

## **MEKONG RIVER COMMISSION AUDIT COMMITTEE CHARTER**

### **The Charter**

1. The original Audit Committee Charter of the Mekong River Commission (MRC) has been approved by the MRC Joint Committee in its 25<sup>th</sup> meeting in November 2018. Upon its establishment, the Audit Committee has reviewed and updated the Charter. The purpose of this Charter is to outline the role, responsibilities, composition and operating guidelines of the Audit Committee.

### **Role of the Audit Committee**

2. The Committee provides independent assurance and assistance to the MRC Council and the MRC Joint Committee on
  - the risk, control, governance and compliance frameworks of the organization;
  - the MRC's external accountability responsibilities particularly to the member countries and development partners, and;
  - other pertinent matters identified by the Council and the MRC Joint Committee.
3. The Committee does not replace or replicate established management responsibilities and delegations, the responsibilities of other executive management groups within the MRC or the reporting lines and responsibilities of either internal audit or external audit functions.
4. The Committee provides prompt and constructive reports on its findings to the Chairperson of the Joint Committee particularly when issues are identified as posing material risk or threat to MRC.
5. The Committee also serves as an avenue of communication between the internal/external audit and the Joint Committee for issues and concerns which need to be clarified by the auditors.

### **Authority**

6. The Audit Committee has no executive powers, unless delegated to it by the MRC Joint Committee.
7. To implement its mandate, the Committee has the authority to:
  - Conduct or authorize investigations into matters within the scope of its authority;
  - Access information, records and personnel of the MRC for such purpose;
  - Request the attendance of any employee including the MRCS Chief Executive Officer at Committee meetings;
  - Conduct meetings with MRC internal and external auditors as necessary;
  - Oversee the work of any public auditing firm contracted by the organization;
  - Resolve any disagreements between management and the auditor regarding financial reporting;

- Retain independent counsel, accountants, or others to advise the Joint Committee or assist in the conduct of an investigations initiated by the Joint Committee.

## **Membership**

8. The members are formally appointed by the Chairperson of the MRC Joint Committee for the period of 36 months as one term. The term may be renewed once; the members will not serve longer than six (6) years. The members may be re-appointed based on the decision of the Joint Committee. To ensure continuity within the Audit Committee, the appointment of members should be staggered.
9. Each member country as well as the MRC Secretariat's nominee is represented in the Audit Committee based on a selection process agreed upon at the Joint Committee level and which takes into consideration the following:
  - The Audit Committee is composed of the Chairman and four Committee members;
  - At least two members shall possess the qualifications of a financial expert in accordance with the Terms of Reference attached to this Charter;
  - None of the members, including the Chairperson be a current employee or consultant of the MRC Secretariat;
  - MRC Secretariat's nominee must not have worked or be connected to the MRC Secretariat in any capacity for the past three years.
  - Age limit for Chairperson and members of AC shall follow the established MRC Personnel Manual.
10. The chairmanship of the Audit Committee will be decided by the independent members of Audit Committee. The AC will notify its decision to the MRC Secretariat and Joint Committee. The term of chairmanship will be for 12 months. The chairmanship will be rotated based on the Audit Committee member's agreed decision.
11. Members are appointed on the basis of personal qualities and skills. As such, proxies or alternates are not permitted if the member is unable to attend meetings.
12. The Member terms and conditions including the duration of appointment and specific duties and responsibilities shall be disclosed in a Letter of Appointment signed by the Chairman of the MRC Joint Committee.
13. Remuneration will be in term of Honorarium. However, mechanism of payment could be decided by the JC based on the MRCS's suggestion.
14. The Chairperson and members shall possess sound communication and strong leadership skills.
15. Termination of membership of MRC Audit Committee:
  - a. Resignation or retirement
    - i. The member must put in writing their intention to resign or retire, indicating the proposed date of termination. The notice must be submitted through the Audit Committee and MRCS HR who will

acknowledge and forward the notice to JC for approval 45 days in advance.

b. Abandonment of service

- i. Failure by a member to advise the Audit Committee of the reason for any absence of 2 or more sequential meeting days, will be considered to be abandonment of service, and the Member will then be deemed to have resigned.

c. Termination due to serious misconduct

- i. The JC may terminate without notice the service of a member found to have engaged in serious misconduct such that would make it unreasonable to require the JC to continue service during a period of notice. Investigation maybe laid out.

## **Duties and Responsibilities**

16. While the Audit Committee must recognize that the Chief Executive Officer is responsible for the management of the MRC Secretariat, the Committee must perform duties and responsibilities pertaining to management concerns related to financial statements, risk management, internal control, performance management, internal audit, external audit, compliance, reporting, and other responsibilities.

17. Financial Statements

The Audit Committee is responsible for oversight of the independent audit of the financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics. MRCS Management is responsible for the preparation and fair presentation of the financial statements.

- Review the appropriateness of accounting policies adopted by MRC and ensure that these are relevant to MRC's specific circumstances;
- Review the appropriateness of significant assumptions and critical judgments made by the management, particularly around estimations which impact on reported amounts of assets, liabilities, income and expenses in the financial statements;
- Review the financial statements for compliance with prescribed accounting and other requirements and whether these are consistent with information known to the Audit Committee members and reflect appropriate accounting principles;
- Review with the management and the external auditors, the results of the external audit and any significant issues identified including all matters required to be communicated to the Audit Committee under generally accepted auditing standards;
- Exercise review by questioning and seeking full and adequate explanations for any unusual transactions and their presentation in the financial statements;
- Analyze the financial performance and financial position and seek explanation for significant trends or variations from budget or forecasts;
- Understand how management develops interim financial information and the nature and extent of internal and external auditors' involvement;

- Review externally audited interim financial reports with management and the external auditors before filing with regulators or with development partners and consider whether they are complete and consistent with information known to committee members;
- Recommend the annual financial statements to the Joint Committee for acceptance.

#### 18. Risk management

To obtain reasonable assurance with respect to the organization's risk management practices, the Audit Committee will:

- Review the enterprise risk management framework for identifying, monitoring and managing significant risks, including fraud;
- Satisfy itself that insurance arrangements and risk treatments adopted are appropriate for the risk management framework;
- Liaise with management to ensure that there is common understanding of the key risks of the MRC and that these are clearly documented in a risk register showing the risks, risk treatments approved for adoption or adopted and the status of adoption;
- Assess and contribute to the audit planning processes relating to the risks and threats to the agency
- Review effectiveness of MRC's Enterprise Risk Management process, particularly risk identification and escalation of strategic risks.

#### 19. Internal Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the organization's controls in responding to risks within the organization's governance, operations and information systems, the Audit Committee will:

- Review through the internal and external audit functions:
  - adequacy of internal control including information technology security and control
  - whether relevant policies and procedures are in place and up-to-date, including those for the management and exercise of delegations and whether they are complied with.
- Review through the Chief Financial Officer and Director of Administration Division whether the financial internal controls are operating efficiently, effectively and economically;
- Understand the scope of internal and external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations together with management responses.

#### 20. Performance management

- Review whether performance management systems are in place to reflect the MRC's role, purpose and objectives as stated in the strategic plan;
- Confirm whether the performance reporting and information uses appropriate benchmarks, targets and trend analysis.

## 21. Internal Audit

To obtain reasonable assurance with respect to work of the internal audit activity, the Audit Committee will:

- Functionally supervise the internal audit activity. In this connection, the Audit Committee shall;
  - Approve-the Internal Audit Charter
  - Approve the risk based internal audit plan and approve the internal audit activity plan which will be the basis for the budget submitted to the Budget Committee;
  - Review and approve the internal audit plan, its scope and progress and any significant changes to it, including any difficulties or restrictions on scope of activities or significant disagreements with management;
  - Review the proposed internal audit plan to ensure that it covers key risks and that there is appropriate coordination with the external auditor;
  - Review the findings and recommendations of the internal audit and the response to them by the management;
  - Review the implementation of internal audit recommendations accepted by the management;
  - At least once a year, review the performance of the internal Auditor;
  - Recommend to MRCS the appointment, replacement or dismissal of the Internal Auditor in line with the policies and procedures established in the MRC Personnel Manual;
  - On a regular basis, meet separately with the Internal Auditor to discuss any matters which must be discussed privately.
- Ensure that there is no material overlap between the internal and external audit functions;
- Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' International Professional Practices Framework on Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards.

## 22. External Audit

To obtain reasonable assurance with respect to the work of the external assurance providers the Audit Committee will meet with the external assurance providers during the planning phase of the engagement, the presentation of the audited financial statements and the discussions of the results of engagements and recommendations for management.

- Review the Terms of Reference of the external auditors;
- Review the findings and recommendations based on the external audit/s performed (including performance audits) and the response to them by the management to ensure that these are in line with the Risk Management Framework;

- Review the implementation of the external audit recommendations accepted by the management and where issues remain unresolved ensure that satisfactory progress is being made to mitigate the risk associated with the audit findings;
- Review the performance of external auditors and exercise final approval on the appointment or discharge of the auditors. Approval for the appointment will be made following review of the bid evaluation report prepared by the Secretariat;
- Review the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the MRC, including non-audit services and discussing relationships with the auditors;
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

### 23. Compliance

- Determine whether management has considered legal and compliance risks as part of the MRC's Enterprise Risk Management;
- Review the effectiveness of monitoring done on compliance with applicable laws and regulations;
- Review the findings of any examinations by regulatory agencies or parties funded by development partners;
- Review the process for communicating the code of conduct to MRC personnel and for monitoring compliance;
- Obtain regular updates from the management and the legal counsel regarding compliance matters.

### 24. Reporting

- Submit Six Monthly reports to the Chairman of the Joint Committee outlining matters that have been considered including its opinions, decisions and recommendations;
- Circulate minutes of Audit committee meetings to the MRC Joint Committee, Audit Committee members and invited guests as appropriate;
- Submit an annual report to the Chairperson of the MRC Joint Committee summarizing the performance and achievements for the previous year, as well as an interim program of the planned activities for the coming year;
- Regularly report to the Chairperson of the Joint Committee about Audit Committee activities, issues and related recommendations.

### 25. Other Responsibilities

- Perform other activities related to this Charter as requested by the MRC Joint Committee;
- Institute and oversee special investigations as needed;
- Review and assess the adequacy of the Committee Charter annually, requesting approval of the MRC Joint Committee for proposed changes and ensure appropriate disclosure as required by the JC's Rule of Procedures

- Confirm annually that all responsibilities outlined in this Charter have been carried out;
- Evaluate the Committee's and individual members' performance on a regular basis.

#### 26. Organization of Meetings

- The Audit Committee shall hold at least four meetings per year or more frequently as the Committee deems necessary. The time frame between meetings should not exceed four months;
- The quorum of the Audit Committee will be four (4) members;
- The Rules of Procedures adopted by the Council of the MRC shall serve as guide particularly in procedures pertaining to Notice and Agenda; Attendance, Assistants, Advisors, Observers; Unanimity Rules; Minutes, Resolutions; Implementation of Policies and Decisions; and Request for Approval.

**Reviewed by the Audit Committee**

**27 October 2021**



**Dirk Overweg**  
**Chair Audit Committee**