

4. Audit committee

- (a) Credit institutions shall have an audit committee. The audit committee shall be a stand-alone committee, shall be composed of non-executive directors, and shall have at least three members.
- (b) At least one member of the audit committee shall have competence in accounting and/or auditing:
Provided that the chairperson of the audit committee shall have competence in accounting and/or auditing.
- (c) The members of the audit committee as a whole shall have competence relevant to the financial sector in which the audited credit institution is operating.
- (d) The majority of the members of the audit committee shall be independent of the audited credit institution. The chairperson of the audit committee shall, subject to paragraph 4(b) above, be appointed by the members of the audit committee and shall be independent of the audited credit institution.
- (e) Without prejudice to the responsibility of the members of the Board of Directors, the audit committee shall, *inter alia*:
 - i. inform the Board of Directors of the audited credit institution of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the audit committee was in that process;
 - ii. monitor the financial reporting process and submit recommendations or proposals to ensure its integrity;
 - iii. monitor the effectiveness of the credit institution's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the audited credit institution, without breaching its independence;
 - iv. approve and monitor the internal auditor's work programme, and receive internal audit reports or a periodic summary;
 - v. monitor the methods used by senior management to account for significant and unusual transactions where the accounting treatment may be open to different approaches, paying particular attention to both the existence of, and the justification for, any activity carried out by the credit institution in offshore centres and/or through special purpose vehicles;
 - vi. monitor the responsiveness of senior management to the findings and recommendations of the internal audit function and make recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the department's budget;

- vii. monitor the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the Accountancy Board established by the Accountancy Profession Act (Chapter 281 of the Laws of Malta), pursuant to Article 26(6) of Regulation (EU) No 537/2014;¹
- viii. review and monitor the independence of the statutory auditors or the audit firms in accordance with Articles 22, 22a, 22b, 24a and 24b of Directive 2006/43/EC² and Article 6 of Regulation (EU) No 537/2014, and in particular the appropriateness of the provision of non-audit services to the audited entity in accordance with Article 5 of Regulation (EU) No 537/2014;
- ix. review the statutory auditor's or audit firm's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the credit institution, and other related regulatory requirements;
- x. review the effectiveness of the external audit process, and the responsiveness of senior management to the recommendations made in the statutory auditor's or audit firm's management letter;
- xi. monitor the statutory auditor's or audit firm's work programme and ensure it obtains timely information about any issues arising from the audit;
- xii. be responsible for the procedure for the selection of statutory auditor(s) or audit firm(s) and recommend the statutory auditor(s) or the audit firm(s) to be appointed in accordance with Article 16 of Regulation (EU) No 537/2014;
- xiii. investigate issues giving rise to any resignation of the statutory auditor or audit firm, and make recommendations as to any required action;
- xiv. act as the principal point of contact between the internal auditors, the statutory auditor or audit firm and the Board of Directors in order to ensure that in addition to having an effective working relationship with senior management, both internal and statutory auditors are guaranteed free access to the Board of Directors;
- xv. review the process whereby the credit institution complies with existing provisions regarding the possibility for employees to report alleged significant irregularities in the credit institution, by way of complaints or through anonymous submissions, normally to an independent director, and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- xvi. decide whether and, if so, when the Chief Executive Officer or Chairperson of the Board of Directors, the Chief Financial Officer (or senior employees responsible for finance, accounting, and treasury matters), the internal auditor and the statutory auditor or audit firm, should attend its meetings;

¹ Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

² Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC, as amended by Directive 2008/30/EC of the European Parliament and of the Council of 11 March 2008 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, as regards the implementing powers conferred on the Commission; Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC; and Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts; and as may be further amended from time to time.

- xvii. be entitled to meet with any relevant person outside the presence of executive and managing directors who do not form part of the Audit Committee, if it so wishes.
- (f) The audit committee shall present the yearly and, if applicable, half-yearly statements, to the Board of Directors for approval and shall report to the Board of Directors on its activities at least once every three months.
- (g) In order to ensure the well-functioning of the audit committee, credit institutions shall, *inter alia*:
- i. ensure that the audit committee is not prohibited from obtaining advice and assistance from outside legal, accounting or other advisors as it deems necessary to carry out its duties, and provide the audit committee with appropriate funding to this effect;
 - ii. provide an induction programme for new audit committee members, and subsequent relevant training on an ongoing and timely basis; and
 - iii. ensure that all audit committee members are provided with full information relating to the credit institution's specific accounting, financial and operational features.
- (h) In so far as the requirements relating to the audit committee are concerned, paragraphs 4(a) to 4(g) shall be read in conjunction with Regulation (EU) No 537/2014. Particular consideration should be given to Title III (Articles 16 to 19) of the said Regulation, relating to the appointment of statutory auditors or audit firms and to the transitional provisions set out in Article 41 of the same Regulation.
- (i) Notwithstanding the provisions pertaining to the requirements of the Audit Committee set out in the Listing Rules, paragraphs 4(a) to 4(h) shall also apply to credit institutions listed on a regulated market. In case of any conflict between the provisions of paragraphs 4(a) to 4(h) and the Listing Rules, pertaining to the requirements of the audit committee, a credit institution listed on a regulated market shall comply with the requirements set out in paragraphs 4(a) to 4(h).