

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 internal audit function conducting internal audits of EFSF matters.

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, including internal audit services to the EFSF. All internal audits of EFSF matters are therefore conducted by the ESM internal audit function. Any officers, departments, divisions and business areas to which this Internal Audit Charter refers are of the ESM unless a specific reference to the EFSF is made.

Article 2

Purpose

1. The purpose of the internal audit function is to strengthen the EFSF’s ability to create, protect, and sustain value by providing the Chief Executive Officer (the “CEO”), the Audit Committee and the governing bodies with independent, risk-based, and objective assurance, advice, insight, and foresight. The internal audit function enhances the EFSF’s:
 - a) Successful achievement of its objectives;
 - b) Governance, risk management, and control processes;
 - c) Decision-making and oversight;
 - d) Reputation and credibility with its stakeholders; and
 - e) Ability to serve the public interest.
2. All activities, operations, and processes of the EFSF may be subject to internal auditing.

Article

Internal Audit Function

1. The internal audit function adheres to the Global Internal Audit Standards and uses the resources as described in the ESM Internal Audit Charter. In addition, the internal audit function adheres to the relevant policies and procedures of the EFSF.
2. The ESM Internal Audit Charter defines the details of the internal audit function’s independence and objectivity, quality assurance and improvement programme, and avoidance of conflicts of interest.

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 is notified of instructions and decisions of the EFSF management that may be of relevance to it. The internal audit function is notified in due time of any material amendments of the risk management system.
4. The internal audit function has no, and refrains from seeking, authority to determine EFSF 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 CEO.

Article 5

Accountability and Independence

1. The Head of Internal Audit reports and is accountable to the CEO. The internal audit function has free and unrestricted access to the Audit Committee.
2. The internal audit function confirms 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, efficiency, and effectiveness of the EFSF's governance, risk management, and control processes, and the compliance with the established policies and procedures. For this purpose, the internal audit function examines whether:
 - a. Risks relating to the achievement of EFSF's objectives are properly identified and managed;
 - b. The EFSF's resources and assets are properly safeguarded and used efficiently as per decisions made by management and governing bodies;
 - c. Financial, operating, accounting and other data generated within the EFSF or by third parties and used for the EFSF management purposes is accurate and reliable;
 - d. The integrity, reliability, confidentiality and continuous availability of the information systems is secured;
 - e. Risks are properly identified and managed;
 - f. The application of risk management procedures and methodologies and the functioning of internal control are effective;
 - g. The EFSF's policies, procedures and manuals in relation to the above are adequate and complied with; and
 - h. The governance, operations and various functions and activities of the EFSF are performed efficiently and effectively.
2. In addition, the internal audit function:
 - a. Reports, through the Head of Internal Audit, to the CEO and the Audit Committee as described in Article 8;

- b. Evaluates specific operations at the request of the CEO or the Audit Committee, as appropriate; and,

Provides recommendations, including advisory, on matters relating to governance, risk management and control, as requested by the CEO.

Article 7 Annual Audit Plan

The EFSF annual internal audit plan is included in the annual internal audit plan of the ESM and at least annually the execution thereof is reported to the CEO and to the Audit Committee.

Article 8 Reporting

1. The internal audit reports, which take the form of a written report to the CEO, are prepared and issued by the internal audit function following the conclusion of internal audit engagements, where EFSF findings are identified.
2. The internal audit report includes the response and corrective action taken or to be taken with regards to the specific findings and recommendations.
3. The internal audit report includes 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 is responsible for appropriate follow-up on all significant engagement findings and recommendations.
5. The internal audit function reports to the Audit Committee on the status of findings that have not been rectified by the EFSF management.
6. The internal audit function reports to the Audit Committee on the work performed during the past year and the activities planned for the coming year.
7. The Head of Internal Audit reports 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 with the Global Internal Audit Standards and any action plans to address any significant conformance issues.
8. The Head of Internal Audit reports 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 9

Relationship with the Audit Committee and the independent external auditor

1. The Audit Committee monitors and reviews the EFSF's internal audit effectiveness and independence, its periodic quality assurance and improvement programme.
2. The internal audit function coordinates its work with the Audit Committee and the independent external auditor appointed by the general meeting of shareholders.

Article 10

Entry into Force and Review

This Internal Audit Charter enters into force on the day it is approved by the Board of Directors and is revised as and when it is deemed necessary, and in any case not later than every five years.