

The logo for the Asian Development Bank (ADB), consisting of the letters 'ADB' in white serif font on a dark blue square background.

Asian Development Bank

Board of Directors
Audit Committee

ANNUAL REPORT

OF THE

AUDIT COMMITTEE OF THE BOARD

2007-2008

4 September 2008

I. BACKGROUND AND OVERVIEW

1. In line with Article 31 of the *Agreement Establishing the Asian Development Bank* (ADB) and Section 12 of the By-Laws, the Audit Committee of the Board (ACB) assists the Board of Directors in carrying out its responsibilities as they relate to the oversight of ADB's financial reporting and audits, including internal controls.

2. During the period covered by this report (1 July 2007 to 30 June 2008), the ACB continued to operate under the Terms of Reference (Appendix 1) approved by the Board of Directors in April 2005. The ACB agreed with the findings of ADB's Outside Auditor which concluded that the balance sheets and the related statements of income and expenses, cash flows, and changes in capital and reserves present fairly, in all material aspects, the financial position of ADB.

3. The ACB identified a range of issues which formed the basis of its Work Program (Appendix 2). The ACB reviewed a series of **key issues and actions** for the reporting period, which are summarized as follows:

- (i) Review of the Annual Financial Statements and Management's Discussion and Analysis (MD&A) (with ADB's Outside Auditor), and Quarterly Financial Statements;
- (ii) Review of Ordinary Capital Resources (OCR) operating income and net income;
- (iii) Monitoring the implementation status of audit recommendations;
- (iv) Monitoring the effect of adopted financial accounting standards (FAS), specifically covering accounting principles and practices in relation to derivative instruments;
- (v) Monitoring progress towards the adoption of audit standards in ADB;
- (vi) Monitoring progress towards the adoption of Management's Assertion and Outside Auditor's Attestation concerning internal controls over external financial reporting;
- (vii) Monitoring of travel related cost saving initiatives; and
- (viii) Review of ADB's risk management capability and monitoring of progress on integrating risk management in ADB, including monitoring the work of the Risk Management Unit (RMU) and the recommendations made by the Outside Auditor on RMU.

A. Composition of the ACB

4. For the period 1 July 2007 to 30 June 2008, the ACB membership comprised of the following six (6) members of the Board of Directors:

- Executive Director Patrick Pillon (Chair)
- Executive Director Curtis S. Chin
- Executive Director Kyung-Ho Kim (as from 18 September 2007, replacing Chol-Hwi Lee)
- Alternate Executive Director Ugur Salih Ucar
- Alternate Executive Director Stan Vandersyp (as from 23 January 2008, replacing Richard Stanley)
- Alternate Executive Director Nima Wangdi.

B. ACB Meetings

5. Between 1 July 2007 and 30 June 2008, the ACB held thirteen (13) meetings, including one (1) informal session with the Controller on Internal Control Framework over External Financial Reporting and related Management Assertion and Audit Attestation. The meetings were also attended by other Directors, Alternate Directors, Directors' Advisors, and staff as observers. In addition, during the review period, the ACB met with staff from the Controller's Department (CTL), the Office of the Auditor General (OAG), the Office of Administrative Services (OAS), the Private Sector Operations Department (PSOD), the Risk Management Unit (RMU), the Treasury Department (TD), and also with ADB's Outside Auditor, PricewaterhouseCoopers (PwC), with whom the ACB met independently as well as jointly with ADB staff. The selected issues were discussed openly and frankly, and on many occasions were supplemented with audio-visual presentations, written handouts and/or written explanations, as requested¹. Staff from the Office of The Secretary (OSEC) and the Office of the General Counsel (OGC) were also present in all ACB meetings.

6. The ACB appreciates the support provided by staff in implementing its work program. In particular, the Committee acknowledges staff in:

- CTL and TD for their input in clarifying the financial statements, including net income allocation and changes in net income, explanations on embedded derivatives and issues related to FAS, and progress towards providing a Management's Assertion and Attestation Letter;
- OAG for executing audits according to its work program and for monitoring the implementation of past audit recommendations and implementing anti-corruption measures;
- RMU for informing on issues related to ADB's non-sovereign portfolio and on progress related to the review of the risk management function;
- OAS and Budget and Management Services Division (BPBM) for informing on progress in the travel services and related aspects; and
- PSOD and Southeast Asia Department (SERD) for briefing the ACB on ADB's investments in the Philippines.

7. In addition, the Committee appreciated the inputs and explanations provided by the members of the Outside Auditor's team and would like to highlight the constructive and positive relationship established between the ACB and the Outside Auditor.

II. AUDIT RELATED ISSUES REVIEW BY THE AUDIT COMMITTEE OF THE BOARD

A. Audit Risk Assessment Methodology

8. The ACB reviewed the new audit risk assessment methodology developed by the Financial Audit Division (OAGF) of OAG, which is based on international best practices and contains both quantitative and qualitative components. The methodology has been discussed by OAG with the Outside Auditor and with Heads of Audit Departments of other Multilateral Development Banks (MDBs) and International

¹ As in the past, these conversations/meetings are recorded as internal records. Transcripts/minutes are not published or made publicly available. Executive sessions with the Outside Auditor were not recorded, and staff were not present in such sessions.

Financial Institutions (IFIs), which use different variations of a similar methodology. The audit risk assessment starts from the recognition of the audit universe, which is the population of all auditable areas. In order to subject the auditable areas to a consistent audit risk methodology, OAGF has identified the auditable areas along ADB's organizational lines and product regimes – all in all, OAGF has identified 225 auditable objects/areas. The ACB recognized the importance of the audit risk assessment to allow OAGF to maintain a tolerable audit risk while allocating more of its limited resources to those areas which are rated to be comparatively riskier than others. The ACB endorsed the presented audit risk assessment methodology² to be applied for the 2008 audit process onwards.

B. 2007 Outside Auditor's Audit Strategy Memorandum

9. The ACB met with the ADB's Outside Auditor. PwC's team provided an overview of the audit work conducted for the 2007 statutory audit, focusing mainly on audits of internal controls and how these safeguard the financial reporting, including the financial statements. PwC provides information on ADB's internal controls to Management and to the ACB through (i) an annual report – the Internal Control Memorandum, (ii) feedback to ACB and OAG in periodic sessions, and (iii) through executive sessions with the ACB. The ACB noted the positive working relationship between the Outside Auditor and OAG, which facilitates the exchange of information and the audit process.

10. The ACB reviewed PwC's main areas of focus contained in the 2007 Audit Strategy Memorandum, focusing mainly on (i) compliance with applicable accounting principles, (ii) assessment of Information Technology (IT) controls for selected systems with an impact on financial reporting, and (iii) assessment of fraud through audits. While the ACB noted that it is not the Outside Auditor's responsibility to detect fraud, the ACB also noted that the Outside Auditor does consider fraud issues if these have a material impact on the financial statements. The ACB was pleased to note in relation to issues of fraud and corruption, which are handled by the Integrity Division (OAGI) of OAG, that PwC had not reported any issues which would have a material impact on ADB's financial statements.

11. The ACB welcomed the Outside Auditor's recommendation to review ADB's Risk Management Unit, which has been in place for over two years, including its activities and performance, and to benchmark RMU with other internal units and also to comparator organizations. The ACB encouraged a review of RMU, particularly in the light of ADB's increase in non sovereign operations, and welcomed an assessment of the Outside Auditor as a neutral partner.

12. The ACB was pleased to note the Outside Auditor reported progress and improvements in the area of IT controls, which have been reviewed on a yearly basis by PwC. The ACB emphasized that IT controls continues to be a very important area, particularly in the context of ADB's plan to provide an assertion on its internal controls over financial reporting, and that further work would be required by PwC and by OAG, CTL and Office of Information Systems and Technology (OIST).

² The methodology proposed to assess the risk of the auditable objects/areas has been developed by the American Institute of Certified Public Accountants (AICPA) and is based on the following risk categories: inherent risk, control risk, and detection risk.

13. More specifically, the ACB inquired about the audit of the funding management system, and about the accounting treatment of Asian Development Fund (ADF) grants and the accounting treatment for ADF debt forgiveness. The Outside Auditor would be revisiting both of these issues and advising how these would be treated and disclosed in the financial statements, after reviewing how other MDBs and similar organizations handle these issues.

14. The ACB also discussed with the Outside Auditor the changes that took place in ADB personnel in the key positions with which the Outside Auditor needs to interact closely, namely the Vice President of Finance and Administration, the Controller, and the Auditor General. The ACB was reassured that the persons now occupying these positions were fully engaged with the audit process and that a positive working relationship and dialogue with the Outside Auditor continues. The ACB also assured PwC that the Committee would continue to support the work of OAG.

C. Outside Auditor's Internal Control Report for 2007 and 2007 Audit Accomplishments

15. In the 2007 Internal Control Report, the bulk of the recommendations focused on IT controls. The ACB noted that the issue of IT access controls had been a recurrent theme over the years, and noted that considerable progress has been made in having frameworks in place to manage processes and to detect, track and avoid IT-related problems. The ACB was pleased that OIST has been proactive in addressing recommendations, and highlighted the considerable progress made in 2007 with regard to the enhancement of the internal control environment.

D. Outside Auditor's Recommendation and Implementation Reports (as of 30 June 2007 and as of 31 December 2007)

16. The ACB reviewed the Outside Auditor's Recommendation and Implementation biannual reports which reflect the status of implementation of the Outside Auditor's recommendations. The Outside Auditor rates its recommendations as low, medium or high risk. OAGF also conducts a bi-annual exercise (30 June and 31 December) to follow-up on the implementation status of the recommendations made by PwC, with subsequent reports on the implementation status provided to the ACB. The report as of 30 June 2007 contained 52 recommendations made by the Outside Auditor.

17. The ACB was satisfied with the progress reported by OAG, and emphasized the need to prioritize those recommendations rated as high risk. The ACB noted that recommendations which require the preparation of documentation such as manuals, or which require capital expenditure, may take longer to implement. The ACB also noted that the majority of recommendations focused on IT, but noted with satisfaction recent progress by OIST in implementing outstanding audit recommendations. The ACB noted that due to the planned attestation, the implementation of new applications and system roll-outs which may have an impact on external financial reporting may not be able to be rolled out the second half of 2008, since there needs to be sufficient time to document internal controls surrounding such systems, to generate an appropriate number of samples for compliance testing, and to remedy any detected deficiencies.

E. Audit Recommendations and Implementation Report as of 31 December 2007

18. The ACB reviewed the Audit Recommendation and Implementation Report (ARIR) which provides an analysis of the implementation status and implementation activity for outstanding audit recommendations as of 31 December 2007. The ARIR included a total of 462 audit recommendations, 76 of which were carried forward from previous years. In 2007, 386 new recommendations were made by OAGF audit staff. It noted this was the highest number of new audit recommendations for any of the past 7 years. The ACB noted that to a certain extent, the shift to a new audit rating methodology and the focus on areas which previously had not been frequently audited, had an impact on the number of recommendations: 51% of the 462 recommendations were related to Resident Mission (RM) and operational audits, while 22% referred to IT and IT security, and 27% referred to financial and administrative matters. The ACB has kept a close watch on the implementation rate of audit recommendations over the years, and continued to welcome progress toward full implementation of audit recommendations. The ACB noted that 68% or 316 recommendations were implemented in 2007, which is the same implementation rate achieved in 2006.

19. The ACB continued to focus its interest on RM related audits, and noted that there had been 3 RM audits in 2007, involving also the audit of the corresponding Headquarters (HQ)-administered loan portfolios for those countries. The ACB supported this trend of increasing audits in RM and HQ-administered loan and Technical Assistance (TA) portfolios, and noted that more time and resources have been allocated to this purpose, around 40% of OAGF's audit staff time. The ACB requested OAG to further increase the frequency of audits of RMs, and supported OAG's request for additional resources in order to conduct this type of time consuming audits, particularly in the case of an RM where a considerable number of significant audit findings might be detected.

F. Status of Implementation of OAGF's 2007 Work Program and Review of OAG's Work Program for 2008

20. The ACB recognized the strong performance of both OAG divisions during 2007 despite continuing staff resource constraints and an increase in audits and investigations. The ACB noted that in 2008, the trend in the increase of the complexity of audits continues, in addition to the work that the external attestation exercise would require from OAGF.

21. With regard to external and internal audit assignments, the ACB recognized that OAGF's 2007 work program had been ambitious. To raise the level of independent assurance, the ACB noted that the number of audits had increased from 20 to 25, with a larger proportion of audits focusing on operational matters, such as audits of loan and TA portfolios and audits of RM. The ACB was pleased that despite staff constraints, the fieldwork for all 25 audits was completed, and that the trend to focus on audits of loan and TA portfolios continues in 2008. The ACB noted that, out of the 23 scheduled audits for 2008, 9 audits will focus on RM and operational aspects, resulting in an increase of RM/operations-related audits of 10% compared to the previous year. IT-related audits will remain another focus of OAGF given the developments occurring under the ADB's Information Systems and Technology Strategy II (ISTS II), as well as the potential risks these IT developments might carry. The audit of treasury operations and related areas, such as RMU and CTL, and audits in OAS and other administrative and service related areas, accounted for the remaining work program of OAGF.

22. In addition to OAGF's process-oriented internal audits, the ACB supported OAGF's work in connection with the financial audit of trust and grant funds, as required by the TA Letter Agreements/Memoranda of Understanding, which usually contain an audit clause requiring either an internal or external audit. The ACB noted that OAGF had issued 8 internal audit certifications in 2007 and plans to issue 11 internal audit certifications in 2008.

23. The ACB noted that more time on follow-up work to verify the implementation status of all outstanding audit recommendations from previous years is required. With regard to external audits, the ACB supported OAGF's close coordination with the Outside Auditor in relation to statutory audits, noting that the Outside Auditor is also engaged in external audits of ADB's trust funds and global bond issuances.

24. With regard to staffing, the ACB noted that staff vacancies remained and would need to be filled within 2008. The ACB acknowledged that IT audit specialists were in high demand and difficult to recruit. The ACB supported the continuous professional education of audit staff, which is a prerequisite for staff to retain their professional certification.

25. The ACB assured OAGF of the Committee's continued support for efficient and effective internal audit work.

G. Integrity Division 2007 Annual Report

26. The ACB reviewed OAGI's 2007 report and noted that the number of sanctions have significantly increased, from 37 firms sanctioned in 2006 to 61 firms in 2007, as compared to the World Bank which sanctioned 4 firms in 2006 and 1 firm in 2007. The ACB noted a 24% increase in the number of allegations, but also noted a drop in the number of investigations, in part due to changes introduced in the screening process of allegations and new checks and balances introduced. For 2008, in addition to OAGI's investigative work program, the ACB supports OAGI's plan to increase its work on promoting fraud awareness and prevention with training TA, working closely with ADB's regional departments.

27. For 2008, the ACB supports OAGI's new areas of focus such as the collection of data on unsubstantiated allegations and the dollar value of cases investigated, which will help in better measuring effectiveness, as well as allow the sharing of such data with Operations Evaluation Department (OED). Another area is the introduction of a compulsory seminar on conflict of interest for all staff as well as specific training for PSOD staff, in view of the increase in non-sovereign operations, including due diligence investigations of shareholders of companies in which ADB may invest.

28. The ACB appreciated the linkage between fraud and corruption prevention and ADB's mission, as well as to development effectiveness. The ACB highlighted the importance of OAGI's fiduciary function and its role in increasing awareness of corruption issues across ADB operations and thereby minimizing opportunities for corruption. The ACB discussed publishing the list of debarred firms. The ACB also discussed the issue of cross-debarment with other Multilateral Development Banks (MDBs), recognizing that cross-debarment is not probable in the near term as the World Bank's policy does not currently support cross-debarment.

29. With regard to staffing, the ACB again urged for the rapid recruitment of qualified personnel to fill the existing vacancies, while recognizing the difficulties of recruiting for such specialized roles.

30. The ACB appreciated the heavy workload that OAGI is under but welcomed the commitment to have a whistle-blower policy, for review and comment by the Board and non-governmental organizations (NGOs), by the end of 2008.

31. The ACB reviewed in detail the issue of the independence of the Integrity Division, as advocated by international best practice. The ACB referred to OAGI's Annual Report which mentions the 2007 Volcker report, an independent review carried out in the World Bank in relation to its department of Institutional Integrity, which reports directly to the President of the World Bank and to World Bank's audit committee. While the ACB recognized the synergies to be gained from OAGF and OAGI working together under the Auditor General, particularly in forensic auditing, and noted the relatively small size of OAG as compared to the audit division in the World Bank, it also noted that due consideration should be given to international best practices. The ACB recommended that ADB implements the model of an integrity division as a stand alone unit, with a reporting line to ADB's President and a concurrent reporting line to the ACB.

32. The 2008 meeting of the MDB Integrity Forum was held in Manila in February, with representatives from the African Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank (IADB) and World Bank. The ACB took this opportunity to discuss with the Forum the institutional arrangements for the integrity units of other MDBs and other matters of common interest focusing on governance of, and coordination between, integrity units.

H. Expiry of Contract with ADB's Outside Auditor

33. The ACB considered the options of either extending the existing contract or to initiate a competitive bidding process. The ACB noted that the existing contract allows for an extension of the contract on the same terms as the current contract without an increase in its audit fee. After discussing the advantages and disadvantages of each option, the ACB decided that a competitive bidding process should be undertaken. The ACB noted that ADB is required to engage an audit firm of international reputation, particularly since ADB issues bonds and needs to maintain its triple A rating.

34. The ACB reviewed the bidding process proposed by OAG and the indicative time line for the evaluation of proposals. An evaluation committee, composed of staff from OAG, TD, CTL, OGC, OIST, Central Operations Services Office (COSO) and one ACB member as an observer would evaluate proposals on the basis of quality and cost, with the aim of having the new Outside Auditor selected by the start of the financial year.

III. FINANCIAL STATEMENTS AND ACCOUNTING RELATED ISSUES REVIEW BY THE AUDIT COMMITTEE OF THE BOARD

35. The ACB reviewed the Quarterly Financial Statements (QFS) as of 30 June 2007, as of 30 September 2007, and as of 31 March 2008. The QFS are submitted by CTL to the Board on a no objection basis. The ACB noted that, in general, key figures such as operating and net income have improved and overall, ADB's accounts are robust. The ACB was satisfied with the results reflected in the QFS.

A. Review of CTL's Work Plan for 2008

36. The ACB reviewed the work plan and noted the following main challenges in three main areas of CTL's work: (i) maintaining accounting records and policies, and preparing financial reports, where a major challenge continues to be the fair valuation of financial instruments in accordance with generally accepted accounting principles in the United States (US GAAP); (ii) authorizing payments, particularly loan and TA disbursements, where a challenge is a significant increase in operating volume and the need to improve client services and work processes; and (iii) maintaining an appropriate financial control system over financial transactions and reporting, where the main challenge would be securing Management's assertion and obtaining the Outside Auditor's attestation, which are targeted for completion by March 2009.

B. Discussion with the Outside Auditor on 2007 Annual Financial Statements

37. The ACB met with CTL to review the financial statements before meeting with the Outside Auditor. The ACB reviewed the key issues concerning accounting standards, concepts, principles and policies for 2007 as well as key operational developments and financial results for 2007, including for OCR, ADF and other special funds.

38. The ACB was satisfied with the results of ADB's financial performance as reflected in the annual financial statements; it was noted that net income had been excellent in 2007 but would most likely decrease in subsequent years in view of the current market situation and policy changes.

39. The ACB noted the significant accounting policies applied by ADB in preparing its financial statements as highlighted by the Outside Auditor. The ACB noted the work carried out by PwC in reviewing the application of critical accounting policies, focusing particularly on those accounting policies adopted for the first time, accounting policies which have been changed, and accounting policies which involved significant judgments in their interpretations. The ACB noted that ADB had no significant accounting policies adopted or changed during 2007. With regard to the proposed participation in the Heavily Indebted Poor Countries debt relief, the Outside Auditor indicated that this was a non adjusting subsequent event for the 2007 financial statements of ADF and as such, only a disclosure in the financial statements is required. Other significant policies discussed relate to: (i) loss provisioning for non-sovereign loans and equity investments, (ii) valuation of derivatives and hybrid financial instruments, (iii) functional currency of ADF, (iv) impact of sub-prime market crisis on ADB, (v) application of FIN 46 to equity investments, loans and guarantees, and (vi) accounting for technical assistance and grants.

40. The ACB was pleased with the conclusions of the Outside Auditor's findings that the accounting policies of OCR and special funds were in accordance with US GAAP and were applied on a consistent basis. As for the financial statements of ADF, the ACB noted that these are not intended to be presented for general purpose in conformity with US GAAP but more for the specific purpose of reflecting the sources and applications of members contributions; and with the adoption of special purpose financial statements for ADF, loan loss provisioning is eliminated.

41. The ACB noted that credit risk is one of the most prominent risks facing ADB, and that the continuing stress in credit markets and the resulting impact on the

valuation of various financial instruments and on the availability of credit have become significant accounting and reporting issues currently facing not only ADB but many other organizations. The ACB noted an analysis made by RMU on the impact of the sub-prime market crisis on ADB's credit risk exposures to the banking sector in connection with its treasury OCR investment operations and non-sovereign operations, as well as the impact on the Bank's liquidity. The ACB noted with satisfaction that PwC agreed with RMU's conclusion that the sub-prime market crisis has not had any material adverse impact on ADB's financial situation.

C. Update on Expansion of Fair Valuation (Adoption of Financial Accounting Standard 159)

42. The ACB was informed by CTL of the adoption of FAS 159 by ADB in its first quarter financial statements of 2008. This is a new standard that expands the scope of financial instruments, as an option on an instrument by instrument basis, that can be fair valued. Once an instrument is fair valued, it cannot revert back to amortized cost basis. The ACB noted that another new standard – FAS 157, which defines fair value measurement – is mandatory. Up to the end of 2007, derivatives (in accordance with FAS 133) and hybrid instruments (in accordance with FAS 155) have been fair valued, while underlying bonds (excluding hybrids) have been valued at amortized costs. The ACB had previously raised the concern that this asymmetric accounting treatment between the underlying bonds and the related derivatives has caused volatility in ADB's net income, although the ACB recognizes that this occurrence does not, however, have any economic impact on ADB. The ACB agreed that, with the adoption of FAS 159 on a selective basis, ADB now fair values the underlying bonds that are swapped (their associated derivatives have been fair valued in accordance of FAS 133), ADB would be able to reduce this unnecessary volatility in its net income. The ACB also noted that other MDBs that adopt US GAAP in preparing their financial statements, such as International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and IADB, are or will be adopting a similar approach.

IV. EXTERNAL ATTESTATION

A. Internal Control over External Financial Reporting – COSO Framework

43. ADB is exempted from the provisions of the Sarbanes-Oxley Act. In spite of that, ADB Management decided, as part of good governance, to provide a Management assertion on the adequacy of internal control over external financial reporting and Outside Auditor's attestation, as do several other MDBs. To accomplish this, ADB has taken various steps, including documenting the processes, assessing the risks, training staff and conducting readiness assessment for attestation. The ACB recognized the large amount of work and resources being committed. The ACB has been tracking developments in ADB's internal control framework over the past two years.

44. The ACB reviewed the results of a readiness assessment report produced by an external consultant in November 2007. The ACB noted that while results were more positive for the business process side, there was further work that needs to be completed on the IT side. The ACB noted that for business processes, ADB is almost complete but has not yet fully completed entity level control documentation and assessment. With regard to business processes, ADB has most of the control activities already in place but some documentation and assessment of control activities still need to be done. The ACB reviewed and confirmed progress in strengthening business

process controls as well as general computer controls, including recent automation of a vast number of existing systems and controls.

45. The ACB noted that CTL would document and help assess the entity level controls with the participation of other departments. As a plan for 2008, the ACB noted that CTL will engage a consulting firm to evaluate the design of controls and perform exemplary tests covering business process, IT general controls, and entity level controls. The entity level control assessment and documentation has taken place in the first part of 2008, while compliance testing is scheduled for mid 2008; it was noted that if there are any deficiencies, this would be rectified before the Outside Auditor conducts their attestation process. The Outside Auditor's attestation is expected to start in the last quarter of 2008, with a final report by the Outside Auditor in March 2009.

46. The ACB acknowledged that external attestation has implications on resources. The ACB supported closer cooperation between CTL, OIST and OAG to achieve the attestation requirements so that external attestation would be achieved for financial year 2008. The ACB recognized that readiness for attestation and subsequent progress could be significantly impacted by several factors, for instance the introduction of new IT systems, which may have an impact on external financial reporting.

47. With regard to the selection of an attestation standard for ADB, the ACB reviewed the different standards adopted by other MDBs and their strengths and weaknesses. The ACB acknowledged that CTL has discussed the selection of the most appropriate attestation standard with the Outside Auditor. The ACB supported the recommendation made by CTL to Management to adopt the American Institute of Certified Public Accountants' AT501, rather than the Public Company Accounting Oversight Board's AS5, as the attestation standard, since AT501 achieves the objective of good corporate governance practice while being less resource intensive.

V. RISK MANAGEMENT ISSUES REVIEW BY THE AUDIT COMMITTEE OF THE BOARD

A. Review of the Risk Management Function by the Outside Auditor and Update on Implementation of Recommendations

48. As part of PwC's statutory audit, the Outside Auditor conducted a review of RMU in November 2007, in which a series of recommendations were made by PwC with regard to ADB's risk management function. The ACB noted that ADB needs to prioritize some key recommendations, particularly those relating to credit and market risk. The ACB welcomed the Outside Auditor's assurance that PwC would monitor the progress of the implementation of the recommendations, but expressed disappointment that a recommendation calling for a project veto right by RMU had been subsequently changed at Management's request. According to the Outside Auditor, Management considers that RMU should first build creditability before it can be given a veto right. The ACB noted that Board members had repeatedly requested for RMU's assessment to be included in project documents.

49. The ACB acknowledged RMU's consultation mission to IFC and EBRD. The ACB noted that RMU's work to date has focused mainly on critical issues such as staffing, governance, and risk policy and methodology. The ACB focused on the three main areas of weakness highlighted in PwC's report, namely (i) lack of proper oversight of risks on a holistic basis; (ii) lack of an independent risk committee; and (iii) insufficient resources in RMU. The ACB recognized that since the appointment of a new

Head of RMU in 2007, there has been progress in a number of areas. The ACB noted that the Managing Director General (MDG) provides guidance and oversight of RMU's work, but underscored that Head RMU should report directly to the President.

50. With regard to the recommendation that RMU presents at least quarterly to either the full Board or the ACB, the ACB disagreed with Management's decision not to implement this recommendation. Management maintained, on the basis that RMU already submits a quarterly comprehensive risk report to the Board, that de facto, RMU has already met periodically with the ACB and that sufficient information is provided. The ACB agreed that, unlike commercial banks, the risk profile of ADB does not change considerably from quarter to quarter, given the still relatively small size of its non-sovereign operations as well as its conservative approach to treasury operations. Nonetheless, the ACB noted that risks exist and that it should be well informed and fully aware of increasing risks, particularly as ADB's portfolio in private sector operations expands.

51. With regard to the recommendation that an independent risk committee be established, chaired by either the President or MDG to oversee RMU's role and ADB's risk profile, the ACB was pleased that Management had reconsidered its decision not to implement this recommendation on the basis that the MDG already provides oversight. The ACB strongly supports the establishment of a risk committee. The ACB noted that PwC had proposed Terms of Reference (TOR) for the risk committee, which should include: (i) oversight of the overall risk of ADB, (ii) proposal of risk limits, (iii) oversight of any breaches of risk limits or policies, (iv) proposed changes in risk policies or methodologies, and (v) oversight of the efficacy of the RMU, including status of key projects and staffing.

52. With regard to the recommendation that RMU be provided with adequate staffing resources, the ACB reviewed the situation with regard to the filling of longstanding vacant positions, and noted some recent progress. The ACB, however, noted that PwC had reported that, even when fully staffed, the current staffing composition of RMU is not sufficient to fully complete its tasks regardless of whether ADB continues to increase its private sector operations. The ACB recognized that RMU does not currently handle operational risk, while other MDBs' risk units do, and also noted that currently, ADB does not have many non performing loans, but nevertheless the issue of additional required staff positions should be addressed as soon as possible, even if risk professionals are scarce and difficult to recruit. The ACB noted that RMU has reviewed its staffing adequacy and that Budget, Personnel, and Management Systems Department (BPMSD) has included RMU's staffing requirements in its priority list for 2009, though it remained unclear what such prioritization would mean. The ACB underscored the need again for action and flexibility in quickly addressing identified shortcomings and filling critical vacancies.

53. With regard to the new credit approval process for non-sovereign operations, the ACB emphasized the need to clarify RMU's role in terms of credit assessment, approval and loan pricing, since this role has not been very clear within the existing Private Sector Credit Committee. The ACB supported the Outside Auditor's recommendation that the new process should involve RMU at the onset of each individual transaction and would require the establishment of a new credit committee, co-chaired by RMU and the business units.

54. The ACB also reviewed detailed recommendations covering the areas of governance, policies, market risk, operational risk, internal controls, risk management and monitoring, and risk methodology. The ACB took note of those recommendations which have been implemented, such as loan portfolio stress testing and treasury risk and investment management guidelines, as well as those recommendations which are in progress, such as the development of risk rating and pricing tools for non-sovereign transactions.

55. With regard to the development of an integrated risk management system, the ACB recognized that this is a complex and costly undertaking which could be considered in the medium term. With regard to monitoring of country risk, the ACB noted the RMU does prepare country risk analysis.

56. With regard to RMU's own Terms of Reference (ToR), the ACB noted that RMU's current role included market/treasury risk, credit risk assessment, portfolio management, and policy and information systems. While the ACB recognized that the business units are responsible for risk and RMU's role is to ensure that the risk which the business units are undertaking is in line with ADB's risk policies, limits and risk appetite, the ACB recommended nevertheless for Management to update the ToR for RMU before 2009, in order to better assess the resources required.

57. The ACB noted that most of the Outside Auditor's recommendations were to be implemented in 2008, but regretted that Management had chosen to push back to 2009 some work related to policy issues such as lending policy due to staffing shortages. The ACB again noted that such delays were avoidable had Management moved quickly to address previously raised staffing concerns.

58. With regard to RMU's role and responsibilities in relation to market risk, the ACB noted that RMU is responsible for both transactional level treasury risk and portfolio level oversight. The ACB was pleased to note that RMU provides proactive risk assessment and information to Management, as in the case of the recent crisis in mortgage backed securities, where RMU assessed how this situation would affect ADB's portfolio.

B. Review of the Risk Management Unit and Progress towards a Risk Management Framework

59. The ACB requested an update on the activities and progress of RMU since its creation in 2005. The ACB reviewed the different types of risk in ADB's operations, RMU's role, mandate, structure and responsibilities, as well as RMU's activities.

60. With regard to establishing a risk management framework, the ACB noted that ADB was still in the early stages, having completed two papers in 2006 (Investment Strategy and Authority and Loss Provisioning for Non-sovereign Operations), and one in 2007 (Prudential Exposure Limits for Non-sovereign Operations). In 2007-2008, RMU would be finalizing two major components of the risk management framework, namely (i) the Credit Risk Rating System, which will allow RMU to rate the risk of new and existing transactions in a more systematic and accurate manner, and (ii) the Risk-based Pricing Model, which will assist in pricing ADB's new transactions in terms of their risk level, ensuring that ADB is compensated appropriately for the risk that it is taking. The ACB also noted the review of the Capital Adequacy Policy by RMU in 2008 and the preparation of a Strategic Limits paper to define the risk appetite of ADB for non-

sovereign operations. The ACB acknowledged that RMU would complete the overall Credit Risk Policy of ADB in 2009, which would signify the completion of an overall risk management framework for all ADB operations, as well as possibly begin to review operational risk. (RMU currently assesses credit and treasury risk but not operational risk.)

61. The ACB also reviewed issues related to concentration risk, given the tendency in a regional MDB like ADB to have a small number of large borrowers, and highlighted that what is important is to have the appropriate capital adequacy level to face any potential risks. The ACB also looked at the issue of limits to sub-sovereign lending, as well as loan provisioning policy for both ADF and for OCR.

VI. NON-SOVEREIGN PORTFOLIO

A. Review of Non-sovereign Portfolio

62. The ACB reviewed the risk limits, country and industry exposures, and risk ratings of loans in ADB's non-sovereign portfolio. The ACB noted that the portfolio has grown rapidly, both in terms of loan approvals and disbursements, and this has increased the challenges for RMU.

63. The ACB noted that 60% of the non-sovereign portfolio is concentrated in 5 countries, namely People's Republic of China (PRC), India, Kazakhstan, Bangladesh, and Viet Nam, with varying sector exposures in each country. The ACB noted that ADB is in compliance with the country exposure limit of 25% of the total portfolio, although PRC and India would reach this limit soon, hence the need for the exposure limit policy to be reviewed soon. The ACB also noted that ADB is in compliance with the industry exposure limit of 30% of the total portfolio, although the limit would be reached soon. The ACB agreed that, in order for ADB to maintain its triple A rating, it is important to maintain an acceptable level of exposure as guided by rating agencies and in line with other similar MDBs.

64. The ACB noted that RMU does not currently have its own portfolio risk rating system; it uses both the legacy rating system from PSOD and RMU's provisional rating system, which has not been validated by an external party. The ACB urged RMU to develop as soon as possible a comprehensive risk rating system in line with best practices, to be validated by an external rating agency in terms of methodology and ratings.

65. The ACB was pleased that overall the quality of ADB's portfolio is sound (although many transactions are relatively new), with non-performing loans amounting to only 1.4% of total outstanding loans. The ACB supported the need to manage the portfolio to compensate for risk differences in transactions, since as a development bank, ADB is involved in countries with high risk levels. The ACB noted that best practice requires transactions to be reviewed annually, and their risk ratings should be upgraded or downgraded if necessary.

VII. TRAVEL RELATED ISSUES REVIEW BY THE AUDIT COMMITTEE OF THE BOARD

A. Travel Services Contract and Travel-Related Developments

66. The ACB had previously reviewed developments in ADB's travel services in 2006 and requested an update on progress in this area, given recent developments such as: (i) increases in pricing and limited inventory of seats, (ii) stricter booking rules and ticketing deadlines, (iii) increasing demand for business class seats, and (iv) shortage of qualified travel consultants in the local market.

67. The ACB noted the measures undertaken by OAS and the in-house travel agency since 2006, such as anonymous email feedback, traveler's satisfaction survey, refined service level agreement, regular monthly meetings with management of the travel agency, and joint workshops to review the selection criteria and steps to determine the recommended / benchmark route following ADB's "most direct most cost effective route" rule, as well as areas for improvement for ADB's in-plant travel services.

68. The ACB supported two new initiatives to be implemented in 2008. The first initiative aims to enhance competition by having a dual agency model, whereby there will be two in-plant agencies dedicated to ADB with a staggered expiry date on their contracts to ensure business continuity. The ACB recognized that the number of travel agencies capable of handling the complex mission travel required by ADB is very limited. The ACB noted that, considering ADB's specialized requirements, in order to have quality of service and good performance from its travel agencies, ADB has to be willing to pay a price – for example, pay a transaction fee – that is attractive enough for the travel agent to recruit highly competent staff. The second initiative is the business travel process project, which aims to automate mission approval, travel arrangement approval, provision of travel allowances, travel expenses liquidation or reimbursement, and payment to travel agencies, thus eliminating manual administrative processing and integrating processes and systems across departments.

69. The ACB requested information on the travel practices of other comparator organizations, and considered ways to address cost savings and the impact on greenhouse emissions with the considerable volume of air travel of staff. The ACB noted that ADB's Budget Division (BPBM) is considering options and cost implications of the various types of travel, including increased economy class travel, and their impact on operations. The ACB noted that OAS has negotiated preferential corporate airfares with 10 major airlines, but that ADB is only allocated a small inventory of airline seats. The ACB supported the practice of ADB's business travel being centralized in order to take advantage of competitive fares and for purposes of internal control. The ACB also reviewed the possibility of introducing a corporate credit card, in order to ease the current process whereby mission money has to be processed twice, with an advance payment followed by liquidation, and supported this initiative as part of the automation of business travel process next year.

70. The ACB supported the travel-related initiatives undertaken by OAS and asked to be kept informed of progress in this area.

VIII. COUNTRY-RELATED ISSUES REVIEWED BY THE AUDIT COMMITTEE

A. Independent Audit Report on Afghanistan Technical Assistance

71. The ACB reviewed and discussed allegations of mismanagement, fraud and corruption relating to four (4) ADB TAs in Afghanistan. The ACB expressed concern over the substance of reports in the international press on the TAs and the reputational risk to ADB. The ACB requested updates in 2007 and in 2008 from both the Auditor General and the Director General, Central and West Asia Regional Department (CWRD). The ACB carefully reviewed the background and actions taken, including the independent financial and performance audit of the TAs by an external accounting firm under the supervision of OAGI. The ACB also reviewed the chronology of events before, during and after the audit, the ToR of the audit, the initial audit findings, the revised audit findings, the audit coverage, and the compensation sought from ADB.

72. The ACB expressed concern over the problems that came to light in relation to poor TA management, and implementation as well as other operational issues. The ACB supported OAGI's recommendations, such as the need for clear project instructions, budget training for RM staff and for regular supervision of the TA in terms of monitoring, reporting and record keeping. The ACB also noted the measures taken by CWRD to rationalize the TA program in Afghanistan with the aim of increasing its efficiency in what is currently a very difficult environment to work in. The ACB noted that CRWD is now conducting TA reviews more frequently, that an additional staff position will be dedicated to project and TA implementation work, and that a plan to eliminate the gaps that still exist in the systems and procedures will be implemented.

73. The ACB was reassured that the situation encountered with the TAs in Afghanistan is not a systemic issue, and that the problems encountered with these four TAs resulted from a combination of a series of events related to staffing and reporting issues, as well as the difficulties involved in implementing TAs that, in part, involved the piloting of new strategies in a high risk country. The ACB will monitor subsequent developments on this issue.

B. ADB's Portfolio and Investments in the Philippines

74. In 2007, there was evidence of collusion amongst bidders in World Bank road project in the Philippines. The ACB considered it was important to review ADB's current private and public sector projects active in this country.

75. The ACB reviewed the four private sector transactions undertaken in the last four years, all in the financial sector, and noted reasonable results. The ACB was satisfied that there were no particular issues of concern in any of the transactions. Overall, there have been no portfolio losses, only individual transaction losses that have been offset by the returns.

76. With regard to public sector projects, the ACB reviewed the current portfolio as well as the risk mitigation framework that is in place for project procurement, financial management, and auditing, among others. The ACB noted that in the case of the World Bank's project, the risk mitigation system actually worked since the collusion was caught at an early stage and there was no actual misprocurement. The ACB noted the review's finding that ADB has so far not encountered any problems in the Philippines, although there have been issues in the past due to weak implementation, for example, an executing agency failing to pay due compensation for land acquisition for a road

project. The ACB noted that the public sector portfolio in the Philippines is heavily geared towards policy-based lending (PBL).

77. With regard to good governance and anti-corruption measures related to procurement, the ACB noted the Public Procurement Reform Act and ADB's recent agreements with NGOs, and concluded that the risk mitigation system is robust. The ACB supported the completion of a country-level (and if required, a sector-level) risk assessment for the new Country Strategy and Partnership for the Philippines. The ACB recognized the problems that potential investors face in the Philippines, but was reassured by the Philippine Country Office and PSOD that ADB is trying to mitigate many of the risks through its set of PBL projects at the government and local level.

IX. DISCLOSURE OF THE ACB ANNUAL REPORT

78. Previous Annual Reports of the ACB have been made publicly available. The ACB agrees that the 2007-2008 Annual Report does not contain information that is too sensitive or compromising for public disclosure and recommends that the Board approve its public release.

X. AUDIT COMMITTEE RECOMMENDATIONS

79. For the ACB's next reporting period from 1 July 2008 to 30 June 2009, the ACB recommends the following actions:

- Continue the periodic review of Financial Statements to ensure ADB's strong financial position.
- Review the implementation of an integrated internal control framework and the finalization of Management's Assertion and the Outside Auditor's Attestation on the adequacy of internal controls over external financial reporting, and the publication of the Management Assertion and Audit Attestation Letters in the ADB's 2008 Annual Report.
- Continue to review the activities of ADB's private sector operations.
- Monitor the review and implementation of the whistleblower policy.
- Follow up on the proposal for direct reporting of the Integrity Division to the President.
- Adopt principles for the selection of ADB's Outside Auditor.
- Continue to review the progress towards the establishment of an integrated risk management framework in ADB, under the Risk Management Unit.
- Review the development of a comprehensive risk management framework and revisions to the Risk Management Unit's terms of reference in line with the new framework.

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.

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:

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."

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.

**Audit Committee of the Board (ACB)
Work Program for 2007 – 2008**

22 August 2007	Audit Strategy Memorandum 2007 (PwC) Audit Recommendations Semi Annual Report 2007 (Information Paper) (OAG)
19 September 2007	Condensed Quarterly Financial Statements (as of 30 June 2007) (DOC.R139-07) (CTL) Progress on Attestation Readiness Assessment (CTL) Review of Activities of the Risk Management Unit and progress towards a Risk Management Framework (RMU)
9 October 2007	Outside Auditor's Recommendation and Implementation Report as of 30 June 2007 (OAG) Draft Annual Report of the Audit Committee of the Board 2006-2007
14 November 2007	COSO Framework Update and Selection of Audit Standard (CTL) Travel Services Contract and Mission Travel Accountability and Authorization (OAS, BPMSD) Audit Risk Assessment Methodology (OAG)
12 December 2007	Quarterly Financial Statements (period ending 30 September 2007) (CTL) Clarifications on OAG's Audit Risk Assessment Methodology (OAG) ADB's portfolio and investments in the Philippines (SERD and PSOD)
17 December 2007	Information Session for the ACB: Internal Control Framework over External Financial Reporting and related Management Assertion and Audit Attestation (CTL)
6 February 2008	Review of Non-sovereign Portfolio (RMU) Status of Implementation of OAGF's 2007 Work Program, and OAG Work Program for 2008 together with Statement of Objectives (OAG) Integrity Division 2007 Annual Report (OAG) Expiry of Contract with ADB's Outside Auditor (OAG)
3 March 2008	Review of Risk Management Function (PwC) Working Session on MD&A and Financial Statements (CTL)
5 March 2008	Annual Financial Statements (CTL) Outside Auditor's Internal Control Memorandum 2007 and 2007 Audit Accomplishments (PwC) Outside Auditor's Audit Recommendations and Implementation Report as of 31 December 2007 (OAG, PwC)
11 March 2008	Update on audits of TAs in Afghanistan (OAG)
23 May 2008	Audit Recommendations and Implementation Report as of 31 December 2007 (OAG) Consideration of OAGI's annual report recommendation on the independence of the Integrity Division (OAGI)
3 June 2008	Update on Outside Auditor's report on Review of the Risk Management Function (RMU)
16 July 2008	Consideration of the (draft) Annual Report Consideration of the (draft) 2008-2009 ACB Work Program