

INTERNAL AUDIT CHARTER

Responsible Official: Head of Internal Audit

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MALTA FINANCIAL SERVICES AUTHORITY INTERNAL AUDIT CHARTER

1. INTRODUCTION

1.1 The Internal Audit function within the Malta Financial Services Authority (hereinafter “the Authority” or “the MFSA”) is established through the provisions of Article 12B of the Malta Financial Services Authority Act (Cap 330) (hereinafter “the MFSA Act”) which further establishes the structure, objectives and authority of the Internal Audit function.

1.2 The Internal Audit Charter defines in general terms the purpose, scope of work, accountability, responsibility and authority of the Internal Audit function of the Authority. It establishes the position of the Internal Audit function within the Authority, authorises access to records, personnel and physical properties relevant to the performance of an audit engagement and defines the type and scope of the internal audit activities¹.

2. PURPOSE, MISSION AND SCOPE OF WORK

2.1 Through this Internal Audit Charter, as defined in the MFSA Act, the Internal Audit function is acknowledged as an independent, objective assurance and consulting activity designed to add value to and improve the operations of the Authority. The Board of Governors acknowledges the importance of the Internal Audit Function’s role in assisting the Authority to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the internal controls, risk management and governance processes.

2.2 To this effect the Head responsible for the Internal Audit function shall develop an Internal Audit Manual with detailed procedures and binding practices for audit work methodologies in line with acceptable international standards and ethical principles.

2.3 Internal Audit is not to be construed as a substitute for the first- and second-line functions. The controls and efficiency of all the areas and functions of the Authority shall remain the responsibility of the respective Heads and Management.

2.4 The role of the Internal Audit function in evaluating internal controls shall be designed to provide objective assurances regarding the achievement of the main core objectives:

- Effectiveness and efficiency of operations and the economic use of resources throughout the entire functions and tasks of the Authority.
- Reliability and integrity of financial and management reporting.
- Compliance with laws and regulations including international obligations of the Authority.
- Safeguarding of Assets.
- Supervisory quality assurance.

2.5 In fulfilling its role in evaluating the effectiveness of the risk management framework of the Authority, the Internal Audit function shall design its audit engagements to provide independent and objective assurances to the Board of Governors that the internal control and risk management framework applied enables the Authority to identify, analyse, respond, gather information and monitor

¹ The Internal Audit Charter should be read within the context of the provisions of Article 12B of the MFSA Act.

strategic operational and financial risks that could actually or potentially impact the ability of the Authority in achieving its mission and objectives.

2.6 The Board of Governors considers Internal Audit as one of the four pillars of corporate governance within the Authority, together with the Board of Governors itself, management and the statutory external auditor. To this effect the Internal Audit function shall be responsible to assist the Audit Committee of the Authority to perform its responsibilities effectively. It shall achieve this function by timely reporting of critical management control and governance issues, suggesting questions or topics for the agenda of Meetings of the Audit Committee, and coordinating with the statutory external auditor and management to ensure that the Audit Committee receives effective information in a format and timely manner that helps the Audit Committee make recommendations to and advise the Board of Governors.

2.7 To achieve this objective Internal Audit shall function within the widest scope possible covering all areas of the Authority including, as appropriate, any activity that is outsourced to third parties. To this effect, and in accordance with paragraph (4) of Article 12B of the MFSA Act, the Internal Audit shall have full and unrestricted access to all information, areas, officers and documents required to implement its audit programme.

2.8 According to paragraph (1) of Article 12B of the MFSA Act, in pursuing its objectives for the adequacy and effectiveness of the governance, internal control and risk management processes of the Authority, it shall be the function of the Internal Audit, in addition to any other objectives that may be assigned to it by the Board of Governors or the Audit Committee within the purposes of Article 12B, to determine that:

- adequate internal controls are in place and operating effectively and efficiently;
- risks are appropriately identified and managed;
- interaction with the various functions of the Authority occurs as needed;
- financial, managerial, and operating information is accurate, reliable, integral and timely;
- the actions of officers and employees of the Authority are in compliance with the policies and procedures of the Authority, and applicable laws and regulations;
- resources are acquired economically, used efficiently, and adequately protected;
- plans and objectives of the Authority are achieved or are being implemented as planned;
- quality and continuous improvements are fostered in the internal control processes of the Authority; and
- significant regulatory issues impacting on the Authority are recognized and addressed appropriately.

3. INDEPENDENCE AND OBJECTIVITY

3.1 The Internal Audit function must remain free from interference by any other area or Officers of the Authority, including in matters of audit selection, scope, procedures, frequency, timing, or report content in order to permit maintenance of a necessary independent and objective mental attitude.

3.2 In order to ensure unbiased judgements for the proper conduct of the function and to ensure unimpaired advice to management, internal auditors shall have no direct operational responsibility or authority over any of the activities and functions of the Authority subject to audit engagements.

3.3 Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity or process that may impair the independent and unbiased judgement of the internal auditor.

3.4 Internal auditors must exhibit the highest level of professional objectivity in undertaking audit engagements and shall avoid conflicts of interest in performing their audit engagements.

3.5 Thus, internal auditors shall not undertake audit engagements in those areas where they may have performed prior to joining Internal Audit for one year or until such time that the period of their performance in that area has been covered by the Internal Audit function through other internal auditors if longer.

3.6 The Head responsible for Internal Audit shall confirm to the Audit Committee, at least annually, the organisational and operational independence of the Internal Audit function. However any impairments to the independence or objectivity of the Internal Audit function shall be immediately reported to the Audit Committee and, where appropriate, shall be raised with the external auditors responsible for the annual statutory audit of the Authority.

4. AUTHORITY

4.1 Internal Audit is authorised to:

- have full and unrestricted access to any records, physical properties, electronic data and personnel, including to any work and reports of internal and external experts that are relevant for the performance of an audit engagement;
- have ongoing unrestricted read-only access to information systems;
- have full and unencumbered access to the Chairman of the Audit Committee and the Chairman of the Board of Governors;
- establish a risk-based audit programme, determine the objective and scope of the audit, allocate resources and apply audit techniques required to accomplish its audit objectives respecting acceptable best practice standards and ethics within the context of its Internal Audit Manual; obtain the necessary assistance of all officers and staff members of the Authority for the purposes of undertaking its audit engagements and implementing agreed recommendations.

4.2 Internal Audit is not authorised to:

- perform any internal or external operational function for the Authority;
- initiate or approve accounting transactions external to Internal Audit; and
- direct the activities of employees of the Authority not employed within the Internal Audit function, except to the extent that such employees may have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

5. ACCOUNTABILITY AND REPORTING

5.1 While administratively the Head of Internal Audit shall report to the Chief Executive Officer of the Authority, in the discharge of his/her functions under the MFSA Act and this Internal Audit Charter, the Head of Internal Audit is accountable to the Audit Committee and the Board of Governors and, in addition to other reporting obligations elsewhere in this Internal Audit Charter, shall:

- provide periodic assurances on the adequacy and effectiveness of the systems within the Authority for good governance, qualitative supervisory regime, risk management and internal control based on assessments of the work of the Internal Audit function;
- report significant control issues and potential for improving the governance, risk management and control processes without hindering development within the Authority;
- report on the adequacy and sufficiency of resources; and
- provide periodic information on the status and results of the implementation of the audit plan.

5.2 While it remains the responsibility of the management of the audited area to implement recommendations made through internal audit engagements for mitigating identified risks and ensuring effective internal control, the Head of Internal Audit shall seek to resolve any outstanding implementation of recommendations made having first ensured that any recommendations made through internal audit engagements have been agreed with the audited area management and signed off on the completion of the audit engagement. Remaining unresolved significant disagreements or problems in implementation shall be submitted to the Audit Committee for a final decision.

5.3 The Head of Internal Audit shall periodically report to the Audit Committee, as a minimum on a quarterly basis, focussing on the prevailing financial and operational risk situation within the Authority, related risk mitigating efforts and updates on the results of audit engagements, investigations and consulting activities, including executive summaries of finalised audit engagement reports. The reporting may include issues related to resources and audit forecasts. Through this reporting the Head shall give the necessary assurances or otherwise on the effectiveness of the risk management, internal controls and governance processes and shall therefore include a macro-level audit opinion with comments on the significant micro-level situations.

6. RESPONSIBILITIES

6.1 While the responsibilities of the Internal Audit are provided for under Article 12B of the MFSA Act as delineated under Clause 2 of this Internal Audit Charter, the Head of Internal Audit shall be responsible for:

- the development of an Internal Audit Manual for the effective implementation of the audit plan and audit engagements including the methodology for a risk based approach to internal audit;
- the development and execution of an annual risk based audit plan and its timely presentation to the Audit Committee for the necessary approval by the Board of Governors;
- monitoring and assessing the implementation status of agreed audit recommendations and report thereon to the Audit Committee;
- the periodic reporting to the Audit Committee in accordance with Clause 5 of this Internal Audit Charter;
- keeping the Audit Committee informed on emerging trends and standards in internal auditing, governance and prevention of fraud;
- providing consultancy and advice regarding governance, risk management and internal control processes as appropriate for the better functioning of the Authority;
- undertaking and/or assisting in internal or external investigations of identified or alleged fraudulent activities, theft and corrupt practices throughout the entire functions of the Authority in accordance with the Anti-Fraud Policy of the Authority;

- monitoring compliance with the Ethics Framework of the Authority and report accordingly to the Audit Committee;
- ensuring the adequate maintenance of professional audit staff with sufficient knowledge, skills, experience and professional certifications to meet the objectives of the Internal Audit function in accordance with this Charter and the MFSA Act;
- implementing and reporting on a quality assurance programme of the internal audit function;
- providing assurances on the quality of the supervisory regime applied throughout the Authority for the different entities it regulates;
- providing the necessary assistance to the Audit Committee as may be requested for the Committee to fulfil its remit;
- co-ordinating the interaction with officers of other areas of the Authority; and
- co-ordinating the interaction of the Authority with the statutory external auditors of the Authority, the external auditors of the European Central Bank and the Eurosystem Internal Auditors Committee in its format under the Single Supervisory Mechanism as may be appropriate.

6.2 Internal Auditors shall be responsible to ensure that they apply the highest audit standards and ethics in undertaking their audit engagements in a timely and effective manner thus applying their resources objectively and efficiently.

7. INTERNAL AUDIT STANDARDS AND ETHICS

7.1 Internal Audit shall comply with the provisions of this Internal Audit Charter and shall seek membership of the Institute of Internal Auditors.

7.2 To this effect, in carrying out its functions under the MFSA Act and this Internal Audit Charter, Internal Audit shall adhere to the Definition of Internal Auditing and the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors as may be revised from time to time.

7.3 In the exercise of professional care, in carrying out audit engagements, the internal auditors shall, as a minimum, observe the Code of Ethics of the Institute of Internal Auditors as reproduced in the Annex to this Charter and as may be revised from time to time by the Institute of Internal Auditors.

7.4 To this effect the Head of Internal Audit shall ensure that a quality assurance and improvement programme of the internal audit function is maintained on an ongoing basis to evaluate compliance with the said Definition, Standards and Code of Ethics of the Institute of Internal Auditors. This also involves a formal internal quality assessment of the Internal Audit function undertaken every five years and an independent external quality assessment undertaken as a minimum every five years.

8. RELATIONS BETWEEN INTERNAL AUDIT AND OTHER MFSA FUNCTIONS

8.1 Internal Audit shall liaise with the relevant Heads to inform about its goals, its intended audit plan and to identify new areas that should fall within its audit universe thus keeping the necessary channels of communication open.

8.2 Officers and employees shall cooperate with Internal Audit in the exercise of its functions while internal auditors shall respect, to the extent possible, the timeframes of the various activities with management.

8.3 The Heads and management of all functions within the Authority shall inform the Head of Internal Audit of:

- major or significant incidents or matters which would impact risk, compliance, governance and/or internal control management;
- any complaint, objection or matter that would specifically jeopardise or impinge on the information security and/or accounting processes;
- the planning of a new project or process or any material changes to existing processes, services or operations which would significantly influence financial and/or operational risks and internal controls and consequently audit engagements.

9. RELATIONS WITH EXTERNAL AUDITORS AND THE EUROPEAN CENTRAL BANK.

9.1 Internal Audit shall endeavour to have ongoing liaison and open communications with the statutory external auditors of the Authority and to provide the assistance and reliance required for the fulfilment of the statutory audit of the Authority. Within this context Internal Audit shall ensure that its working documents, findings and reporting shall be available to the statutory external auditors for their assessment of the governance, risk management and internal control framework of the Authority.

9.2 Internal Audit shall participate fully and actively in the workings of the Eurosystem Internal Auditors Committee in its Single Supervisory Mechanism format and in any seminars, task forces or working groups established thereunder, including undertaking audit engagements on behalf of the Internal Auditors Committee.

13 October 2023

ANNEX 1 – CODE OF ETHICS

Principles

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.