

**Annex to the  
Decision of the Supervisory Board  
of the National Bank of Moldova  
No. 15 of December 22, 2016**

**REGULATION**

**on the activity of the Audit Committee within the National Bank of Moldova**

**I. LEGAL FRAMEWORK and SCOPE of the AUDIT COMMITTEE**

1. The Audit Committee of the National Bank of Moldova is established under the Art.26 and Art.28 of the Law on the National Bank of Moldova, No.548-XIII of 21 July 1995 (republished in the Official Journal of the Republic of Moldova, 2015 No.297-300, art. 544), with subsequent amendments (hereinafter - the Law on the NBM).
2. The Audit Committee assists the Supervisory Board of the National Bank, within the purview of its duties set out in the art.28 of the Law on the National Bank of Moldova, by advising/providing opinions regarding the:
  - a) oversight of the financial reporting process of the NBM;
  - b) monitoring the efficiency of the internal control and risk management systems;
  - c) oversight and directing the internal audit function;
  - c) oversight on the independence and activity of external audit function.

**II. DUTIES**

3. The general duties of the Audit Committee include:
  - 1) Monitors and submits proposals for improvement regarding the NBM policy in the following areas: financial reporting, internal control and risk management, internal and external audit;
  - 2) Facilitates and maintains a level of efficient communication among the Supervisory Board, Internal and External audit of the NBM;
  - 3) Submits reports on the oversight activity, at least on an annual basis, to the Supervisory Board, as appropriate, recommendations for improvement and development of the NBM's activity processes, within its area of responsibility;
  - 4) Submits for approval to the Supervisory Board, with the Executive Committee coordination, eventual amendments or completions to the Regulation on the activity of the Audit Committee within the NBM;
  - 5) Adopts decisions related to the exercise of duties established by Law and this Regulation.

4. Duties related to Internal Control system and Risk Management include:
  - 1) Monitoring, on a general level, the efficiency and adequacy of the NBM's internal control and risk management frameworks;
  - 2) Monitoring the recommendations submitted by external auditor, mainly, analyzing the exposure to fraud, financial and reputational risk;
  - 3) Monitoring the aspects related to compliance that can have significant impact on the financial statements and/or over the reputation of the NBM;
  - 4) Monitoring the adequacy and appropriateness of the implemented procedures for monitoring and controlling the risk exposures, and mainly, assuring that the findings that imply a high risks and the related recommendations issued by the external/internal auditor are taken into consideration and implemented in accordance with the deadlines;
  - 5) Issuing recommendations to the NBM's management bodies, as appropriate, supporting an environment that favors the integrity and control.
5. Duties of the Audit Committee related to the Internal Audit function include:
  - 1) Submitting proposals to the Supervisory Board of the NBM regarding the appointment of the Comptroller General of the NBM and method/level of his/her remuneration;
  - 2) Approving the job description of the NBM's Comptroller General, after coordinating it with the NBM Governor;
  - 3) Coordinating the Regulation on the Internal Audit Department;
  - 4) Analyzing and coordinating the Strategic and Annual Internal Audit Plan and the amendments made;
  - 5) Analyzing and taking notice of the quarterly summary reports submitted by the Internal Audit Department, the status of implementation of the approved Annual Internal Audit Plan, as well as the progress on the implementation of the internal/external audit recommendations by the operational and executive management;
  - 6) Inquiring information from the CG of the NBM about any difficulties that occurred during audit activities, including the restrictions related to the access to requested information and to achieving the internal audit objective;
  - 7) Examining the internal assessment/self-assessment report of the internal audit function within the NBM containing the proposals/recommendations issued by the assessment team/IAD management, and formulates its written opinion<sup>1</sup>;
  - 8) Together with CG of the NBM, selecting and approving the external assessor in the context of the external quality assessment of the internal audit function within the NBM<sup>2</sup>.

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<sup>1</sup> In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), the internal assessment/ self-assessment takes place every two years.

- 9) Examining the draft report of the external assessment team, together with the response of IAD's management and formulating its written opinion.
  - 10) Submitting proposals to the Supervisory Board, so that the Internal Audit Department is sufficiently resourced and has appropriate standing within the NBM;
  - 11) Revising and monitoring the actions taken by the NBM management to achieve the recommendations and conclusions of the Internal Audit Department.
6. **Duties of the Audit Committee related to audit of financial statements and activity of external audit include:**
- 1) Provide support to the Supervisory Board in monitoring the credibility and completeness of the financial statements issued by the NBM, especially by reviewing the relevance and consistency of the applied accounting standards/policies;
  - 2) Examine and coordinate the procedures related to the selection of external audit company;
  - 3) Examine and submit recommendations to Supervisory Board regarding the appointment of the external audit company;
  - 4) Meet at least twice with the external audit company during an audit cycle (at the planning phase and the audit findings phase);
  - 5) Obtain reasonable assurance that audit is conducted in accordance with the International Audit Standards (IAS);
  - 6) Examine the significant amendments in accounting and reporting, and its impact on the financial statements;
  - 7) Obtain information on areas related to financial risk existing at the moment and the way it is managed;
  - 8) Monitor the financial reporting process implemented by management of the NBM;
  - 9) Meet with top management of the NBM and external audit company to examine the financial statements and compliance with the International Financial Reporting Standards;
  - 10) Ensure that significant adjustments, unadjusted differences, disagreements with the NBM management and critical issues related to accounting policy are discussed with the external audit company;
  - 11) Examine the annual report before its release, verify whether the information contained in the report is consistent with the Audit Committee's knowledge and is not biased.

### III. ACCESS TO INFORMATION

7. The Audit Committee has access to information, through Internal Audit Department. Information requests may not exceed the legal duties of the Audit Committee and cannot be submitted without justification that these requests comply with the legal provisions related to the functions/duties of members of the Audit Committee.

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<sup>2</sup> *In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), the external quality assessment takes place every five years.*

8. The Audit Committee, in coordination with the Governor of the NBM may request to be conducted ad hoc audits / special investigations, considering the annual audit plan approved.
9. In order to clarify the aspects addressed in the audit reports, the Audit Committee, upon notification of the Supervisory Board, may organize separate private meetings without the presence of the NBM top management members, with the Comptroller General of the NBM and/or external auditor of the NBM – on their own initiative or at the request of NBM's Comptroller General and external auditor of the NBM.
10. Regarding the audit reports, the Audit Committee receives quarterly and annually in electronic format: (i) summary (synthesis) reports regarding the results of the assurance engagements of the Internal Audit Department, that provide assurance over the internal controls within the NBM (the detailed audit reports are presented at the direct request of the Committee), (ii) annual activity report of the Internal Audit Department, (iii) other assurance/consulting reports etc.
11. In addition, the Audit Committee should receive: (i) the advice note of IAD regarding the NBM's annual financial statements (ii) the audit final letter to top management issued by the external auditor, simultaneously with the NBM's management, and further, with the response of the Executive Committee; (iii) the final report of the external public auditor (Court of Accounts of the RM - CARM), simultaneously with the NBM's management, and further with the response of the Executive Committee, (iv) the IMF safeguards assessment final report for the National Bank of Moldova, simultaneously with the NBM's management, and further with the response of the Executive Committee, (v) periodic report of the quality assessment of the internal audit function in the NBM, simultaneously with the NBM's management, and further with the response of the IAD management.

#### **IV. REPORTING**

12. On an annual basis, no later than the 30<sup>th</sup> of April, the Audit Committee shall submit to the Supervisory Board the annual report on its activity for the previous reporting year. Reporting shall be made after submitting the annual activity report of the Internal Audit Department.
13. The Audit Committee will prepare a summary report on its work performed during the year and the fulfilment of its duties that will be included in the annual report of the NBM.
14. Additionally, Internal Audit Department shall submit reports and/or advice notes to the Supervisory Board, as often as deemed necessary to fulfill its assigned duties and responsibilities.

#### **V. STRUCTURE AND ACTIVITY PROCEDURES**

15. The Audit Committee consists of 3 non-executive members of the Supervisory Board of the NBM. At least one member of the Audit Committee must have experience in applying the accounting principles or in financial audit.
16. The nominal composition of the Audit Committee, including the Chairman of the Committee, is approved by the Decision of the Supervisory Committee of the NBM.

17. The duties and responsibilities of the Chairman of the Audit Committee, mainly include:
  - 1) convene the Audit Committee meeting, by setting the date and time of the meeting;
  - 2) approve the agenda of the Committee meeting;
  - 3) ensure a quorum and determine the meeting attendees;
  - 4) ensure the efficiency and effectiveness of Audit Committee activity;
  - 5) ensure the communication between the Audit Committee and Executive Committee, Supervisory Board;
  - 6) report the results to the Supervisory Board etc.
18. Secretarial activities of Audit Committee are ensured by the Internal Audit Department, under the responsibility of Comptroller General of the NBM, which appoints an employee from IAD to act as the Secretary of the Committee.

The Secretary of the Audit Committee:

  - informs the attendees about the date and time of the Committee meeting;
  - drafts the meeting agenda and shares the materials;
  - drafts the minutes of the meeting;
  - registers and keeps records of the minutes and related documentations etc.
19. Before the mandate expires, the Audit Committee members may be dismissed by the well-grounded decision of the Supervisory Board followed by appointing other Committee members.
20. The Audit Committee is convened in ordinary meetings at least four times a year (quarterly). If necessary, other meetings may be convened by the Chairman or other member of the Committee.
21. The Audit Committee meeting is deliberative if 2 out of the 3 members of the Committee are present, including the Chairman of the Committee, that have to attend the meeting in person or via videoconference/teleconference. The Comptroller General of the NBM participates in the Audit Committee meetings.
22. If necessary, the Committee will invite the head of independent subdivision of the NBM together with the member of the Executive Committee responsible for the audited area, to submit additional information, if risks were identified and recommendations were submitted, but not accepted by the relevant subdivision.
23. Decisions of the Audit Committee are taken with simple majority of member votes. Respectively, the decisions are deemed to have been taken with the vote by 2 of the 3 members. The separate opinions shall be recorded in the minutes of the meeting. If 2 of the 3 members are present at the meeting, decisions shall be considered valid only if they are unanimous.
24. Minutes of the Audit Committee meetings shall be signed by the Chairman/members and the Secretary of Audit Committee.

## **VI. PROFESSIONAL SECRET and CODE of CONDUCT**

25. Members of the Audit Committee are obliged to keep the professional secret and confidentiality of the reports/information disclosed/acquired while performing the duties and responsibilities assigned under the law and this Regulation.
26. In performing its duties and responsibilities, the Audit Committee members are required to adhere to the ethical and integrity principles, stipulated in the Code of Conduct applicable thereto.

#### **VII. INDEPENDENCE of AUDIT COMMITTEE**

27. Insofar as performing the duties assigned by the law and this Regulation, the Audit Committee members shall act independently.
28. Each member shall abstain from participation in debates/decision-making, in the event of perceived or potential personal conflict of interest.
29. The members of the Audit Committee, as persons empowered to exercise public functions, must comply with the legislation related to the declaration of personal interests and conflict of interest.
30. Any member of the Audit Committee shall declare within 3 days from the date of fact-finding, but not later than the start of the Audit Committee meeting, in case when one or more draft documents, that is/are examined at the meeting, pertain to the personal interests of the Committee member or relate to its family members, related persons, individuals or legal entities with whom it has patrimonial relationships and that have an impact or can influence the objective and unbiased fulfillment of the mandate and the function of public servant.
31. Communication shall be ensured in a written form, containing information about the nature of the conflict of interest and the way it influences or can influence the objective and unbiased fulfillment of the mandate and the function of public servant.
32. In case the examined draft document relates to such types of interests, this member of the Committee should not participate at the examination and the voting of this document. However, this member's presence shall be considered to set up the quorum.
33. Leaving by any Audit Committee member of the room, where the meeting takes place, shall be recorded in the minutes.
34. The declaration on the conflict of interest is submitted to the responsible person from the NBM to be recorded in the Register of the declarations related to the conflict of interest, kept in accordance with the legislation in force.
35. If the conflict of interest is not declared in accordance with the requirements of this Regulation, the approved decision shall be considered void, with further examination of the matter in another meeting of the Audit Committee, without the participation of the relevant member.
36. The Secretary of the Audit Committee and the Comptroller General of the NBM shall have access to the declarations on the conflict of interest of the Audit Committee members, in order to avoid any potential and real conflict of interest in their activity.

## **VIII. FINAL PROVISIONS**

37. This Regulation enters into force on the date of its approval by the Supervisory Board of the NBM and is published on the internal web page of the NBM.