

Terms of Reference of the Audit Committee

1. PURPOSE

1.1 The Audit Committee is appointed by the Boards, including the MIGA Board of Directors to the extent separately authorized by the MIGA Board, for the primary purpose of assisting the Boards in overseeing the World Bank Group's finances, accounting, risk management and internal controls, including:

- (i) the integrity of financial statements for IBRD, IDA, IFC and MIGA and financial reporting related to trust funds;
- (ii) the appointment, qualifications and independence of the External Auditor;
- (iii) the performance of Internal Audit and of the External Auditor;
- (iv) the adequacy and effectiveness of financial, accounting and administrative policies and internal controls (including mechanisms for dealing with fraud and corruption); and
- (v) the effective management of financial, fiduciary (including procurement procedures), compliance and administrative risks in IBRD, IDA, IFC and MIGA, including trust funds.

1.2 Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, IBRD's, IDA's, IFC's and MIGA's policies, procedures and practices at all levels. The Audit Committee should also provide an open avenue of communication with the External Auditor, financial and senior management, Internal Audit, the unit responsible for institutional integrity, risk management functions and the Boards.

2. COMPOSITION AND MEETINGS

2.1 Audit Committee members, who for the purpose of this paragraph include alternates and temporary alternates, as designated by individual chairs, shall be free from any relationship that, in the opinion of the Boards would, interfere with the exercise of their independent judgment as a member of the Audit Committee. All members of the Audit Committee shall have a working familiarity with basic finance, accounting governance, internal audit, and risk management practices and principles and are encouraged to enhance their familiarity with them by participating in educational programs. The Audit Committee shall perform from time to time an annual self-assessment relative to the Audit Committee's purpose, duties and responsibilities outlined herein.

2.2 The Audit Committee shall meet periodically in separate executive or, where specifically required, closed sessions with management, the Auditor General, the External Auditor and the head of the unit responsible for institutional integrity to discuss any matters that the Committee or any of the foregoing believes should be discussed privately.

3. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties, the Audit Committee shall:

3.1 Financial, Fiduciary and Administrative Policies

3.1.1. Review financial policies and other matters having a significant bearing on financial sustainability, portfolio concentration, credit risks, financial risks and exposures, reserving and loan-loss provisioning and the allocation of net income, as well as the integrity of the World Bank Group's financial reporting and risk management processes.

3.1.2. Review fiduciary aspects of activities, undertakings, and policies of the World Bank Group institutions, focusing in particular on effectiveness and integrity.

3.1.3. Review administrative policies with a focus on the adequacy and reasonableness of controls.

3.2 Documents and Reports

3.2.1. (a) Review and discuss with management IBRD's, IDA's, IFC's and MIGA's quarterly and annual financial statements.

(b) Review prior to their release, other relevant and significant reports or financial information (including press releases) submitted by IBRD, IDA, IFC and MIGA to any governmental body, analysts, underwriters, or the public, including management assertions (Committee of Sponsoring Organizations (COSO) and financial statements assertions) and relevant reports submitted by the External Auditor (or summaries thereof).

3.2.2. Recommend annual financial statements for approval to the Boards; review with financial management and the External Auditor the financial statements prior to their publication.

3.2.3. Receive regular activity reports from Internal Audit, the unit responsible for institutional integrity, risk management functions, treasury operations (including information on off-balance sheet exposures) and legal (including any legal matter that could have a significant impact on the organization's financial statements).

3.2.4. Review periodically for possible update these Terms of Reference, and recommend any necessary amendments to the Boards for approval.

3.3 External Auditors

3.3.1. Review the performance and recommend to the Boards for approval the appointment, compensation, removal and plan for the work performed by the External Auditor for audit and audit-related services, in accordance with the "Principles Applicable to the Appointment of an External Auditor for the World Bank Group", approved by the Boards in January 2003 (R2003-0005/1, IDA/R2003-0010/1, IFC/R2003-0011/1 and MIGA/R2003-0002/1).

3.3.2. Review and confirm at least annually the independence of the External Auditor by obtaining statements from the External Auditor on relationships it has with the World Bank Group; review annually the Board-approved additional audit-related services provided by the External Auditor to the World Bank Group.

3.3.3. Review annually with the External Auditor, as part of the year-end audit, the External Auditor's management letter, any problems or difficulties and management's response; review the annual External Auditor attestations and report on management's internal control report; and hold an annual discussion in executive session with the External Auditor regarding all critical accounting policies and practices that have been discussed with management.

3.3.4. At least annually, obtain and review a report by the External Auditor describing its internal quality procedures and any material issues raised by the most recent quality control review. In addition, obtain updates from the External Auditor, as necessary, in connection with any material issues raised by regulators or other authoritative bodies in connection with the External Auditor's practice as a public accountant.

3.4 Financial Reporting Processes and Accounting Policies

3.4.1. Meet with representatives of management on a periodic basis to discuss any matters of concern arising from the process to assist the President and senior management in the disclosure of financial information and the annual COSO assertions.

3.4.2. Review with management major issues regarding accounting policies and financial statement presentations, including any significant changes in IBRD's, IDA's, IFC's and MIGA's selection or application of accounting principles, and major issues regarding the adequacy of internal controls over IBRD, IDA, IFC and MIGA and trust funds and any special steps adopted in light of potential significant or material control deficiencies.

3.5 Risk Management

3.5.1. Meet regularly with those responsible for risk assessment and risk management; such discussions should include the fiduciary aspects of and risks related to IBRD's, IDA's, IFC's and MIGA's major exposures in the areas of finance, accounting, operations, trust fund management and administration and stakeholder confidence, and the appropriateness and effectiveness of such functions and strategies for managing or mitigating exposures.

3.5.2. Review management's actions to ensure that appropriate risk management functions are in place, and meet regularly with those responsible for risk management functions to exercise oversight.

3.6 Supreme Audit Institutions

3.6.1. Ensure appropriate oversight for audits of the World Bank Group by Supreme Audit Institutions (SAIs) and monitor communication with these SAIs on behalf of the Board in accordance with "A Framework for Audits by the World Bank Group Members' Supreme Audit Institutions" (R2000-234/1).

3.6.2. Receive regular reports from management on requests for audits by SAIs and liaise appropriately with the Multilateral Audit Advisory Group as described in the above-mentioned framework.

3.7 Anti-Fraud and Anti-Corruption Measures

3.7.1. Review and recommend to the Board(s) for approval provisions to ensure that the World Bank Group has established and maintained appropriate, efficient and consistent procedures for the confidential and anonymous receipt, retention and treatment of complaints and anonymous submissions from World Bank Group employees or others regarding fraud and corruption, unethical behavior, or questionable accounting or auditing matters.

3.7.2. Review and discuss with the head of the unit responsible for institutional integrity its annual report and work program for the coming year.

3.7.3. Meet quarterly with the head of the unit responsible for institutional integrity to receive updates on the significant activities and outcomes of this unit, in executive session or closed session if required. Periodically review, with the head of the unit, the operations, organizational structure, budget, staffing, and responsibilities of the function.

3.7.4. On a regular basis and not less than quarterly, meet in closed session with the head of the unit responsible for institutional integrity to discuss any matter that the Audit Committee or the head believes should be discussed in this format.

3.7.5. At its discretion, meet with the head of the unit responsible for institutional integrity, between regularly scheduled meetings, as deemed necessary, to discuss management plans to address cases, fraud-related or otherwise, related to the reputational and/or financial standing of IBRD, IDA, IFC and MIGA, especially those of possible public interest, in executive session or closed session if required.

3.7.6. Review periodically the role and functions of the Sanctions Board (including the appointment and removal of its members) and other sanctions-related staff and units.

3.7.7. Consult with management with respect to the Independent Advisory Board (IAB) Terms of Reference and selection criteria; refer matters to the IAB, seek the IAB's advice and consult with the IAB according to its Terms of Reference; participate in the process for selecting, renewing, and removing the IAB's members, according to the selection criteria; be regularly updated on the nature and scope of the IAB's activities and on significant developments relating to the IAB's activities, and receive and review annual reports and periodic evaluation reports on its activities.

3.8 **Internal Audit**

3.8.1. The Audit Committee shall assist the Boards in the selection and removal process for the Auditor General as follows, reporting to the Boards and recommending Board actions as appropriate:

- (a) In light of the important relationship between the Audit Committee and the Auditor General, and as a part of the Audit Committee's and the Board's oversight function and on behalf of the Boards, oversee the processes of selection, replacement and removal of the Auditor General, as follows:¹
 - (i) Participate in, review and advise on the selection of the Auditor General, including participation by the Chair and the Vice Chair of the Audit Committee or another member designated by the Chair in the candidate shortlisting process and on the interview panel for short-listed candidates and consultation by these members with the other Committee members during the process;
 - (ii) Participate in, review and advise on any intended replacement or removal of the Auditor General prior to the end of his/her term of appointment, at least 30 days in advance of any such action being taken, unless waived by the Committee, in order to give the Committee sufficient opportunity to consider the reasons therefore and to meet with the Auditor General if it considers such action appropriate; and

¹ This provision on appointment, replacement and removal of the Auditor General is subject to further review.

- (iii) Refer any intended replacement or removal to the Board for full consideration of the matter if it considers such action appropriate.

3.8.2. Review and recommend to the Boards for approval Terms of Reference of Internal Audit; periodically review, with the Auditor General, the operations, organizational structure, budget, staffing and responsibilities of the function.

3.8.3. Review and recommend annually to the Boards for approval the Internal Audit work program; request, as circumstances dictate, that specific audits be added to this program.

3.8.4. Review a summary of the reports to management prepared by Internal Audit and management's response and be regularly briefed on the status of subsequent actions; have access to full audit reports on request.

3.8.5. Review and discuss regularly internal controls over operations and compliance to determine whether such controls are in place and are functioning properly in an effort to prevent misuse of funds and to ensure compliance with key provisions of IBRD's, IDA's, IFC's and MIGA's charters and policies relating to financial operations, reporting, and management, including trust funds.

3.8.6. On a regular basis and not less than quarterly, meet in closed session with the Auditor General to discuss any matter that the Audit Committee or Internal Audit believes should be discussed in this format, including any significant difficulties, disagreements, or delays with management, or scope restrictions encountered in the course of internal audit work.

3.8.7. At its discretion, meet with the Auditor General on specific matters between regularly scheduled meetings, as deemed necessary.

3.8.8. Review the effectiveness of the internal audit function, including any plans for and results of external assessment of quality and compliance with the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors.

3.9 Management and Organization of Risk Management and Finance Functions

3.9.1. Review and discuss periodically with management how IBRD's, IDA's, IFC's and MIGA's organizational structures ensure the continued integrity of financial management and reporting and the continued adequacy of the governance, risk management, internal controls framework and accounting policies in the respective institutions, taking into account any prospective changes involving these key areas then under consideration by management.