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REGULATION
on the functioning of the Internal Audit Department of the National Bank of Moldova

Chişinău 2024

Revision history

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1.0	22.12.2016	Initial version	DSB No 16 of 22.12.2016
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Chapter I
GENERAL PROVISIONS

Section 1. Regulatory basis of the Regulation

1. This Regulation has been drawn up in accordance with Law No 548/1995 on the National Bank of Moldova (as amended), the Procedure on the organisational structure and development, coordination, and approval of the regulations on functioning of the subdivisions and job descriptions within the National Bank of Moldova, and defines the scope of internal audit activity, the objectives, authority, role, and responsibility of internal audit within the NBM.
2. The Internal Audit Department (IAD) shall exercise its attributions in accordance with Articles 33 and 34 of the Law on the National Bank of Moldova, the Audit Manual, the Decisions of the Supervisory Board of the NBM, the Decisions of the Audit Committee, the Decisions of the Executive Board (EB), other acts, as well as the provisions of this Regulation.
3. The IAD conducts its activities in accordance with the Global Internal Audit Standards developed by the Institute of Internal Auditors (IIA Standards).

Section 2. Subdivision Relations

4. The IAD is an independent structural subdivision of the National Bank of Moldova (NBM). Functionally, it is subordinated to and reports to the Supervisory Board (SB) of the NBM and Audit Committee (AC), and administratively to the Governor of the National Bank of Moldova.
5. Comptroller General – Director of the IAD (CG) ensures that the activity is not exposed to any conditions that threaten the objective exercise of its duties, including in the selection of the audit scope, procedures, frequency, applied period, and content of the report. If the CG finds that the exercise of the IAD's mandate (duties, roles, and responsibilities assigned by normative acts) may be jeopardized, the circumstances underlying this fact shall be reported to the AC as soon as they are identified and, where appropriate, to the SB, as well as in the annual report to the AC, the Executive Board (EB), and the SB.
6. The CG confirms at least annually to the AC, EB, and SB that the IAD maintains organisational independence. In the event of interference and related implications in determining the scope of internal audit, conducting the audit, and/or communicating the results, the CG shall report to the AC as soon as they are

identified and, where appropriate, the SB, as well as in the annual report to the AC, EB, and SB, including the actions or protective measures taken to remedy the situation.

7. The CG reports to the AC, EB, and SB at least annually, without limitation to the following:
 - 1) the achievement of the IAD's objectives and the exercise of the rights/obligations related to the IAD, including the attainment of key performance indicators;
 - 2) the degree of implementation of the internal audit plan;
 - 3) the degree of achievement of the IAD Strategy and the Action Plan for the implementation of the IAD Strategy;
 - 4) the compliance of internal audit activity with IIA Standards and the actions taken/planned to ensure compliance;
 - 5) the exposure to significant risks, including fraud, issues related to applied control measures and governance, or other matters requiring the attention of the AC, EB, and SB, including based on the findings of multiple audit engagements (cross-cutting approach) with the presentation of conclusions and recommendations. If the IAD identifies significant risks (exceeding the NBM's risk tolerance), these are discussed within the relevant Committees (e.g., Risk Committee) and with the AC and EB through quarterly audit reports.
 - 6) the results of audit engagements and other audit activities;
 - 7) resource requirements for carrying out internal audit activities;
 - 8) risks responses from responsible persons that could be considered unacceptable for the NBM;
 - 9) the implementation and maintenance of a quality assurance and improvement program covering the internal audit activity and the results of internal and external evaluations carried out under this program.

8. At least annually, during the meeting to review the draft risk-based annual audit plan prepared by the IAD, the CG consults with the members of the EB, AC, and SB on the strategic objectives of the NBM and significant risks, in order to identify priority audit areas. The draft annual audit plan is submitted to the EB for acknowledgment and then presented to the AC for coordination and to the SB for approval.

9. If the CG has a different opinion from the EB or other stakeholders regarding the scope, findings, or other aspects of an audit engagement, which may affect the internal audit function's ability to carry out its mandate, the CG shall present the relevant facts and circumstances to the AC, with further escalation to the SB, as appropriate.

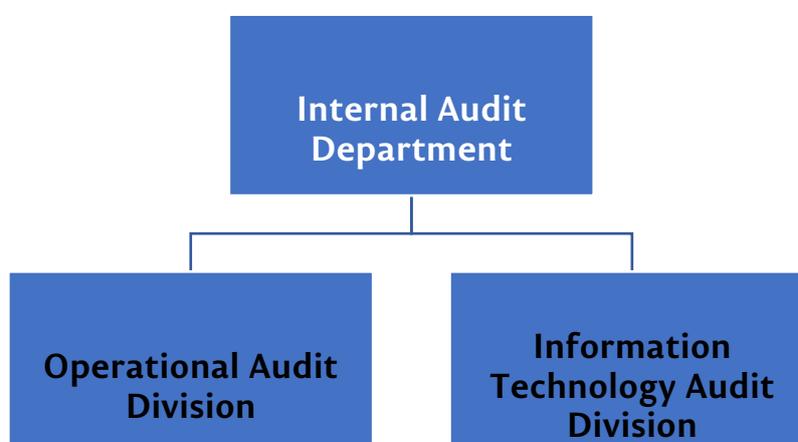
10. At least annually, by the end of November, the CG shall submit for coordination the resource requirements for fulfilling the audit mandate and for implementing the internal audit plan, which shall include, but not be limited to: proposals for the remuneration of IAD employees in accordance with the internal acts of the NBM; proposals regarding the training budget, including for certifications and the maintenance of certifications; proposals regarding the acquisition/maintenance of

information systems for managing the audit process, analysis, and, where appropriate, the contracting of external assurance providers/experts in areas where the IAD lacks expertise/resources.

11. In the process of exercising its attributions to achieve the established objectives, the IAD cooperates with the structural subdivisions within the NBM.

Section 3. Structure of the subdivision

12. The IAD is headed by the Comptroller General (CG), who is appointed by the SB at the proposal of the AC. In the absence of the IAD director, his/her duties are performed by the head of the Operational Audit Division.
13. Based on the general purpose, the established objectives and responsibilities, the IAD has the following structure:



14. The duties, obligations, and rights of the CG are set out in the job description, which is approved by the AC after coordination with the Governor of the National Bank.
15. The duties, obligations, and rights of the IAD personnel, except for the CG, shall be established in job descriptions, drawn up and approved in accordance with the provisions of this Regulation and the Procedure on the organisational structure and the development, coordination, and approval of operating regulations of the subdivisions and job descriptions within the National Bank of Moldova.
16. The employment within the IAD is carried out through a competitive process, ensuring the selection of highly qualified individuals with moral integrity.

Chapter II

THE SCOPE AND OBJECTIVES OF THE SUBDIVISION'S ACTIVITIES AND PRINCIPLES OF ETHICS AND PROFESSIONALISM

Section 1. Purpose

17. The overall purpose of IAD's activity is to strengthen the NBM's ability to create, protect, and maintain its values by providing the AC, EB, SB, and line management with assurance, advice, comprehensive analyses, and foresight that are independent, objective, and apply on a risk-based approach.
18. Internal audit improves:
 - 1) the successful achievement of the NBM's objectives;
 - 2) governance, risk management, and control processes within the NBM;
 - 3) the decision-making and oversight processes within the NBM;
 - 4) the NBM's reputation and credibility with stakeholders;
 - 5) the NBM's capacity to serve the public interest.

Section 2. Basic objectives

19. The objective of the internal audit activity is to provide independent assurance, without limitation, based on objective examination of evidence during audit engagements, to the Supervisory Board, Audit Committee, and Executive Board and third parties regarding the adequacy and effectiveness of the NBM's governance, risk management, and control processes.
20. To understand governance processes, CG must take into account how:
 - 1) the strategic objectives of the NBM are set and strategic and operational decisions are approved;
 - 2) the risk management and control system is monitored;
 - 3) the corporate culture is promoted;
 - 4) an effective performance management system is ensured, along with accountability;
 - 5) the governing bodies and structural subdivisions of the NBM are structured;
 - 6) the information on risks and controls within the NBM is communicated;
 - 7) activities and communication between the SB, EB, IAD, and external insurance providers are coordinated.
21. To understand risk management and control processes, CG should consider how the NBM identifies and assesses significant risks and selects appropriate controls. This includes understanding how the NBM identifies and manages the following key risk areas:

- 1) reliability and integrity of financial and operational information;
 - 2) efficiency and effectiveness of operations and programs;
 - 3) protection of assets;
 - 4) compliance with laws and/or regulations.
22. The internal audit function continuously applies the following principles of ethics and professionalism defined in the IIA Standards:
- 1) Internal auditors demonstrate integrity in their work and behaviour.
 - 2) Internal auditors maintain an impartial and objective attitude in their audit activities and decision-making.
 - 3) Internal auditors apply their knowledge, skills, and abilities to successfully fulfil their roles and responsibilities.
 - 4) Internal auditors apply professional due diligence in planning and performing internal audit activities.
 - 5) Internal auditors use and protect information appropriately.
23. Information related to audit activities (financial data, programs, reports, other documents) accumulated during the audit process, both in paper and electronic format, is confidential.
24. Access to this information is permitted to NBM subdivisions within the limits provided by the legal framework under which the IAD operates.

Chapter III

DUTIES, RIGHTS, AND RESPONSIBILITIES OF THE SUBDIVISION

Section 1. Duties

The basic duties of the IAD include, but are not limited to, the following:

25. Development of specific methodological norms for internal audit, including the Audit Manual, which includes the methodology and tools for internal audit and risk assessment, audit procedures and techniques, the quality assurance and improvement program, etc. The methodological norms specific to the internal audit are approved by the CG. The CG examines, at least annually, the circumstances that may significantly affect the exercise of the IAD's duties (e.g., changes in international audit standards, changes in the NBM's strategy, risk profile) and, if necessary, submits proposals for amendments to the IAD Regulation: to the EB for acknowledgment, to the AC for coordination, and to the SB for approval.
26. Implementation and maintenance of the quality assurance and improvement program covering all aspects of the internal audit activity. The program includes internal and external assessments of the audit activity's compliance with IIA Standards. The program also evaluates the efficiency and effectiveness of the internal audit function and identifies opportunities for improvement. Internal assessment includes continuous monitoring and periodic evaluation, which is carried out at least once every two years. External assessment must be performed

at least once every five years: 1) through self-evaluation, in which at least one team member has extensive experience with the IIA Standards, and which is subsequently validated by an evaluator or evaluation team that meets the independence and qualification requirements according to the IIA Standards; or 2) through an assessment carried out by an evaluator or evaluation team in which at least one member is a Certified Internal Auditor, in accordance with the qualification requirements set out in the IIA Standards. The report on the external assessment of the internal audit will be sent by the evaluator directly to the AC and the SB. Following the internal assessment, where appropriate, an action plan for implementing the recommendations will be developed and approved by the AC. Following the external assessment, an action plan for implementing the recommendations will be developed and approved by the AC after prior consultation with the EB.

27. Development of the Annual Internal Audit Plan based on risk assessment, which is submitted to the EB for acknowledgment, to the AC for coordination, and subsequently to the SB for final approval (December), which shall include, but not be limited to: 1) the degree of coverage of the audit universe, 2) the resources necessary for the implementation of the plan and, where appropriate, 3) resource limitations, 4) the reasons for not covering high-risk areas. During the year, the IAD assesses the risks and informs the AC (July) of the results of this assessment. In the event of major risks/priority areas, lack of resources, limitation of the audited area, or restricted access to information, the Annual Audit Plan is revised.
28. Development of the IAD Strategy, which supports the strategic objectives and aligns with the expectations of the SB, EB, and AC and other stakeholders, and the Action Plan for implementing the strategy. The strategy is submitted to the EB for acknowledgment, to the AC for coordination, and subsequently to the SB for final approval. The Action Plan for implementing the IAD Strategy is coordinated with the AC and approved by the Governor of the NBM. It is revised only in the event of major changes that necessitate its revision.
29. Conduct of planned internal audit and consulting engagements in accordance with the Annual Audit Plan, including ensuring that audit objectives and scope are established, adequate resources are allocated and appropriately supervised, work programs and test results are documented, and audit engagement results are reported to relevant parties with applicable recommendations and conclusions. The consulting engagements are consultative in nature and are generally carried out at the express request of the NBM subdivision, coordinated with the EB member overseeing the subdivision, or at the request of the SB.
30. Conduct of ad-hoc audit engagements, which are not planned in advance but are initiated on a case-by-case basis in response to requests from the Governor of the NBM, the AC, the SB, or information known to the IAD that may justify the initiation of the audit engagement, with the revision of the annual audit plan if necessary.
31. Quarterly reporting of internal audit activity results to the EB (for information purposes) regarding the audit engagements carried out during the management

period and the degree of implementation of the IAD recommendations and reporting to the AC no later than the end of the month following the reporting period, with presentation and acknowledgment at the quarterly meeting of the AC; and reporting at least annually by the end of the first quarter following the reporting period, with presentation and acknowledgment at the respective meetings of the EB, AC, and SB.

32. Monitoring and evaluating the level of implementation of audit recommendations and reporting on the degree of implementation to the AC, EB, and SB. If, following the non-implementation/delay in implementing the IAD recommendations, the CG finds that the head of the subdivision responsible for implementing the recommendation has accepted a risk that exceeds the NBM's risk tolerance, the CG will discuss this issue with the EB and, if the issue is not resolved by the EB, it will be escalated to the AC and, where appropriate, to the SB.
33. Quarterly and annual verification of the NBM's financial statements, execution of the NBM's budget, expenditure estimates, and investment allocations, confirming their accuracy through an opinion.
34. Participating, through opinions and recommendations, in the organisation and conduct of tenders for the selection of the external audit company and in the preparation of relevant documents related to the provision of external audit services.
35. Collaborating with external auditors, external public auditors (the Court of Accounts of the Republic of Moldova), as well as external evaluators, and internal/external assurance providers to maintain a professional, cooperative working relationship and ensure the proper use of information, as well as monitor the implementation of these institutions' recommendations.
36. Analysis of new trends/events that could have an impact on the NBM and appropriately informing the AC, the EB, and the SB.
37. Participation in a monitoring role without voting rights in the groups established in accordance with internal documents on project management at the NBM. If significant risks are identified during the project monitoring process that could jeopardize project implementation, the CG will escalate the matter to the Project Coordination and Management Group and, if sufficient measures are not taken to mitigate these risks, it will propose, where appropriate, the initiation of a project audit engagement, with the modification of the audit plan in accordance with point 27.
38. Other activities that are in accordance with applicable law and the objectives of the IAD.

Section 2. Rights

39. In order to carry out its duties, the IAD has the following rights:

- 1) to examine internal control, risk management, and governance systems in all areas of the National Bank, establishing the frequency of audit engagements, the procedures applied, and allocating the necessary resources;
- 2) to report appropriately through the chain of command any attempts to limit the scope of the internal audit, access to information, personnel, assets necessary to perform the work in good faith, the communication of results, and/or pressure to modify or exclude audit findings;
- 3) to engage in frequent and open dialogue with the AC, the EB, and the SB in order to maintain awareness of the main risk, control, and governance issues facing the National Bank;
- 4) to request and be provided with, in a timely manner, any document regarding the accounting records and the related documents, estimates, contracts, and any other documents pertaining to the National Bank's activities for the purposes of the audit;
- 5) to request and be granted unrestricted and timely access to any information relevant to the audit activity carried out, as well as access to the tangible and intangible assets of the NBM, including in the case of outsourced operations/activities;
- 6) to request from the heads of departments, divisions, and other persons responsible for the subjects under audit the necessary support, as well as oral and written explanations and copies of documents related to their activities;
- 7) to refuse participation in activities that could compromise the independence of IAD employees, except on the basis of a formal assignment from the SB and the AC, and within the limits of the principles of ethics and professionalism defined in the IIA Standards;
- 8) to express their opinion on matters related to their duties or that may affect the manner in which the IAD performs its duties;
- 9) to attend as observers the meetings of commissions, committees, and working groups on topics related to the IAD's field of activity;
- 10) to request adequate and sufficient resources and the creation of the necessary conditions for the fulfilment of the provisions of this regulation, ensuring the confidentiality of information obtained in the course of performing their duties, opportunities for developing and maintaining professional competence;
- 11) to maintain relationships with audit associations and national and international audit bodies in order to stay informed about developments in audit methods and techniques;

12) to organise and participate in meetings, seminars, workshops, and training sessions, including those aimed at obtaining professional certifications and maintaining professional certificates;

13) to propose to the AC the contracting of third-party services for the provision of assurance services in cases where IAD does not have expertise in certain areas or sufficient resources;

14) to have optimal working conditions.

40. In the event of major irregularities being identified, the CG may suspend the audit engagement with the approval of the AC, if the preliminary results of the verification indicate that continuing the engagement will not achieve the objectives set (due to limited access, insufficient information, etc.), report the case to the AC and revise the annual audit plan as necessary in the manner set out in this Regulation.

Section 3. Responsibilities

41. IAD employees are responsible for:

1) Performing job responsibilities in accordance with normative acts, this Regulation, and individual job descriptions;

2) Complying with the NBM's information security policies and standards;

3) Maintaining the confidentiality of information obtained in the course of fulfilling job responsibilities;

4) Ensuring strict compliance with the legal framework regarding the protection of personal data obtained during the fulfilment of job responsibilities;

5) Complying with work discipline in accordance with the Labor Code of the Republic of Moldova and internal work and conduct rules;

6) Knowledge and application of IIA Standards, as well as ongoing training in this field;

7) Application of honesty and professional courage in all professional relationships and communications, even when expressing scepticism or offering an opposing point of view, refraining from making false, ambiguous, or unproven statements, and from concealing any facts that could affect the NBM's ability to make well-founded decisions;

8) Application of professional diligence in assessing the nature, circumstances, and requirements of the audit services to be provided, taking into account:

a) the strategy and objectives of the NBM;

- b) the interests of those to whom internal audit services are provided and the interests of other stakeholders;
 - c) the adequacy and effectiveness of governance, risk management, and control processes;
 - d) the cost relative to the potential benefits of the internal audit services to be provided;
 - e) the scope and appropriate timing for carrying out the activities necessary to achieve the objectives of the audit engagement;
 - f) the relative complexity, materiality, or significance of the risks to the activity under review;
 - g) the likelihood of significant errors, fraud, non-compliance, and other risks that could affect objectives, operations, or resources;
 - h) the use of appropriate techniques, tools, and technologies;
- 9) The exercise of professional scepticism when planning and performing audit activities;
- 10) Maintaining an adequate level of professional competence and continuously developing skills to improve the quality and efficiency of the audit activity. The CG must ensure that the internal audit collectively possesses sufficient competence to carry out the audit activity in accordance with this Regulation or, if it does not have the resources to do so, to act in accordance with point 39, paragraph 13);
- 11) Maintaining high standards of conduct in professional and personal activities in accordance with the ethical and professional standards applicable in the field of internal auditing;
- 12) Reporting appropriately up the chain of command in the event of identifying fraud/suspected fraud or possible damage, deficiencies, and shortcomings detected in relation to the area of activity subject to audit;
- 13) Reporting appropriately up the chain of command in accordance with IAD's internal methodology any situations that could affect independence and objectivity. In the case of CG, these situations are reported to the AC and, where appropriate, to the SB upon the AC's decision.

42. Given that the IAD is independent from daily operational activities, IAD employees do not have the right to:

- 1) assume and perform operational tasks of subdivisions, including: initiating and endorsing commitments, approving transactions and accounting operations;
- 2) develop, describe, and implement internal control procedures;
- 3) assume responsibilities in the process of advising the SB and EB on establishing or improving risk management processes, managerial responsibilities, which in fact involve risk management;
- 4) manage the activities of employees of other NBM subdivisions, except in cases where employees from other NBM subdivisions participate in internal audit engagements;
- 5) carry out audit engagements related to the processes or activities for which they were responsible during the last financial year;

- 6) participate in project evaluation audit engagements initiated in accordance with point 37, if they have acted as members of the management groups for those projects. Where the independence of the IAD cannot be ensured, taking into account the cases set out in this point, external/internal assurance providers shall be used for the independent assessment of the respective areas. Where the Comptroller General (CG) is responsible for any function(s), the assurance engagements for that function(s) shall be supervised by an independent party outside the internal audit function. The CG is responsible for all internal audit engagements and for the significant professional judgments made during the engagements, regardless of whether the audit was performed by the IAD or other assurance providers.
43. If the internal audit function is to provide assurance services where it has previously provided advisory services, the CG must confirm that the nature of the advisory services does not impair objectivity and must allocate resources to ensure that individual objectivity is managed.
44. Where, based on legal requirements or at the request of the AC, EB, and SB, the CG is required to issue a conclusion on the effectiveness of governance, risk management, and control systems at the level of a domain, subdivision within the NBM, or at the level of the institution, it shall reflect the professional judgment of the CG and shall be based on several audit engagements performed in accordance with the Audit Manual and supported by relevant, reliable, and sufficient information.
45. If the final audit report contains a material error or omission that may result in non-compliance with the legal framework or a change in the level of risk and/or the audit opinion, the CG must promptly communicate the corrected information to all parties who received the initial report, identify the cause of the error or omission, and take corrective actions.

Chapter IV

DIVISIONS AND FUNCTIONS WITHIN THE SUBDIVISION

Section 1. Operational Audit Division

46. The Operational Audit Division (OAD) is a structural unit of the IAD, which is assigned the following functions: developing the IAD's annual plans based on the risk assessment; conducting audit engagements/ad-hoc engagements on all NBM processes/activities (except for IT processes/systems/objects); managing the process regarding internal/external assessment of the IAD's activity.
47. The OAD is led by the head of the division, who is appointed by order of the Governor of the NBM and reports directly to the Comptroller General (CG).
48. The OAD has the following core responsibilities:

- 1) carrying out audit, advisory, and follow-up engagements to monitor IAD recommendations, as well as ad-hoc engagements in accordance with the audit methodology in force;
- 2) establishing the audit universe, assessing risks, and planning the annual internal audit activity within the NBM based on these assessments;
- 3) preparing quarterly and annual reports related to the IAD's activity;
- 4) developing the Division's quarterly activity plans and quarterly reports on the implementation of activity plans;
- 5) managing the process of internal/external assessment of the IAD's activity (preparing the set of documents for selecting the external evaluator; the set of documents for internal/external assessments of the IAD's activity; preparing questionnaires for the internal assessment, etc.);
- 6) collaborating with the external audit, the external public audit (the Court of Accounts of the Republic of Moldova), IMF missions assessing the credibility of the NBM (Safeguards assessment), as well as monitoring the implementation of the recommendations of these institutions;
- 7) drafting normative and methodological acts related to the IAD's activity;
- 8) examining and endorsing draft normative acts received by the IAD that fall within the competence of the Division;
- 9) quarterly and annual review of financial statements, the report on the execution of the NBM budget, the estimate of expenses, and investment allocations;
- 10) ensuring the organisation of events and professional training with the involvement of IAD staff;
- 11) recording, storing, and maintaining records of statements regarding loans received by NBM employees from other financial institutions (except for the NBM);
- 12) performing the secretarial duties of the AC;
- 13) preparing and submitting proposals for improving and developing the internal audit process within the NBM, proposals for optimising and streamlining the activity within the Division;
- 14) other duties assigned by the CG in accordance with the law, IAD objectives, and the specific nature of the activity.

Section 2 Information Technology Audit Division

49. The Information Technology Audit Division (ITAD) is a structural unit of the IAD, which has the following functions: conducting audit engagements/ad-hoc engagements on all IT processes/systems/objects; administering the applications used within the IAD.
50. ITAD is led by the head of the division, who is appointed by order of the Governor of the NBM and reports directly to the CG.
51. ITAD has the following core responsibilities:
- 1) conducting audit, advisory, and follow-up engagements to monitor IAD recommendations, as well as ad-hoc engagements in accordance with the audit methodology in force;

- 2) preparing the Division's quarterly activity plans and quarterly reports on the implementation of the activity plans;
- 3) examining and endorsing draft normative acts received by the IAD that fall within the competence of the Division;
- 4) identifying areas with major risks in the use of information technology, for the purpose of efficient allocation of audit resources;
- 5) submitting proposals to the CG on how to increase the efficiency and effectiveness of internal audit of information technologies;
- 6) conducting consulting activities on topics related to information technology;
- 7) administering the applications used for auditing within the IAD in collaboration with the Information Technology Department, in accordance with the procedures established by the NBM;
- 8) ensuring and monitoring that access to the audit engagement management application is granted only to authorised persons;
- 9) developing guidelines and instructions for using applications within the IAD;
- 10) other duties assigned by the CG in accordance with the legislation in force, IAD objectives, and the specific nature of the activity.

Chapter V FINAL PROVISIONS

52. This Regulation shall enter into force on the date of its approval by the Supervisory Board.
53. This Regulation shall be published on the internal website of the NBM, accessible to all NBM staff.