

National Bank of the Republic of Macedonia



Audit Committee Charter

September, 2012

Pursuant to Article 47 paragraph 1 item 9 of the Law on the National Bank of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 158/2010), the National Bank of the Republic of Macedonia Council adopted the following

AUDIT COMMITTEE CHARTER

I. General provisions

Article 1

This Charter sets forth the rules governing the conduct of activities of the Audit Committee (hereinafter: Committee) at the National Bank of the Republic of Macedonia (hereinafter: the National Bank) by its members, in line with the best international practices.

II. Implementation of international practices and standards, objectives, authorizations, responsibilities and manner of reporting of the Committee

Application of international standards for professional practices

Article 2

In order to achieve adequate level of compliance of the corporate audit practices with the practices of the European Central Bank, this Charter shall be based on the guidelines of the Model Audit Committee Charter issued by the Institute of Internal Auditors (IIA) in Florida, USA.

Objectives of the Committee

Article 3

Primary objective of the Committee is to assist the National Bank of the Republic of Macedonia Council (hereinafter: the National Bank Council), by auditing:

- accounting policies and financial reporting,
- internal audit,
- external audit,
- internal controls, and
- compliance.

Authorizations of the Committee

Article 4

The Committee shall control or authorize the Internal Audit Department to exercise control within its audit activities.

In the pursuit of its audit activities, the Committee shall:

- undertake activities to settle any disagreements between the National Bank management and the external auditor, concerning the financial reporting,
- review the tender documentation for requiring services from an audit company,
- propose/request engagement of an independent consultant, accountant or other persons to assist the Committee in the pursuit of its authorizations defined by this Charter,
- request information and hold meetings with experts from the National Bank, external auditors or external counselors, if needed.

Responsibilities of the Committee

Article 5

In the pursuit of its audit activities, the Committee shall control activities related to financial statements, as follows:

- monitor the relevant accounting and reporting positions, including the complex or extraordinary transactions, and the recent amendments to the laws and professional standards in this area, particularly their effect on financial reports,
- monitor current financial risks in certain areas and their management,
- monitor the process of financial reporting carried out by the National Bank management and discuss financial statements and their compliance with the International Financial Reporting Standards (IFRS) at a meeting of the Committee with the National Bank management and the external auditor,
- make sure that the significant compliances, non-reconciled differences, disagreements and amendments to the significant accounting policies have been discussed together with the National Bank management and the external auditor,
- approve draft financial statements before being presented to the National Bank Council for approval and may provide critical opinion on whether the draft financial statements in compliance with the National Bank's accounting policies, whether they are complete and in compliance with the information on National Bank's activities known to the Committee members,
- discuss the Annual Financial Statement before being adopted by the National Bank Council and assess its completeness, compliance with the information known to the Committee and whether it reflects the significant accounting principles.

Article 6

In the pursuit of its audit activities, the Committee shall control activities related to internal audit, as follows:

- review the National Bank's internal acts that regulate the internal audit activities and make sure that they are properly established in the National Bank organization,
- discuss the Annual Audit Plan and the major amendments to the Plan and make sure that it identifies key risk areas,
- review the internal audit activities and resources and make sure that there are not any unjustified restrictions on the internal audit activities,
- verify the internal audit efficiency, including the compliance of its operations, its setup according to the Law on the National Bank of the Republic of Macedonia and the Professional Practices Standards of the Institute of Internal Auditors, Florida (IIA),
- discuss the internal audit reports, the significant findings and recommendations from the reports of the internal audit, and their application,
- meet with the Chief Internal Auditor to discuss activities which, according to the Committee or the internal audit, have to be mutually discussed.

Article 7

In the pursuit of its audit activities, the Committee shall control activities related to external audit, as follows:

- review the external audit's scope and approaches, including the coordination with the internal audit,
- verify the required qualifications of external auditors and the required data on their independence, in the stage of preparing the bid documentation, prior to the announcement of the invitation to tender,
- meet with the National Bank management and external auditors to discuss the Annual Financial Statement, its compliance with IFRS and the results and findings of the external auditor,
- verify whether the significant findings and recommendations of the external audit are observed,
- discuss the Annual Financial Statement of the external audit in order to evaluate the efficiency of controls of financial reporting and information technology,
- meet with external auditors to discuss activities which, according to the Committee or the internal audit, have to be mutually discussed.

Article 8

In the pursuit of its audit activities, the Committee shall control activities related to the conduct of internal controls, as follows:

- evaluate whether the responsible persons of organizational units in the National Bank create an appropriate culture of control environment,
- understand the control processes applied by the National Bank management primarily concerning the information system security and control, control of the approval and accounting records of financial data and the control of the compliance of operations with the regulation,
- control whether the National Bank management applies the recommendations of the internal and external audit,
- evaluate the overall efficiency of internal control system and the risk management

framework that protect the National Bank assets.

Article 9

In the pursuit of its audit activities, the Committee shall control compliance activities, as follows:

- review the efficiency of internal control system for monitoring the compliance of activities with the regulations,
- understand the results of the monitoring process, regarding any noncompliance in the responsibilities of the Committee, according to this Charter,
- analyze the findings of the state auditor or other regulatory agencies.

Article 10

In the pursuit of its audit activities, the Committee shall:

- carry out other activities defined in this Charter, on request of the National Bank Council,
- reconsider and evaluate the adequacy of the Charter on the operations of the Audit Committee, once a year,
- confirm that, on annual basis, the responsibilities specified in this Charter have been fulfilled;
- evaluate only the operations of the Committee and its members, at least once a year.

Method of reporting

Article 11

The Committee shall submit an annual report to the National Bank Council presenting its activities, problems and recommendations.

The Committee shall ensure permanent communication among the internal audit, the external audit and the National Bank Council members.

The Committee shall control the reports adopted by the National Bank, which are within the Committee's responsibilities.

III. Closing provisions

Article 12

This Charter shall enter into force on the date of its adoption.

O no. 02-15/X-1/2012
4 October 2012
Skopje

Dimitar Bogov
Governor

Chairman
of the National Bank of the Republic of
Macedonia Council

Explanatory note

The Audit Committee operates in accordance with the authorizations assigned by the National Bank Council, in order to ensure successful communication and exchange of information among the National Bank Council, internal and external auditors and the National Bank management.

The Audit Committee has to be independent, to have open lines of communications and clearly defined roles and responsibilities.

Therefore, the Audit Committee has to have a Charter in place that governs its operations to ensure clear identification of its objectives, organization, authorizations and responsibilities.

Moreover, the Audit Committee Charter creates a framework of activities of the Committee regarding its audit of financial reporting, internal control system and audit processes.

Considering the above, the National Bank Council is recommended to adopt the Audit Committee Charter.