

## THE AUDIT COMMITTEE MANDATE

A high-level Audit Committee – established by the Governing Council pursuant to Article 9b of the Rules of Procedure of the ECB – strengthens the internal/external layers of control already in place and further enhances the corporate governance of the ECB, covering both central banking and banking supervisory functions, the SSM and the Eurosystem.

### 1. Objective and scope of the Audit Committee

The Audit Committee shall assist the Governing Council in its responsibilities for the performance of the ECB's/Eurosystem's tasks and activities under the Statute of the European System of Central Banks and of the European Central Bank and under the SSM Regulation<sup>1</sup>, by providing advice and/or opinions on:

- a) the integrity of financial information;
- b) the oversight of internal controls;
- c) the compliance with applicable laws, regulations and codes of conduct;
- d) the performance of audit functions.

### 2. Responsibilities

#### 2.1 Integrity of financial information

The Audit Committee shall assess the overall adequacy and effectiveness of the processes underlying the establishment of the ECB's financial statements and the overall adequacy of the associated disclosures. For this purpose, the Audit Committee shall:

- a) review the annual financial statements prior to their approval by the Governing Council;
- b) discuss, with the internal and external auditors and the ECB's management, the associated audit reports (including the management letter), as well as any difficulties encountered during the audit work and/or any significant disagreements with management;
- c) obtain a statement from the external auditor confirming that the financial statements have been drawn up in accordance with approved accounting rules and properly audited;
- d) advise the Governing Council on the approval of the financial statements.

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<sup>1</sup> Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

Moreover, the Audit Committee shall review any significant Eurosystem accounting/financial reporting issues that could have an impact on the ECB's financial statements.

## **2.2 Oversight of internal controls**

The Audit Committee shall assess the overall effectiveness and adequacy of the internal control and risk management frameworks and provide the Governing Council with its opinion thereon. For this purpose, the Audit Committee shall:

- a) evaluate the operational and financial risk management frameworks and related processes;
- b) discuss, with the internal and external auditors and risk managers, the relevant reports and, in particular, the major operational, financial and reputational risk exposures;
- c) consider the adequacy and timeliness of the measures taken to monitor and control such exposures and, more generally, ensure that recommendations and concerns receive proper attention;
- d) evaluate the frameworks for whistleblowing and whistleblower protection against retaliation and related processes;
- e) formulate recommendations, as appropriate, thereby supporting an environment fostering integrity, a positive culture of “speaking up” and control.

## **2.3 Compliance with applicable laws, regulations and codes of conduct**

The Audit Committee shall assess the overall adequacy of the compliance frameworks and the effectiveness of the processes for monitoring compliance, and provide the Governing Council with its opinion thereon. For this purpose, the Audit Committee shall:

- a) review the compliance frameworks and the related monitoring processes;
- b) discuss, with the internal and external auditors, the General Counsel, the Chief Compliance and Governance Officer and, as the case may be, with the Chair of the Ethics Committee and the chairpersons of Eurosystem/ECB committees, the relevant reports and, in particular, compliance matters that may have a significant financial and/or reputational impact;
- c) be informed of major incidents and/or instances of non-compliance and consider the adequacy and timeliness of the measures taken as a result thereof;
- d) formulate recommendations, as appropriate, thereby supporting an environment fostering integrity and good governance.

## **2.4 Audit functions**

The Audit Committee shall assess the overall effectiveness and adequacy of the audit functions. For this purpose, the Audit Committee shall:

- a) review the work programme of the Internal Auditors Committee before its approval by the Governing Council and provide the Governing Council with its opinion thereon;

- b) review the work programme of the ECB's Directorate Internal Audit and, as the case may be, provide its opinion thereon;
- c) assess the performance of the ECB's Directorate Internal Audit and of the Internal Auditors Committee, as well as the performance of the ECB's external auditor, to ensure that the audit functions operate in accordance with applicable and appropriate professional standards;
- d) bring to the attention of the Governing Council any issues that might impair the effective working of the audit functions, including their independence, their confidential and direct access to their respective decision-making body, as well as to staff and to information, and their adequate resourcing;
- e) advise the Governing Council on recommendations regarding the appointment of the Eurosystem's external auditors.

### **2.5 Other responsibilities**

In addition to the responsibilities outlined above, the Audit Committee may:

- a) perform other activities related to this mandate, if so requested by the Governing Council;
- b) recommend that the Executive Board task the Directorate Internal Audit and/or any other relevant function with specific matters falling within the scope of the Audit Committee's responsibilities.

### **3. Access to staff, information and external advice**

The Audit Committee shall have unrestricted access to members of management and staff and to any documents and information it deems necessary to adequately fulfil its responsibilities, as enumerated in this mandate.

In particular, the Audit Committee may hold private sessions – without the presence of the member of the Executive Board of the ECB – with the head of the internal audit function and with the ECB's external auditor, either on its own initiative or at the request of the head of the internal audit function or of the ECB's external auditor. Moreover, the Audit Committee shall meet on a regular basis with the heads of the operational and financial risk management functions and, as the case may be, with the General Counsel and the Chief Compliance and Governance Officer, or any other member of management it deems necessary to meet with to adequately fulfil its responsibilities.

The Audit Committee shall systematically receive the executive summaries of the audit reports; the complete reports shall be made available upon request.

Furthermore, the Audit Committee shall receive, at the same time as they are transmitted to the Governing Council: (i) the annual audit opinion on the ECB's financial statements; (ii) the management letter of the ECB's external auditor, together with the Executive Board's response; (iii) the preliminary

observation report of the European Court of Auditors (ECA)<sup>2</sup>, together with the Executive Board's response; and (iv) an advance copy of the ECA public report before its publication.

Moreover, the Audit Committee shall receive reports addressing important control-related issues of a financial and/or operational risk nature, as well as general reports on matters of compliance with applicable laws, regulations and codes of conduct and/or specific reports on major instances of non-compliance.

#### **4. Reporting**

The Audit Committee shall report annually to the Governing Council on the work it has undertaken over the preceding year. In so doing, the Audit Committee shall provide the Governing Council with its assessment of the effectiveness of the overall control frameworks and formulate, as appropriate, its recommendations. In addition, the Audit Committee shall report to the Governing Council whenever it deems appropriate to do so and/or is required to discharge its responsibilities.

#### **5. Composition of the Audit Committee**

The Audit Committee shall be composed of up to six members: the Vice-President of the ECB, two senior governors of euro area national central banks (at least one of whom shall be from a euro area national central bank with supervisory responsibility) and up to three external members.

The external members shall be chosen from among high-ranking officials with experience in central banking, banking supervision and/or financial matters, as well as from among recognised experts from academia and/or the audit profession, provided they do not simultaneously hold positions in the financial sector. At least one external member shall be chosen, by means of a public call for expressions of interest, from among individuals who have not previously held positions within the Eurosystem.

With the exception of the ECB's Vice-President, who shall be a member of the Audit Committee ex officio, the other members shall be appointed by the Governing Council for a period of three years renewable once. The Audit Committee shall elect a Chairperson from among its members (the ECB's Vice-President shall not be eligible).

The external members of the Audit Committee shall be entitled to receive an annual retention fee and a per diem remuneration for each day the Committee meets. The amount of remuneration shall be set by the Governing Council.

#### **6. Confidentiality and Code of Conduct**

The members of the Audit Committee shall not divulge to unauthorised persons any information of a confidential nature that comes to their knowledge during the performance of their duties and they shall

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<sup>2</sup> Article 27.2 of the Statute of the ESCB.

remain subject to the professional secrecy requirements laid down in Article 37 of the Statute of the ESCB even after their duties have ceased.

In general, when carrying out their duties, the members of the Audit Committee shall comply with the principles laid down in the ECB's ethics framework, i.e. the single Code of Conduct<sup>3</sup>, which makes clear reference to the members' responsibility to safeguard the integrity and reputation of the Eurosystem.

Documents drawn up or held by the members of the Audit Committee in relation to the Committee's activities are ECB documents and shall therefore be classified and handled in accordance with Article 23.3 of the Rules of Procedure of the European Central Bank.

## **7. Independence of the members of the Audit Committee**

When carrying out their responsibilities under this mandate, the members of the Audit Committee shall act independently and neither seek nor accept instructions from any person or body within the ECB, or from any institution outside the ECB, the SSM, and the Eurosystem. Persons, bodies and institutions affected by the remit of the Audit Committee shall respect that independence.

Members of the Audit Committee shall abstain from participating in deliberations in cases of conflict of interest, even if perceived or potential.

External members shall sign a Declaration of Ethical Conduct and a public Declaration of Interests indicating any direct or indirect interest which might be considered prejudicial to their independence or the absence of any such interest.

## **8. Limitations of the Audit Committee's role**

The Audit Committee shall have the advisory and oversight responsibilities set out in this mandate. It shall not be the Audit Committee's duty or responsibility to conduct auditing or accounting reviews to ensure that the ECB's financial statements and disclosures are complete and accurate. Such reviews shall be the responsibility of management and the external auditor.

Moreover, the Audit Committee shall not participate in activities pertaining to the formulation of monetary policy or the supervision of credit institutions.

## **9. Meetings**

The Audit Committee shall meet at least four times a year. Additional meetings may be convened by the Chairperson if circumstances so require. Committee members are expected to attend every meeting in person. As a rule, the head of the internal audit function will be invited to attend the meetings.

The Audit Committee shall constitute a quorum if three-fifths of the members are present.

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<sup>3</sup> Code of Conduct for high-level European Central Bank Officials (OJ C 89, 8.3.2019, p. 2).

**10. Review of this mandate and self-assessment**

The Audit Committee shall review its mandate at least once every three years and report thereon to the Governing Council. In this context, the Audit Committee shall conduct a self-assessment of its performance.

**11. Publication of this mandate**

The mandate of the Audit Committee shall be published on the ECB's website.