

**INTER-AMERICAN DEVELOPMENT BANK
OFFICE OF THE EXECUTIVE AUDITOR
CHARTER OF THE OFFICE OF THE EXECUTIVE AUDITOR**

A. MISSION AND SCOPE OF WORK

- 1.1 The mission of the Office of the Executive Auditor (AUG) is to increase the likelihood of the Inter-American Development Bank (IDB) Group¹ achieving its goals and objectives through:
- a. Providing independent and objective assurance,² consulting services,³ and recommendations in the areas of governance, risk management, and control processes in accordance with ethical and relevant professional standards.
 - b. Improving accountability and transparency for results.
- 1.2 AUG helps the IDB Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It provides appropriate levels of Management with objective analyses, appraisals, recommendations, and pertinent comments concerning the activities that it reviews.
- 1.3 The scope of the internal auditing work of AUG, that is guided by a philosophy of adding value to improve operations, is to determine whether the risk management, control, and governance processes, as designed and represented by Management, are adequate and functioning in a manner to assess whether:
- a. Risks are appropriately identified and managed.
 - b. Interaction with the various governance groups occurs as needed.
 - c. Significant financial, managerial, and operating information is accurate, reliable, and timely.
 - d. Employees' actions are in compliance with the respective policies, standards, and procedures.
 - e. Resources are acquired economically, used efficiently, and adequately protected.
 - f. Programs, plans, and objectives are achieved.
 - g. Quality and continuous improvement are fostered in the respective control process.
 - h. Significant issues of governance and regulation impacting the IDB are recognized and addressed appropriately.
- 1.4 In connection with the performance of its scope of work, AUG coordinates its plans and shares the results of its work, as appropriate, with the External Auditor, the Office of Institutional Integrity (OII), the Office of Evaluation and Oversight (OVE), the Ethics Office (ETH), the Legal Department (LEG), and staff responsible for risk management and internal control functions.

¹The "IDB Group" includes the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC), and the Multilateral Investment Fund (MIF). Each member has a separate ownership and financial resources. The IDB and IIC are public international organizations, and the MIF is a fund under the administration of the IDB. AUG is part of the Basic Organization of the IDB. AUG services for each of the IIC and the MIF are performed on those terms if and as authorized by their respective authorities.

² An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization.

³ Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibilities. AUG provides the four types of consulting services: formal, informal, special, and emergency.

- 1.5 Opportunities for improving management control, operational efficiency, and the IDB's image may be identified during audits and communicated to the appropriate levels of Management and the Audit Committee of the IDB Board of Executive Directors (Audit Committee).

B. REPORTING AND INDEPENDENCE

- 1.6 The Office of the Executive Auditor has direct access to the Office of President and serves as the advisory unit to the President for providing periodic, independent, and objective internal audits of financial, accounting, operational, administrative, and other activities, including identifying possible means of improving the efficiency and economy of operations and the use of resources. AUG provides independent assessments to the Management of the Bank about the effectiveness of the activities being reviewed and provides suggestions for improvements, from the standpoint of strengthening controls, improving risk management, and increasing efficiency and cost-effectiveness.
- 1.7 To provide for the independence of AUG, its personnel report to the Executive Auditor, who reports to the President, and the Audit Committee, in a manner outlined in the Accountability section below, the Basic Organization of the Bank, the Terms of Reference of the Audit Committee, and other applicable Bank policy.
- 1.8 AUG has free, full, and regular access to the Audit Committee, including meetings on a regular basis in executive session with the Audit Committee to discuss any matter that the Audit Committee or the Executive Auditor believes should be discussed in such a forum, unless otherwise decided by the Audit Committee. The Audit Committee, in consultation with the Bank's President, participates in the appointment, reappointment, or dismissal of the Executive Auditor in the manner set out in the Terms of Reference of the Audit Committee.
- 1.9 AUG will include in its reports to the Audit Committee and the President, a regular report on AUG staffing and other resources, and on AUG's compliance with the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF), that includes the International Standards for the Professional Practice of Internal Auditing (Standards) and the IIA Code of Ethics.⁴
- 1.10 The Executive Auditor is solely responsible for the final decision on the content of the reports issued by AUG.

C. ACCOUNTABILITY

- 1.11 The Executive Auditor, in the discharge of his/her duties, shall be accountable to the President, and the Audit Committee to:
- a. Report significant issues related to the processes for controlling activities, including potential improvements to those processes, and provide information concerning such issues through their final resolution.

⁴ The IIA Code of Ethics states the principles and expectations governing behaviors of individuals and organizations in the conduct of internal auditing.

- b. Submit annually for their review and approval the AUG annual audit plan and any significant interim changes. After their review and approval, the Audit Committee will submit the annual audit plan to the Board for formal approval.
- c. Periodically provide information on the sufficiency of AUG's resources.
- d. Coordinate with and monitor the results of the work performed by other control and monitoring functions (e.g. risk management, compliance, security, ethics, evaluations, special investigations, and external audit).

1.12 As part of this accountability to the President and the Audit Committee, the Executive Auditor:

- a. Provides periodic, independent, and objective appraisals and audits of financial, accounting, operational, administrative, and other activities, including identifying possible means of improving the efficiency, effectiveness of internal controls, and economy of operations and the use of resources.
- b. Performs financial, information technology and operational audits in a systematic or selective manner to provide adequate audit coverage over an appropriate period.
- c. Reviews the systems of internal accounting controls to safeguard financial and physical assets, verifying the existence of related assets, ascertaining high risk areas, and recommending alternative approaches to correct any weaknesses.
- d. Performs periodic testing of the operational and administrative activities in Country Offices to verify their compliance with organizational policies and procedures, assessing the adequacy of the internal control environment, and evaluating the impact of the delegation of authority granted.
- e. Reviews the reliability, accuracy, and integrity of financial and operating information systems and related policies, plans, procedures, and records in order to assess their adequacy to effectively accomplish their intended objectives.
- f. Appraises specific managerial and internal accounting control objectives within areas reviewed; considers the work of OVE in assessing the economy and efficiency with which resources are employed to meet the objectives; and recommends improvements of the controls as required for achievement of such objectives.
- g. Reviews internal controls in automated management information systems during all phases of their life cycle; assesses if such systems employ the basic controls that will promote system integrity and minimize the risk of unauthorized activity.
- h. Examines and appraises the effectiveness of all levels of management in their stewardship of resources, their compliance with governing agreements or instruments and related decisions, and with established policies, standards, plans, and procedures.
- i. Provides support in investigation processes at the request of the President and, when appropriate, in coordination or consultation with OII and the Ethics Office, in accordance with their respective established procedures.
- j. Provides consulting services, the nature and scope of which are agreed with the client. Consulting services are intended to add value and improve the IDB Group's governance, risk management, and control processes without the AUG assuming management responsibility. Examples include counsel, advice, or participation in management committees or project teams.
- k. Appraises the adequacy of the action taken by Management on recommendations to correct reported internal control weaknesses and/or deficient conditions. Advises Management and the Audit Committee of the risk(s) assumed of not taking corrective action and provide timely follow-up reports on the status to the Audit Committee on reported findings. Continues direct communications with appropriate Management and staff members on corrective actions until the matter has been satisfactorily resolved.

1. Maintains a Quality Assurance and Improvement Program designed to provide reasonable assurance to its various stakeholders that AUG: (1) performs its work in accordance with its Charter, which is consistent with the IIA International Professional Practices Framework, that includes the Standards and the IIA Code of Ethics; (2) operates in an effective and efficient manner; and (3) adds value and improves AUG's operations.

D. OTHER RESPONSIBILITIES

1.13 The Executive Auditor and staff of AUG are responsible for:

- a. Developing a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management.
- b. Implementing the annual audit plan including, as appropriate, any special tasks or projects requested by Management or the Audit Committee.
- c. Maintaining a professional audit staff – and/or access to external specialists – with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- d. Evaluating and assessing significant merge/consolidation of functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- e. Issuing periodic reports to the Audit Committee and Management summarizing results of audit activities, including the results from the Quality Assurance and Improvement Program.
- f. Keeping the President and the Audit Committee informed of emerging trends, successful practices, and significant measurement criteria in internal auditing.

E. AUTHORITY

1.14 The Executive Auditor and staff of AUG, with the Executive Auditor's approval, are authorized to:

- a. Have unrestricted access to meetings, functions, systems, property, personnel, and records, with the exception of individual's medical records and the Ombusperson's records, as the Executive Auditor determines necessary to carry out AUG's work.
- b. Have full and free access to the Audit Committee.
- c. Allocate resources within the approved budget and headcount set by the Board of Executive Directors, determine subjects, scopes and frequency of work, and apply the techniques required to accomplish audit objectives.
- d. Obtain the necessary assistance of personnel in units where they perform audits, as well as other specialized services from within or outside the IDB Group.
- e. Attend, as an observer, any meeting of Management, Board of Executive Directors Committee or the Board of Executive Directors, if deemed necessary by the Executive Auditor for the proper performance of the internal audit process.
- f. Receive copies of any reports issued by the external auditors.

1.15 The Executive Auditor and staff of AUG are not authorized to:

- a. Perform any operational duties for the IDB Group.
- b. Initiate or approve accounting transactions external to AUG.

- c. Direct the activities of any IDB Group employee not employed by AUG, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist AUG.

F. STANDARDS OF AUDIT PRACTICE

- 1.16 AUG will meet or exceed the *International Standards for the Professional Practice of Internal Auditing* and the IIA Code of Ethics.

Executive Auditor

President of the Bank

Date