

Terms of Reference of the Audit Committee (Revised)

1. PURPOSE

1.1 The Audit Committee is appointed by the Boards for the primary purpose of assisting the Boards in overseeing the World Bank Group's (WBG) finances, accounting, risk management, internal controls and institutional integrity, 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 and the mechanisms to deter, prevent and penalize fraud and corruption in WBG operations and corporate procurement;
- (v) the effective management of financial, fiduciary (including procurement procedures), compliance and administrative risks in IBRD, IDA, IFC and MIGA, including trust funds; and
- (vi) institutional arrangements and processes for risk management across WBG institutions.

1.2 Consistent with these functions, 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 maintain an open avenue of communication with Senior Management, Finance teams, the External Auditor, the Group Internal Audit Vice Presidency (GIA), the Integrity Vice Presidency (INT), the Group Chief Risk Officer (CRO) 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 should 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.

2.2 The Audit Committee shall perform periodic self-assessment relative to its purpose, duties and responsibilities outlined herein and recommend any necessary amendments to these TORs to the Boards for approval.

2.3 The Audit Committee shall meet at its discretion in executive or closed sessions to discuss any matters that the Committee believes should be discussed privately. Attendance at these sessions will be at the discretion of the Chair of the Committee. In general, but not exclusively, this provision will apply with respect to discussions with the INTVP, Auditor General or External Auditor.

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. Review and discuss with Senior Management IBRD's, IDA's, IFC's and MIGA's quarterly and annual financial statements and recommend annual financial statements to the Board for approval. Review prior to their release, other relevant and significant reports or financial information submitted by IBRD, IDA, IFC and MIGA to any governmental body, external analysts, underwriters, or the public, including management assertions on the effectiveness of internal control over external financial reporting and relevant reports submitted by the External Auditor, Auditor General or INT.

3.2.2. Receive regular activity reports from GIA, INT, CRO and the financial operating units, as necessary to meet the Committee's obligations as contained in these TORs.

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 the External Auditor's management letter, any problems or difficulties and management's response, including management's accompanying timetables to address the deficiencies, significant deficiencies and/or material weakness and to improve or establish necessary controls; 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. Oversee the process for preparing and disclosing financial information and the annual COSO (*Committee of Sponsoring Organizations of the Treadway Commission*) assertions.

3.4.2. Review as necessary 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 Management and Organization of Risk Management

3.5.1. Oversee the establishment, maintenance and ongoing operation of WBG systems to ensure proper management and reporting of financial, fiduciary (including procurement procedures), compliance and administrative risks. Risks subject to the Committee's oversight include the fiduciary and other 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, effectiveness and integrity of such functions and strategies for managing or mitigating exposures, including the ability of the CRO to function independently in identifying and reporting risks under the CRO's mandate to the Audit Committee.

3.5.2 The appointment of the CRO should be made by the President from a panel of candidates, after seeking the advice of the Audit Committee.

3.5.3 The AC will be consulted before any decision to remove the CRO, prior to the end of their term, including an explanation of grounds for removal.

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).

3.7 Anti-Fraud and Anti-Corruption Measures

3.7.1. Oversee the creation, maintenance and ongoing operation of 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. Oversee the ongoing operation of the WBG Sanctions Regime. Review and advise on INT’s annual report and work program.

3.7.3 Assist the Boards in the selection and removal process of the Integrity VP as detailed in the document entitled “*Audit Committee Role in Selection and Removal of Auditor General and INTVP.*”

3.8 **Group Internal Audit**

3.8.1. Oversee the establishment, maintenance and ongoing operations of the Internal Audit function. This oversight will specifically include the review and recommendation to the Board for approval of the Terms of Reference, the annual work program and budget of GIA.

3.8.2 Review the results of GIA assurance reports, their implications for the risk and control environment in the WBG, and the implementation of the resulting Management Action Plans.

3.8.3 Assist the Boards in the selection, evaluation and removal process for the Auditor General as detailed in the document entitled “*Audit Committee Role in Selection and Removal of Auditor General and INTVP.*”

Audit Committee Role in Selection and Removal of Auditor General and INTVP

In light of the important relationship between the Audit Committee (AC) and the Auditor General and the INTVP, respectively, and as a part of the AC's oversight function and on behalf of the Boards, the AC will oversee the processes of selection, replacement and removal of these two positions, as follows:

Selection

1. The Vice President, Human Resources, will consult with the AC on the selection of an external executive recruitment firm to manage the process for identifying suitable candidates and preparing the long list for consideration of the Selection Committee. This consultation will include the terms of reference for the relevant position, including the core competencies and the key criteria for identifying suitable candidates.
2. A Selection Committee will work closely with the external executive recruitment firm to identify suitable candidates for the respective positions. The Selection Committee will consist of two Members of the AC and three representatives of Senior Management. The Selection Committee will be chaired by one of the representatives of Senior Management. The Selection Committee will create a short list of at least three candidates.
3. The recommendations of the Selection Committee will be brought to the AC. The AC will then forward the list to the President for selection, along with the Committee's views.

Evaluation of Auditor General

The Committee will meet to discuss performance of the Auditor General and its collective views will then be shared with the President by the Chair of the Committee.

Removal

The AC will be consulted before any decision to remove, prior to the end of their term, either the Auditor General or the INTVP, including an explanation of grounds for removal.