularly. Centers will monitor cash flows constantly. In general, a four-week rolling forecast should be sufficient to provide an early warning of any potential cash flow problems.

Investments

Many instruments are available for investing surplus funds. In general, the instrument selected should balance:

- Security of principal amount,
- Flexibility or liquidity,
- Return,
- Risk, and
- Ease of operation.

The most common instruments include deposit accounts with banks, money market accounts with banks or through money brokers, term deposit accounts with banks and financial institutions, certificates of deposit issued by banks and financial institutions, commercial paper issued by large corporations and financial institutions, government bonds or equity-based investments.

In general, Center investment policies should be conservative, taking into account the ratio of risk and return on investment of what amounts to public funds, and in recognition that funding given by investors is for operations, not for investment. However, Centers

will have surplus cash reserves, and a formal investment policy approved by the Board of Trustees sets out how those funds should be invested. Through this policy the Board delegates authority to carry out investments within defined risk parameters. The CFO should draft the policy and present it on behalf of Center management to the Finance/Audit Committee for endorsement and the Board of Trustees for approval.

The investment policy should set out:

- the objectives of the investing activity;
- the basis for selecting between short-, medium- and long-term investment instruments;
- criteria to be used for determining such matters as the selection of financial institutions, and the degree of concentration of investments in any one financial institution or in any one type of instrument;
- requirements with regard to the minimum quality of instruments to be selected for investments, and principal protection;
- manner in which proposed investment transactions will be controlled within the Center (review and approval processes); any financial limits above which investment transactions require pre-approval, consultation or reporting to the Finance/Audit Committee or Board; and
- Requirements for reporting of investment activities to the Finance/Audit Committee and Board.

Management of Foreign Currency Transactions

For CGIAR Centers, foreign currency transactions refer to receipts or payments in currency other than US Dollars, which is the standard currency used for Center-wide budgeting and reporting purposes. A key issue is managing the exchange rate volatility in Center operations which arise from the receipt of grants and expenditure of funds in many different currencies. This volatility can be managed in two ways. Firstly Centers can translate all non-US Dollar receipts or payments into US Dollars at the time they occur. This approach still leaves the Center with a currency exposure, however it is simple to administer and may be an acceptable approach for small amounts of foreign currency transactions. The assumption underlying this approach is that currency gains and losses will cancel each other out over a four- to five-year period.

The second approach is to fix the US Dollar value of foreign receipts and payments at the time of exposure i.e. at commitment. This provides greater operating stability. Each approach and some combination of the two approaches have advantages and disadvantages. A Center's approach to foreign currency transactions should be addressed as part of its treasury management functions.

Three approaches to avoiding exposure to fluctuating exchange rates are to:

- Incorporate currency adjustments clauses in contracts;
- Create natural hedges for exposure; and
- Purchase hedging instruments.

The first approach may not always be open to CGIAR Centers. The second requires matching of inflows/outflows by currency may be practical in some cases. Under the third approach, Centers can purchase a hedge by using the forward market to buy or sell the currency forward or by using options to add flexibility. Options increase the cost of hedging because the option premium includes compensation to the option writer for accepting the uncertainty of the transaction's outcome, but they can be used to adjust for uncertainties about timing or amount. The option holder can leave the option unexercised if either the value or the timing is not advantageous. Each Center must decide whether a program of currency hedging should be implemented and, if so, whether hedging should be accomplished with forward contracts or options.

F. Management Financial Reporting

Introduction

The main objective of internal financial reporting is to help the Center management plan and monitor their financial performance against agreed objectives and achieving internal performance targets. The Centers' responsibility for book keeping, accounting and financial reporting rests with the finance division.

Management accounts must reflect operational complexity yet remain simple enough to be understood by users (e.g. researchers) who have a non-financial background. Much of management accounting is concerned not only with production of financial information but also with analysis, investigation and forecasting of financial data.

Characteristics of Good Management Financial Reporting

As a result, the design of internal financial reports should reflect the needs of business users and will vary from Center to Center. They should reflect project expenditure for each project or sub-project as well as each administrative and research support cost Center.

Effective management financial reporting comprises:

- Production of timely, relevant, and accurate management accounts;
- Communication of those accounts in an effective manner;
- Comparison of actual and budgeted expenditures;
- Analysis of the reasons for significant variances;
- Analysis of longer term historical trends as a means of accessing future developments;
- Recommendations for corrective actions.

Monthly management accounts should be prepared by each Center. Actual expenditures should be measured against budgeted expenditures and any significant variances should be investigated and analyzed in a short narrative report that serves as an executive summary.

Criteria for high-quality management information

High-quality management information meets the following criteria:

Precision. Information should be sufficiently precise to meet the needs of its users. There is the need for balance between the reports being accurate enough to be useful, and preparing reports without delay or excessive cost.

Adequacy. The data presented should be sufficiently complete and contain enough detail to enable the reader to interpret the data. A narrative summary and the use of graphs can be particularly helpful for users who may not have a financial background.

Reliability. The information presented on a month-to-month basis must faithfully reflect the actual financial transactions and be consistent.

Timeliness. Information must reach users in time for it to be acted upon.

Utility. The information must be useful for decision making and summarized to highlight key issues. Reports with masses of information that is not well organized for users according to their needs may not be effectively used. Modern information systems with their ability to process and output data in enormous volumes and at great speeds have magnified this problem.

Economy. The benefits of producing the financial information should outweigh the costs.

Readability. The financial reports produced should be clearly set out and straight forward for users so they can interpret the key messages.

Further Materials

Good Practice Note on Enterprise Risk Management, CGIAR Internal Auditing Unit;
Good Practice Note on the Development, Acquisition, Implementation and Maintenance
of Application Systems, CGIAR Internal Auditing Unit;
Good Practice Note on Internal Audit Charters, CGIAR Internal Auditing Unit.

Section VII Element 4 – External Financial Reporting

Introduction

The primary financial report prepared by Centers is the annual financial statement. These statements are independently audited by a public accounting firm. The principal objective of the audit is to provide assurance to the Board of Trustees, CGIAR Members and other existing or potential donors to the Center, and other stakeholders, that the statements accurately presents the financial results of a Center for the year, its financial position at the year end, and its cash flows during the year. Regulations with regard to the audit of annual financial statements are found in Audit Policies and Procedures, (Financial Guidelines Series No. 3).

Accounting Policies and Reporting Practices

All Centers are required to follow the detailed guidelines set out in the Accounting Policies and Reporting Practices Manual (Financial Guidelines Series No. 2). The Manual provides all CGIAR Centers with guidance on the preparation of financial statements to be issued for fiscal years beginning on or after January 1, 2004.

An objective of the guidelines is to develop a standard set of accounting policies and reporting practices that support the ongoing process of greater harmonization of the Centers' Annual Financial Statements. Standardization enhances the relevance, understandability and comparability of financial statements issued by all Centers within the CGIAR so that the common needs of all users of these statements are met.

In the period since the last review of the manual, there has been significant international support for the wider adoption of International Financial Reporting Standards (IFRS)⁶ as issued by the International Accounting Standards Board (IASB)⁷. In particular, the multilateral development institutions and other international organizations, have actively called for the adoption of IFRS in preference to country specific standards in order to improve the transparency and comparability of financial statements on a global basis.

⁶ IFRS includes standards and interpretations approved by the IASB together with International Accounting Standards (IAS) and Standard Interpretations Committee (SIC) interpretations issued under previous constitutions of the International Accounting Standards Committee.

⁷ The IASB's objectives are:

- (a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in general purpose financial statements and other financial reporting;
- (b) to promote the use and rigorous application of those standards; and
- (c) to work actively with national standard setters to bring about convergence of national accounting standards and IFRS to high quality standards.

In recognition of the expressed preferences of the international finance community, the international status of the Centers and the international nature of their numerous stakeholders, the CGIAR finance community agreed that the guidelines set out in the manual should require Centers to fully adopt and comply with the relevant IFRS, subject to the following clarifications:

1. Existing IFRS do not specifically cover issues that are unique to, yet important for, not-for-profit organizations. Where this is the case the Manual has incorporated other widely used standards which do (such as FAS 117 of the United States' Generally Accepted Accounting Principles).
2. IAS 1, paragraph 4, provides that "Non-profit, government and other public sector enterprises seeking to apply this standard may need to amend the descriptions used for certain line items in the financial statements and for the financial statements themselves. Such enterprises may also present additional components of the financial statements." In line with this provision Centers' apply descriptions that more closely reflect the nature of their activities than those set out in IFRS.

Contents of financial statements

The annual financial statements contain four basic statements:

1. **Statement of Financial Position:** This reports a Center's financial status at a set date noted on the statement. The statement is like a snapshot because it shows the asset and liabilities at that set date.
2. **Statement of Activities:** Shows the revenues received by the Centers and expenditures made during the year ending on the set date.
3. **Statement of Changes in Net Assets:** Shows the movement in net assets between the previous year's set date and the current set date.
4. **Statement of Cash Flows.** This provides a basis to assess the ability of the Center to generate cash and cash equivalents during the year, and how those cash flows have been utilized during the year.

Samples of these statements are presented in the CGIAR's Accounting Manual (Accounting Policies and Reporting Practices No. 2 of the Financial Guidelines Series).

In addition to the primary statements, a Center's annual financial statements should also include various notes that:

- Explain the accounting policies that have been applied to calculate the figures disclosed in the statements;
- Analyze significant amounts that appear in the statements by useful components; and
- Provide details on events that have had an effect on these amounts.

External auditors should ensure that a Center's financial statements have been prepared and are in agreement with Financial Series Guidelines No. 2.

Further Materials

CGIAR Accounting Policies and Reporting Practices: Financial Guideline No 2.;
CGIAR Audit Policies and Procedures: (Financial Guidelines Series No. 3).