



CHARTER OF THE INTERNAL AUDIT CAPABILITY OF FUSION FOR ENERGY

2 December, 2016

Having regard to the Council Decision of 27 March 2007 establishing the European Joint Undertaking for ITER and the Development of Fusion Energy and conferring advantages upon it (2007/198/Euratom) as amended on 10 February 2015, and in particular the Annex III to the Statutes of the European Joint Undertaking for ITER and the Development of Fusion Energy;

Having regard to the Financial Regulation of the European Joint Undertaking for ITER and the Development of Fusion Energy adopted by its Governing Board on 2 December 2015, Chapter 7 – Internal Auditor, in particular Article 84 thereof;

Having regard to the International Standards for the Professional Practice of Internal Auditing (Standards) as revised in October 2012, in particular the Attribute Standards 1000 and 1010;

Having regard to the Charter of the Audit Committee of the European Joint Undertaking for ITER and the Development of Fusion Energy as adopted by the Governing Board and entered into force on 28/03/2012;

Having regard to the Mission Charter of the Internal Audit Capability of Fusion for Energy adopted by the Governing Board on 25/10/2011;

Having regard to the Mission Charter of the Internal Audit Service of the European Commission in relation to Fusion for Energy adopted by the Governing Board on 25/10/2011;

Having regard to the Mission of Internal Audit and the Model Internal Audit Capability Charter of the Institute of Internal Auditors as revised on May 2013;

Whereas the Governing Board or, where the Constituent instrument allows it, a body delegated by the Governing Board shall establish, with due regard to cost effectiveness and added value, an internal audit capability which shall perform its duties in compliance with the relevant international standards;

Whereas the purpose, authority and responsibility of the internal audit capability shall be provided for in the internal audit charter and shall be subject to the approval of the Governing Board, or, where the Constituent instrument allows it, a body delegated by the Governing Board.

THE GOVERNING BOARD OF FUSION FOR ENERGY HAS ADOPTED THIS DECISION:

Article 1

The Governing Board of Fusion for Energy adopts the Charter of the Internal Audit Capability of Fusion for Energy, which is attached to this decision.

Article 2

This Charter supersedes the Mission Charter of the Internal Audit Capability of Fusion for Energy adopted by the Governing Board on 25/10/2011

Article 3

This Decision shall have immediate effect.

CHARTER OF THE INTERNAL AUDIT CAPABILITY OF FUSION FOR ENERGY

This charter sets out the mission, objectives, reporting lines, authority and responsibility of the Internal Audit Capability (IAC), and the basic working arrangements essential for the IAC to properly fulfil its role in accordance with the relevant legal basis, the relevant international standards and in the interests of F4E.

1. PROFESSIONALISM

The IAC shall adhere to *the Definition of Internal Auditing, the Code of Ethics, the Core Principles and the International Standards for the Professional Practice of Internal Auditing* as drawn up by the *Institute of Internal Auditors*. Such professional standards will be applied in accordance with regulations applicable to F4E staff. In the event of discrepancies, requirements originating from decisions taken by the Governing Board and EU regulations shall take precedence.

2. MISSION AND OBJECTIVES

The mission of the IAC is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

IAC provides independent, objective assurance and consulting services designed to add value and improve F4E's operations. IAC helps F4E to accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and make recommendations for improving the effectiveness of governance, risk management and control processes¹. Thereby it promotes a culture of efficient and effective management within F4E and its departments.

- **Assurance** is an objective examination of evidence for the purpose of providing an independent assessment of effectiveness of risk management, control and governance processes. 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 Director, are intended to add value and improve F4E's governance, risk management and control processes without the internal auditor assuming management responsibility.

¹ Including promoting appropriate ethics and values within the organisation, ensuring effective organisational performance management and accountability, quality assurance, effectively communicating risk and control information to appropriate areas of the organisation.

The primary **objective** of the IAC is to provide F4E with **assurance** as to the effectiveness and efficiency of the risk management, control and governance processes, with special reference to the following aspects:

- Risks are appropriately and continuously identified and managed,
- Significant financial, managerial and operating information is accurate, reliable and timely,
- F4E, and where appropriate, the Community policies, procedures and applicable laws and regulations are complied with,
- F4E's objectives are achieved effectively and efficiently,
- The development and maintenance of high-quality control processes are promoted throughout F4E.
- F4E's assets are safeguarded and its resources are effectively and efficiently employed

3. ACCOUNTABILITY AND REPORTING

In the meaning of Article 84 of F4E's Financial Regulation, the IAC performs its work under the authority of the Governing Board and the Director of Fusion for Energy.

The IAC shall report to the Director significant issues related to the audited activities of F4E, including potential improvements to its processes, in the form of individual engagements reports and of annual reports.

The IAC shall present its assurance engagement reports and annual reports, once in the final status, to the Audit Committee² of F4E. At the request of the Director or of the Audit Committee, the Head of IAC may also present the assurance engagement reports to the Governing Board.

The Head of IAC shall report at least annually to the Governing Board on the mission of the IAC, authority and responsibility and performance in relation to the audit plan. The annual report shall include, on the basis of the nature and scope of the work of the IAC performed during the year, an opinion on F4E's overall system of internal control. Reporting should also include significant risk exposures and control issues, corporate governance issues, quality assurance and other matters needed or requested by F4E.

² Established by decision of the Governing Board F4E(10)-GB16-19b of 10 June 2010; or any other supervisory committee established, or to be established, by the Governing Board that may take over the tasks of the Audit Committee.

4. INDEPENDENCE AND OBJECTIVITY

No authority may interfere in the conduct of the IAC audits, or ask the IAC to make any alterations to the content of audit reports. The IAC shall confirm annually to the Governing Board the organisational independence of the internal audit activity³.

Internal Auditors should maintain an unbiased and impartial mind-set in regard to all engagements. In order to ensure objectivity in their opinions and avoid conflict of interest, the IAC and its staff must preserve their independence in relation to the activities and operations they review⁴. If their objectivity is impaired in fact or in appearance, the details of the impairment should be disclosed.

If the Head of IAC considers it necessary, he/she may address himself/herself directly to the Chair of the Audit Committee or directly to the Chair of the Governing Board.

The IAC, as part of a body possessing legal personality and responsible for managing Euratom participation in an international research project of public interest, will apply the standard arrangements concerning inter-institutional relations, with special reference to the dissemination and disclosure of information.

5. RESPONSIBILITY

The Head of IAC of F4E has responsibility to:

- Develop and establish the internal audit procedures.
- Develop and adopt an annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management and submit these plans as well as periodic updates to the Director for review, to the Audit Committee for recommendation and to the Governing Board for approval.
- Liaise with of the European Commission, EU Agencies and Community bodies, in particular in the context of existing professional networks, for the purpose of exchanging best practice.

³ Refer to IIA standards 1100 on Independence and Objectivity and 1110 and 1110.A1 on Organizational Independence.

⁴ Refer to IIA standards 1120 on Individual Objectivity and 1130 on Impairments to Independence or Objectivity

- Coordinate audit planning with the Internal Audit Service of the European Commission (IAS), the European Court of Auditors (ECA), and any provider of assurance to the F4E Director, where and insofar such coordination appears necessary for the purpose of overall efficiency, ensuring proper audit coverage and while minimising duplication of efforts.
- Implement the annual audit plan, as originally approved or updated, including as appropriate any special tasks or projects requested by the Director.
- Monitor the follow-up process of internal audit related recommendations in order to assure that these have been implemented or that the risk of not taking action has been accepted.
- Develop and maintain the quality assurance programme that covers all internal audit activities and continuously monitor its effectiveness. This programme includes professional development, periodic internal and external quality assessments and ongoing internal monitoring.
- Ensure that the resources of the IAC are deployed appropriately, and effectively to meet the requirements of the annual work plan.
- Promptly validate its findings and discuss its recommendations with the auditee. The auditee's position should be reflected in the final audit report, particularly in the case of disagreement and provided that the auditee's formal reply was received within the agreed timeframe.
- Develop a continuous dialogue with the auditee, to ensure the relevance of the findings and the quality and feasibility of the recommendations for action to be taken. This dialogue should be concluded by means of an exit meeting with the auditee and the Director or Head of Department concerned, when the main findings and recommendations are presented.
- Effectively and timely communicate results of audit engagements (assurance and consulting) to the Director.
- Formally communicate in writing to the Director and to the Audit Committee where the IAC believes that F4E management has accepted an unreasonably high level of risk.
- Report any suspected fraudulent activities within F4E to the Director, the Audit Committee and OLAF⁵ following the applicable procedures.
- Respect confidentiality with regard to the information gathered from the audit and consultancy engagements performed.

⁵ In compliance with Art 22bis Staff Regulation and F4E (07)-GB03-08: Decision of the Governing Board on the accession of the European Joint Undertaking for ITER and the Development of Fusion Energy to the inter-institutional agreement of 25 May 1999 between the European Parliament, the Council and the Commission concerning internal investigations by the European Anti-Fraud Office (OLAF).

- Disclose and explain any failing or inability to meet and comply with the requirements of this charter in the annual work plan and/or annual activity report.
- Exercise management upon the staff recruited for any function within the IAC.
- Ensure and maintain audit staff competence and professional development, in particular through obtaining and maintaining certifications and training

6. AUTHORITY

The Head of IAC and his/her staff are authorised to:

- Have unrestricted access to all functions, information systems, records, property and personnel of F4E, as considered necessary for the fulfilment of their duties.
- Obtain the necessary assistance of all F4E staff and members of the Governing Board, Bureau, Procurement and Contracts Committee, Technical Advisory Panel, Administration and Finance Committee, Audit Committee and other body established by F4E and/or its Governing Board.
- Allocate resources, select subjects, determine the scope of work and apply the techniques required to accomplish audit objectives.

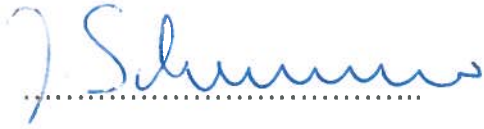
The Head of IAC and his/her staff should:

- Be informed at an early stage about the development of new systems and changes to existing systems that may substantially affect the F4E's internal control system.
- In general, be timely informed about any developments which are likely to impact on the F4E risk profile or substantially affect its internal control system.

The Head of IAC and his/her staff are **not** authorised to:

- Perform any operational duties for F4E.
- Initiate or approve financial transactions.
- Direct the activities of F4E staff not employed within the service of the IAC, except to the extent such staff members have been appropriately assigned to auditing teams or to otherwise assist the IAC.

Done at Barcelona, 2 December 2016



A handwritten signature in blue ink, appearing to read 'J. Schumacher', written over a horizontal dotted line.

The Director



A stylized handwritten signature in blue ink, written over a horizontal dotted line.

The Head of IAC



A handwritten signature in blue ink, appearing to read 'Brian Coan', written over a horizontal dotted line.

The Chair of the Audit Committee



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The Chair of the Governing Board.