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**INTERNATIONAL RENEWABLE ENERGY AGENCY**

Sixth meeting of the Council

Abu Dhabi, 10 – 11 December 2013

**Report of the Director-General on the Activities  
of the Internal Audit Office**

1. This report on the Internal Audit Office activities is presented pursuant to the Interim Financial Regulations 12.4 (b) which provides that “The Director-General shall report to the Council at each session on internal audit recommendations and actions taken.”

2. Regulation 12.1 of Article 12 of the Interim Financial Regulations on Internal Oversight states that, “The Director-General shall establish an internal oversight mechanism which covers internal audit, evaluation, investigation and other management support to strengthen the functioning of the organization. The internal oversight mechanism shall exercise operational independence in the conduct of its duties under the authority of the Director-General, and will be responsible for:

- (a) providing assurance that programmes and plans are delivered effectively, that strategic management information is reliable and timely, and that continuous improvements are fostered in methods and procedures so as to enhance the quality of the Agency’s operations; and
- (b) identifying major risks for the Agency and to propose remedial action to minimize such risks.”

3. The Internal Audit Office was formally established with the appointment of the Internal Auditor who took office on 15 April 2013. The position was filled based on a thorough evaluation of over 250 applicants who responded to the vacancy for the post Internal Auditor P4 (VA Number HR/VA/2012/O/3808) which was advertised on the IRENA website on 21 November 2012.

4. The Internal Auditor prepared, and the Director-General approved the Internal Audit Charter which came into effect on 8 July 2013. It is attached as Annex I for information of the Council. The Charter sets out the internal audit purpose, authority and responsibility. It defines the mission, independence, objectivity, scope of work, and accountability of the Internal Audit Office consistent with the Definition of Internal Auditing, the Code of Ethics and International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

5. The internal audit activities for the year 2013 are specified in the approved Internal Audit Plan, as required by the Internal Audit Charter. The planned activities were agreed upon directly with the Director General to preserve the integrity and confidentiality of the process. The audit areas were identified based on the Internal Auditor's initial risk assessment, review of the External Auditor's report, analysis of the financial statements and IRENA's work programme. The internal audit covers selected accounts and financial transactions of IRENA for the financial year, including validation of the implementation of the recommendations of the External Auditors.

6. In support to the oversight function of the Director-General, the Internal Audit Office conducted a follow-up on the implementation of the External Auditor's recommendations. The objective of the review was to evaluate the status of the actions taken to address the issues identified by the External Auditor and to identify the improvements made in the system. The Internal Auditor conducted recalculations, interviews, review of accounting entries and verification of the underlying documents. The results of these validation procedures showed the following actions taken on the recommendations made by the External Auditor:

**a. Voluntary contributions**

*“IRENA on a regular basis provides the relevant documentation in this respect to avoid offsetting for amounts pending clarification.”*

Review of the documents pertaining to the External Auditor's recommendation showed that letters requesting confirmation on the voluntary contributions were already sent to the Members and the outstanding confirmation letters were received.

**b. Accruals**

*“IRENA establishes routines which will improve the internal control function within these areas.”*

On the findings relating to miscalculations of accruals on the repatriation, leave pay, relocation and education grants, verification by the Internal Auditor showed that these were mathematical and bookkeeping errors which occurred due to the current manual accounting system in preparing the report and the absence of a review process. These errors were corrected and necessary adjustments to the financial statements were made accordingly.

**c. Assessed Contributions**

*Present Annex I “in a more informative way in terms of columns that easily show the assessed contribution for each member state for prior and current periods, adjusted for the actual payment made by the member state. Any differences between the actual payment and the assessments should be presented either as dues or overpayments.”*

The recommendation of the External Auditor on the presentation of the assessed contributions has been implemented in the Financial Statements for 2012 showing separate

columns for the prior and current periods and the difference between actual and assessments as dues or overpayment.

**d. Payroll-Transfers to Provident Fund**

*“The amount transferred to the Provident Fund for each month should be directly traceable to the underlying salary sheets and Provident Fund calculation.”*

The Internal Auditor has validated that the External Auditor’s recommendation that the monthly amount of the Provident Fund calculated and transferred is now traceable to the underlying salary sheets and calculations.

**e. Procurement**

*“[s]trongly underline the importance of starting the procurement process in proper time to ensure required health insurance coverage based on real competition among providers.”*

Verification of documents showed that the Procurement Office has started the process as early as July 9, 2013 which is more than six months before the expiration of the current contract with the Health Insurance provider.

*“IRENA establishes a procedure to make sure that committed guarantees are fulfilled in accordance with the initial agreements.”*

A process was put in place to ensure full compliance of the provisions of the contracts.

7. An important component of the Internal Control System is risk assessment. One of the priorities of the Internal Audit Office is to assist the Director-General in ensuring that a formal risk management mechanism for IRENA is in place. IRENA, being a new organization, is in the process of both identifying the risks, as well as finding an optimal way of managing such risks. The managers are aware of the uncertainties within their spheres of responsibility, which they discuss in senior management meetings and address in programmatic activities. However, the Internal Auditor recommended, and the Director-General agreed that a risk management plan should be developed and designed to prioritize or classify the risks and manage, eliminate, or reduce critical or major risks to an acceptable level. Guidelines for a more structured risk management and reporting are currently under development.

8. At present, the Internal Auditor is also evaluating the adequacy of internal controls in the payroll, travel and procurement systems and assessing compliance with related rules and regulations consistent with legislative requirements and relevant policies and procedures.

9. Internal audit report will be provided to the External Auditor pursuant to 12.4 (c ) of the Interim Financial Regulations which provides that “the internal auditor shall submit a comprehensive, independent annual report to the external auditor of recommendations made and actions taken, which shall be considered by the external auditor.”

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**DIRECTOR-GENERAL**

DG/DR/2013/H/5354  
ST/Directive/2013/3  
8 July 2013

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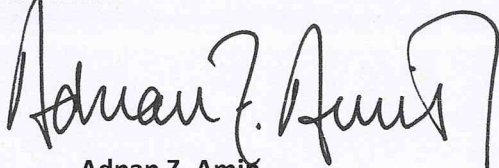
**DIRECTIVE**

**Internal Audit Charter**

The Director-General hereby promulgates the Internal Audit Charter pursuant to Article 12 of the Interim Financial Regulations.

This Internal Audit Charter sets out the internal audit activity's purpose, authority and responsibility. It also defines the mission, independence, objectivity, scope of work, and accountability of the Internal Audit Office (IAO) in conformity with the Interim Financial Regulations and consistent with the International Standards for the Professional Practice of Internal Auditing.

The present directive is effective as of the date of issuance.



**Adnan Z. Amin**  
Director-General



# **INTERNAL AUDIT CHARTER**

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**INTERNATIONAL RENEWABLE ENERGY AGENCY  
INTERNAL AUDIT OFFICE  
AUDIT CHARTER**

**I. INTRODUCTION**

The **International Renewable Energy Agency (IRENA)** is committed to become the leading international centre of excellence for renewable energy and a platform for exchange and development of renewable energy knowledge. IRENA's work is guided by the principles of efficiency and transparency in delivering the organization's services. In this light, the Director-General established an internal oversight mechanism which covers internal audit, evaluation, investigation and other management support to strengthen the functioning of the organization pursuant to Regulation 12.1 of Article 12 of the Interim Financial Regulations for the IRENA.

This **Internal Audit Charter** sets out the internal audit activity's purpose, authority and responsibility. It defines the mission, independence, objectivity, scope of work, and accountability of the **Internal Audit Office (IAO)** consistent with the Definition of Internal Auditing, the Code of Ethics and International Standards for the Professional Practice of Internal Auditing (Standards) promulgated by the Institute of Internal Auditors (IIA).

**II. MISSION**

The Internal Audit Office aims to provide an independent, objective assurance and consulting activity designed to add value and improve IRENA's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the efficiency and effectiveness of risk management, control, and governance processes.

**III. INDEPENDENCE AND OBJECTIVITY**

Interim Financial Regulations 12.1 provides that the internal oversight mechanism shall exercise operational independence in the conduct of its duties under the authority of the Director-General. To safeguard its independence and objectivity, the IAO shall not be involved in the routine transactions or daily operations of IRENA. Internal auditors shall have no direct responsibility and authority over any of the operational activities under examination. Accordingly, they shall not prepare documents or perform any other activity which would normally be audited.

The IAO shall not participate in the implementation of internal control systems but may be consulted on the adequacy of controls during the development process.

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results including matters relative to audit procedures, frequency, timing or report content to maintain an independent and objective mental attitude necessary in rendering audit reports.

If independence or objectivity is impaired, such as in personal conflict of interest, scope limitations, restrictions on access to records, personnel and property and resource limitations, the details of the impairment must be disclosed to the Director-General.

The internal audit function shall be subject to an independent review or quality assessment by independent professionals such as IIA professional reviewers, or external auditors. Such assessment may be conducted to assess compliance of IAO with its Internal Audit Charter, IIA's Standards and the Code of Ethics.

#### **IV. SCOPE OF WORK**

The scope of the internal audit function covers all programmes, operations and activities undertaken by IRENA, which shall include:

- (a) Conduct of routine internal audit and investigations necessary to maintain transparency and accountability;
- (b) Evaluation and monitoring of the Agency's risk management processes;
- (c) Evaluation of the relevance, security, reliability and integrity of statistical and financial data/information;
- (d) Evaluation of compliance of financial transactions with Assembly decisions, resolutions, approved programmes and other legislative mandates, regulations, procedure and related administrative directives;
- (e) Review of economy, efficiency and effectiveness of financial, physical and human resources management and utilization and of programme delivery;
- (f) Review of operations and programmes to ascertain the extent to which results are consistent with established goals and objectives;
- (g) Examination of the structure of the Agency and its responsiveness to the requirements of programmes and legislative mandates and by conducting management audits;
- (h) Making recommendations on matters arising from audits and monitoring programme manager's response;
- (i) Following up of action taken on the external and internal audit recommendations and approved recommendations of external oversight bodies;
- (j) Rendering advice on appropriate systems of controls and other accounting and operational matters in a consulting capacity;
- (k) Assessment and conduct of special investigations on alleged misconduct such as fraud, theft, embezzlement, corruption and other financial irregularities; and
- (l) Carrying out special audits that may be requested by the Director-General.



The internal audit process, however, does not relieve the programme managers of their responsibilities for the installation, maintenance and improvement of controls in their respective areas.

**V. AUTHORITY**

This Charter authorizes the Head of the Internal Audit Office and members of the audit staff to:

- (a) Decide on the nature, scope and timing of the audits in coordination with programme managers;
- (b) Allocate resources and apply techniques required to accomplish the audit objectives;
- (c) Have full, prompt and unrestricted access to any and all IRENA records/data, information systems and physical property relevant to any function at any time for any purpose;
- (d) Obtain the necessary assistance/cooperation of all IRENA personnel in fulfilling IAO's functions and in providing the auditors the information or explanation as needed;
- (e) Have free and unrestricted access to the Director-General; and
- (f) Obtain competent advice and assistance from specialists/professionals outside of IAO, whenever necessary.

Staff members should inform IAO without delay of any significant incident concerning security and/or compliance with policies, laws, rules and regulations and any suspected fraud.

This Charter precludes the Head of Internal Audit and the internal audit staff from:

- (a) Performing any operational duties for IRENA outside the internal audit function;
- (b) Initiating or approving accounting transactions external to internal audit; and
- (c) Assuming direct operational responsibility or authority over any of the activities under review or audit.

**VI. RESPONSIBILITY**

Interim Financial Regulations 12.1 states that the internal oversight mechanism will be responsible for (a) providing assurance that programmes and plans are delivered effectively, that strategic management information is reliable and timely, and that continuous improvements are fostered in methods and procedures so as to enhance the quality of the Agency's operations; and (b) identifying major risks for the Agency and to propose remedial action to minimize such risks.

**A. Director-General**

IRENA entrusts the supervision of the Internal Audit Office to the Director-General. In discharging his responsibility, the Director-General shall:

- (a) Ensure that:
  - a.1. the internal auditor has the operational independence, objectivity and authority to conduct internal audits, inspections, evaluations, investigations and monitoring;
  - a.2. the internal auditor has free access to all the Agency's records, personnel and property necessary in the performance of the audit function;
  - a.3. IAO conforms with the International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics;
  - a.4. procedures are in place that provide for: direct confidential access of staff members to the internal oversight mechanism, including for the purposes of suggesting improvements for programme delivery or for reporting perceived cases of misconduct; and
  - a.5. staff enjoy protection against repercussions, due process for all parties concerned, and fairness during any investigation.
- (b) Instruct programme managers to provide such information or assistance to the internal auditor as is reasonably required to conduct its work; and act on the recommendations in a timely manner to address the observations raised by the auditors;
- (c) Review and approve the Audit Plan, resource requirements and significant changes thereof;
- (d) Review and approve Audit reports;
- (e) Review and approve the performance evaluation/appraisal of the Head of the IAO and may remove him/her only for a cause, and with the prior approval of the Council.

**B. Head of Internal Audit Office**

The Head of the Internal Audit Office has the responsibility to:

- (a) Prepare an Annual Risk-based Audit Plan consistent with the goals and objectives of IRENA to set direction and approach of audit on an acceptable and manageable audit cycle;
- (b) Implement the approved Annual Audit Plan, including as appropriate any special tasks or projects requested by the Director-General;
- (c) Ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved Annual Audit Plan;
- (d) Maintain a requisite staff with sufficient knowledge, skills and expertise through continuous professional development;
- (e) Review, evaluate and report on the use of financial resources and on the effectiveness, adequacy and application of internal financial control systems, procedures and other relevant internal controls;

- (f) Follow up status of implementation of audit recommendations to ensure that effective remedial measures are promptly taken and draw to the attention of the Director-General any failure of operating management to take remedial action on noted deficiencies/ weaknesses;
- (g) Undertake investigation of significant suspected fraudulent activities within IRENA in consultation with the Agency's Legal Advisor; and
- (h) Develop policies and procedures to guide the internal audit activity, monitor its effectiveness and ensure that the IAO complies with sound internal auditing principles/standards and best practices;

## **VII. ACCOUNTABILITY**

The Head of the Internal Audit Office in the discharge of his/her duties, shall be accountable to the Director-General to:

- (a) Carry out all activities to conduct the audits in an effective, professional and timely manner;
- (b) Provide reasonable assurance regarding the reliability and integrity of financial and operational information, efficiency and effectiveness of operations, safeguarding of assets and compliance with legislative mandates, regulations and rules, policies and procedures; and
- (c) Report to the Director-General any suspected fraud and significant issues related to the processes for controlling the activities of IRENA, including recommendations for improvements of those processes;

## **VIII. REPORTING RESPONSIBILITY**

The Head of the Internal Audit Office shall prepare and issue a written report following the conclusion of each audit on a timely basis. For each report, the relevant programme managers shall be afforded adequate opportunity to consider and comment upon the observations and draft recommendations. It shall include their response and corrective action taken or proposed actions and corresponding timetable. The Internal Auditor shall inform the Director-General of the programme manager's decision to assume the risk of not correcting the reported conditions, if any.

The Audit Report shall be addressed to the appropriate level of IRENA management who shall implement the agreed recommendations and shall be submitted to the Director-General for approval. A copy of the approved Audit Report is furnished to concerned parties who are in the position to ensure that corrective action is taken. Copies of all reports and accompanying comments by the Director-General shall be provided to the External Auditor. Moreover, the Director-General shall report to the Council at each session on internal audit recommendations and actions taken.

The Head of the IAO shall prepare and submit an Annual Audit Report to the Director-General on the internal audit activity's performance, significant risk exposures and

control issues including deviations from approved audit work schedules, staffing plans and financial budgets and the reason/s therefor. It should highlight significant engagement observations and recommendations. It should also include detailed reason/s for any agreed recommendations not implemented within the committed timetable. A comprehensive, independent annual report shall be submitted to the external auditor of recommendations made and actions taken, which shall be considered by the external auditor.

Matters that, in the judgment of the Head of Internal Audit Office, present material risk to the Agency, and which are not addressed through the report of the Director-General, shall be immediately forwarded to the Chair of the Council, accompanied by relevant documentation, including any correspondence with the Director-General.

**IX. PERIODIC ASSESSMENT**

The Head of the Internal Audit Office shall periodically assess whether the purpose, authority and responsibility, as defined in this Charter, continue to be adequate to enable the internal auditing activity to accomplish its objectives. He or She shall inform the Director-General of emerging trends and successful practices in internal auditing and give recommendations for necessary revisions in the Internal Audit Charter. The Director-General shall review and approve the proposed amendments as appropriate.