



Internal Audit Charter

Version 3.0



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1. Introduction

The Internal Audit Charter (hereafter, the “Charter”) defines the purpose, authority and responsibility of the Internal Audit Function (hereafter, “AI”) of the Commission de Surveillance du Secteur Financier (hereafter, “CSSF”).

Without prejudice to the laws, regulations and internal circulars applicable to the CSSF and its personnel, this Charter is consistent with the International Professional Practices Framework (hereafter, “IPPF”), issued by the Institute of Internal Auditors (hereafter, “IIA”) and namely with the following components of the IPPF’s **mandatory guidance**:

- The Core Principles for the Professional Practice of Internal Auditing;
- The IIA’s Code of Ethics;
- The International Standards for the Professional Practice of Internal Auditing (hereafter, the “Standards”);
- The Definition of Internal Auditing.

Furthermore, the following elements of the IPPF **strongly recommended guidance** are also adhered to, as applicable, to guide operations:

- Implementation guidance (Practice Advisories);
- Supplemental guidance (Practice Guides).

As a member of the Single Supervisory Mechanism, in this framework, the CSSF’s internal audit function also needs to comply with the Internal Auditors Committee (IAC) Manual and the Audit Charter for the Eurosystem/ESCB and the Single Supervisory Mechanism.

This Charter will be reviewed by the AI on a periodic basis and presented to the Executive Board for approval.

2. Purpose

AI is an independent, objective assurance and consulting activity designed to add value and improve the CSSF's operations. The AI helps the CSSF accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Through its assurance and consulting services, the AI promotes a culture of efficient and effective management within the CSSF.

Assurance Services

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding the CSSF, its operations, functions, processes, systems, or other subject matter. The nature and scope of the assurance engagements are determined by the AI, taking into consideration the expectations and the specific concerns of the Executive Board.

Assurance services involve the following three parties:

- The AI (i.e. the Internal Auditor/s making the assessment);
- The Auditee (i.e. the group or department directly involved with the entity, operation, function, process, system, or other subject matter);
- The user (i.e. the person or group using the assessment).

The main purpose of the AI is to provide assurance services to the CSSF's Executive Board, by assessing whether:

- The CSSF's strategic objectives are achieved;
- Operations and programs are efficient and effective;
- Financial and operational information is accurate, reliable and timely;
- Risks are appropriately identified and managed;
- Compliance with applicable external laws and regulations (both at European and local level) as well as with internal regulations (e.g. policies, procedures, *notes de services*) is ensured;
- Assets are safeguarded;
- Resources are deployed efficiently and effectively.

Consulting services

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client (e.g. the Executive Board, a Director for the activities falling under his/her responsibility). The nature and scope of the consulting engagement are subject to agreement with the engagement client. They are intended to add value and improve the governance, risk management and control processes.

Consulting services involve the following two parties:

- The AI (i.e. the Internal Auditor/s offering the advice);
- The engagement client (i.e. the person or group seeking and receiving the advice).

When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.



3. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

Internal auditors shall perform their work with honesty, diligence, and responsibility. They shall observe the law and make disclosures expected by the law and the profession.

Internal Auditors shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the CSSF. They shall respect and contribute to the legitimate and ethical objectives of the CSSF.



4. Authority

The AI has full, free and unrestricted access to all departments, records, information systems, goods, property and personnel to the extent necessary for carrying out its tasks. All employees are requested to assist the AI in fulfilling its role and responsibilities.

The AI has full, free and unrestricted access to the Executive Board.

In agreement with the Executive Board, the AI ensures that the necessary resources are allocated to accomplish audit objectives with proficiency and due professional care; should additional resources be needed, the AI explores with the Executive Board the possibilities to ensure adequate staffing and, if necessary, obtain access to external professional support.

Through its regular attendance to the weekly cross department meetings (*Réunion interservice*), the AI is made aware about the development of new systems and changes to existing systems that may substantially affect the CSSF's internal control system.

5. Role and Responsibility

The AI is established by the Executive Board. Its responsibilities are defined by the Executive Board as part of their oversight role.

The AI is in charge of developing and keeping up to date on a permanent and recurrent basis its Procedures Manual and the related audit procedures contained there in.

The AI is responsible for the set up, execution and annual update of a risk-based Internal Audit Plan (hereafter, the "Audit Plan"), approved by the Executive Board and covering the main risks and processes of the CSSF (refer to paragraph 7 of this Charter).

The AI is responsible for ensuring accurate, complete and timely reporting to the Executive Board (for assurance engagements) and to engagement clients (for consulting engagement) about the results of its audit activities (refer to paragraph 8 of this Charter).

With the aim to ensure the pertinence and the relevance of the conclusions drawn as well as the quality and feasibility of the recommendations issued, the AI develops a continuous and constructive dialogue with the auditees.

The AI is in charge of developing and maintaining a follow-up process (for assurance engagements) in order to monitor that recommendations have been implemented or that the risk of not taking action has been accepted by the auditees and the Executive Board (refer to paragraph 8 of this Charter).

The AI develops and maintains a documented *Quality Assurance and Improvement Program* (hereafter, "QAIP"), including both internal and external reviews, covering all aspects of the Internal Audit, in accordance with the requirements laid down by the IIA Standard 1300 series (refer to paragraph 9 of this Charter).

The AI cooperates with the statutory auditor for the purpose of providing efficient and effective audit coverage, avoiding duplication of efforts.

The AI protects the confidentiality of information gathered as part of its audit activities.

The AI reports promptly to the Executive Board any suspected fraudulent activities within the CSSF.

6. Independence and Objectivity

The AI remains free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

The AI independence is ensured by its position within the CSSF's organizational chart and related reporting lines (refer to paragraph 8 of this Charter).

The AI is not subject to any interference in the execution and reporting of its audit works. More precisely, no individual and/or authority, inside and/or outside the organization, may interfere in the conduct of the internal audit engagements and/or require the AI to make any undue amendment to the content of internal audit reports that would be contrary to the AI's professional judgement.

In presenting reports, opinions, advice and recommendations, the AI is objective and renders impartial and unbiased judgements. AI reports contain a balanced description of the internal audit performed, of the results obtained and related recommendations, including measures to improve systems.

In order to ensure the objectivity of opinions and to avoid any conflicts of interest, the AI preserves its independence and impartiality in relation to the activities and operations it reviews. In this regard, Internal Auditors must refrain from assessing specific operations for which they were previously responsible (i.e. during the previous year).

If the AI's objectivity is impaired in fact or even in appearance, the details of the impairment are to be disclosed to the parties concerned.

In the exercise of its duties, the AI assumes neither direct management responsibility for, nor authority over, the audited activities. Accordingly, it cannot implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair its judgement.

The AI confirms to the Executive Board, at least annually, its organizational independence.



7. Proficiency and due professional care

The AI performs its audit activities with proficiency and due professional care. Due professional care does not imply infallibility.

Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Internal Auditors are encouraged to follow *Continuing Professional Education* (CPE), so as to ensure that their professional knowledge and skills are constantly kept up to date, in accordance with the evolution of the IPPF and related requirements.





8. Internal Audit Plan

On a yearly basis, the AI submits to the Executive Board an Audit Plan for review and approval. The Audit Plan consists of a work schedule as well as a budget and resource requirements for the year (N+1). The AI communicates the impact of resource limitations and significant interim changes to the Executive Board.

The Audit Plan is developed based on a prioritization of the audit universe using a risk-based methodology, including input of the Executive Board. The AI reviews and adjusts the Audit Plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems and controls. Any significant deviation from the approved Audit Plan is communicated to the Executive Board.





9. Reporting and Monitoring

The AI is fully independent of any CSSF's organizational unit and reports directly to the Executive Board. Two Directors are designated as key contact persons for subject matters that do not fall under their respective fields of responsibility.

The AI periodically reports to the Executive Board on its mission and the mandatory elements of the IPPF as well as performance relative to its Audit Plan. Reporting includes also significant risk exposure and control issues, including fraud risks, governance issues, and other matters needed or requested by the Executive Board.

A written report is prepared and issued by the AI following the conclusion of each internal audit engagement and is distributed, as appropriate, to the Executive Board and the auditees.

The internal audit report includes Management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The AI is responsible for appropriate follow-up on engagement findings and recommendations. All significant findings remain in an open issues file until cleared.





10. Quality Assurance and Improvement Program (QAIP)

The AI maintains a QAIP that covers all aspects of the AI. The QAIP includes an evaluation of the AI's conformance with the *Definition of Internal Auditing*, and the *Standards*, and an evaluation of whether Internal Auditors apply the *Code of Ethics*. The program also assesses the efficiency and effectiveness of the AI and identifies opportunities for improvement.

The AI communicates to the Executive Board on the QAIP, including results of ongoing internal assessments and external assessments conducted at least every five years.

