

**Critical Ecosystem Partnership Fund
Twenty-Seventh Meeting of the Donor Council
Arlington, Virginia, USA
Wednesday, 24 June 2015
8 a.m. – 11 a.m. EDT**

New basis of presentation for CEPF's annual audit

Recommended Action Item:

The Donor Council is asked to approve the recommendation of the Secretariat to present the fund accountability statement in the annual CEPF audit in accordance with Conservation International's new accounting policy for grants.

Background:

In terms of section OM 2.1 of the Operational Manual, a separate audit on CEPF's records, accounts, and financial statements is undertaken annually. The purpose of this external audit is to provide assurance on the financial statements of CEPF. In addition, the audit tests CEPF's compliance with certain provisions of the CEPF Financing Agreement and CEPF Operational Manual and consideration of its related internal controls. This external CEPF audit is conducted by independent auditors. McGladrey LLP are the current auditors. The audited financial statements and management letter are presented to CEPF's donors within five months of the end of the fiscal year by November 30 of each year.

With effect from 1 July 2014, CI changed its accounting policy for recording grant expenses. Prior to the change, in previous fiscal years up to the end of FY14, grants to external partners were fully expensed when the grant agreement was signed. The CEPF audited financial statements were presented on this basis. Under the new accounting policy that applies for FY15 and in the future, grants are expensed when payments are disbursed to external partners.

The CEPF Secretariat includes in its Annual Spending Plan both the new grants awarded and the payments on grants. The grants awarded and payments on grants are reported in CEPF's quarterly reports to donors, so information on both the old and new accounting method is already shared with donors.

The financial statements that are subject to annual external audit have historically been prepared on the basis of CI's old accounting policy of expensing grants on signature of the agreement. With the change in

the accounting policy, it is recommended that the audit be performed under the new accounting policy to record the expense as the payment is made.

The effect of this is that in the future the audited financial statements will be presented on a different basis from what was done in prior years. The audited amounts will be in accordance with CI's general ledger and accounting records and will be consistent with the information on payments on grants that is already reported in the quarterly reports. In addition, for the first year following the change (the audit to 30 June 2015) we have been advised by the auditors that it will not be possible to present comparative amounts for the prior year to 30 June 2014. In future years, comparative amounts will again be reflected.

This change impacts the audited financial statements only and the Secretariat will continue to report both new grants awarded and payments on grants in the Spending Plan and quarterly reports. The audit will also continue to test compliance as normal.