

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Approved by the Board of Governors on 3 May 2005,
amended on 13 November 2005 and on 26 April 2006

1a. General purpose

Under the Act of Foundation Article V.1 *"The Foundation is administered by a Board of Governors whose members are appointed in accordance with the Rules of Procedure supplementing this Act of Foundation"*.

Under Article V.2 *"The Board's functions include:*

- (i) directing and controlling the Foundation's business and affairs*
- (ii) managing the Foundation's intellectual property rights, finances, investments, borrowings, property and other assets, including but not limited to the approval of annual budgets and the adoption of the annual accounts*
- (iii) establishing subordinate bodies with specific functions."*

The Rules of Procedure require under Article 15 that *"At each annual general meeting, the Board of Governors shall appoint for the following financial year a firm of independent auditors to audit the Foundation's accounts and other assets belonging to the Foundation or entrusted to it."*

In order to increase the time and expertise devoted to audit matters the Board of Governors (the Board) has established an audit committee to provide oversight of the external and internal audit functions of the IB.

The specific purposes, membership, and rules of procedure of the audit committee for it to perform this role are set out in this document. Other than for matters delegated by the Board to the audit committee under article 16 of the Rules of Procedure of the Foundation, decisions of the audit committee shall be considered as recommendations to the Board.

1b. Specific purposes

- (i) to monitor the integrity of the financial statements of the organization including the audited annual financial statement, the related financial internal controls and risk-management system
- (ii) to consider the accounting policies and any estimates or judgements used in the compilation of the financial statements and to determine their reasonableness on an annual basis
- (iii) to consider and monitor the management response to the annual audit management letter

- (iv) to approve the three year rolling internal audit plan
- (v) to consider internal audit reports and to monitor management action in response to such reports
- (vi) to monitor and keep under review the effectiveness of the organization's internal audit function and to evaluate their performance on an annual basis
- (vii) to make recommendations to the Board on the appointment of the external auditor and to approve their remuneration and terms of engagement
- (viii) to consider and advise the Board on the adoption of the annual accounts as presented by the director general and finance director and as audited by the IB auditors
- (ix) to receive and consider the external audit plan in particular the adequacy of staffing and to recommend its acceptance to the Board
- (x) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to review the performance of the external auditor
- (xi) to advise the Board on policy in respect of the engagement of the external auditor to supply non-audit services.
- (xii) to review the IB process to ensure compliance with all legal and regulatory issues in respect of financial reporting
- (xiii) to assist the Board in its oversight of the adequacy and operation of the system of internal control relating to the financial reporting process
- (xiv) to receive reports of any evidence of fraud no matter how insignificant in financial terms and may instigate an investigation of the same
- (xv) to evaluate the performance of the audit committee on an annual basis.

Risk management

- (xvi) to keep under review the IB's institutional risk policy and risk management systems
- (xvii) to regularly review with senior management, and other Board committees where appropriate, major risks to which the IB is exposed and the systems to mitigate them, based on management's annual assurance statement to that effect to the Board
- (xviii) to annually advise the Board in a manner that will allow it to adopt, duly qualified where applicable, the approved statement on risk for inclusion in the annual statutory financial statements of the IB: "The major risks to which the IB is exposed, as identified by the Board of Governors, have been reviewed and systems have been established to mitigate those risks"
- (xix) The audit committee's risk management responsibilities will be reviewed, for appropriateness and possible transfer to a separate risk management committee, in 2009, when it is estimated that the institutional risk management system will be fully matured.

2. Membership

The audit committee shall comprise the following members:

- Three members of the Board of Governors approved by the Board for a period of three years, or less if his/her period of appointment to the Board has less than three years to run, renewable up to a maximum of six consecutive years or less if his/her period of appointment to the Board has less than a further three years to run
- At least one and not more than two persons with appropriate audit expertise not being a member of the Board of Governors approved by the Board for a period of three years and being eligible for re-appointment for a total period not exceeding six consecutive years.

The chair can either be one of the external experts or a member of the Board who is not otherwise a chair of any committee reporting to the Board.

In case of a casual vacancy, the chair shall nominate a person, after consultation with the chair of the Board and the director general, to serve until the vacancy can be filled in accordance with the ordinary procedure.

The director general (or nominee), deputy director general, finance director and chief internal auditor will attend meetings of the audit committee in order to provide information to the committee. The external auditor will attend the meeting of the committee that considers the audit of the annual financial statements and audit management letter and may attend other meetings at the invitation of the committee.

3. Timing of appointment

The Board of Governors shall appoint members of the audit committee, as required, at its annual general meeting (usually in May). Their terms of office commence after the conclusion of the annual general meeting of the Board.

4. Administration and secretarial support

The finance director shall be responsible for the administrative and secretarial support of the committee.

5. Rules of procedure

- (i) The committee shall meet not less than twice each year one of which shall be at a time consistent with the adoption of the annual financial statements. Meetings may be conducted face-to-face, by telephone or video conference or by such other means as the committee may agree. Additional meetings may be called either by decision of the chair or by a simple majority of the members.
- (ii) The committee shall report its business, including minutes, to the Board. Unconfirmed minutes (that is minutes not yet approved by the committee) shall be issued on the authority of the chair in consultation with the secretary of the audit committee.

- (iii) The committee may meet in executive session where appropriate.
- (iv) Participation of two thirds of the members appointed at any one time shall be necessary for a quorum. Decisions shall be taken by the affirmative vote of a majority of the members participating in the meeting. In the event of an equality of votes, the chair may exercise a casting vote.
- (v) The chair of the finance committee and the chair of the audit committee will keep each other informed of any issues of relevance to the functions of the committees that arise and relate to reporting obligations to Board.

6. Meeting expenses

The IB shall refund all reasonable travel, accommodation and subsistence expenses incurred by members attending meetings of the audit committee.

7. Caveat

The audit committee has the responsibilities set forth above. However, the responsibility for ensuring that the financial statements provide a true and fair view of IB operations and are in accordance with generally accepted accounting policies rests with management and the external auditor. Responsibility for the scope, approach and conduct of the internal and external audits rests with those appointed.

The audit committee is entitled to rely on the integrity and honesty of those providing it with information and to assume the accuracy of financial and other information provided unless evidence to the contrary has been presented. In that event, the evidence would be provided to the Board and the director general.

April 2006