

Adaptation of the Charter of the Internal Audit Capability

Meeting of the Management Board 17-18/12/2013

Item	9.2
Action	For approval
Status	Final - public

Annex 1

Revised draft Charter of the Internal Audit Capability of the European Chemicals Agency

1. Purpose and validity

This charter sets out the mission, reporting lines, authority and responsibility of the Internal Audit Capability (IAC) of the European Chemicals Agency (ECHA, or “the Agency”), and the basic working arrangements essential for the IAC to properly fulfil its role in the interests of the Agency.

ECHA is a European Union body “which actually receives contributions charged to the budget” of the European Union as defined under Article 208(1) of the Financial Regulation applicable to the general budget of the Union.

Article 208(3) states that “The Commission’s internal auditor shall exercise the same powers over the bodies referred to in paragraph 1 as those exercised in respect of the Commission”. The Commission’s internal auditor is “the Internal Audit Service” (IAS).

2. Mission and objectives

The existence and the mission of the IAC derive from the Article 84 of the ECHA's Financial regulation and the relevant Integrated Management Standards of the Agency, as endorsed by its Management Board.

The mission of the IAC is to provide independent, objective **assurance and consulting** services designed to add value and improve the operations of the Agency. The IAC helps the Agency accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and make recommendations for improving the effectiveness of risk management, control, and governance processes, thereby promoting a culture of efficient and effective management within the Agency.

Assurance is an objective examination of evidence for the purpose of providing an independent assessment of the effectiveness of risk management, control, quality and internal governance processes, with a special reference to the following issues:

- Risks are appropriately and continuously identified and managed,
- Significant financial, managerial, and operating information is accurate, reliable, and on time,
- The Agency's policies, procedures, and applicable laws and regulations are complied with,
- The objectives of the Agency are achieved effectively and efficiently,
- The development and maintenance of high quality control processes are promoted throughout the Agency,
- The Agency’s quality system conforms to the requirements of the quality standards framework in force in the Agency, and is effectively implemented and

maintained.

For its assurance services the IAC will rely on risk-based planning.

Consulting services are advisory and management requested activities, the nature and scope of which are agreed with the Executive Director and which are intended to add value and improve the Agency's governance, risk management and control processes, without the internal auditor assuming management responsibility. On a limited basis the IAC may be entrusted with other tasks, such as the coordination of audits to be performed by other assurance providers and the tracking of status of the improvement actions subsequent to audits or similar engagements, provided these tasks do not impair the professional independence of the IAC as specified below.

3. Accountability and Responsibility

The IAC is placed under the direct authority of the Executive Director and shall be accountable to the Management Board and the Executive Director. The IAC has the responsibility to:

- Submit an annual work plan founded on a risk-based approach for review to the Executive Director and the Audit working group of the Management Board (AWG). The AWG will communicate the annual work plan to the Management Board for approval.
- Report on every audit engagement according to its audit objectives, including proposal for improvements, as specified below.
- Report at least annually on the IAC's mission, authority and responsibility, and performance in relation to the annual work plan.

For that purpose, the IAC will:

- Develop and establish IAC audit procedures, including a follow-up process.
- Implement the annual work plan, as approved, including as appropriate any special tasks or projects requested by the Executive Director.
- Ensure that the IAC resources are appropriately and effectively deployed to meet the requirements of this charter and the annual work plan.
- Ensure that any audit work on the IAC's work plan which needs to be outsourced is procured following appropriate technical specifications and supervised in accordance to the relevant requirements of this charter.
- Develop and maintain a professional quality programme that covers all IAC audit activities and continuously monitors its effectiveness.
- Promptly validate audit findings and related risks and discuss the IAC's related recommendations with the auditee. The auditee's position should be reflected in the final report, particularly in the case of disagreement.
- Produce a report on every audit, according to the objectives, on strengths and weaknesses and any significant issues related to the processes for controlling the activities and risks of the Agency as discovered during the course of the IAC's audit work, including proposals for improvements to those processes and associated risk management measures.
- Communicate the reports on audit engagements (assurance and consulting) to the Executive Director and those members of management who are directly concerned. Communicate the final audit reports with management's action plans to the AWG and the Chair of the Management Board. The AWG will report the main aspects to the Management Board.

- Respect confidentiality with regard to information gathered from the audit and consultancy engagements performed.
- Disclose and explain any failing or inability to meet and comply with the requirements of this charter in the IAC's annual activity report.
- Prepare on an annual basis, in liaison with the Executive Director, a report to the AWG summarising the IAC's activities and the main audit results.

The IAC shall provide the IAS with its work plans and annual activity reports. It shall closely collaborate with the IAS while defining the audit universe and performing the risk assessment, for the purpose of establishing a coordinated audit plan and therefore ensuring a proper coverage and minimise the duplication of efforts. The annual work plan and annual activity report of the IAC shall take due account of control issues emanating from the reports of IAS or European Court of Auditors in the risk analysis and audit planning.

The IAC shall inform the OLAF liaison officer of ECHA, as well as the Executive Director, whenever it gets any information relating to possible cases of fraud, corruption or other irregularities that could affect the Communities' financial interests.

4. Independence and objectivity

The IAC shall be allowed to employ appropriate auditing techniques, being free of interference by third parties, whether in- or outside the Agency, in determining the scope of internal audit engagements once included in the annual work programme or agreed with the Executive Director, performing work and communicating results. No authority may interfere in the conduct of IAC work or ask the IAC to make any alterations to the content of audit reports.

Internal auditors should maintain an unbiased and impartial mindset in regard to all engagements. In order to ensure objectivity in the IAC's opinions and avoid conflicts of interest, the IAC must preserve independence in relation to the activities and operations subject to review.

The IAC shall address any issue which either in fact or appearance might impair its independence in determining the scope and planning of the audit activities, performing them and communicating their results, in its annual work plan, annual report and individual audit reports.

5. Authority

The IAC is authorised to:

- Have unrestricted access to all functions, information systems, records, property, and personnel within the Agency, as considered necessary for the fulfilment of their duties.
- Obtain the necessary assistance from the Agency's staff.
- Allocate resources, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Be informed at an early stage about the development of new systems and changes to existing systems that may substantially affect the Agency's internal control system.
- In general, be promptly informed about any developments which are likely to impact on the Agency's risk profile.

The IAC is not authorised to perform any operational duties for the Agency, to initiate or

approve financial transactions external to the IAC, or to direct the activities of any staff member not employed in the IAC. However and on an exception basis, the Executive Director may assign staff members to auditing teams or to otherwise assist the internal auditors, in particular in the context of quality audits engagements, subject to the requirements of applicable quality standards.

6. Standards of audit practice

The IAC will adhere to the International Standards for the Professional Practice of Internal Auditing as drawn up by the Institute of Internal Auditors (IIA). IAC personnel shall adhere to the IIA Code of Ethics. Such professional standards will be applied in accordance with the regulations applicable to the Agency's staff, in particular the Staff Regulation, its implementing rules and the Agency's Code of Conduct. In the event of discrepancies, requirements originating from EU regulations shall take precedence.

Following the IIA Standard 1000 and the hereto related practice advisory, the Management Board approves this audit charter.

Place _____, date _____.

Internal Audit Capability

Chair of the Management Board

ECHA's Executive Director

Annex 2

CHARTER OF THE INTERNAL AUDIT CAPABILITY of the European Chemicals Agency

PURPOSE AND VALIDITY

This charter sets out the mission, reporting lines, authority and responsibility of the Internal Audit Capability (IAC) of the European Chemicals Agency (ECHA, or “the Agency”), and the basic working arrangements essential for the IAC to properly fulfil its role in the interests of the Agency.

~~Currently, ECHA is a European Union body “which actually receives grants-contributions charged to the budget” of the European Union as defined under Article 208~~185~~(1) of the Financial Regulation applicable to the general budget of the European Communities Union.~~

~~Therefore Article 208(3) states that “The Commission’s internal auditor shall exercise the same powers over the bodies referred to in paragraph 1 as those exercised in respect of the Commission”. The Commission’s internal auditor is the Internal Auditor of the European Commission, hereafter referred to as “the Internal Audit Service” (IAS). This charter will need to be replaced should this legal situation ever change, e.g. should ECHA no longer receive Community EU grants/contribution.~~

MISSION AND OBJECTIVES

~~The existence and the mission of the IAC derive from the Article 84 of the ECHA’s Financial regulation and the relevant Quality and Internal Control Standards/Integrated Management Standards of the Agency, as endorsed by its Management Board, pursuant to Article 38(4) of ECHA’s Financial Regulation.~~

The mission of the IAC is to provide independent, objective **assurance and consulting** services designed to add value and improve the operations of the Agency. The IAC helps the Agency accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and make recommendations for improving the effectiveness of risk management, control, and governance processes, thereby promoting a culture of efficient and effective management within the Agency.

Assurance is an objective examination of evidence for the purpose of providing an independent assessment of the effectiveness of risk management, control, quality and internal governance processes, with a special reference to the following issues:

- Risks are appropriately and continuously identified and managed,
 - Significant financial, managerial, and operating information is accurate, reliable, and on time,
 - The Agency's policies, procedures, and applicable laws and regulations are complied with,
 - The objectives of the Agency are achieved effectively and efficiently,
 - The development and maintenance of high quality control processes are promoted throughout the Agency,
 - The Agency’s quality system conforms to the requirements of the quality standards framework in force in the Agency, and is effectively implemented and maintained.
- For its assurance services the IAC will rely on risk-based planning.

Consulting services are advisory and management requested activities, the nature and scope of which are agreed with the Executive Director and which are intended to add value and improve the Agency's governance, risk management and control processes, without the internal auditor assuming management responsibility. On a limited basis the IAC may be entrusted with other tasks, such as the coordination of audits to be performed by other assurance providers and the tracking of status of the improvement actions subsequent to audits or similar engagements, provided these tasks do not impair the professional independence of the IAC as specified below.

ACCOUNTABILITY AND RESPONSIBILITY

The IAC is placed under the direct authority of the Executive Director and shall be accountable to the Management Board and the Executive Director~~him only~~. The IAC has the responsibility to:

- Submit an annual work plan founded on a risk-based approach for review to the Executive Director and the Audit working group of the Management Board (AWG). The AWG will communicate the annual work plan to the Management Board for approval-
- Report on every audit engagement according to its audit objectives, including proposal for improvements, as specified below.
- Report at least annually on the IAC's mission, authority and responsibility, and performance in relation to the annual work plan.

For that purpose, the IAC will:

- Develop and establish IAC audit procedures, including a follow-up process.
- Implement the annual work plan, as approved, including as appropriate any special tasks or projects requested by the Executive Director.
- Ensure that the IAC resources are appropriately and effectively deployed to meet the requirements of this charter and the annual work plan.
- Ensure that any audit work on the IAC's work plan which needs to be outsourced is procured following appropriate technical specifications and supervised in accordance to the relevant requirements of this charter.
- ~~Develop and maintain a professional quality programme that covers all IAC audit activities and continuously monitors its effectiveness.~~
- Promptly validate audit findings and related risks and discuss the IAC's related recommendations with the auditee. The auditee's position should be reflected in the final report, particularly in the case of disagreement.
- Produce a report on every audit, according to the objectives, on strengths and weaknesses and any significant issues related to the processes for controlling the activities and risks of the Agency as discovered during the course of the IAC's audit work, including proposals for improvements to those processes and associated risk management measures.
- ~~Effectively and promptly~~ communicate the reports on audit engagements (assurance and consulting) to the Executive Director and those members of management who are directly concerned. Communicate the final audit reports with management's action plans to the AWG and the Chair of the Management Board. The AWG will report the main aspects to the Management Board.
- Respect confidentiality with regard to information gathered from the audit and consultancy engagements performed.
- Disclose and explain any failing or inability to meet and comply with the requirements of this charter in the IAC's annual activity report.
- Prepare on an annual basis, in liaison with the Executive Director, a report ~~for to~~ the attention of ECHA's Management Board~~AWG~~ summarising the IAC's activities and the main audit results.

The IAC shall provide the IAS with its work plans and annual activity reports. It shall closely collaborate with the IAS while defining the audit universe and performing the risk assessment, for the purpose of establishing a coordinated audit plan and therefore ensuring a proper coverage and minimise the duplication of efforts. The annual work plan and annual activity report of the IAC shall take due account of control issues emanating from the reports of IAS or European Court of Auditors in the risk analysis and audit planning.

The IAC shall inform the OLAF liaison officer of ECHA, as well as the Executive Director, whenever it gets any information relating to possible cases of fraud, corruption or other irregularities that could affect the Communities' financial interests.

INDEPENDENCE AND OBJECTIVITY

The IAC shall be allowed to employ appropriate auditing techniques, being free of interference by third parties, whether in- or outside the Agency, in determining the scope of internal audit engagements once [included in the annual work programme or](#) agreed with the Executive Director, performing work and communicating results. No authority may interfere in the conduct of IAC work or ask the IAC to make any alterations to the content of audit reports.

Internal auditors should maintain an unbiased and impartial mindset in regard to all engagements. In order to ensure objectivity in the IAC's opinions and avoid conflicts of interest, the IAC must preserve independence in relation to the activities and operations subject to review.

The IAC shall address any issue which either in fact or appearance might impair its independence in determining the scope and planning of the audit activities, performing them and communicating their results, in its annual work plan, annual report and individual audit reports.

AUTHORITY

The IAC is authorised to:

- Have unrestricted access to all functions, information systems, records, property, and personnel within the Agency, as considered necessary for the fulfilment of their duties.
- Obtain the necessary assistance from the Agency's staff.
- Allocate resources, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Be informed at an early stage about the development of new systems and changes to existing systems that may substantially affect the Agency's internal control system.
- [In general](#), be promptly informed about any developments which are likely to impact on the Agency's risk profile.

The IAC is not authorised to perform any operational duties for the Agency, to initiate or approve financial transactions external to the IAC, or to direct the activities of any staff member not employed in the IAC. However and on an exception basis, the Executive Director may assign staff members to auditing teams or to otherwise assist the internal auditors, in particular in the context of quality audits engagements, subject to the requirements of applicable quality standards.

STANDARDS OF AUDIT PRACTICE

The IAC will adhere to the *International Standards for the Professional Practice of Internal Auditing* as drawn up by the Institute of Internal Auditors (IIA). IAC personnel shall adhere to the IIA Code of Ethics. Such professional standards will be applied in accordance with the regulations applicable to the Agency's staff, in particular the Staff Regulation, its implementing

rules and the Agency's Code of Conduct. In the event of discrepancies, requirements originating from EU regulations shall take precedence.

~~Following the IIA Standard 1000 and the hereto related practice advisory, the Executive Director shall seek the approval of this charter by the Chair of the Management Board will approve this audit charter of ECHA.~~

~~Approved _____ place _____, date _____.~~

~~_____~~
~~Internal Audit Capability~~

~~Chair of the Management Board _____ ECHA's Executive Director~~