

EUROPEAN FINANCIAL STABILITY FACILITY

INTERNAL AUDIT CHARTER

Article 1 **Introduction**

This Internal Audit Charter sets out, in line with international standards, the key objectives and features of the EFSF's internal audit function.

The EFSF does not have staff of its own. It has entered into a service level agreement with the European Stability Mechanism (the "ESM"), the staff of which provide support services to the EFSF. Any officers, departments, divisions and business areas to which this Internal Audit Charter refers are therefore of the ESM unless a specific reference to the EFSF is made.

Article 2 **Purpose**

The purpose of ESM's internal audit is to provide independent, objective assurance and consulting services designed to add value and improve EFSF's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. It assists the EFSF in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness and procedural efficiency of the EFSF's risk management, control and governance processes. All activities, operations and processes of the EFSF may be subjected to internal auditing.

Article 3 *Standards for the Professional Practice of Internal Auditing*

The internal audit function will adhere to the mandatory elements of the Institute of Internal Auditors' (the "IIA") International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the IIA Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Audit (together the "Standards"). The Head of Internal Audit will report periodically to the Chief Executive Officer (CEO) and the Audit Committee on the internal audit division's conformance to the IIA Code of Ethics and the Standards.

Article 4 **Authority**

1. The internal audit function, with strict accountability for confidentiality and safeguarding of records and information, is authorised to have full, free and unrestricted access to any and all of the EFSF's records, data, physical assets and personnel providing services to the EFSF that is pertinent to the implementation of its tasks.
2. All personnel providing services to the EFSF are requested to assist the internal audit function in fulfilling its role and responsibilities.
3. The internal audit function shall be notified of instructions and decisions of the EFSF management that may be of relevance to it. The internal audit function shall be notified in due time of any material amendments of the risk management system.

4. The internal audit function has no authority to determine policies, make executive decisions, manage risks or to change personnel, systems or methods of work. Its role is to examine, evaluate and make recommendations to the Chief Executive Officer (CEO).

Article 5 Independence and Objectivity

1. The Head of Internal Audit shall report and be accountable to the CEO. The internal audit function shall also have free and unrestricted access to the Audit Committee.
2. In the context of its mandate, the internal audit function shall remain free from interference by any element in the organisation, including with regards to matters of audit selection, scope, procedures, frequency, timing or report content in order to maintain an independent and objective attitude. If the Head of Internal Audit determines that the independence or objectivity of the internal audit function may be impaired in fact or appearance, the details of such impairment will be disclosed to the CEO and the Audit Committee.
3. The internal audit function shall have no direct operational responsibility or authority over any of the activities audited. Accordingly, the internal audit function shall not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal audit function's judgment.
4. The internal audit function shall demonstrate the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or processes being examined. The internal audit function shall make a balanced assessment of all relevant circumstances and shall not be unduly influenced by his/her own interests or by others in forming judgments.
5. The internal audit function shall confirm to the Audit Committee, at least annually, the independence of the internal audit function.

Article 6 Scope of Internal Audit Activities

1. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy, procedural efficiency and effectiveness of the EFSF's governance, risk management and internal process, and the compliance with the established policies and procedures. For this purpose, the internal audit function shall examine that:
 - a. The EFSF's resources and assets are properly accounted for and safeguarded;
 - b. Financial, operating, accounting and other data generated within the EFSF or by third parties and used for management purposes are accurate and reliable;
 - c. The integrity, reliability, confidentiality and continuous availability of the information systems are secured;
 - d. Risks are properly identified and managed;
 - e. The application of risk management procedures and methodologies and the functioning of internal control are effective;
 - f. The EFSF's policies, procedures and manuals in relation to the above are adequate and complied with;
 - g. The governance, operations and various functions and activities of the EFSF are performed efficiently and effectively.
2. In addition, the internal audit function shall:

- a. Evaluate specific operations at the request of the CEO or the Audit Committee, as appropriate;
- b. Provide recommendations, including consultancy, on matters relating to governance, risk management and control, as raised in the internal audit report or on an ad hoc basis.

Article 7 Resources

1. The internal audit function shall have adequate resources (e.g. financial, staff, and IT).
2. The quantity and quality of the internal audit staff shall be commensurate, in particular, with the needs of the internal audit function. This shall also apply to the use of temporary staff. The internal auditors should have sufficient qualifications and skills to effectively deliver on the mandate for professional competence and to audit to the required level. Internal auditors collectively should be competent to examine all areas in which the EFSF operates.
3. The internal audit staff shall possess the expertise and experience needed for their tasks, competencies and responsibilities. Appropriate measures shall be taken to ensure that staff are suitably qualified (e.g. through ongoing training). The absence or resignation of staff should not lead to a persistent operational disruption.
4. The internal audit function shall be led by a person with sufficient qualification, integrity and stature. This person shall demonstrate appropriate leadership and have the necessary skills to fulfil his/her responsibility for maintaining the function's independence and objectivity.

Article 8 Annual Audit Plan

1. The internal audit function annual audit plan is included in the annual audit plan of the ESM and at least annually the execution thereof is reported to the CEO and the Audit Committee. The annual audit plan of the ESM consists of a work schedule for the following calendar year for both the ESM and the EFSF.
2. The annual audit plan shall be approved by the CEO. Any subsequent changes or requests shall be submitted to and approved by the CEO.
3. Any significant deviations from the approved plan shall be reported to the CEO who shall decide on the necessary action to take in this respect.

Article 9 Reporting

1. The internal audit report, which shall take the form of a written report to the CEO, shall be prepared and issued by the internal audit function following the conclusion of each internal audit engagement.
2. The internal audit report shall include the response and corrective action taken or to be taken with regards to the specific findings and recommendations.
3. The internal audit report shall also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by the CEO or the Audit Committee.
4. The internal audit function shall be responsible for appropriate follow-up on all significant engagement findings and recommendations.

5. The internal audit function shall report to the Audit Committee on the status of findings that have not been rectified by EFSF management.
6. The internal audit function shall issue an annual report to the Audit Committee containing a summary of the work performed during the past year and the activities planned for the coming year.
7. The Head of Internal Audit shall report periodically to the CEO and at least annually to the Audit Committee regarding: the internal audit's purpose, authority, and responsibility, the status of the internal audit plan, the internal audit's conformance to the IIA Code of Ethics and Standards and any action plans to address any significant conformance issues.
8. The Head of Internal Audit shall report on an ad hoc basis to the CEO and the Audit Committee any significant and urgent risk exposures and control issues, including fraud risk, governance issues, and other matters requiring attention as well as any response to risk that may be unacceptable.

Article 10

Relationship with the Audit Committee and the independent external auditor

1. The internal audit function shall periodically, report to the CEO and the Audit Committee on the performance of the internal audit function, including its quality assurance and improvement programme.
2. The Audit Committee shall monitor and review the EFSF's internal audit effectiveness and independence, its periodic quality assurance and improvement programme.
3. The internal audit function will coordinate its work with the Audit Committee and the independent external auditor appointed by the general meeting of shareholders.

Article 11

Quality Assurance

1. The internal audit function will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the IIA Code of Ethics. The programme will also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The Head of Internal Audit shall communicate to the CEO and the Audit Committee on the internal audit activity's quality assurance and improvement programme, including the results of any ongoing internal assessments and external assessments, which will be conducted at least once every five years.

Article 12

Conflicts of interests

1. The internal auditors shall avoid conflicts of interest. Internally recruited internal auditors shall not engage in auditing activities for which they have had previous responsibility before a sufficiently long "cooling off" period has elapsed.
2. Compensation arrangements shall not provide incentives for internal auditors to act contrary to the attributes and objectives of the internal audit function.

Article 13
Entry into Force and Review

This Internal Audit Charter shall enter into force on the day it is approved by the Board of Directors. It shall be subject to revision as and when it is deemed necessary but not later than five years from the date on which it enters into force.