DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ANNUAL REPORT OF THE CHAIRPERSON OF THE AUDIT COMMITTEE
1 JULY 2019 TO 30 JUNE 2020
The Audit Committee of the Board of Executive Directors met on 11 occasions between 1 July 2019 and 30 June 2020, of which five meetings were held jointly with the Budget and Financial Policies Committee (BUFIPOL) and one with the Audit Committee of the Board of Executive Directors of the IIC.

In keeping with its terms of reference, the work program of the Audit Committee focused on: recurrent issues, such as (i) the IDB information statement and other Bank funds financial statements, (ii) the Office of the Executive Auditor (AUG) risk-based audit plan and perspectives, and (iii) Management's discussion and analysis and condensed quarterly financial statements (unaudited); and periodic reports, including (iv) effectiveness of internal controls over financial reporting, (v) financial risk reports on the Ordinary Capital, and (vi) external audit reports.

Below is a summary of the matters considered by the Audit Committee during my Chairmanship:

1. IDB Information Statement and Other Bank Funds Financial Statements, as of 31 December 2019 (FN-718-3, PP-1031)
   The Audit Committee met on 24 February 2020 to consider the “IDB Information Statement and Other Bank Funds Financial Statements, as of 31 December 2019”. The meeting included a session with the Bank’s external auditors (KPMG), who confirmed that they expected to issue a clean unqualified opinion of the Bank’s financial statements and internal controls over financial reporting. The Committee members appreciated that the IDB’s financial performance was in line with expectations and market benchmarks. The Committee then agreed to submit the financial statements to the Board of Executive Directors recommending their transmission to the Board of Governors for approval.

2. Ordinary Capital. Management’s discussion and analysis and condensed quarterly financial statements (Unaudited). Reports by 30 June 2019 (FN-718-1), 30 September 2019 (FN-718-2) and 31 March 2020 (FN-725)
   The IDB Management submitted to the Audit Committee, for agreement by streamlined procedure, its discussion and analysis and condensed quarterly financial statements for subsequent filing with the US Securities & Exchange Commission. A meeting of the Committee is only called if a Director interrupts the procedure. The Committee took note of the three reports posted between 1 July 2019 and 30 June 2020 and no interruptions were necessary.

3. Effectiveness of Internal Controls over Financial Reporting (FN-586-50 and FN-586-51)
   The Audit Committee held two meetings to consider the Effectiveness of Internal Controls over Financial Reporting (ICFR). The progress report as of 31 October 2019 on Management’s work to assess the effectiveness of the ICFR was presented to the Committee on 3 December 2019. On 24 February 2020, Management presented the 2019 annual results. Management concluded that, as of 31 December 2019, no significant deficiencies or material weaknesses had been detected and that the ICFR system was effective. The Committee welcomed those results and stressed the importance of an early engagement with
Management and the internal and external auditors when any significant deficiencies that might impact on the financial reporting are identified.


The Audit Committee held four joint meetings with BUFIPOL to discuss the quarterly reports on the financial risk of the Ordinary Capital prepared by the Office of Risk Management (RMG).

Given the dynamic developments emanating from the COVID-19 pandemic since the end of 2019, the Committees took note of the three main points of the Chief Risk Officer’s presentation of the fourth quarter 2019 report, on 16 April 2020: 1) the Bank’s solid financial situation when entering the COVID-19 crisis; 2) the relevance of the human factor in this crisis; and 3) the importance of the continuation of the Preferred Creditor Treatment to maintain the Bank’s solid financial standing and its ability to increase disbursements during the crisis. While the situation during the 2020 first quarter has changed significantly, RMG confirmed that the Bank’s capital adequacy and liquidity ratios were strong.

During the consideration of the latest report, on 16 June 2020, the Chief Risk Officer highlighted the following points: the Bank’s solid financial situation despite market turmoil and country downgrades; the income generation capacity of the Bank would continue to be hampered by lower interest rates; and the Bank’s human resources are as important as its financial resources in responding to this crisis. In addition, Management presented an update (GN-3005) in relation to the G20 communiqué regarding the Debt Service Suspension Initiative (DSSI).

The Committee took note of the information provided in the financial risk reports.

5. **KPMG Integrated Audit Plan and Strategy for the year ending 31 December 2019 (XR-27), KPMG Fiscal Year 2019 Integrated Audit Results (XR-27-1), and KPMG Fiscal Year 2019 Integrated Audit Results (XR-27-2)**

The KPMG team met with the Audit Committee on three occasions: first, to present the audit plan and strategy for the year ending 31 December 2019; second, to report on the plan’s implementation, and third, to inform on the external audit final results. During its presentation on the status of its 2019 integrated audit, KPMG confirmed that it expected to issue a clean unqualified opinion of the Bank’s financial statements and internal controls over financial reporting.


The Financial Accounting Standards Board (FASB) issued ASU 2016-13, also known as Current Expected Credit Losses (CECL) or ASC 326. The new CECL significantly changes how entities account for credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. A joint informal meeting of the IDB and IIC Audit Committees was held on 16 December 2019 to brief Directors on the implementation of the new CECL accounting standard for loan losses on the IDB sovereign and non-sovereign guaranteed portfolios.

The Audit Committee considered the 2019 Semi-annual Report and Perspectives on Possible Activities for 2020-2021 (GN-2938-2), prepared by the Office of the Executive Auditor (AUG) on 5 September 2019. The Committee members emphasized the importance of clearly understanding the mandate and context in which changes are made to an approved audit plan. Regarding the perspectives for 2020-2021, the Executive Directors expressed their appreciation for the opportunity to comment and provide feedback on possible areas to be covered in the next Risk-Based Audit Plan.

The Audit Committee and the Budget and Financial Policies Committee met on 19 November 2019 to consider the 2020 Risk Based Audit Plan and Perspectives for 2021 (GN-2979). The members of the Committees expressed support for AUG’s proposed budget and audit plan and were pleased with the proposed audits on various areas. Several Executive Directors expressed their interest in understanding AUG’s criteria for selecting topics and establishing priorities for the audit plan. Directors also asked for a more systematic procedure for the Committee to review the audit reports and easier access to such reports. The Chairperson instructed SEC to follow-up on the suggestion to include links to the reports on its webpage.

The Committees agreed that modifications to approved audit plans should be considered by the Audit Committee by streamlined procedure.


The Risk Taxonomy describes the different categories of risks faced by the Bank, provides a common language across the institution, and presents the Risk Management Matrix, which includes the responsibilities of Bank units in managing and monitoring these risks and the related tools used. The last update was made in June 2016.

The Audit Committee considered the Update of the Risk Taxonomy of the Inter-American Development Bank (GN-2547-14), prepared by the Office of the Executive Vice President (EVP) and the Office of Risk Management (RMG). The Committee members welcomed the update and underscored the importance of establishing an effective risk management culture at the IDB, also endorsing the periodic review of this instrument.

Furthermore, in line with the Steering Committee’s discussions regarding the handling of Board Committee work program items during the mandatory telework at the IDB Headquarters since 16 March 2020 due to the COVID-19 pandemic, the following periodic reports were distributed for information of the Audit Committee instead of consideration during formal meetings:

- Office of Ethics. Annual Report 2019 (joint with the IIC) (GN-3002, CII/GN-420)
- Office of Institutional Integrity and Sanctions System. Annual Report 2019 (joint with the IIC) (GN-2997, CII/GN-418)
- Legal Department Report to the Audit Committee – 1 January to 31 December 2019 (GN-2300-19)
Conclusion

In concluding this annual report, I would like to express my gratitude to all Committee members for their engagement in thoughtful discussions and their insightful recommendations on a number of important documents and proposals that have been submitted to the Audit Committee for consideration in this cycle. I would also like to thank Director Reis and Director Bisogno, with whom I had the pleasure of co-chairing joint Committee meetings over the past year.

The Audit Committee will continue to consider recurring proposals and periodic reports during the next Chairmanship. Other issues that are expected to be submitted to the Audit Committee in the next cycle include:

- **Review of the Charter of the Office of the Executive Auditor**

  In response to the interest expressed by several members of the Committee regarding the review of the Charter of the Office of the Executive Auditor, in early 2020 the Committee established a working group to take on this task, comprised of interested members of the Committee, the Executive Auditor, senior IDB management (VPF, CFO, CRO and LEG) and SEC, acting as the secretary of the group. Members of the working group met on 5 March 2020 to discuss the overall plan and timeline for their work, as well as to consider the draft terms of reference for the hiring of an external consultant who would assist the group in the review of the charter.

  In May 2020, the selected external consultant, Ms. Carman Lapointe, interviewed members of the working group and conducted research, in line with the requirements of the terms of reference for the consultancy. During the first weeks of July 2020, Ms. Lapointe expects to present a draft of the AUG Charter for the consideration of the working group.

- **Advisory engagement regarding the Annual Meetings of the Boards of Governors**

  At the request of the IDB and IDB Invest Audit Committees at the 21 May 2019 joint meeting, AUG added to its annual plan an advisory engagement on the policies, procedures, and practices followed for the selection, organization, financing, and reporting of annual meetings of the Board of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation. The purpose of this advisory engagement is to provide useful insights, identify possible lessons learned and, as appropriate, make recommendations that can help enhance existing policies, procedures, and practices, and contribute to decision-making regarding annual meetings. Consideration of this matter, which will be done jointly with the IDB Invest Audit Committee, is scheduled to take place in July 2020.