



NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Pursuant to Article 47 paragraph 1 item 21 of the Law on the National Bank of the Republic of North Macedonia (Official Gazette of the Republic of Macedonia No. 158/10, 123/12, 43/14, 153/15, 6/16, 83/18 and Official Gazette of the Republic of North Macedonia No. 110/21) and Article 10 paragraph 1 of the Statute of the National Bank of the Republic of North Macedonia St. No. 02-15/IV-1/2011 of 21.04.2011, D.No.02-15/III-4/2012 of 29.03.2012, D.No.02-15/II-10/2016 of 25 February 2016, D. No. 02-15/XV-3/2018 of 27 September 2018 and D. No. 02-15/VII-5/2019 of 25 July 2019, the National Bank of the Republic of North Macedonia Council adopted the following

DECISION

on forming an Audit Committee and determining its scope of work

I. General provisions

1. With this Decision, the National Bank of the Republic of North Macedonia (hereinafter: the National Bank) shall form an Audit Committee (hereinafter: the Committee), as a permanent working body of the National Bank Council, for the purpose of further improving the corporate governance in the National Bank, strengthening the control processes with the performance of its activities and legal tasks and shall define its composition, scope of work, authorizations and responsibilities.

2. This Decision shall define the criteria, the manner of selection and the competences of the external associate of the Committee (hereinafter: external associate).

II. Composition of the Committee

3. The Committee shall consist of three members elected by the National Bank Council from among the non-executive members, by a special decision. At least one of the members of the Committee should have specialized knowledge in the field of accounting and/or auditing.

4. If none of the non-executive members of the National Bank Council has specialized knowledge in the field of accounting and/or auditing, the National Bank may engage an external associate in the manner set out in item 6 of this Decision.

5. The external associate should be a citizen of the Republic of North Macedonia, have an appropriate reputation, have at least university education, have experience and knowledge in the field of accounting and/or auditing of at least three years and meet the criteria for a non-executive member of the National Bank Council set in Article 50, paragraph 2 of the Law on the National Bank of the Republic of North Macedonia.

6. External associate shall be engaged by a decision of the National Bank Council.

7. With the selected external associate, the National Bank shall conclude a special contract, which regulates their rights and obligations within their engagement, including their obligation to protect data confidentiality.

8. The external associate shall participate in the regular work of the Audit Committee with professional explanations for and opinions on matters in the field of accounting and auditing, which are in the scope of the operations of the Committee.

III. Purpose and scope of work of the Committee

9. The purpose of the Committee is to help the National Bank Council in fulfilling its supervisory responsibilities of the operations of the National Bank, through:

- Monitoring of the accounting policies and the financial reporting;
- Monitoring of the efficiency of the internal audit;
- Monitoring of the process of selection of an independent audit company, monitoring of the audit process and the work of the selected audit company;
- Assessment of the overall effectiveness of the internal control system and the risk management framework, which protect the assets of the National Bank;
- Monitoring of the appropriateness of the framework for compliance of the operations with the regulations and the effectiveness of the process of monitoring of the compliance at a level of the National Bank.

The Committee should contribute to open communication between the tactical and strategic managers, the members of the National Bank Council, the internal and external audit.

IV. Authorizations, responsibilities and method of reporting of the Committee

Authorizations of the Committee

10. To perform the activities from the scope of its work, the Committee shall have the right:

- To request from the Governor an approval for conducting an extraordinary audit by the Internal Audit Department;
- To unlimited access to the tactical and strategic managers and to request reports, data and information necessary for the appropriate performance of its responsibilities;
- To hold meetings with the responsible persons for the control processes in the National Bank and with the external auditors.

Responsibilities of the Committee

11. The Committee, through monitoring of the accounting policies and the financial reporting, shall assess the appropriateness and the effectiveness of the entire process of preparation of the financial statements of the National Bank and the overall adequacy of the related disclosures. For this purpose, the Committee shall:

- Monitor the significant changes in the accounting policies and the financial reporting framework in the National Bank;
- Discuss the annual financial statements of the National Bank and the annual account before their approval by the National Bank Council;

- At a joint meeting with the external auditor, the Manager and the Deputy Manager of the Financial, Accounting and Control Department, the Chief Internal Auditor, the Advisor to the Governor with knowledge/expertise of International Financial Reporting Standards (hereinafter: IFRS), discuss: the prepared financial statements, in terms of: the appropriateness of the application of the accounting policies, the prudence of the accounting assessments and the related disclosures, the significant difficulties and harmonizations during the audit, as well as the unharmonized differences and the possible disagreements of the external auditor with the management of the National Bank, as well as the Letter / Report for the management of the National Bank on the internal goals with an assessment of the internal controls, the business processes and accounting issues, the identified weaknesses and shortcomings, including the information systems for accounting records;
- Discuss the Report from the external auditor on the prepared financial statements whether they are in accordance with IFRS;
- Give an opinion to the National Bank Council on the draft audited annual financial statements and the annual account of the National Bank;
- Monitor the implementation of the recommendations given by the external auditor and shall review the periodical notifications from the organizational units in the National Bank for the status of implementation of the recommendations from the external audit.

12. The Committee shall assess the efficiency of the internal audit through monitoring of its work. For this purpose, it shall:

- Discuss the internal acts of the National Bank that regulate the operations of the internal audit and shall assure itself that it is appropriately set in the organization of the National Bank and shall submit an opinion to the National Bank Council on amendments to the internal acts;
- Discuss the medium-term and the annual audit program and the major changes in the program, before their adoption by the Council, and shall assure itself that they contain the key areas in terms of the risks;
- Discuss the activities and the resources of the internal audit and shall assure itself that there are no unjustified limitations in the operations of the internal audit;
- Check the efficiency of the internal audit, including the compliance of its operations with the Law on the National Bank of the Republic of North Macedonia and the International Framework for Professional Practice of the Internal Audit of the Institute of Internal Auditors, Florida – IIA;
- Discuss the semiannual and the annual reports on the operations of the internal audit, the significant findings and recommendations given by the internal audit, as well as their implementation;
- Hold working meetings with the Chief Internal Auditor in order to discuss all the matters for which the Committee or the internal audit assess that they should be discussed mutually.

13. The Committee shall assess the appropriateness and the effectiveness of the external audit for which it shall monitor the selection of an independent audit company, shall control the audit process and the work of the selected audit company, so that it shall:

- Monitor the process of procurement of services for external audit and shall assess whether it is in accordance with the Policy on selecting a company for external audit of the financial statements of the National Bank of the Republic of North Macedonia;
- Submit an opinion to the Council on the proposal for selection / non-selection of an external audit company;
- Discuss the scope, the approach and the plan for work of the external audit, including the coordination with the internal audit;

- Once a year, it shall check the independence of the operations of the audit company and the authorized external auditors, for which before the commencement of the audit it shall check whether the independence statements are submitted;
- Every year, it shall assess the operations of the external auditors and shall inform of their operations in the Annual Report of the Audit Committee. The assessment of the work of the external auditors refers to the manner of conduct of the audit, its compliance with the International Standards on Auditing, the quality and the openness in the communication with the external auditors, the independence of the audit company and the authorized auditors, their impartiality and the application of the professional skepticism, as well as whether the resources that are engaged are sufficient;
- In case the operations of the external auditor are assessed as unsatisfactory, the Committee shall determine and recommend to the National Bank Council to undertake activities, which may include discussions with the external auditor in order to resolve the issues related to the conduct of the audit, as well as to replace members of the auditing team;
- Discuss the reasons for the possible termination of the contract and shall submit an opinion to the National Bank Council on termination of the contract.

14. The Committee shall assess the adequacy and the effectiveness of the internal controls system, for which it shall:

- Comprehend the applied control mechanisms which refer primarily to the security and the control of the information system, the control of the approval of the accounting data, as well as the control over the compliance of the operations with the regulations;
- Control whether the recommendations given by the internal and the external audit are applied in the operations of the National Bank.

15. The Committee, in the performance of its activities, shall be obliged to monitor the compliance at a level of the National Bank, as follows:

- To be informed with the results of the monitoring process of any examples of non-compliance in the areas of the responsibilities of the Committee in accordance with this Decision;
- To discuss the findings from the state auditor or other regulatory agencies.

16. When performing its activities, the Committee shall also have the following tasks:

- To perform other activities related to this Decision at request of the National Bank Council, within the competences of the Committee;
- When necessary, to re-examine the appropriateness of this Decision and to initiate its appropriate adjustment;
- To carry out a check on an annual basis, in terms of whether the tasks stated in this Decision are realized;
- To make a self-assessment of the operations of the Committee and of its members, at least once a year.

Method of reporting

17. The Committee shall be responsible for its work before the National Bank Council.

The Committee shall also inform the Council in case of conditions identified in the operations or of proposals for improvement of the operations, for which it estimates that they are within its authorizations and responsibilities.

The Committee shall be obliged to submit an annual report on its work to the National Bank Council in relation to the activities it conducts, the problems it encounters and the recommendations it gives.

The summary of the Annual Report on the work of the Committee, excluding the individual data, shall be published on the web site of the National Bank.

V. Closing provisions

18. The work of the Committee shall be regulated by the Rules of Procedure, which are adopted by the President of the Committee.

19. This Decision shall enter into force on the date of adopting.

D. No. 02-15/XIX-1/2021
3 December 2021
Skopje

Governor and Chairman
of the Council of the National Bank of
the Republic of North Macedonia
Anita Angelovska Bezhoska

Explanatory note

The Draft Decision on forming an Audit Committee and determining its scope of work, unifies the existing Regulation on the work of the Audit Committee Re. No. 02-15/X-1/2012 of 4 October 2012 and the existing Decision on forming the Audit Committee D.No.02-15/XI-2/2020 of 30 July 2020. The draft Decision, for the first time defines the composition of the members of the Audit Committee (Committee), as well as the criteria for engaging an external associate.

The Committee consists of three members elected from among the non-executive members of the National Bank Council. One of the members of the Committee should have specialized knowledge in the field of accounting and/or auditing. If none of the non-executive members of the Committee has knowledge in the field of accounting and/or auditing, which are in the scope of work of the Committee, an external associate will be engaged. The role of the external associate is to advise and give opinions to the members of the Committee on issues in the field of accounting and auditing. The external associate is not a member of the Committee and does not have the right to vote.

The Committee should have three important qualitative characteristics: independence in the operations, open lines of communication, as well as clearly defined roles and responsibilities.

For these reasons, this Act provides clear recognition of the objectives, as well as of the authorizations and responsibilities of the Committee assigned to it by the National Bank Council. Also, the Draft Decision improves the framework for the performance of the activities of the Committee for assessing the overall effectiveness and appropriateness of the financial reporting process, the auditing processes, the internal control system and the compliance of the operations, in order to strengthen the control function of corporate governance.

In order to attain an appropriate level of compliance in the setup and the role of the Committee for the purposes of corporate governance of the National Bank, with the best international practices, the scope of work, the authorizations and the responsibilities of the Committee are based on the practices adopted by the European Central Bank and the guidelines of the Model Audit Committee Charter issued by the Institute of Internal Auditors (IIA) in Florida, USA.

In addition, on a recommendation from the IMF CB (IMF CB Transparency Code), this Decision includes provisions that provide for greater transparency of the operations of the Committee, through public publication of data on its operations, as well as strengthening of the role of the Committee in the process of monitoring and assessing the operations of the external auditor of the National Bank.

Given the above-mentioned, it is proposed the National Bank Council to adopt this Decision.