



Audit Committee Charter

Responsible Official: Secretary to the Audit Committee

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MALTA FINANCIAL SERVICES AUTHORITY
AUDIT COMMITTEE CHARTER

1. ESTABLISHMENT AND PURPOSE

1.1 One of the main internal Committees of the Malta Financial Services Authority (hereinafter 'the Authority' or "the MFSA") is the Audit Committee which, while established by and reporting to the Board of Governors in accordance with Article 12A of the Malta Financial Services Authority Act (*Cap 330*) (hereinafter "the MFSA Act"), shall be independent and shall act independently of the Board of Governors.

1.2 At its Meeting No. 5 of 20 May 2016, the Board of Governors has resolved to establish an Audit Committee in accordance with the provisions of Article 12A of the MFSA Act. The Audit Committee shall operate in accordance with the provisions of the MFSA Act and this Audit Committee Charter.¹

1.3 The purpose of the Audit Committee is to assist the Board of Governors in its oversight responsibilities for the internal governance, internal controls, financial statements, risk management and internal audit function of the Authority.

2. AUTHORITY

2.1 In terms of Article 12A of the MFSA Act, in carrying out its functions the Audit Committee shall have full and unrestricted access to all information, documentation and personnel of the Authority and all officers and employees of the Authority shall cooperate with the Audit Committee accordingly.

2.2 To this effect the Board of Governors further empowers the Audit Committee to have full and unrestricted access to the Authority's external auditors, consultants or any other person or entity engaged by the Authority to provide it with advice or services and such persons shall cooperate with the Audit Committee accordingly.

2.3 The Chairperson of the Audit Committee, in consultation with the other members of the Audit Committee, and in accordance with the established internal procedures of the Authority, may also hire outside counsel or other consultants as may be necessary. The Chairperson of the Audit Committee shall inform the Board of Governors of such circumstances at the earliest opportunity but not later than the first meeting of the Board of Governors following such decision and prior to such engagement. In this regard, the Authority shall make available the necessary funds to achieve this aim.

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

2.4 In fulfilling its responsibilities within the Single Supervisory Mechanism (hereinafter 'SSM') of the European Central Bank (hereinafter 'ECB') the Audit Committee is also authorised to exchange information with the Internal Auditors Committee (hereinafter 'IAC') of the Eurosystem in its SSM format and with the ECB itself.

2.5 Through Article 12A of the MFSA Act the Audit Committee shall be consulted on the appointment of suitable officers to perform the function of Head and/or Deputy Head within the Internal Audit function. To this effect the Board of Governors shall ensure consideration of such consultation through its internal procedures for the recruitment and appointment of senior personnel.

3. COMPOSITION

3.1 Article 12A of the MFSA Act establishes the composition of the Audit Committee to be that of a Chairperson and two other members appointed by the Board of Governors for a period of not more than three years and who may be eligible for reappointment. Accordingly the Authority shall from time to time determine such remuneration payable to the members of the Audit Committee.

3.2 In this regard the Board of Governors has resolved that the composition of the Audit Committee may be composed of either non-executive Members of the Board of Governors, or of external independent appointments or of a combination of both.

3.3 In considering an external independent person to be appointed as a member or Chairperson of the Audit Committee the Board of Governors shall apply the conditions laid down under paragraph (3) of Article 6 of the MFSA Act on the eligibility of persons to be appointed as Chairperson or a member of the Board of Governors or of any organ of the Authority, or to hold office with the Authority. Moreover, according to Article 12A of the MFSA Act, the provisions of paragraph (6) item (a) – eligibility for appointment, item (b) – fit and proper, item (d) – relief from office, and item (e) – resignation from office, of Article 6 of the MFSA Act shall, as far as applicable, *mutatis mutandis* apply to the Chairperson and members of the Audit Committee.

3.4 Item (d) of paragraph (6) of Article 6 of the MFSA Act in so far as relieve from office due to "misbehaviour; and for the purposes of this paragraph repeated and unjustified non-attendance of meetings may be deemed to amount to misbehaviour" is concerned, shall also apply to the other members of the Committee at the discretion of the BoG.

3.5 The members of the Audit Committee shall be financially literate and at least one member shall preferably have accounting or related financial expertise.

3.6 In addition to the provisions of Article 12A of the MFSA Act, the Chairperson or a member of the Audit Committee shall be relieved of office on the occurrence of any situation defined in sub-paragraph (4.2) of Clause 4 of this Charter. Moreover, a non-executive member of the Board of Governors shall not remain a member of the Audit Committee if the term of office of that as person a member of the Board of Governors expires within the appointment tenor as a member on the Audit Committee and he/she is not reappointed as a member of the

Board of Governors and he/she is not reconfirmed by the Board of Governors as a member of the Audit Committee or if he/she is not reconfirmed by the Board of Governors as an external independent member of the Audit Committee if he/she is not reappointed as a member of the Board of Governors. Likewise, a non-executive member of the Board of Governors shall not remain a member of the Audit Committee if that person resigns his/her position as a member of the Board of Governors and he/she is not reconfirmed by the Board of Governors as an external independent member of the Audit Committee.

3.7 Notwithstanding the provisions of sub-paragraph 3.6, where the term of office of the entire Board of Governors expires at the same date, the Chairperson and appointed Members of the Audit Committee who are also Members of the Board of Governors shall continue in office as external independent members until a new Board of Governors is appointed and the Audit Committee is reconstituted in accordance with the provisions of this Charter.

3.8 According to Article 12A of the MFSA Act the Audit Committee shall designate one of the officers of the Authority to act as its Secretary for such period and under such terms as the Board of Governors shall deem appropriate. To this effect the Chairperson of the Audit Committee shall inform the Chairperson of the Authority regarding such designation immediately such decision is taken by the Audit Committee. The Chairperson shall also ensure that such appointment is noted in the relevant minutes. In absentia of the appointed Secretary in any Committee meeting, the Chairperson and Members of the Committee may appoint a temporary Secretary to the Committee to act as substitute Secretary. Such an appointment is to be recorded in the relevant Committee minutes.

4. INDEPENDENCE OF THE MEMBERS OF THE AUDIT COMMITTEE

4.1 According to Article 12A of the MFSA Act the Audit Committee shall be independent and shall act independently of the Board of Governors. Consequently any impairments to the independence or objectivity of the Audit Committee shall be reported to the Board of Governors and, where and if appropriate, shall be raised with the external auditors responsible for the annual statutory audit of the Authority.

4.2 To this effect a member of the Audit Committee shall be considered independent when the Board of Governors determines that such member is independent in character and judgement, and there are no relationships or circumstances which could affect, or appear to affect, his/her judgement as a member of the Audit Committee. Relationships or circumstances that would normally affect the independent judgement include where the member of the Audit Committee:

- is a former employee of the Authority until three years after employment, or any other material connection, has ended; or
- maintains, while being a member of the Audit Committee, a material business relationship with the Authority either directly, or as a partner, shareholder, executive director or senior employee of a body corporate or non-corporate that has such a relationship with the Authority; or

- has close family ties to the first degree with any of the consultants or senior employees of the Authority.

4.3 A member of the Audit Committee shall declare to the other Committee members, any perceived or potential conflict of interest which he/she may have on any item/s included for discussion on the Agenda of the Committee or being discussed during Committee meetings. The member who reports the conflict of interest shall abstain from participation in deliberations on the relevant item/s placed on the Agenda of the Committee. He/she is to be directed by the Chairperson to leave the meeting for the relevant item/s on the Agenda of the Committee and discussion being held. The Chairperson shall also ensure that the conflict of interest is noted in the relevant minutes.

5. ACCESS TO THE AUDIT COMMITTEE

5.1 The Head of Internal Audit, the Head of Finance, the Head of Risk Management and the Partners of the external auditor responsible for the annual statutory audit of the Authority shall have free and confidential access to the Chairperson of the Audit Committee.

5.2 The Head of Internal Audit, the Head of Finance and the Head of Risk Management may propose items to be placed on the agenda of the Audit Committee meetings subject to the agreement of the Chairperson of the Audit Committee. To this effect they shall liaise with the Secretary of the Audit Committee giving reasons for the inclusion of the proposed Agenda item.

6. MEETINGS OF THE AUDIT COMMITTEE

6.1 Article 12A of the MFSA Act provides that the provisions of Article 7 of the MFSA Act governing the meetings of the Board of Governors shall, as far as applicable, *mutatis mutandis* apply to the meetings of the Audit Committee. Otherwise the Audit Committee may regulate its own procedures.

6.2 The Audit Committee shall meet and report to the Board of Governors as often as may be necessary but not less frequently than once every three months. Meetings of the Audit Committee shall be called by its Chairperson. The other members of the Audit Committee, the internal and/or the statutory external auditors may, however, in writing to the Chairperson of the Committee through the Secretary, request a meeting if they consider that one is necessary, giving reasons.

6.3 Furthermore, and as a minimum, the Audit Committee shall meet with the appointed external statutory auditors of the Authority twice annually to discuss issues regarding the annual statutory audit of the Authority. Such meetings shall be in addition to the meetings as established under paragraph (6.2) above.

6.4 A quorum for any meeting shall be of at least two members of the Audit Committee. The Audit Committee shall decide who of the other two members shall act as Chairperson during such meetings in the absence of the Chairperson of the Audit Committee.

6.5 The Audit Committee shall endeavour to reach agreement by consensus but if this fails then a simple majority shall apply.

6.6 Subject to prior notification and in agreement with the Chairperson, the Chairperson and members of the Committee may participate in a meeting of the Committee from separate locations by means of teleconferencing or other communication channels which allows those participating to hear each other and shall be entitled to vote or be counted in the quorum accordingly.

6.7 The Audit Committee shall have the right to invite the Head of Internal Audit, the Head of Finance and the Head of Risk Management together with representatives from these functions; other members of management or any other officials and staff members of the Authority; and representatives of the external statutory auditors as it deems appropriate, to attend any, or part, of its meetings.

6.8 The other members of the Board of Governors, not being members of the Audit Committee, shall have the right to attend any meeting of the Audit Committee as observers by giving prior notice to the Chairperson or the Secretary of the Audit Committee who shall not withhold approval unless for specific reasons. They may not participate in discussions unless invited to do so by the Committee Chairperson. Non-participation by the other members of the Board of Governors shall not invalidate the proceedings of the Audit Committee.

6.9 The Secretary, in consultation with the Chairperson of the Audit Committee, shall prepare the agenda for the meetings of the Audit Committee. The Agenda, together with relevant documents and briefing material, shall be circulated to all members of the Audit Committee at least one week before the scheduled meetings.

6.10 The Audit Committee Secretary after prior consultation with the Audit Committee Chairperson, if applicable, the need of requesting a written explanatory note detailing the reasons and objectives of an agenda item. This explanatory note must be duly signed and dated as appropriate by the relevant function before this is circulated together with any supporting documentation by the Secretary to all members of the Audit Committee, in accordance with sub-paragraph (6.9) of this Charter.

6.11 The Committee may, in exceptional circumstances and with the approval of its Chairperson, adopt decisions by written procedures. Any member to whom the Secretary communicates a proposed decision and who fails to respond within the set deadline, which in normal circumstances should not be less than two working days following the date on which the proposed decision is sent to him/her, shall be considered to have approved the written procedure, provided that the other members are required to have responded to the written procedure to be considered adopted. The Secretary shall ensure that the documents relating to the proposed decisions are received by all members of the Committee. It shall be the responsibility of the Secretary to ensure that any decisions taken through written procedures shall be ratified by the Committee at the first opportunity that it meets. The Chairperson shall also ensure that such ratification is noted in the relevant minutes.

6.12 The Secretary shall keep minutes of the proceedings of each meeting and shall, as early as possible following the meeting, circulate draft versions to all members seeking amendments

prior to the next meeting. A final version shall be tabled and approved by the Audit Committee and signed by the Committee Chairperson at the following meeting and circulated to all members. Other members of the Board of Governors not being members of the Committee may request a copy of the final approved minutes from the Secretary and the Secretary shall comply with the approval of the Committee Chairperson who shall not withhold approval unless for specific reasons.

7. REPORTING TO THE BOARD OF GOVERNORS

7.1 The Audit Committee shall report to the Board of Governors at the first Board Meeting immediately following a meeting of the Audit Committee. However, should circumstances so warrant, the Chairperson of the Audit Committee may request the Chairperson of the Board of Governors to call an *ad hoc* meeting of the Board of Governors giving specific and justified reasons therefor.

7.2 The Audit Committee shall bring to the attention of the Board of Governors the quarterly and annual reports presented to it by the Head of Internal Audit in accordance with the Internal Audit Charter, together with its opinion on issues at stake.

8. PERFORMANCE EVALUATION AND REVIEW OF CHARTER

8.1 The Committee shall conduct an annual performance self-evaluation, which evaluation shall, among other things, compare the performance of the Committee with the requirements of this Charter. The performance evaluation shall be conducted in such objective manner as the Committee deems appropriate, giving due consideration to the International Standards for the Professional Practice of Internal Audit published by the Institute of Internal Auditors. The Committee shall report to the BoG on this evaluation.

8.2 Where the review required in terms of sub-paragraph (8.1) of this Charter is not undertaken, the Committee shall report to the BoG and record in its Minutes reasons why such review has not been undertaken.

8.3 The Committee shall annually review the adequacy of this Charter, taking into consideration the findings of the Committee's performance self-evaluation conducted in accordance with sub-paragraph (8.1) hereof, if any, and determine whether this Charter should be amended. If the Committee determines that any amendments to the Charter are necessary, the Committee shall propose such amendments to the BoG, who shall have the sole and ultimate authority to approve any amendments to this Charter.

8.4 This Charter and any amendments become effective, immediately upon approval of the BoG.

9. DOCUMENTATION

9.1 Any documentation submitted for the consideration of the Committee, including inter alia meeting agendas, approved minutes duly signed and Committee reports, shall be held electronically in the assigned repository.

9.2 In those instances whereby the Committee adopts a decision by a written procedure in accordance with sub-paragraph (6.11) of this Charter, the Secretary shall also keep a record of any such consultation, including relative papers and views and/or positions expressed in the assigned repository.

9.3 All documentation related to the proceedings of the Committee shall be treated as confidential in line with the Authority's Data Classification Policy and access thereto shall only be granted to specific individuals on a need-to-know basis and subject to the prior approval of the Chairperson.

10. CONFIDENTIALITY

10.1 The members of the Audit Committee and officers participating in the meetings of the Committee as established by this Charter, shall not disclose any information of a confidential nature coming to their knowledge during the performance of their duties to persons or bodies external or internal to the Authority except as provided for under this Charter and in accordance with the provisions of Article 17 of the MFSA Act.

10.2 In carrying out their duties, members of the Audit Committee and officers attending and/or participating in the meetings of the Committee as established by this Charter, shall comply with the provisions of the Ethics Framework and the Anti-Fraud Policy of the Authority and with any other Code of Conduct as may be applicable from time to time to the BoG or to any other organs of the Authority.

11. FUNCTIONS OF THE AUDIT COMMITTEE

11.1 Article 12A of the MFSA Act determines the functions of the Audit Committee:

- (a) to determine whether the governance, controls and risk management processes of the Authority in implementing agreed policies and strategies across the activities of the Authority are adequate, effective and functioning;
- (b) to determine the Internal Audit Unit's remit and role;
- (c) to evaluate the performance of the Internal Audit Unit set out under article 12B;
- (d) to carry out such other functions as may be assigned to it by the Board of Governors.

11.2 In fulfilling its responsibilities under Article 12A(1)(b), in consultation with the Chief Executive Officer, the Audit Committee shall prepare a three-year plan whereby the objectives and targets, including key performance indicators of Internal Audit are listed. These plans and targets shall be reviewed and approved annually by the Board of Governors.

11.3 In further fulfilling its responsibilities under Article 12A(1)(c) the Audit committee shall also evaluate the performance of senior officials of Internal Audit, including the Head and Deputy Head on an annual basis.

11.4 In addition to the functions under Article 12A of the MFSA Act and in accordance with item (d) of Article 12A(1) of the MFSA Act, the Board of Governors has resolved to assign the following additional functions to the Audit Committee:

- (a) to oversee the financial reporting process, including risks and internal and other controls in that process, and compliance with laws and regulations;
- (b) to review and monitor the integrity of the financial statements, and any formal public announcements relating to the financial performance of the Authority;
- (c) to oversee the development and implementation of a policy on the engagement of the statutory external auditors including non-audit services and to make recommendations to the Board of Governors in relation to the appointment and removal of the statutory external auditors, including fees payable;
- (d) to monitor and review the independence, objectivity and effectiveness of the statutory external auditor;
- (e) to oversee the annual independent statutory audit process, including the signing of the necessary statutory audit correspondence and the receiving of all financial statements, reports and management letters;
- (f) to oversee the operational risk management process throughout the prudential regulatory, conduct of business, management processes and any other functions of the Authority;
- (g) to consider and make recommendations to the Board of Governors for the approval of the annual Internal Audit Plan; and
- (h) to institute and undertake or oversee internal special investigations as required and as may be directed by the Board of Governors in accordance with investigation policies, including those under the Anti-Fraud Policy, of the Authority.

11.5 In fulfilling its functions the Audit Committee shall assume the following responsibilities:

Effectiveness

In determining the implementation, functioning and effectiveness of the governance, controls and risk management processes as applied to the agreed policies and strategies across the entire activities of the Authority the Audit Committee shall:

- ensure that all areas of activity of the Authority are covered in the internal audit universe;
- consider the findings of the internal audit function in these areas and monitor the application of timely and appropriate remedial action;
- consider the findings of the statutory external auditors' Management Letter and monitor the application of timely and appropriate remedial action;
- consider financial and operational risk management reports brought to its attention;
- ensure the adequacy of the financial reporting process;
- provide its opinion on the quality of the activities of the Authority to the Board of Governors on the basis of assessment reports received from the Internal Audit function;
- review and make recommendations to the Board of Governors on changes required to this Audit Committee Charter to ensure better effectiveness and efficiency as a minimum on an annual basis.

Financial Reporting

In fulfilling its responsibilities for overseeing the financial reporting process including the soundness of the annual financial statements, the Audit Committee shall:

- understand significant accounting, reporting and auditing standards that have an impact on the financial statements of the Authority and the audit process;
- review any formal public announcements relating to the financial performance of the Authority;
- review the audited annual financial statements with the Chief Executive Officer, the Chief Officer Operations, the Head of Internal Audit, the Head of Finance and the statutory external auditors (as necessary), consider their completeness and consistency with information available to the Audit Committee and make recommendations before these are submitted to the Board of Governors for approval. In particular, the Audit Committee shall focus on:
 - any changes in accounting policies and practices in compliance with generally accepted accounting standards;
 - major judgemental areas, estimates and assumptions that underlie the financial statements;
 - significant adjustments arising from the audit; and
 - the findings of the statutory external auditors' audit and their report thereon;
- understand how management develops interim financial information, and the nature and extent of internal and statutory external auditor involvement; and

- review such interim financial reporting with management and the statutory external auditor as appropriate before submission to the Board of Governors ensuring they are complete and consistent with the information known to the Committee.

Risk Management and Internal Control

In order to oversee the financial and operational risk management process and consequently advise the Board of Governors on the effectiveness and soundness of risk management and internal control the Audit Committee shall:

- consider the application of sound risk management practices including the implementation of information security framework based on acceptable international standards;
- understand current areas of high operational and financial risks and evaluate the processes applied to manage and mitigate these risks;
- consider the respective scope of work and audit plans of the internal auditor and the statutory external auditor to ensure completeness of coverage, avoid duplication of effort and promote the efficient, effective and economic use of audit resources;
- review the adequacy of internal controls including computerised information systems and business continuity processes;
- review and discuss with internal and external auditors and risk officers reports on any evaluations or assessments affecting risk management and controls within the Authority.

Compliance

In overseeing compliance with laws, rules and regulations governing the operations of the Authority, the Audit Committee shall assume responsibilities to:

- consider the findings of the internal and external audit functions in this regard and review the appropriateness of the management's actions to address these findings;
- institute and undertake or direct management to undertake internal investigations as necessary and consider results accordingly; and
- discuss and obtain updates of any internal legal compliance matters as identified through Internal Audit engagements.

Internal Audit Function

The monitoring and reviewing of the effectiveness of the internal audit function requires the Audit Committee to undertake responsibilities related to:

- reviewing and making recommendations to the Board of Governors for the approval of the annual internal audit plan and all major changes thereto prior to implementation;
- ensuring there are no restrictions or limitations to the internal audit function;
- providing the Head of Internal Audit with direct access to the Audit Committee and/or its Chairperson;
- periodically reviewing the Internal Audit Charter and any proposed amendments thereto to continually ensure the independence of the internal audit function;
- monitor review of the Internal Audit Manual and any proposed amendments thereto to ensure the completeness of the audit coverage of the activities of the Authority;
- consider major findings included in the Internal Audit Reports and periodically follow up and monitor the cooperation of all auditees in the timely implementation of agreed remedial measures through the Internal Audit function;
- consider quarterly and annual reports submitted by the Head of Internal Audit on the activities and results of the internal audit function in accordance with the Internal Audit Charter;
- evaluate the performance of the internal audit function through the reporting received and annually report to the Board of Governors accordingly; and
- assess periodic internal self-assessment reports on the quality of the internal audit function and within a minimum period of five years assess a report undertaken by an external independent reviewer appointed specifically by the Authority upon the recommendations of the Audit Committee to assess the internal audit function including any related audit obligations and work for the purposes of the IAC of the Eurosystem in its SSM format.

External Audit Function

To review the relationship of the Authority with the statutory external auditors and in order to oversee the external audit process leading to the completion of the statutory annual financial statements of the Authority, the Audit Committee shall:

- review the performance of the statutory external auditors;
- make recommendations to the Board of Governors for the engagement or removal of the statutory external auditors in line with the 'Good Practices for the Selection and Mandate of External Auditors' according to Article 27.1 of the ESCB/ECB Statute, including the fees due;
- review the independence of the statutory external auditors and the audit team through statements made by the external auditors to this effect;
- review the statutory external auditors' proposed audit scope and approach, including coordination with internal audit, through a review of the engagement letters and letters of representation;

- agree on the audit plan outlining the proposed approach, timing, and continuity with regards to any forthcoming statutory external audit;
- agree on the completion of the audit exercise and findings;
- review the statutory external auditors' Management Letter and management's response and make recommendations to the Board of Governors;
- provide the partner responsible for the statutory external audit with direct access to the Audit Committee and/or its Chairperson; and
- periodically meet separately with the statutory external auditors to discuss any matters that the Audit Committee or the statutory external auditors believe should be discussed privately.

12. RESPONSIBILITIES FOR IMPLEMENTATION

12.1 It shall be the responsibility of the Chairperson of the Audit Committee to ensure the full and effective implementation of this Audit Committee Charter.

12.2 It shall be the responsibility of all members of the Audit Committee to participate and effectively contribute to the proceedings of meetings of the Audit Committee for the effective implementation of this Audit Committee Charter.