

ASIAN DEVELOPMENT BANK

Audit Committee of the Board of Directors Terms of Reference

The Audit Committee is a committee of the Board of Directors established pursuant to Section 12 of By-Laws of the Asian Development Bank (ADB). Its function is to assist the Board of Directors in carrying out its responsibilities as they relate to ADB's financial reporting and audits, including internal controls, in line with Article 31 of the Agreement Establishing the Asian Development Bank. The Audit Committee shall periodically review the adequacy of the Terms of Reference for possible adjustments as conditions dictate, and recommend necessary amendments to the Board of Directors, for approval.

1. AUTHORITY

1.1 In discharging its oversight functions over matters within the scope of its responsibilities, the Audit Committee is authorized to:

- (i) Perform activities within the scope of its terms of reference.
- (ii) Seek any pertinent information from the ADB as is necessary, and which shall not be unreasonably withheld.
- (iii) Refer its requests for documents or information to the President.
- (iv) Seek briefings on relevant auditing, accounting, and financial matters it has identified from staff member(s) designated by the President, including such staff that ACB has suggested, and request their participation in meetings.
- (v) Meet with the Outside Auditor, as necessary.
- (vi) Advise the Board of Directors on the appointment of the Outside Auditor and consider any question of the Outside Auditor's resignation and dismissal.
- (vii) Consider the independence of the Outside Auditor, including the provision of non-audit services by the Outside Auditor to the ADB.

2. COMPOSITION AND TENURE

2.1 The Audit Committee (the Committee) shall consist of not more than six members of the Board. The Chair and other members shall be appointed by the President in consultation with the Board.

2.2 The Committee members shall be free from any relationship that, in the opinion of the President, would interfere with the exercise of their independent judgment as members of the Audit Committee. The Committee members shall inform the President of any circumstances which reasonably may be perceived to interfere with the exercise of their independent judgment as members of the Committee.

2.3 The President shall, when appointing members of the Committee, appoint at least one member, having a background in accounting or related financial expertise, and who through education and/or experience would have a thorough understanding of financial, accounting and auditing functions¹. In exceptional circumstances, where the Committee requires specific advice and assistance to be able to perform its functions and such advice and assistance is not available to the Committee members, including from within ADB, the Committee may request the President to engage such outside expertise and provide the necessary resources required for that purpose.

2.4 The Committee shall be appointed for a term of two years, commencing 1 July each year in which the election of Directors occurs. Members of the Committee may be reappointed.

2.5 If a member of the Committee ceases to be a member of the Board, the President, in consultation with the Board, shall appoint another Board member for the remaining term of the Committee.

3. MEETINGS

3.1 The Committee shall meet as often as it considers necessary, but not less than once per quarter. Other Board members may attend meetings of the Committee as observers. Directors' Advisors may attend the meetings of the Committee except as otherwise advised by the Chair of the Committee.

3.2 The Committee will meet at least once a year with the Outside Auditor without Management or ADB staff present. In addition, the Committee may meet with the Outside Auditor if requested by the Committee or by the Outside Auditor, as and when considered necessary.

¹ Section 10(a) of the Rules of Procedures of the Board of Directors states: "Membership of the Committees established pursuant to Section 12 of the By-Laws need not be limited to Directors or their Alternates. The President, in consultation with the Board, shall appoint the members of committees and shall designate the chairmen thereof."

3.3 The quorum for meetings of the Committee shall be three of its members. If the Chair of the Committee is unable to be present in person at a meeting, the members of the Committee that are present shall select a member to preside.

4. RESPONSIBILITIES

The Committee shall assess in its annual report the Committee's work and evaluate its performance annually relative to the Committee's purpose and responsibilities outlined herein. The Committee shall periodically review the adequacy of the Terms of Reference for possible adjustments. The Committee has an oversight function regarding current areas of financial risk and how these are being managed and satisfy itself that the ADB's financial reporting and audits, including internal controls, are adequate and efficient. In this regard, it shall in particular:

A. Financial Reporting

4.1 Review and if necessary discuss with the Controller the quarterly financial statements.

4.2 Review and discuss with the Controller, Auditor General and Outside Auditor the annual financial statements; major accounting and auditing issues and financial statements presentations, including any significant changes in the selection or application of accounting principles and auditing standards; and results of the audit by the Outside Auditor.

4.3 Review and discuss with the Controller, Auditor General, Outside Auditor and other ADB staff as required upon completion of the annual external audit before the financial statements are published, the draft annual financial statements and the related notes, the Outside Auditor's opinion and appropriateness of accounting principles, including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

4.4 Meet with the Controller and Auditor General on a periodic basis to discuss any matters of concern in the context of the disclosure of financial information and internal control.

4.5 Meet with the General Counsel to discuss any significant pending litigation that may have a material impact on ADB's financial condition.

B. Outside Audit

4.6 Appoint an observer to the Evaluation Committee for the selection of Outside Auditor.

4.7 Review and discuss annually the scope of work and audit plan of the Outside Auditor and any material changes to the audit plan during the year.

4.8 Review and discuss the performance of the Outside Auditor and recommend to the Board of Directors for approval, the appointment, extension of services after the expiry of the contract period or termination of the engagement of the Outside Auditor.

4.9 Review and obtain a statement from the Outside Auditor to confirm annually the independence of the Outside Auditor. Consider non-audit services by the Outside Auditor, and if applicable, ensure that a framework for approval of non-audit services is in place.

4.10 Review and discuss the annual management letter from the Outside Auditor as a confidential document, and ensure that significant findings and recommendations made by the Outside Auditor and Management's responses thereon are reviewed, discussed, and appropriately acted upon.

4.11 Meet separately, as necessary, with the Outside Auditor to review and discuss any matters that the Committee or Outside Auditor believe should be reviewed and discussed.

C. Internal Audit

4.12 Review and discuss annually the scope of work and audit plan of the Auditor General and any material changes to the audit plan during the year and, if necessary, request that specific audits be added to the work plan.

4.13 Review and discuss the effectiveness of the internal audit function.

4.14 Review and discuss the annual summary of the audit reports (Audit Recommendations Implementation Report) prepared by the Office of the Auditor General. Ensure that significant internal audit findings and recommendations and Management's responses are considered.

4.15 Meet separately with the Auditor General to review and discuss any matters that the Committee or Auditor General believe should be reviewed and discussed.

4.16 Be consulted prior to the engagement or appointment of, and on any intended removal of, the Auditor General.

D. Internal Control

4.17 Review and discuss the effectiveness and integrity of the internal control system, including risk management, information technology security and control, and financial policies in such areas as trust fund administration, procurement policies and procedures, and financial management.

4.18 Review and discuss with the Controller, Auditor General and Outside Auditor issues with respect to financial systems, and review of internal controls over financial reporting, including significant findings and recommendations, and Management's responses thereon.

E. Anti-Fraud and Anticorruption Measures

4.19 Ensure that ADB has established and maintains appropriate, efficient and consistent procedures for the receipt, retention and treatment of complaints and anonymous submissions from internal and external complainants, including protection of “whistleblowers”, in regard to fraud and corruption, or questionable accounting or auditing matters.

4.20 Meet annually with the Auditor General to discuss significant activities and outcomes of the anticorruption function.

F. Reporting Responsibilities

4.21 The Committee reports to the Board of Directors through the President in his capacity as Chairman of the Board.

4.22 The Committee shall:

- (i) Report to the Board of Directors annually on its activities and submit conclusions and/or recommendations as the Committee deems appropriate.
- (ii) Update the Board of Directors about the Committee activities, as appropriate.
- (iii) Ensure the Board of Directors is aware of matters that may significantly impact on the financial affairs of ADB.

5. ADMINISTRATIVE ARRANGEMENTS

5.1 The channel of communication between the Committee and ADB's Management and staff is through the Secretary of ADB.

5.2 The Office of the Secretary shall be responsible for providing the necessary administrative services for the functioning of the Committee including providing a secretariat for the Committee and maintaining its records.