Annual Report of the Audit Committee of the Board
2019–2020

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Asian Development Bank
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ACB</td>
<td>Audit Committee of the Board</td>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>BOD</td>
<td>Board of Directors</td>
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<tr>
<td>COVID-19</td>
<td>coronavirus disease</td>
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<tr>
<td>ICFR</td>
<td>internal control over financial reporting</td>
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<tr>
<td>OAG</td>
<td>Office of the Auditor General</td>
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<td>OAI</td>
<td>Office of Anticorruption and Integrity</td>
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<td>OAS</td>
<td>Office of Administrative Services</td>
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<tr>
<td>OCR</td>
<td>ordinary capital resources</td>
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<td>OPC</td>
<td>Office of Professional Conduct</td>
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<tr>
<td>ORM</td>
<td>Office of Risk Management</td>
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<tr>
<td>PSOD</td>
<td>Private Sector Operations Department</td>
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I. INTRODUCTION: COMPOSITION OF THE AUDIT COMMITTEE OF THE BOARD AND MEETINGS

1. This annual report covers the activities of the Audit Committee of the Board (ACB) from 1 July 2019 to 30 June 2020. During this period, the ACB met 15 times and covered 26 agenda items. The composition of the ACB during this period is in Appendix 1; the terms of reference of the committee is in Appendix 3.

2. During the year, the term of two committee members expired. The vacancies were filled promptly to ensure a quorum for all meetings.

3. The ACB met with staff from the Controller’s Department, the Office of the Auditor General (OAG), the Office of Anticorruption and Integrity (OAI), the Office of Risk Management (ORM), the Office of Administrative Services (OAS), and the external auditor (Deloitte & Touche LLP, Singapore) of the Asian Development Bank (ADB). The Treasury Department and the Private Sector Operations Department (PSOD) also regularly contributed to the work of the committee and were invited to attend relevant sessions. The work program is in Appendix 2. In addition to these official activities, the ACB also organized various briefing sessions, particularly on lessons learned from the Bank’s private sector (nonsovereign) operations, and discussions on increasing competitiveness in the selection of the external auditor.

II. CHAIR’S VIEW: KEY ACHIEVEMENTS OF THE AUDIT COMMITTEE OF THE BOARD

4. The ACB had an extraordinary and historic year. Propelled by gains garnered during 2018–2019, much have been achieved with regard to the work program and priority topics and challenges the committee pursued for 2019-2020.

5. The emergence of the coronavirus disease (COVID-19) early this year upended economies throughout the region and the globe, leading to the unprecedented lockdown of ADB headquarters and Manila last March. Nevertheless, the committee’s work continued throughout the lockdown with eight of its 15 meetings during the year being conducted virtually from March to June. The Chair and ACB members have been very active and fully engaged in all of the meetings. The committee worked to ensure ADB’s financial position during its COVID-19 response for its regional members in Asia and the Pacific.

6. The Chair and members also noted the exemplary work of ADB staff and all the departments including OAG, the Controller’s Department, ORM, OAI, OAS, the Information Technology Department, the Treasury Department and the Office of the Secretary. The committee commended ADB’s quick and agile response during the first five months of the COVID-19 crisis. They noted the excellent work of the Office of the Secretary in successfully moving all Board and Committee engagements virtually. This greatly helped the committee and the Board as a whole to seamlessly continue its work, discuss and approve much needed COVID-19 assistance to ADB members. Moreover, the Chair and members greatly appreciated the hard work of the ACB Secretariat in ensuring a smooth transition to a virtual format for all ACB meetings and coordinating all the schedules of its members working from different time zones, setting up learning sessions on the use of virtual platforms, and providing high-quality Chair’s summaries and Annual Report.
The committee also noted the excellent implementation of the Digital Agenda and IT reforms that have enabled staff to work effectively and efficiently during this extraordinarily difficult period. The reforms helped ADB transition to a work-from-home mode while maintaining high productivity and timely deliverables.

7. In addition to its regular work program, the ACB had the following key achievements:

(i) **Oversight and counsel in the management of private sector operations.** At the request of the ACB, a joint session with PSOD and ORM was organized and a deep dive on the operational plan for PSOD was conducted. This initiative helped provide recommendations for PSOD’s action plan for expanding operations for Strategy 2030.

(ii) **Approval of principles for future selection of the external auditor.** During the selection of the FY2019–2023 external auditor in 2018, the ACB requested OAG to continually ensure an expanded and competitive process for selecting subsequent external auditors. A working group, formed by OAG, held extensive discussions throughout the year and submitted a report to the committee that was approved by the Board of Directors (BOD) on 24 April 2020.

(iii) **Completion of the committee’s work on the Respectful Workplace Unit.** The ACB has been following the progress made on the Respectful Workplace Unit since its inception in 2016. Set up to foster a professional and respectful workplace, the unit completed its pilot period in February 2019. A working group reviewed the pilot period and recommended the creation of the Office of Professional Conduct (OPC) on 20 September 2019. With the formation of the OPC, the committee suggested the Human Resources Committee of the Board handle subsequent engagements with the OPC because of the nature of its work.

(iv) **Monitoring of major financial developments and documents of ADB.** The committee has been closely monitoring developments on the Capital Adequacy Framework, which was approved in February 2020 and will be applicable for three years. It also followed the diversification of financing terms that was approved in October 2019.

(v) **Discussion on the London interbank offered rate reform.** The committee expressed continued interest in the transition of the reform, which is due for implementation in January 2021.

(vi) **Exploration and continued discussions on several important finance and risk-related aspects of ADB.** This includes the exchange exposure update, loan charges and income; staff retirement plan, pension system, and management survey; and cybersecurity.

(vii) **Enhancement of the Office of Anticorruption and Integrity’s reporting.** The ACB requested OAI to enhance its reporting by adding specificity and important
details to its regular quarterly updates to the committee. The committee appreciated OAI’s action and its enhanced quarterly updates.

(viii) **Updating of the committee’s terms of reference.** The committee’s current terms of reference was approved in 2010. To ensure good governance, the committee pursued updating the document. The final draft of the TOR has undergone a rigorous and exhaustive process. The Chair and members have provided the impetus and inputs for the draft with the Office of the General Counsel providing legal guidance. To gather feedback and inputs, the ACB Secretariat interfaced and worked with concerned departments such as OAG, the Controller’s Department, ORM, OAS, OAI, the Information Technology Department, the Treasury Department, and PSOD. The draft was also endorsed by Management. The terms-of-reference work concluded with the Chair sending a report to the Board with recommendations on the way forward.

### III. INTERNAL AUDIT

8. The ACB reviewed the following reports of OAG:

   (i) OAG’s biannual reports for the periods ending 30 June 2019 and 31 December 2019, and

   (ii) OAG’s 2020 internal audit work program.

A. **Office of the Auditor General’s Biannual Reports**

9. The committee considered and endorsed OAG’s biannual reports for 2019. The ACB congratulated OAG for the completion of its 2019 work program and underscored that at the end of December 2019, the overall implementation rate was at 100% compared to 88% in June 2019.

10. At the end of 2019, OAG had completed and delivered the 2019 work program within budget, with the completion of 21 engagements comprising 13 audits and eight advisories; one engagement (the vacancy-driven promotion audit requested by the ACB) was carried over to the 2020 audit. In the second half of the year, OAG issued seven final reports and completed seven advisories. The six audit reports issued in December 2019 will be reported in the June 2020 Biannual Report. There were no past due recommendations.

11. Moreover, on behalf of the committee, OAG reviewed the non-audit service proposals submitted by the external auditor, Deloitte, for potential conflicts of interest and ensured that the non-audit contracts awarded to Deloitte in 2019 did not exceed the mandatory limit set by the committee.

B. **Office of the Auditor General’s 2020 Internal Audit Work Program**

12. The committee noted OAG’s 2020 work program, which outlined OAG’s audit and advisory services for the year. OAG incorporated all the tentative audit and advisory engagements previously discussed with the committee.

13. OAG proposed 15 audits and four advisory services for 2020 to cover areas such as the following: audits of country portfolios for Pakistan and the Lao People’s Democratic Republic;
project preparation and administration processes in the finance sector and education sector; recruitment, management, and evaluation processes of consultants funded by technical assistance projects; administration and reporting processes relating to the Pacific Renewable Energy Facility; trade finance and supply chain finance programs; and the microfinance risk participation and guarantee program. Other audits proposed covered finance and risk, information technology (i.e., audit of the Digital Agenda 2030), compliance with SWIFT customer security controls framework, special capital expenditure projects, trust fund financing and administration, and the vacancy-driven promotions. The proposed advisory services focused on financial model governance, disaster recovery testing, outposting, and the strategic placement of procurement specialists; and the internal audit capacity of public sector institutions.

14. The committee endorsed the work program for 2020 with the provision that if issues arise from OAG’s ability to conduct its work because of COVID-19, OAG will inform the committee and suggest where adjustments can be made, including with resources.

15. On 13 March 2020, the President approved the 2020 internal audit work program.

C. Increasing Competitiveness in the Selection of Future External Auditors

16. In 2018, the ACB requested OAG during the selection of the FY2019–2023 ADB external auditor to continually ensure an expanded and competitive process for the selection of subsequent external auditors. OAG created a working group to conduct research and discuss ways to pursue this objective. Discussions on findings and recommendations were held with the ACB in 2019 and early 2020. The ACB endorsed the group’s report, and OAG submitted it to the BOD. The BOD approved it on 24 April 2020.

17. The committee acknowledged the hard work of OAG and the working group and thanked it for the work it had undertaken from 1 July 2019 to 30 June 2020.

IV. ENGAGEMENT WITH THE EXTERNAL AUDITOR

18. The committee met with Deloitte & Touche LLP, Singapore three times and reviewed the following reports the external auditor submitted:

(i) Interim Update on 2019 Attestation and Statutory Audit,
(ii) Report on the 2019 Audit of ADB, and
(iii) 2020 Audit Service Plan and Accomplishments in 2019.

A. Interim Update on the 2019 Attestation and Statutory Audit

19. The external auditor reported that no significant deficiencies were identified during the interim internal control testing. It emphasized that Management has been fully supportive of the whole process.

B. Report on the 2019 Audit of ADB

20. The committee acknowledged the external auditor’s report on the audit of ADB for the financial year ending on 31 December 2019. Deloitte performed an integrated audit of ADB’s financial statements to ensure they complied with the United States Generally Accepted Accounting Principles and opined that ADB’s internal control over financial reporting was effective.
21. The committee also noted that ADB has updated its relevant accounting policies in relation to various accounting standards effective for annual periods beginning on or after 1 January 2019. The external auditor concluded that ADB’s accounting policies are appropriate, adequately disclosed, and consistently applied by Management.

C. 2020 Audit Service Plan and the Coronavirus Disease

22. The committee welcomed the external auditor’s 2020 audit service plan. The service plan includes the following: (i) financial statement audits for the year ending on 31 December 2020 in accordance with the United States Generally Accepted Accounting Principles, and the audit of ADB’s internal control over financial reporting (ICFR) as of 31 December 2020 (except the ADB Institute); (ii) an information statement review for bond issuances; (iii) ADB’s staff retirement plan; (iv) trust funds and donor-financed projects; and (v) value-added service commitment.

23. The committee also welcomed the external auditor’s plans to tailor its 2020 audit plan to address how COVID-19 and the corresponding disruptions will affect its risk assessment, audit procedures, and the timing of audit. The external auditor committed to developing alternative work arrangements together with ADB so it can continue to perform audit procedures should work-from-home or similar arrangements be reintroduced.

V. THE FINANCIAL STATEMENTS

24. The ACB reviewed the quarterly and annual financial statements, and the 2019 Management report on ICFR.

25. The committee met and discussed ADB’s 2019 financial statements and the external auditor’s report with staff from the Controller’s Department and the external auditor on 6 March 2020.

26. The ACB reviewed the external auditor’s opinions on the annual financial statements, the appropriateness of accounting principles applied to the financial statements and related disclosures, and Management’s report and the external auditor’s opinion on ICFR. The committee noted that the external auditor expressed a clean opinion on the financial statements and eight special funds.

27. The annual financial statements included Management’s report that ADB’s ICFR was effective for 2019. The external auditor audited ADB’s ICFR and did not identify any significant deficiencies or material weaknesses and expressed a clean opinion on ADB’s ICFR.

28. The committee noted the 2019 financial statements showed strong results with good operating income and net income. The financial position of ordinary capital resources (OCR) remained sound as reflected in the balance sheet. The OCR operating income increased to about $1.1 billion in 2019 compared to $889 million in 2018. The increase mainly resulted from the continued growth of lending operations, increased revenue of liquidity investments, and lower loan loss provisions. OCR net income also increased to $1.55 billion in 2019 from $750 million in 2018 because of higher operating income and unrealized gains from fair value changes of financial instruments. The overall lending operations also continued to show robust growth, which led to higher commitments and disbursements.
29. The ACB also noted that the new loan loss provisioning policy (the current expected credit loss), which became effective on 1 January 2020, was successfully implemented through close collaboration with several departments, and the appropriate quantitative disclosure was included in the 2019 financial statements.

30. The committee recommended to the BOD that the 2019 annual financial statements be submitted to the Board of Governors for approval. The BOD approved the statements, and the Board of Governors approved them and the net income allocation of the Bank on 22 May 2020 during the Business Session of the Annual Meeting (1st stage) held virtually from Manila.

VI. ANTICORRUPTION AND INTEGRITY: QUARTERLY UPDATES AND ANNUAL REPORT

31. The committee acknowledged the good work of OAI in 2019. In 2019, OAI received 290 complaints, an 18% increase from 2018. OAI improved its efficiency in complaints assessment and investigative processes, and adopted a new case management system. Compared to 2018, OAI achieved a 16% increase in the number of complaints assessed and closed (219 complaints). OAI also achieved a 93% increase in the completed investigations of integrity violations (110 investigations), with remedial action taken in 81 of the cases.

32. In 2019, ADB debarred 131 parties and issued 104 reprimands and cautions (more than double the number from 2018). OAI also issued eight integrity reviews (five reports for proactive integrity reviews started in 2018) and three reports for reviews conducted in the same year. Moreover, OAI conducted integrity due diligence on 954 entities that were either involved in potential ADB projects or events in 2019.

33. The committee also noted that OAI is working with the Budget, Personnel, and Management Systems Department and the Office of the General Counsel on the launch of the OPC. In 2019, the Respectful Workplace Unit reviewed 155 different matters raised by staff or requests for advice; of these, 135 were closed. As of the end of 2019, nine investigations and 11 advisories were still under review.

34. In addition, the committee acknowledged OAI’s proactive activities in terms of knowledge and communications, and awareness raising among ADB staff. In 2019, OAI presented or hosted 98 learning events in which more than 8,700 participants attended. It also celebrated the annual International Anticorruption Day with President Nakao and guest speakers from the Association of Southeast Asian Nations’ Corporate Social Responsibility Network and private sector collective action against corruption.

VII. RISK MANAGEMENT OVERVIEW

35. The ACB reviewed ORM’s quarterly presentations on key portfolio developments. It noted that the COVID-19 pandemic has increased uncertainty in the global macroeconomic environment. The adverse effects of the pandemic will continue to be felt across Asia and the Pacific throughout 2020 and beyond, and the global and regional economic outlooks remain highly uncertain. Nonetheless, ADB is well-capitalized and able to absorb stress from the crisis.

36. The committee also acknowledged ADB’s measures to address the pandemic and how its response has helped staff to continue working, including field offices and resident missions. ADB has activated its pandemic crisis management team that coordinates and implements protective measures guided by the Pandemic Crisis Management Plan, including enhancing security
procedures and facilities, introducing alternative working arrangements, and establishing information dissemination channels.

37. Moreover, the committee noted that following ADB’s introduction of the $20 billion comprehensive COVID-19 response package in April 2020, commitments have picked up significantly. Over $8 billion of loans and grants have been disbursed. Financing not related to COVID-19 is expected to pick up in the second half of 2020 from sovereign and nonsovereign operations.

VIII. BUSINESS CONTINUITY AND DISASTER PREPAREDNESS

38. The ACB commended the massive undertaking and work of the Organizational Resilience and Security Division, especially since the lockdown of Manila because of COVID-19. As Chair of the pandemic crisis management and response team, OAS has been spearheading the necessary initiatives since ADB headquarters went on lockdown on 11 March 2020. It has taken a One ADB approach and worked with various departments to ensure staff is safe and secure.

39. The committee also noted the various achievements made on business continuity and disaster preparedness during 2019–2020, including the following:

   (i) Key achievements of business continuity and resilience programs:
       (a) the business continuity tabletop exercise of the regional departments, the Office of the General Counsel, Procurement, Portfolio and Financial Management Department, and PSOD;
       (b) the annual integrated business continuity drill of the financial departments with the Department of Communication, the Information Technology Department, and OAS;
       (c) the Business Continuity Management System internal assessment; and the commenced study on strengthening organizational resilience by addressing concentration risks at ADB headquarters.

   (ii) Planned and ongoing major initiatives:
       (a) finalization of the business impact analysis and risk assessments and business continuity plans in preparation for the ISO22301:2012 recertification audit, and
       (b) updated road map for the implementation of the organizational resilience framework.

   (iii) Key achievements of emergency and security services:
       (a) expanded trainings on personal and family emergency preparedness, first aid and basic life support, fire safety and prevention, women’s security awareness, local security assistant course, crisis management team training; and
       (b) expanded exercises on crisis management and a mass casualty incident exercise.

40. Some of the ongoing and planned activities for 2020 include implementing the enhanced access control project and the fire management system upgrade project, upgrading and
integrating the resident missions’ CCTV systems with headquarters’ security operations center, and distributing hard hats and emergency reference materials in headquarters.

IX. AUDIT COMMITTEE WORK PROGRAM, 2020–2021

41. For the next reporting period (1 July 2020–30 June 2021), the ACB will include the following priority topics in its work program:

   (i) ADB follow-up items: capital adequacy framework and financial model in the context of the comprehensive response to COVID-19; financial statements and Treasury reports in the context of COVID-19; COVID-19 related issues (staff security, capacity to deliver on internal and external audits); audit on vacancy-driven promotions; staff retirement plan; the London interbank offered rate reform in 2021; recruitment issues and associated risks, exchanges of exposures agreement, debt service suspension initiative, and related international developments; and trust funds.

   (ii) The committee-specific initiative: approval of the final draft ACB terms of reference (proposal by the ACB for Board approval).

X. RECOMMENDATION TO THE BOARD

42. The ACB recommends that this annual report be publicly disclosed after its consideration by the ADB Board of Directors.
COMPOSITION OF THE AUDIT COMMITTEE OF THE BOARD
1 July 2019 – 30 June 2020

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<th>Country</th>
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<tr>
<td>Pierre-Emmanuel Beluche</td>
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<th>Members</th>
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<tr>
<td>Syurkani Ishak Kasim¹</td>
<td>Indonesia</td>
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<tr>
<td>Takeshi Kurihara</td>
<td>Japan</td>
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<tr>
<td>Leena Viljanen¹</td>
<td>Finland</td>
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<tr>
<td>Jason Chung</td>
<td>United States</td>
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<tr>
<td>Bayrammuhammet Garayev²</td>
<td>Turkmenistan</td>
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¹ Term as member of the Audit Committee of the Board ended on 30 June 2020.
² As required for a quorum or any other purpose, the respective constituency alternate director will sit as an interim member until the director starts (India will serve the next term).
## AUDIT COMMITTEE OF THE BOARD: WORK PROGRAM FOR 2019–2020

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<tr>
<th>Date</th>
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| 3 September 2019| - Quarterly update from the Office of Anticorruption and Integrity as of 30 June 2019 (OAI)  
- Work program for the ACB, 2019–2020 |
| 6 September 2019| - Quarterly financial statements as of 30 June 2019 (Controller’s Department)       |
| 3 October 2019  | - Risk management quarterly presentation as of 30 June 2019 (ORM)                  
- OAG’s biannual report as of 30 June 2019 (OAG) |
| 9 October 2019  | - Update on business continuity and disaster risk management (OAS)                
- Review of ADB’s Loan Loss Provisioning Policy (Controller’s Department)  
- Joint session on lessons learned on nonsovereign operations portfolio (ORM and PSOD) |
| 28 November 2019| - External auditor’s interim update on the 2019 attestation and statutory audit (external auditor)  
- Quarterly financial statements as of 30 September 2019; and update on the 2019 assertion on internal control over financial reporting (Controller’s Department) |
| 10 December 2019| - Quarterly update from the Office of Anticorruption and Integrity as of 30 September 2019 (OAI)  
- Risk management quarterly presentation as of 30 September 2019 (ORM)  
- Discussion paper on increasing competitiveness in ADB’s external auditor selection (OAG) |
| 28 February 2020| - Tentative 2020 internal audit work program (OAG)                                |
| 6 March 2020    | - Working session on financial statements; and 2019 assertion and attestation on the internal control framework (Controller’s Department)  
- Report on the 2019 audit of the Asian Development Bank (external auditor) |
| 18 March 2020   | - Update on business continuity and disaster risk management (OAS)                
- Principles for the selection of the external auditor (OAG)                   |
| 29 March 2020   | - Risk management quarterly presentation as of 31 December 2019 (ORM)            
- Office of Anticorruption and Integrity 2019 Annual Report (OAI)              |
| 6 April 2020    | - OAG’s biannual report as of 31 December 2019; and 2020 Internal Audit Work Program (OAG) |
| 14 May 2020     | - Quarterly update from the Office of Anticorruption and Integrity as of 31 March 2020; and the Respectful Workplace Unit and benchmarking update (OAI) |
| 28 May 2020     | - External auditor’s 2020 audit service plan (external auditor)                   |
| 9 June 2020     | - Quarterly financial statements as of 31 March 2020 (Controller’s Department)    |
| 28 June 2020    | - Risk management quarterly presentation as of 31 March 2020 (ORM)               


* Dates are subject to change based on matters arising from the Audit Committee of the Board meetings. Meetings of the Audit Committee of the Board are scheduled at 2:00 p.m. unless otherwise specified.
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 matters such as ADB’s financial reporting and audits, including internal controls and risk management, in line with Article 31 of the Agreement Establishing the Asian Development Bank.

1. AUTHORITY

1.1 In discharging its oversight functions over matters within the scope of its responsibilities, the Audit Committee of the Board (the Committee) is authorized to:
   (i) Perform activities within the scope of its terms of reference.
   (ii) Seek any pertinent information from 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, risk management and internal controls, anti-corruption and integrity, and financial matters it has identified from staff member(s) designated by the President, including such staff that the Committee 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/or dismissal.
   (vii) Consider the independence of the Outside Auditor, including the provision of nonaudit services by the Outside Auditor to ADB.

2. COMPOSITION AND TENURE

2.1 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 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 functions. Members of the Audit Committee should have a working familiarity with

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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."
basic finance, accounting, governance, internal audit, and risk management practices and principles and are strongly encouraged to enhance their familiarity with them by participating in educational programs. In circumstances where the Committee requires specific advice and assistance to be able to perform its functions and such advice and assistance are not available to the Committee members, including from within ADB if appropriate, the Committee may request the President to engage such outside expertise and provide the necessary resources, which shall not be unreasonably withheld, 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 as well as Directors’ Advisors may attend meetings of the Committee as observers.\(^2\)

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 its Terms of Reference for possible adjustments as conditions dictate and recommend necessary amendments to the Board of Directors for approval. The Committee shall assist the Board of Directors in overseeing ADB’s finances, accounting, internal control and risk management (including information technology systems and reputational risk), anticorruption and integrity, and how these are being managed and how accountabilities are being enforced. The Committee shall satisfy itself that ADB’s financial reporting and audits, including internal control and risk management, are adequate and efficient. In this regard, the Committee 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 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

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\(^2\) Observers may participate in the deliberations at the invitation of the Committee
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 requested by the Committee and/or designated by the President, upon completion of the annual external audit and 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 through Management’s Discussion and Analysis (MD&A). Discussions will include Management’s Assertion on Internal Controls over Financial Reporting and the Outside Auditor’s Attestation thereof. The Committee will report on such discussions to the Board of Directors.

4.4 Meet with the Controller and Auditor General on a periodic basis to discuss any matters of concern in the context of the financial information and MD&A, internal control over financial reporting and the assertion/attestation process.

4.5 Meet annually with the Outside Auditor to discuss Management’s Assertions with respect to the adequacy and appropriateness of internal control over financial reporting, and the Outside Auditor’s attestation, including any significant deficiencies and/or material weaknesses in accordance with ADB’s adopted attestation standard.

4.6 Meet with the General Counsel to discuss any significant pending litigation that may have a material impact on ADB’s financial condition. Notwithstanding the foregoing, the Committee will be informed on a timely basis of any such litigation.

B. Outside Audit

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

4.8 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.

4.9 Review and discuss the performance of the Outside Auditor and recommend to the Board of Directors for approval the appointment, reappointment for a contract period, or termination of the engagement of the Outside Auditor. Engagement or reappointment of the Outside Auditor will be in line with the Principles for the Selection of the Outside Auditor.

4.10 Review and obtain a statement from the Outside Auditor to confirm annually the independence of the Outside Auditor. Consider the provision of any other services by the Outside Auditor in accordance with the Principles for the Selection of the Outside Auditor.

4.11 Review and discuss the annual report from the Outside Auditor as a confidential document, and ensure that significant deficiencies and/or material weaknesses identified by the Outside Auditor as well as other findings and recommendations made by the Outside Auditor and Management’s responses thereto, are reviewed, discussed and appropriately acted upon. The Committee shall review any recommendations and Management’s responses thereto, including their accompanying timetables, to address significant deficiencies and/or material weaknesses and to improve or establish necessary controls.

4.12 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

4.13 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.

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

4.15 Review and discuss, at least semi-annually, an internal audit activity report, which includes a summary of recent audit reports and recommendations, the current inventory of outstanding audit recommendations and the implementation progress of outstanding high risk audit recommendations. Ensure that significant internal audit findings and recommendations and Management’s responses thereto are considered. Notwithstanding the foregoing, the Committee will be informed of any significant audit findings on a timely basis.

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

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

D. Risk Management and Internal Control

4.18 Review and discuss the efficiency, 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. Review and discuss pension fund related matters that may impact the financial statements.

4.19 Review and discuss with the Controller, Auditor General, Head of the Office of Risk Management (Head, ORM), Chair, Risk Committee, Treasurer, and Outside Auditor, issues with respect to financial systems efficiency and effectiveness of administrative procedures, and review of internal control over financial reporting, including significant findings and recommendations and Management’s responses thereto.

4.20 Meet at least quarterly with Head, ORM to review and discuss the adequacy of ADB’s risk management functions in order to ensure that appropriate risk management functions are in place.

4.21 Meet at least quarterly with Head, ORM to review and discuss assessments of ADB’s risk exposure. The Committee will be informed of any significant changes in assessments of ADB’s risk exposure on a timely basis.

4.22 Receive prior advice on the engagement or appointment of, and on any intended removal of, the Head, ORM.

E. Anticorruption and Integrity Measures

4.23 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.

4.24 Meet at least quarterly with Office of Anticorruption and Integrity (OAI) to discuss activities and outcomes of the anticorruption function including cases where findings indicate systemic control weaknesses, or where the findings are of such character that could constitute a reputational risk for ADB. Notwithstanding the foregoing, the Committee will be informed of any significant investigation findings on a timely basis.

4.25 Receive prior advice on the engagement or appointment of, and on any intended removal of, the Head, OAI.

F. Reporting Responsibilities

4.26 The Committee shall:

(i) Report to the Board of Directors annually, through the Chair of the Board, on its activities and submit conclusions and/or recommendations to the Board, which shall not be unreasonably withheld by the Chair of the Board, as the Committee deems appropriate.

(ii) Update the Board of Directors about the Committee’s activities, as appropriate.

(iii) Ensure that 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.