

## OPERATIONS MANUAL BANK POLICIES (BP)

*These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.*

### INTERNAL AUDIT

#### A. Introduction

1. Article 8 of the *Agreement Establishing the Asian Development Bank* (the Charter) provides for the resources and facilities of ADB to be used exclusively to implement the purpose and functions set forth respectively in Articles 1 (Purpose) and 2 (Function) of the Charter. Article 14 of the Charter provides the principles governing ADB operations. Specifically, Article 14(xiv) provides for ADB to be guided by sound banking principles in its operations. In view of its organizational position and authority, internal audit plays a significant role in evaluating the effectiveness of ADB's internal control systems.

#### B. Definitions

2. Internal auditing<sup>1</sup> is an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Risk exposure is the likelihood (i) that material errors will occur either due to the absence of related internal controls or as a result of intrinsic limitation in the system of internal controls, and (ii) which could have an impact on the achievement of the organization's objectives. Internal control is a process designed to provide reasonable assurance about the effectiveness and efficiency of the organization's operations, compliance with rules and regulations, and reliability of financial reporting. Governance process includes the procedures used by the organization's stakeholders to provide oversight of risk and control processes administered by management.

#### C. The Policy

3. The authority to carry out the internal audit function is vested in the Office of the Auditor General (OAG), which reports directly to the President and meets periodically with the Audit Committee of the Board of Directors on OAG's work programs, reports, and the status of its recommendations.

4. OAG undertakes independent reviews of ADB operations, encompassing financial, administrative, information technology, and project-related activities, including those relating to loans and technical assistance (TA).

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<sup>1</sup> As defined in the *Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors, January 2002.

#### **D. Scope of the Policy**

5. The primary objectives of internal audit are to (i) ascertain whether ADB assets are properly safeguarded; (ii) assess the reliability and integrity of information and reporting thereof; (iii) verify compliance with established ADB policies, procedures, guidelines, agreements, laws, and regulations; (iv) identify means to eliminate waste and misuse of resources, abuse, and other risks; and (v) recommend improvements relating to efficiency, economy, and effectiveness in the use of ADB resources.

6. In undertaking the internal audit function, OAG is guided by the principles governing ADB operations as embodied in its Charter. OAG undertakes periodic reviews, including audit review missions<sup>2</sup> to ADB's developing member countries to ascertain compliance by borrowers/executing agencies with ADB's loan and TA agreements as well as other regulations and procedures.

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<sup>2</sup> An audit review mission is fielded periodically by the Office of the Auditor General to gain first-hand knowledge of problems and issues confronting operations in the field so that (i) more practical and effective recommendations can be formulated in operations audits; (ii) the implementation status of outstanding recommendations of past operations audit reports can be updated; and (iii) possible areas can be identified for future operations audits aimed at improving ADB's policies, systems, and procedures. The Audit review mission also makes available to ADB an independent assessment of the economy, efficiency, and effectiveness of the Bank's project administration policies and procedures.

- Basis:** This OM section is based on:
- ADB. 2001. *Reorganization of the Asian Development Bank*. Manila
- ADB. 2003. Organizations Bulletin. *Administrative Orders 1.02*. Lotus Notes database LNADBG1. Manila.
- Compliance:** This OM section is not subject to compliance review.
- For inquiries:** Questions may be directed to the Director, Financial, Administration and Information System Division, Office of the Auditor General.

**OPERATIONS MANUAL  
OPERATIONAL PROCEDURES (OP)**

*These procedures were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.*

**INTERNAL AUDIT**

This OM section does not contain operational procedures.

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