



Commission de Surveillance  
du Secteur Financier

# Internal Audit Charter

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## 1. Introduction

The Internal Audit Charter (hereafter, the “Charter”) defines the purpose, mandate, organisational position and reporting relationships of the Internal Audit Function (hereafter, “IA”) 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**:

- Global Internal Audit Standards (hereafter, the “Standards”);
- Topical Requirements.

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

This Charter is reviewed by the IA on a periodic basis and presented to the Executive Board for approval.

## **2. Purpose**

IA is an independent, objective assurance and consulting activity designed to add value and improve the CSSF's operations. The IA 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.

The internal audit function is most effective when:

- internal auditing is performed by competent professionals in conformance with the Standards, which are set in the public interest;
- the internal audit function is independently positioned;
- internal auditors are free from undue influence and committed to making objective assessments.

The purpose of the IA is to act as the third and independent line of defense within the CSSF. It is the responsibility of the CSSF's operational management to establish appropriate systems of internal controls. Thus, operational management acts as the first line. The risk management, information security and oversight functions established and deployed by management represent the second line.

### **3. Mandate**

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

#### **1.1 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 IA, taking into consideration the expectations and the specific concerns of the Executive Board.

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

- The CSSF's strategic objectives are achieved;
- Operations 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) is ensured;
- Assets are safeguarded;
- Resources are deployed efficiently and effectively.

#### **1.2 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.

When performing consulting services, the internal auditor should maintain objectivity and not undertake management's responsibility.

## **4. Authority**

The IA has full, free, direct, 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 IA in fulfilling its role and responsibilities.

The IA has full, free, and unrestricted access to the Executive Board (refer to paragraph 7 of this Charter).

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

## 5. Role and Responsibility

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

The IA oversees developing and keeping up to date on a permanent and recurrent basis its Procedures Manual and the related audit procedures contained therein.

The IA is responsible for the setup, 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 9 of this Charter).

The IA 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 9 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 IA develops a continuous and constructive dialogue with the auditees.

The IA oversees 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 acting has been accepted by the auditees and the Executive Board (refer to paragraph 9 of this Charter).

The IA 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 8.3 on Quality (refer to paragraph 10 of this Charter).

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

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

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

## **6. Integrity, Ethics and Professionalism**

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

In their tasks, internal auditors shall demonstrate integrity. They shall perform their work with honesty, diligence, responsibility, and professional courage. They shall observe the law and make disclosures expected by the law and the profession. They shall communicate truthfully and take appropriate action, even when confronted by dilemmas and difficult situations.

The IA performs its audit activities with proficiency and due professional care. This requires conformance with the Standards, planning and performing tasks with diligence, judgment, and skepticism. While internal auditors perform in the best interest of the organization, due professional care does not imply infallibility.

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

Internal Auditors shall conform to the Code of Ethics. They 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.

## **7. Independence and Objectivity**

The IA 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.

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.

The IA independence is ensured by its position within the CSSF's organizational chart and related reporting lines (refer to paragraph 9 of this Charter). Moreover, in the event that the head of the internal audit department considers that there are elements of pressure preventing him from carrying out his mission in an independent, objective and unbiased manner, he may, after having reported them to his Director in charge or to the General Director, also notify the Chair of the Board of the CSSF or the other representatives of the Ministry of Finance at the Board of the CSSF. In his exchange with the Board of the CSSF, the head of the internal audit department will communicate all the factual elements useful for the assessment of the Chair of the Board, who may share these factual elements with the other members of the Board representing the Ministry of Finance.

The IA 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 IA to make any undue amendment to the content of internal audit reports that would be contrary to the IA's professional judgement.

In presenting reports, opinions, advice and recommendations, the IA is objective and renders impartial and unbiased judgements. IA 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 IA 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 IA'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 IA 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 IA confirms to the Executive Board, at least annually, its organizational independence.

## **8. Internal Audit Plan**

On a yearly basis, the IA 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 IA 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 IA 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 and approved by the Executive Board.

## **9. Reporting and Monitoring**

The IA is fully independent of any CSSF's organizational unit and reports directly to the Executive Board. A Director is designated as key contact person for the IA within the Executive Board.

This Director is the privileged channel for information exchange between the IA and Executive Board, without however replacing direct exchanges with other Executive Board members. Meetings are organized periodically between IA and the key contact Director.

However, the role of this Director cannot compromise the IA independence. Thus, he/she cannot interfere in the work relating to the audit engagements, specifically in the definition of the scope, in the work to be carried out within the framework of the missions and in the audit conclusions.

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

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

Luxembourg, le 10 juin 2025

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