



**ASIAN INFRASTRUCTURE  
INVESTMENT BANK**

**Annual Report of the  
Audit and Risk Committee of the Board  
2017- 2018**

**July 23, 2018**

## **Background**

1. This annual report of the Audit and Risk Committee (ARC) has been prepared pursuant to paragraph 25 of the *Terms of Reference for the Audit and Risk Committee of the Board of Directors (Sec2018-048)*. The report covers the discussions from the ARC meetings held during the period of May 2017 to April 2018.

2. The ARC reviewed its Terms of Reference in April 2018 and made suggestions to the Board of Directors to revise them in the light of the experience of the first year of the Committee's operation. The revised Terms of Reference of the ARC were approved by the Board of Directors in May 2018 and are attached in the Appendix hereto.

### **I. Composition and Rename**

3. The initial membership of the ARC was Sulaiman M. Al-Turki (Chair), Timur Maksimov, Rionald Silaban, Jan Engström (External Member), and Chaly Mah (External Member). The Director Members of the Committee were appointed by the Board of Directors in February 2017, and the External Members were appointed by the President, following consultation with the Board of Directors, in April 2017. The innovative combination of the board directors and the external members as members of the ARC was designed to enhance good governance and accountability within the Bank.

4. During the year, the ARC membership had been changed due to the resignation and replacement of several Board Directors, and a non-regional Director joined the Committee in October 2017.

5. The composition of the ARC as of the date of this report is as follows:

- Rionald Silaban (Chair)
- Emil Levendođlu (Vice Chair)
- Khalid Alkhudairy (Director Member)
- Grigory Butrin (Director Member)
- Jan Engström (External Member)
- Chaly Mah (External Member)

6. To better align the name of the Committee with the actual scope of its responsibilities, the Board of Directors decided in October 2017 to change the name of the Committee from "Audit Committee" to "Audit and Risk Committee".

## **II. Meetings and Attendance Rate**

7. From May 2017 to April 2018, the ARC held four formal meetings. The inaugural meeting of the Committee took place on May 16, 2017 by virtual means. The other three meetings were held on-site on September 26, 2017, December 5, 2017 and April 9, 2018, respectively.

8. The attendance rate of the ARC members for these formal meetings during 2017-2018 was 100%.<sup>1</sup>

## **III. Areas of Focus 2017-2018**

### **a. Financial Statements**

9. The ARC reviewed the quarterly and annual financial statements for the Bank and for the Project Preparation Special Fund. The Bank had adopted all the effective IFRS standards and interpretations. In addition, the Bank had already adopted IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases from the commencement of operations, which would become mandatorily effective on January 1, 2018 and January 1, 2019, respectively.

10. The Committee recommended that (i) the Board of Directors submit the audited 2017 financial statements of the Bank and the Special Fund to the Board of Governors with the recommendation for approval and; (ii) the Board of Directors recommend to the Board of Governors to determine that AIIB's net income for financial year 2017 be allocated to retained earnings.

11. The ARC discussed the accounting and reporting requirements under IFRS on areas which involve significant management estimates and judgments such as loan loss provisioning and fair value measurement for financial instruments.

12. The ARC acknowledged that no significant deficiencies or material weaknesses were noted for the internal controls over financial reporting for the year of 2017.

### **b. Risk Management**

13. The Committee reviewed the Risk Appetite Statement, and recommended the Board of Directors to support it. Developing the Risk Appetite Statement had been a key component of stage two of the three-stage plan for designing the Bank's Risk Management Framework. The Risk Appetite Statement was the formal articulation of the aggregate level of risk AIIB would be willing

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<sup>1</sup> Director Khalid Alkhudairy could not attend the ARC meeting on April 9, 2018 due to other commitment, his designated Alternate Director Adel Al Hosani attended the meeting on his behalf.

to accept in pursuit of its mandate. Risk Appetite Statement and risk allocation would be reviewed annually.

14. The ARC also discussed issues related to the methodology on loan valuation and loan loss provision, among others.

c. Internal Audit

15. Under the guidance of the ARC, the Bank's internal audit team headed by the Chief Internal Audit Officer (CIAO) was built up in 2017. The Terms of Reference of the Internal Audit Office was drafted by Management in early 2018 and would be finalized after the Oversight Mechanism was developed.

16. The ARC reviewed the internal audit function, the priorities of the internal audit function, and the 2018 internal audit plan. The ARC was briefed on the plan and was updated on the progress of the implementation of the COSO<sup>2</sup> framework by Management.

17. The ARC had a closed session with the CIAO in April 2018 and considered the relationship of the CIAO and the Committee.

d. Engagement with External Auditor

18. The ARC met the Bank's external auditor, PricewaterhouseCoopers (PwC) twice in the year, including a closed session.

19. The ARC reviewed the PwC's Audit Plan for the areas of financial statements and internal control for 2017 and found the key audit areas identified by PwC were adequate.

20. The ARC was updated by PwC on their audit work on the 2017 financial statements mainly, including the key areas of (i) loan investments, loan commitments and IFRS 9 ECL measurement, (ii) paid-in capital and capital receivables, (iii) investments at fair value, and (iv) internal control observations and recommendations. The ARC discussed key issues and relevant audit procedures and was satisfied with PwC's responses to the enquiries.

#### **IV. Skill and Knowledge Development Program (SKDP) and Briefings**

21. The Skill and Knowledge Development Program (SKDP) had been developed specifically for the ARC members. One session under the SKDP was held in December 2017 on the topic of loan valuation methodology. Members of the ARC, the Alternate Directors and Advisors of the

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<sup>2</sup> COSO (the Committee of Sponsoring Organizations of the Treadway Commission) is a joint initiative of the five private sector organizations and it developed the frameworks and guidance on enterprise risk management, internal control and fraud deterrence. Please refer to [www.coso.org](http://www.coso.org) for more information.

Bank, representatives of PwC, staff members of Controller, Investment Operations, Risk Management and Internal Audit, and senior management members attended.

22. In addition to the ARC's formal meetings, three briefings were held for the ARC Members on: (i) the setting up of Internal Audit function, (ii) meeting with the newly appointed Chief Internal Audit Officer, and (iii) how the Bank prepared its financial statements, including the methodology of the loan valuation and loan loss provision.

#### **V. Work Program for 2018-2019**

23. 2018-2019 will be the third year of operation for the Bank, the ARC will review the quarterly, half-yearly and annual financial statements, focus on the establishment of the risk framework, the effectiveness of the internal audit and external audit and the COSO implementation progress.

**ASIAN INFRASTRUCTURE INVESTMENT BANK**  
**TERMS OF REFERENCE FOR THE AUDIT AND RISK COMMITTEE**

*(Adopted May 31, 2018 by the Board of Directors)*

**SECTION A: PURPOSE**

1. The Audit and Risk Committee is a committee of the Board of Directors (Board) established pursuant to Article 26 (vi) of the Bank's Articles of Agreement and Section 5 (b) of By-Laws of the Asian Infrastructure Investment Bank. Its function is to assist the Board in carrying out its responsibilities as they relate to the Bank's financial reporting and audits, including internal controls and risk management.

**SECTION B: RESPONSIBILITY AND AUTHORITY**

2. The Committee shall:
  - (i) Review the Bank's financial statements and accounting, auditing and financial reporting practices, procedures and issues;
  - (ii) Review the selection procedures for and the qualification and performance of the external auditors, and review the reports from the external auditors and ensure appropriate action be taken in respect of major improvement areas identified;
  - (iii) Review the scope of work and internal audit plan and the effectiveness of the internal audit function;
  - (iv) Review the effectiveness of internal control system; and
  - (v) Review the Bank's financial and risk-related policies, annually review the Bank's risk management framework and its risk appetite statement.
3. The Committee:
  - (i) May seek briefings on relevant auditing, accounting, financial reporting and internal controls, and risk assessment and management matters by staff member(s) designated by the President, including those the Committee has suggested;
  - (ii) May seek any pertinent information from the Bank as is necessary, and which shall not be unreasonably withheld;
  - (iii) May meet with the external and internal auditors as needed, and meet the external and internal auditors without Management presence at least once a year; and
  - (iv) Shall consider the independence of the external auditors, including the provision of non-audit services by the external auditors to the Bank.

4. The Committee members shall fully respect and observe the confidentiality of any information provided to them.

### **SECTION C: COMPOSITION, APPOINTMENT AND TERMS**

5. The Committee shall consist of at least three and up to four Directors of the Board and two external members, including at least one regional Director and one non-regional Director.
6. The Committee members shall be free from any relationship that, in the opinion of the President, would interfere or conflict 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 or conflict with the exercise of their independent judgment as members of the Committee.
7. The term of the Committee shall be the same as the two-year term of the Board.

#### **Chair and Vice Chair**

8. The Committee shall have a Chair and a Vice Chair, selected by the Committee from among its Director members.
9. In the absence of the Chair, the Vice Chair shall serve as Chair of the Committee. When a Chair or Vice Chair ceases to be a member of the Committee, a new Chair or Vice Chair shall be selected from among the members of the Committee. No Director shall serve more than two consecutive terms (full or partial) as Chair or Vice Chair of the Committee.

#### **Director Member**

10. The Board member appointment(s) shall be approved by the Board, based on proposals made by the President after consultations with Directors organized by the Corporate Secretary, whether for initial appointments or the filling of vacancies during the term.
11. A Director may serve on the Committee for up to two consecutive terms.
12. Each Director may be represented in his or her absence by his designated Alternate Director or Temporary Alternate Director.

#### **External Member**

13. The external members of the Committee shall be chosen on the basis of merit from among persons having a qualification and proven experience in a field relating to the Committee's activities.
14. To ensure the application of the immunities and privileges under the Articles of Agreement to the external Committee members, they should be hired as experts or consultants. The external members shall be appointed by the President, subject to no objection being received from the Board of Directors within 10 days of their being informed of the proposed appointment. The

terms of their appointment shall incorporate the *AIIB Code of Conduct for Bank Personnel*, and provide for such compensation as may be deemed appropriate.

15. External members of the Committee shall be appointed for a term of three years, and may be reappointed once for either a full term of three years or a shorter term of one to two years.

## **SECTION D: MEETINGS, DOCUMENTS AND PROCEDURES**

### **Meetings**

16. The Committee may have physical or electronic meetings. It is expected that the Committee shall meet at least four times a year, with physical meetings scheduled to the extent possible in connection with the quarterly meetings of the Board. A summary of the meeting shared promptly afterwards with non-Committee-member Directors.
17. Meetings of the Committee are convened by the Chair, or in the Chair's absence, by the Vice Chair. If both of Chair and Vice Chair are absent, the remaining Committee members shall select acting Chair from among its Director members.
18. Two Board members and one external member constitute a quorum for meetings of the Committee, and Alternate Directors or Temporary Alternate Directors duly designated to attend in the absence of a Director shall count for the purposes of a quorum.
19. A Director, or his designated Alternate Director, Temporary Alternate Director, or Advisor may attend a Committee meeting as observer with the approval of the Chair. Such observer will not normally have speaking rights, unless permitted by the Chair. The Chair may decide to hold a Committee meeting in executive session which shall be attended only by Committee members, designated staff from the Office of the Vice President, Corporate Secretary and the Office of the General Counsel to provide administrative support and advice to the Committee, and such other persons as are specifically invited by the Chair.
20. In addition to Committee members and observers, a Committee meeting shall be open to attendance only by such members of the Bank's staff as the President may designate and such other persons as the Chair may invite.
21. The Committee Secretary shall be the Corporate Secretary, or another member of staff appointed by the Corporate Secretary.

### **Documents and Reports**

22. The Chair shall circulate in advance the agenda for each meeting, as well as all relevant documents for the meeting. Minutes of Committee meeting shall be approved by the Committee, normally on a no-objection basis. Unless a particular matter is required to be treated on a confidential basis, Committee agendas, documents and minutes shall also be copied to Directors who are not Committee members at the same time as they are circulated to the Committee.



23. The Committee may also report to the Board on their deliberations, and such reports shall be circulated to the Board reasonably in advance of its consideration of the matter.
24. The Committee shall submit minutes of its formal meetings to the Board. Its Chair shall brief the Board on the work of the Committee at the conclusion of the annual audit.
25. The Committee shall prepare an annual report to the Board of its activities.

### **Procedures**

26. As far as practicable, an item of business shall be considered by only one committee of the Board, unless otherwise agreed between the respective committee chairs, or, if need be, by the Board.
27. The Committee is not a decision-making body, but provides advice to the Board and guidance to Management. There is no formal voting in Committee on matters under consideration. The Chair shall ascertain the sense of the meeting to be included in the minutes. Reports to the Board shall reflect the views of Committee members, including minority views.
28. Where the Committee is reporting on a matter to be considered by the Board, the Committee report shall be transmitted reasonably in advance of Board consideration. When the Committee needs to take a decision on procedural or administrative matters, the decision shall be taken by a simple majority of those present.
29. The external members of the Committee may attend Board discussions on matters within the remit of the Committee, if so requested by the Board.
30. The Committee shall review its terms of reference periodically and may recommend amendments for consideration and approval by the Board.

### **SECTION E: ADMINISTRATIVE ARRANGEMENTS**

31. The channel of communication between the Committee and Management and staff shall be through the Office of the Vice President, Corporate Secretary, which 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.