



Circular IML 98/143

as amended by Circulars
CSSF 04/155 and 22/806

Internal control

Circular IML 98/143 as amended by Circulars CSSF 04/155 and 22/806

Re: Internal control

Luxembourg, 1 April 1998

**To all electronic money
institutions, payment
institutions as well as all PFS
other than investment firms**

Ladies Gentlemen,

The purpose of this circular is to specify the arrangements whereby Articles 11 (2) and 24-7 of the law of 10 November 2009 on payment services (hereafter "LPS") applies to electronic money institutions and payment institutions and Article 17(2) of the Law of 5 April 1993 on the financial sector (hereafter "LFS") for the professionals of the financial sector other than investment firms (hereafter referred to as PFS for the purpose of this circular).

This circular lays down the adequate internal control principles and provides, in particular, details on the internal audit function which electronic money institutions and payment institutions and PFS shall implement. As specified under item 5.4. below, the work of an internal auditor is not limited to the inspection missions, but also consists in providing recommendations aiming to remedy identified shortcomings or anomalies.

1. Content of Articles 11(2) and 24-7(2) of the LPS and 17(2) of the LFS

Articles 11(2) and 24-7(2) of the LPS and article 17(2) of the LFS provide that electronic money institutions and payment institutions and respectively, PFS which are authorised to carry out their activities in Luxembourg shall justify that they have put in place appropriate internal control procedures. These procedures are part of an internal control system which is described in detail under item 5 below.

"Internal control" shall mean the measures established by the management, including the procedures and controls in place within an electronic money institutions and payment institutions or a PFS which aim to ensure that:

- the objectives set by the undertaking are reached;
- the resources are used economically and efficiently;
- the risks are controlled appropriately and the assets are protected;
- the financial information and management information are complete and reliable;
- the laws and regulations as well as the internal policies, plans, rules and procedures are complied with.

This circular aims to specify and elaborate on these principles. It should be read in conjunction with Circular IML 95/120 on central administration, as amended and Circular IML 96/126 on administrative and accounting organisation, as amended, which cover the aspects of administration and organisation referred to in the preceding definition.

Indeed, the internal control requirements within the meaning of this circular are fully met only when the standards on central administration and administrative and accounting organisation within the meaning of the two aforementioned circulars are complied with.

This circular cannot pretend to provide specific and comprehensive rules given the wide-ranging activities carried out by electronic money institutions and payment institutions and PFS, but it is rather aimed to provide general guidelines which should prevail in the design and operation of the internal control.

The rules defined hereinafter may be adapted, where appropriate, to the size and nature of the activities of an institution. This is in particular the case for certain categories of PFS which carry out specialised activities.

2. Scope

Articles 11(2) and 24-7(2) of the LPS and article 17(2) of the LFS are applicable respectively to electronic money institutions and payment institutions and PFS, respectively, which are legal persons governed by Luxembourg law, including their branches abroad.

In respect of branches of electronic money institutions and payment institutions in Luxembourg having their registered office outside the European Union (hereafter "EU") as well as branches in Luxembourg of Community or non-Community PFS, Article 32(4) of the LFS provides that they shall produce evidence of an adequate infrastructure in Luxembourg. To meet the legal requirements, the rules defined hereinafter are applicable to these branches.

This circular does not apply to Luxembourg branches of Community electronic money institutions and payment institutions for which the home country authority shall define how the EU branches will be included in the internal control mechanisms of the registered office. However, for the areas where the CSSF retains an oversight responsibility as host authority - for the liquidity and the measures taken to prevent money laundering - the relevant branches establish an internal control system which complies with the standards similar to those provided for in this circular.

The internal control rules must also be applied by branches that electronic money institutions and payment institutions and PFS have abroad, without prejudice to the local rules which may exist in this area. Reference is made, in particular, to item 5.4.6. of this circular which deals with the scope of internal audits.

3. Responsibility of the board of directors/board of managers

The board of directors/board of managers shall foster a positive attitude as regards the control within the electronic money institution, the payment

institution or the PFS and promote the development of structures in order to achieve this goal. Within the scope of its supervisory mission, it shall ensure, on a regular basis, that the electronic money institution, the payment institution or the PFS has an adequate internal control system. It can delegate this mission to an audit committee pursuant to item 6 of this circular. In case of non-delegation to an audit committee, the control mission as described under item 6, shall be carried out by the board of directors/board of managers itself.

The supervision which the board is called upon to undertake may be based, amongst others, on the report made to it by the management at least once a year (see item 4 hereafter).

The principles laid down above apply mutatis mutandis to those professionals that are physical persons or having adopted a legal form which does not provide for the existence of a board of directors/board of managers.

4. Responsibility of the institution's management

The persons in charge of the daily management and authorised pursuant to Articles 11(2) and 24-7(2) of the LPS and article 19(2) of the LFS (hereinafter referred to as "the management") have joint responsibility for the establishment of an internal control system as described hereinafter and its proper operation.

The management sets down in writing the internal control system. This system relates to all areas of functioning of the electronic money institution, the payment institution or the PFS, operational, administrative and accounting. The internal control is an integral part of the functioning of the electronic money institution, the payment institution or the PFS.

The management determines the human and technical means to be implemented. It assesses the internal control at least once a year. This assessment is, in particular, based on the reports issued by the internal audit department, the reports or notes drawn up within the context of the permanent hierarchical controls and critical controls referred to in item 5 below. The purpose of this assessment is to gauge the effectiveness of the internal control.

The management informs at least once a year, in the form it deems most appropriate, the board of directors/board of managers or the audit committee, if any (cf. item 6 below), on the state of the internal control. At the same time, it reports on the achievement of the objectives of the internal control, describes the means implemented and provides a summary of the main observations made, deficiencies observed, in particular by the internal audit department, the corrective measures decided and the effective follow-up of these measures.

5. Internal control system

The internal control system to be put in place consists of three parts:

- it is based on the central administration and sound administrative and accounting organisation principles laid down in Circulars IML 95/120 and IML 96/126, as amended, respectively;
- it covers a financial and operational risk identification, measurement, limitation and information system of the electronic money institution, the payment institution or the PFS;
- finally, it includes an internal audit function the purpose of which is to assess, on a regular basis, the adequacy of the internal control.

The internal control system also provides for mechanisms aimed to prevent execution errors and frauds and to enable their early detection. Given the importance, where appropriate, of the service activities relating in particular to the administration of UCI's in some Luxembourg PFS, the management of the relevant institutions defines an adequate internal control system for these activities, in particular in the fields of where appropriate, depositary function, bookkeeping and net asset value calculation of investment funds.

The system shall provide the following control levels:

- the daily controls carried out by the executing staff;
- the ongoing critical controls carried out by the persons in charge of the administrative processing of the transactions;
- the controls carried out by the members of the management on the activities or functions which fall within their direct responsibility;
- the controls carried out by the internal audit department.

5.1. Daily controls carried out by the executing staff

The internal control system provides that the executing staff themselves control, on a daily basis, the transactions they carry out in order to detect as soon as possible the errors and omissions that occurred during the processing of the day-to-day operations. Examples of these controls are: the reconciliation of the cash position, the verification of his positions by the trader and the follow-up of outstanding issues by each employee.

5.2. Ongoing critical controls

This category of controls includes inter alia:

- the hierarchical control;
- the validation (for example the joint signature, the access codes for given functionalities) combined to the control of compliance with the procedure for authorising and delegating powers set out by the management (in particular as regards loans);
- the reciprocal controls;

- the statement, on a regular basis, of the existence and value of the assets and liabilities, in particular by means of verification of the inventories;
- the reconciliation and confirmation of accounts;
- the control of the accuracy and completeness of the data transmitted by the persons in charge of the business and operational functions for an administrative follow-up of the operations;
- the control of compliance with the limits imposed by the management (in particular as regards trading activities and credit activities);
- the normal nature of the transactions concluded in particular in respect of their price, their size, the potential guarantees to receive or grant, the profits generated and losses incurred and the amount of potential brokerage fees.

These controls are often carried out outside the business and operational functions by the persons in charge of the administrative processing of the operations. The sound operation is only guaranteed if the principle of segregation of duties is complied with.

5.3. Controls carried out by the members of the management on the activities or functions which fall within their direct responsibility

The mission of a member of the management is not limited to the taking of business and operational decisions, but it also includes a control task. Thus, each member of the management controls personally and on a regular basis the activities or functions which fall within his direct responsibility. These controls are carried out based on data transmitted to him in this respect by the operational and administrative functions.

Areas requiring particular attention by these persons are inter alia:

- the risks associated with the activities and functions for which they are directly responsible;
- compliance with the business policy and management policy laid down by the management;
- compliance with the established budgets: review of the actual achievements and gaps;
- compliance with the limits and instructions (in particular based on "exception reports");
- the characteristics of the transactions, in particular their price, their individual profitability;
- the development of the overall profitability of an activity.

The members of the management shall inform, on a regular basis, their colleagues of the management on the exercise of their control mission.

5.4. Controls carried out by the internal audit department

The internal audit function is entrusted to the internal audit department, composed of one or several persons.

The internal audit verifies the proper operation of the internal control. It represents, within the electronic money institution, the payment institution or the PFS, an independent function of periodic assessment of the operations in order to assist the management and the persons in charge of the institution and to allow them to have a better control over their activities.

5.4.1. Permanent nature

The management of each electronic money institution, payment institution or PFS shall take the necessary measures in order for the institution to have an internal audit function on a permanent basis.

5.4.2. Independence

The internal audit department shall be independent from the activities and functions it audits. It shall not depend on a department of the electronic money institution, the payment institution or the PFS, but it shall be linked, from a hierarchical point of view, directly to the management and report directly to it. It should carry out its mission on its own initiative and express itself freely. The person in charge of the internal audit department shall be able to inform directly and on its own initiative the chairman of the board of directors/board of managers or, where appropriate, the members of the audit committee or the *réviseur d'entreprises agréé* of the institution, in accordance with the procedures to be laid down by each institution.

5.4.3. Audit charter

The audit charter is a document in which the objectives, powers and responsibility of the internal audit department, as described in this circular, are defined.

The charter is drawn up on the basis of a proposal of the internal audit department, by the management and confirmed by the board of directors/board of managers and, where appropriate, through the audit committee. It is recommended for the preparation of such an audit charter to draw on the models developed by the Institute of Internal Auditors (IIA Inc.).

The audit charter:

- sets out the objective of the internal audit function;
- defines the position of the internal audit department within the organisation;
- confers the right of initiative to the internal audit department and allows it to review all the activities and functions of the institution including those of their branches abroad and subsidiaries in Luxembourg and abroad, to access all documents, materials, minutes of the consultative and decision-making bodies of the institution, to meet all the persons working in the institution, to the extent required to fulfil its mission;

- defines the responsibilities of the internal audit department and the nature of its works;
- lays down the communication lines of the conclusions that can be drawn from the control missions.

The existence of the audit charter is brought to the attention of all employees of the institution, including those who work in the branches abroad and in the subsidiaries in Luxembourg and abroad.

5.4.4. Objectivity

The internal auditors shall carry out their tasks in an objective way.

The objectivity requires that the internal auditors avoid conflicts of interest. In this respect, to the extent possible, a rotation of the control tasks assigned to the various auditors should be ensured and it should be avoided that the auditors hired within the electronic money institution, the payment institution or the PFS control the activities or functions which they performed themselves in the recent past.

Objectivity requires moreover an independent mind and independence of judgement: the internal auditors should not make their own judgement dependent on that of other persons including in particular those audited. Similarly, the auditors shall not be in charge of the preparation or the implementation of administrative and accounting organisation and internal control measures in order to safeguard their independence of judgement.

However, the objectivity requirement does not exclude the possibility for the management to consult the internal audit department and to invite it to submit an opinion on the organisation and internal control where deemed necessary, in particular in the event of the reorganisation or the launch of new activities or new products.

5.4.5. Professional competence

The competence and in particular the knowledge and experience of each auditor are essential for the sound operation of the internal audit department. It is important that the internal audit department includes persons having received advanced training and possessing adequate technical competencies. When selecting these persons, the nature and diversity of the activities carried out by the institution shall also be taken into account.

The professional competence shall also be assessed in respect of the internal audit department as a whole, which shall have a full range of technical competencies necessary to examine all the areas in which the institution operates.

The internal audit department shall maintain the acquired knowledge up-to-date and provide continuously updated training to each of the auditors.

In specific areas where the internal audit department does not possess sufficient competence to conduct an audit, it may use the services of an external expert, provided however that this expert is placed under the dependence of the head of the internal audit department who still supervises the intervention. Moreover, such a use shall comply with the conditions listed under item 5.4.9. g) of this circular and, in particular, the condition of independence of the expert vis-à-vis the *réviseur d'entreprises agréé* (statutory auditor) of the institution.

5.4.6. *Scope of audits*

a) At the Luxembourg institution level

The scope of intervention of the internal audit covers all activities and functions of the electronic money institution, the payment institution or the PFS. It cannot be limited in scope.

In general, the internal audit department reviews and assesses whether the administrative and accounting organisation of the institution as well as the internal controls defined under items 5.1. to 5.3. above are adequate and operate efficiently. It takes into account the rules and recommendations established by the CSSF in this circular as well as aforementioned Circular 96/126 as amended and, where appropriate, those which the CSSF addresses individually to the establishment to which it belongs.

In particular, the internal audit department verifies, inter alia, that:

- the risk identification, measurement, limitation and information system functions properly;
- the administration of securities and assets is sound;
- the segregation of duties functions properly;
- the execution of the transactions is adequate;
- the registration of the transactions is accurate and complete and that the provision of reliable and quickly available information is ensured;
- the decisions taken by the management and by the persons acting by delegation and under its responsibility are executed and the rules imposed on the exercise of the activities of an electronic money institution, a payment institution or a PFS are complied with;
- the data on which the managers shall rely to be able to exercise their control function pursuant to item 5.3. above, are actually submitted to them.

Where there is within an institution a separate department in charge of the control or the supervision of a specific activity or function, the existence of such a department will not relieve the internal audit department of its responsibility to control this specific area. However, the internal audit department will be able to take into account, within its work, the assessments issued by the department on the area in question.

b) At the branches level

The scope of intervention of the internal audit department of the Luxembourg electronic money institution or the Luxembourg payment institution also includes the branches abroad

Thus, in respect of branches, the internal audit department of the registered office carries out on-site inspections on their premises on a regular basis. Where the institution has a branch of a certain size, it will establish a dedicated internal audit department at the branch. From a hierarchical and functional point of view, this department depends on the internal audit department of the registered office to which it belongs and to which it reports. It is thus subject to the provisions of this circular, without prejudice to the local rules in this field.

The provisions relating to branches also apply to the Luxembourg PFS.

5.4.7. Execution of audits

a) Audit plan

- All audit missions are carried out according to a plan. The plan is established by the internal audit department for a period of several years (in general three years). Its purpose is to cover all activities and functions within a reasonable timeframe, by taking into account both the risks posed by an activity or a function of the institution and the efficiency of the organisation and internal control in place for this activity or function. The plan takes also account of the developments and innovations planned as well as the risks which may arise therefrom. The plan is discussed with the management which shall approve it formally. It should be reviewed on an annual basis and adapted, where appropriate, to developments and emergencies. Any adaptation is to be approved formally by the management. The approval implies that the management provides the internal audit department with the necessary means for the execution of the audit plan.

- The plan, which is adequately documented, sets out the objectives of each mission and the scope of the tasks to be executed, gives an estimate of the time and human and material resources necessary and assigns a frequency to each mission.

The audit plan focuses on the risk of execution errors and the risk of fraud. In addition, given the importance of the service activities in particular relating to the UCI industry for some Luxembourg PFS, the audit plan is also expected to cover, properly and with sufficient frequency, these 13 activities, in particular in the fields of , where appropriate, the depositary function, bookkeeping and net asset value calculation of investment funds.

- Where the internal audit department of the parent undertaking of the Luxembourg institution carries out on-site inspections on its subsidiary, on a regular basis, it is recommended for efficiency reasons, that the Luxembourg

institution coordinates, insofar as possible, its audit plan with that of the parent undertaking (cf. item 5.4.9. on this subject).

The internal audit department regularly informs the management of the execution of the audit plan.

b) Mission programmes

Each audit mission shall be prepared on the basis of a work programme which includes, in particular, the objectives as well as the tasks to be executed to achieve them, the scope of the tests and the time budget. The programme is to be adapted, where appropriate, according to the findings made.

c) Work documents

Each mission shall be executed on the basis of work documents drawn up according to a fixed pattern that clearly reflect the work carried out, the techniques and work methods used as well as the steps followed. These documents will allow tracking the controls carried out, the deficiencies identified and the conclusions. They are to be reviewed by the person in charge of the mission or the internal audit department. These documents shall be kept during five years and made available to the *réviseur d'entreprises agréé* as well as the CSSF who will be able to assess the scope and the quality of the controls carried out.

d) Written reports

A written report shall be produced on each mission by the internal audit department. This written report is generally intended for the supervised persons as well as - possibly in summarised form - to the management. The reports shall also be made available to the *réviseur d'entreprises agréé* and the CSSF. These reports shall be drafted in French, German or English.

The report includes not only a description of the shortcomings and anomalies identified, but also the recommendations and proposals on the corrective measures to be taken, as well as in general a position statement from the supervised persons. The internal audit department gives an indication of the relative importance of the anomalies and shortcomings as well as the recommendations and corrective measures.

The internal audit department prepares a table of the internal audit department's missions and the related written reports. It will draft at least once a year a summary report on all the controls carried out during the financial year. This report, which will be submitted to the management and, on request, to the board of directors and, if any, to the audit committee, will list the controls carried out, outline the main shortcomings identified, the corrective measures decided and the follow-up on these measures. A copy of the report is submitted to the

CSSF, as provided for in item 8 hereafter and it is made available to the *réviseur d'entreprises agréé*.

e) *Follow-up*

The recommendations of the internal audit department which are intended to improve the organisation and the internal control shall be followed up. To this end, the management approves, on the proposal of the internal audit department, a procedure whereby these recommendations are to be implemented and within which timeframes.

The internal audit department verifies, by an appropriate method, the effective follow-up of the recommendations. It reports, on a regular basis, on this subject to the management.

5.4.8. *Person in charge of the internal audit department*

Electronic money institutions, payment institutions and PFS shall give the CSSF the name of the person in charge of the internal audit department. In case of replacement of the person in charge of the internal audit department, the institutions shall inform the CSSF as soon as possible by stating the reasons for this replacement. The long-form report to be set up by the *réviseur d'entreprises agréé* of the electronic money institutions or the payment institutions shall include the name of the person in charge of the internal audit department. Similarly, it shall state any replacement and explain the reasons for such a change (cf. item 9 on this subject).

5.4.9. *Outsourcing of some operational tasks to service providers*

a) Smaller-sized institutions carrying out low-risk activities are authorised to renounce entrusting the internal audit function to a department or full-time employee. These institutions may use service providers for internal audits.

This circular, and in particular this paragraph, should be read in conjunction with the Circular CSSF 22/806 on outsourcing arrangements, which covers the outsourcing arrangements of some operational tasks of the internal control functions as well as the requirements and other related aspects. We refer in particular to paragraphs 21, 24 and 46 of the Circular CSSF 22/806.

Service providers may be internal auditors of the group to which the institution belongs. Where experts act as *réviseurs d'entreprises agréés*, they shall, in all respects, be independent from the *réviseur d'entreprises agréé* of the institution or its audit firm as well as the group to which the auditor belongs.

b) The management of the institutions, which do not have their own internal auditor, shall designate a person, whether a member or not of the management,

having sufficient knowledge regarding audits to monitor the works of the service provider. This person is in charge of the proper execution of the internal audit function of the institution and, from a hierarchical point of view, it shall have the necessary independence in order to properly take on the responsibility. The management also provides that this person carries out some routine controls at department level, which cannot be carried out by the service provider due to his periodic presence. The designated person establishes an internal audit plan pursuant to item 5.4.7. a) above which will be approved by the management. Moreover, this person establishes at least once a year a summary report on all the controls carried out during the financial year pursuant to item 5.4.7. d) above. The person in question may carry out within the institution other tasks which are not incompatible with the mission described above.

A copy of the summary report, which it prepares, is submitted to the CSSF, as provided for in item 8 hereafter, and it is made available to the *réviseur d'entreprises agréé*.

c) The use of a service provider shall be based on a written mandate which shall take account of all the internal audit principles referred to above¹. In particular, the management will select the service provider by taking into account his professional competence as well as the nature and diversity of the activities carried out by the institution.

The written mandate sets the responsibilities of the service provider by referring to the principles of this circular².

d) The service provider carries out his work under the audit plan of the institution by following a work programme, by producing detailed documentation on his work and by drafting reports for each mission. These reports are to be drafted in French, German or English and are to be delivered to the person designated above and the management.

The files and work documents of the service provider shall be kept five years in the Luxembourg institution in order to allow the institution to trace the controls carried out, the anomalies identified and the conclusions. The CSSF as well as

¹ Refer also to points 21 to 25 of the section 4.1.3 Outsourcing arrangements relating to internal controls functions of the Circular CSSF 22/806 on outsourcing arrangements and to point 46 of the section 4.2.4 Conflicts of interest of the above circular.

² Refer also to points 88 and 92 of the sub-section 4.3.2.3 Access, information and audit rights of the Circular CSSF 22/806 on outsourcing arrangements.

the *réviseur d'entreprises agréé* shall have access to these files and documents as well as the control reports.

The management establishes a procedure whereby the recommendations of the service provider are to be implemented and within which timeframes. The person designated above verifies whether the recommendations are followed effectively and informs the management about this on a regular basis.

e) Institutions which want to use a service provider for internal audits shall prior notify the competent authority according to the provisions of the point 59 of the Circular CSSF 22/806 on outsourcing arrangements.

f)³ The long-form report to be established by the *réviseur d'entreprises agréé* for electronic money institutions or payment institutions (cf. item 9 on this subject) indicates whether the institution uses the services of a service provider as regards internal audits and the name of the service provider in question.

g) The use of an external expert is also allowed where the internal audit department of the electronic money institution or the payment institution or the PFS does not have sufficient competence in one or several specific areas. In this case, it shall be executed in accordance with the same conditions as those defined in items a) to d) above. This expert shall be placed under the authority of the head of the internal audit department of the institution, who supervises his work.

6. Audit committee

a) Definition

The audit committee is a committee which may be created within the board of directors/board of managers. It is composed of directors/managers which are neither members of the management nor members of the staff and the purpose of which is to assist the board in the effective exercise of its supervisory mission.

³ Refer also to point 21 of the section 4.1.3 Outsourcing arrangements relating to internal control functions of the Circular CSSF 22/806 on outsourcing arrangements.

b) Recommendation

The CSSF recommends larger institutions to establish an audit committee in order to facilitate the effective supervision of the activities by the board of directors/board of managers. Such a committee is able to carry out a more thorough analysis of the institution's situation and is able to provide all members of the board with information enabling them to meet their supervisory responsibility. Such a committee also contributes to the efficiency of the internal control and the internal audit of the institution.

c) Composition, operation and competences

The board of directors/board of managers sets down in writing the composition, missions and terms of operation of the audit committee when it is created. It lays down the conditions under which the *réviseur d'entreprises agréé* as well as any person belonging to the institution are involved in its work.

The CSSF is of the opinion that the audit committee shall include at least three directors/managers which are not members of the management and shall involve in its work: one member of the management, the person in charge of the internal audit department as well as the *réviseur d'entreprises agréé* of the institution. These three persons will attend the meetings of the committee without being members.

The audit committee may ask any document and any information it deems necessary to fulfil its mission as defined under item d) above. To this end, it may refer to the work done by the internal audit department of the institution and request clarification from it. The audit committee approves the audit plan set by management.

The audit committee reports to board of directors/board of managers on a regular basis.

d) Mission

The audit committee approves the audit charter (cf. item 5.4.3.). It assesses whether the human and material means committed to the internal audit are sufficient. It makes sure that the internal auditors have the necessary skills and may decide on the measures to be taken in this respect.

It takes note of the information on the state of the internal control provided by the management at least once a year pursuant to item 4 of this circular.

The *réviseur d'entreprises agréé* involved in the work of the committee explains his audit programme and submits his audit reports, management letters as well as his long form reports. The audit committee analyses these reports and documents and makes a critical assessment thereof. It ensures that the recommendations of the *réviseur d'entreprises agréé* which are aimed to

improve the organisation and internal control are followed up by the management.

The audit committee deliberates regularly on:

the state of the internal control system;
the quality of the work carried out by the internal audit department;
the compliance with the legal and statutory provisions as well as the CSSF rules for the drafting of the annual and, where appropriate, consolidated accounts and on the relevance of the accounting policies adopted.

The audit committee pays particular attention to the way in which the management follows up the recommendations of the internal audit department.

7. Relationships between the internal audit and the *réviseur d'entreprises agréé*

The internal audit department of an institution shall build relationships with the *réviseur d'entreprises agréé* which are likely to enable it to acquaint itself with the work carried out by the latter in order to facilitate this work as well as its own work as far as possible.

8. Reports to be submitted to the CSSF

Every year, the institutions shall submit to the CSSF the two following reports:

A written report of the management on the state of the internal control. This report addresses the realisation of the internal control objectives, describes the means implemented and summarises the main observations made, deficiencies observed, in particular by the internal audit department, the corrective measures decided and the effective follow-up of these measures.

A copy of the summary report on the controls carried out by the internal audit during the past financial year pursuant to items 5.4.7 d) and 5.4.9. The two reports are to be drafted in French, German or English. They are to be sent to the CSSF at the same time as the annual accounts drawn up for publication.

9. Assessment of the internal control procedures by the *réviseur d'entreprises agréé*

9.1. As regards banks governed by Luxembourg law, the analytical report to be drawn up by the *réviseur d'entreprises agréé* according to Circulars CSSF 15/614, 12/550 and 13/569 shall contain a description and a point-by-point assessment of the internal control rules as laid down by this circular.

9.2. As regards PFS, the management letter of the *réviseur d'entreprises agréé* shall point out, where applicable, any non-compliance with the internal control rules as laid down by this circular.



Commission de Surveillance
du Secteur Financier

Yours faithfully,

Claude WAMPACH
Directeur

Marco ZWICK
Directeur

Jean-Pierre FABER
Directeur

Françoise KAUTHEN
Directeur

Claude MARX
Directeur général



Commission de Surveillance du Secteur Financier

283, route d'Arlon

L-2991 Luxembourg (+352) 26 25 1-1

direction@cssf.lu

www.cssf.lu