

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHARTER OF THE OFFICE OF THE EXECUTIVE AUDITOR

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APPROVED BY THE BOARD OF EXECUTIVE DIRECTORS

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

1. MISSION AND SCOPE OF WORK

- 1.1 The mission of the Office of the Executive Auditor (AUG) is to help the Inter-American Development Bank (IDB) achieve its goals and objectives by:
- a. Providing independent and objective assurance and advisory services designed to add value and continuously improve the IDB's operations.
 - b. Bringing a systematic, disciplined approach to assess and improve the effectiveness of governance, risk management, and control processes.
 - c. Adhering to the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing (Standards), and the Definition of Internal Auditing.
- 1.2 The scope of the internal auditing assurance work of AUG is to determine whether governance, risk management, and control processes, are designed adequately, functioning effectively, and represented accurately to provide reasonable assurance that:
- a. Risks relating to the achievement of objectives are appropriately identified and managed.
 - b. Interaction with the various governance groups occurs as needed, and governance issues impacting the IDB are recognized and appropriately addressed.
 - c. Significant financial, managerial, and operating data and information are accurate, reliable, secure and available on a timely basis.
 - d. Actions of staff, contractors, consultants and service providers comply with applicable laws, regulations, agreements, contracts, policies, standards, and procedures.
 - e. Resources and assets are acquired economically, used efficiently, protected adequately, and accounted for properly.
 - f. Quality and continuous improvement are fostered in all operations.
 - g. Operations and programs are carried out effectively, are consistent with established plans, and goals and objectives are achieved.

- 1.3 In planning and performing its work, to avoid unnecessary duplication of effort, AUG coordinates plans and shares work results, as appropriate, with the External Auditor, the Office of Institutional Integrity (OII), the Office of Evaluation and Oversight (OVE), the Office of Ethics (ETH), the Legal Department (LEG), and the Office of Risk Management (RMG). In addition, AUG refers suspected instances of prohibited conduct to the appropriate authority (Security, OII or ETH) for investigation.
- 1.4 While this Charter is for the IDB, AUG, as part of the Basic Organization of IDB, also provides internal audit services on a full cost recovery basis to the Inter-American Investment Corporation (IDB Invest) and the Multilateral Investment Fund (IDB Lab), in accordance with service level agreements authorized by their respective authorities.

2. AUTHORITY, OBJECTIVITY, AND INDEPENDENCE

- 2.1 To ensure that the AUG has sufficient authority to fulfill its duties objectively and independently, its personnel report to the Executive Auditor, who reports functionally and administratively (i.e., day-to-day operations) to the President, and functionally to the Board of Executive Directors (Board) through its Audit Committee, as set forth in this Charter and in the Terms of Reference for the Audit Committee.
- 2.2 The Executive Auditor has direct access and is accountable to the President and the Audit Committee, and will communicate and interact directly with the Audit Committee, including in at least annual Executive Sessions without management present, to discuss any matter that the Audit Committee or the Executive Auditor believes should be discussed in such a forum.
- 2.3 The Audit Committee:
 - a. Participates in the recruitment, renewal, and removal process of the Executive Auditor. The selection panel for the appointment or re-appointment of the Executive Auditor will be designated by the President, be chaired by the Chairperson of the Audit Committee, and include at least one additional member of the Audit Committee. The panel will recommend one or more candidates from which one will be proposed by the President to the Audit Committee.
 - b. Reviews and recommends approval to the Board of any proposal by the President for the appointment (including the terms and conditions to be offered to the candidate), reappointment or removal of the Executive Auditor.
 - c. Considers any changes proposed to this charter in compliance with paragraph 3.1 (a), or proposes revisions in consultation with the President for further discussion and approval by the Board.
 - d. In consultation with the President, reviews the annual risk-based internal audit plan, and recommends its approval to the Board, including AUG's administrative budget

and resource requirements and any significant changes¹ thereto. The administrative budget allocation to AUG will be specified in the Board's resolution approving the Bank's annual administrative budget.

- e. Participates in the annual performance review of the Executive Auditor and provides inputs to the President through its Chairperson, to be recorded in the performance evaluation. The Audit Committee can, at any time, request the President to participate in an executive session of the Committee to discuss the performance of the Executive Auditor and/or AUG and, if necessary, recommend corrective actions (which may also result in the separation from employment of the Executive Auditor).
- f. Monitors periodically (e.g., quarterly or as requested) and makes any necessary inquiries to assess AUG's performance relative to its plan, the sufficiency of its resources, and other matters as appropriate.
- g. Has access to, and if necessary, discusses with the Executive Auditor and responsible senior management, any report issued by AUG.
- h. Clarifies any matter requiring interpretation with respect to this AUG Charter.

2.4 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 that the Executive Auditor determines necessary to carry out AUG's work, except for individuals' medical records and the Ombudsperson's records, subject to accountability for confidentiality and safeguarding of records and information.
- b. Allocate resources within AUG's approved budget; determine subjects, scope and frequency of work; apply the techniques required to accomplish assurance or advisory engagement objectives; and determine the content of reports issued by AUG.
- c. Obtain the necessary assistance of personnel in units where they perform engagements, as well as other specialized services from within or outside the IDB.
- d. Attend, as an observer, any meeting of management, the Board or its Committees, deemed necessary by the Executive Auditor for the performance of AUG's work.

¹ "Significant changes" include engagements requested by management or the Audit Committee, added engagements that exceed approved resources, or other circumstances (including changes to AUG approved administrative budget) that result or could result in the cancellation or postponement of planned engagements beyond the plan period or otherwise compromise AUG's role and effectiveness.

- e. Receive copies of any reports issued by the external auditors.

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

- a. Perform any operational duties or activities for the IDB or have direct responsibilities for developing or implementing systems or internal controls, except when the staff of AUG is supervised by another unit as part of a work assignment or a similar career development arrangement.
- b. Assess specific operations or activities for which they had responsibility within the previous year.
- c. Initiate or approve transactions external to AUG.
- d. Direct the activities of any IDB staff, consultant, contractor or service provider not employed by AUG, except to the extent such employees have been appropriately assigned to audit teams or to otherwise assist AUG, considering the requirement to closely manage potential conflicts of interest.

2.6 The Executive Auditor will confirm in its reports to the Audit Committee, at least annually or as requested, the organizational independence of the AUG and its conformance with paragraph 1.1c. or any exceptions thereto and will report the details of significant impairments to independence or conflicts of interest to the President and the Audit Committee as they arise.

2.7 The Executive Auditor will disclose to the Audit Committee any interference (and related implications) in determining the scope, performing audit work, and/or communicating the results of AUG engagements.

3. RESPONSIBILITIES

3.1 The Executive Auditor is responsible for:

- a. On an annual basis, assessing whether this Charter continues to reflect the requirements outlined in the Standards, and to reaffirm whether its provisions enable AUG to accomplish its objectives. The Executive Auditor will document his/her conclusions in the AUG annual report and recommend any changes deemed necessary to the President and the Audit Committee.
- b. Submitting to the President and the Audit Committee for their review and subsequent approval by the Board, the budget and the annual AUG risk-based internal audit plan and significant changes thereto, including a description of the planning process and methodology for identifying and assessing risks, and outlining the nature of each planned engagement (i.e. whether assurance or advisory), and resource requirements

- to provide adequate internal audit coverage of IDB's activities, programs, functions, systems, locations and units over an appropriate period.
- c. Implementing the approved internal audit plan, and reviewing and adjusting the plan, as necessary, in response to emerging risks or changes in the IDB's business, activities, organization, operations, programs, information systems and controls.
 - d. Communicating periodically (e.g., quarterly or as requested) to the President and the Audit Committee on the sufficiency of AUG's resources and its progress against the approved risk-based internal audit plan and changes thereto.
 - e. 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.
 - f. Managing the activities of AUG, including establishing and ensuring adherence to policies and procedures designed to guide AUG activities in accordance with this charter and the *Standards*;
 - g. Developing, and periodically reporting AUG's performance against key efficiency and effectiveness measurement indicators, and periodically reviewing its organizational structure, resources, skills and responsibilities and changes thereto with the President and the Audit Committee.
 - h. Ensuring engagements are professionally executed by qualified, appropriately assigned, and adequately supervised resources; and that work programs are conducted and results properly documented in accordance with established risk-based objectives and scope.
 - i. Communicating balanced results of engagements to appropriate parties with applicable observations and conclusions, including successful practices identified, and/ or recommendations for improvement for corrective action plans if warranted.
 - j. Communicating clearly to the President, and proposing for discussion with the Audit Committee, assurance and advisory engagement results that, in the opinion of the Executive Auditor, include significant² or pervasive³ deficiencies with respect to engagement objectives and scope.

² The term significant deficiency will include, but not be limited to, deficiencies which individually, until resolved, preclude AUG from providing reasonable assurance that the operations or programs within the scope of the engagement are carried out effectively and/or efficiently.

³ Pervasive deficiencies are extensive deficiencies, none of which individually is inherently significant, but which collectively are considered by AUG to be "significant".

- k. Appraising the adequacy and timeliness of corrective actions developed by management to address reported deficiencies or weaknesses in governance, risk management or internal controls; communicating with appropriate management and staff on the status of corrective action plans until deficiencies or weaknesses have been satisfactorily resolved; informing the President and the Audit Committee of the risk(s) assumed by management not planning or taking timely corrective action; and providing follow-up reports on the status of corrective actions to the President and Audit Committee.
- l. Providing advisory services, the nature and scope of which are agreed with the client, intended to add value and continuously improve IDB's governance, risk management, and control processes without the AUG assuming management responsibility. Examples include formal or informal advice on new or revised processes, services or systems, recommendations, data analytics practices and tools, and participation in management committees or working groups as an observer or advisor.
- m. Providing support in investigation processes at the request of the President and, when appropriate, in coordination or consultation with OII and ETH, in accordance with their respective established procedures.
- n. Monitoring trends and emerging issues relevant to AUG activities, including changes to *Standards* and successful practices, and communicating implications to the President and the Audit Committee as appropriate.
- o. Maintaining a quality assurance and continuous improvement program that covers all aspects of AUG's activities, and provides reasonable assurance that its activities conform to the *Standards*, and add value and improve the IDB's operations; and communicating to the President and the Audit Committee the results of internal and external assessments (both ongoing and periodic).
- p. Reporting annually to the President and Audit Committee on the internal audit activity's purpose, authority, responsibility, organization, resources, and performance relative to its plan; and summarizing significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management or the Board.

4. OTHER PROVISIONS

- 4.1 The AUG liaises with other Multilateral Development Banks and International Financial Institutions to monitor developments, exchange successful practices, benchmark resources and identify continuing education opportunities.
- 4.2 In accordance with the IPPF, at least once every 5 years AUG will contract the services of a reputable external assessor to evaluate AUG's conformance with the IPPF. The

evaluation is to be completed within 3 years from the appointment or re-appointment of the Executive Auditor. The external assessor will be selected by a panel that will be appointed by the President, be chaired by the Chairperson of the Audit Committee and include at least one additional member of the Audit Committee.

Jorge da Silva, Executive Auditor

Mauricio Claver-Carone, President of the Bank

Gina Montiel, Chairman of the Audit Committee