



**NOTE TO THE MANAGEMENT BOARD ON THE ESTABLISHMENT OF AN
AUDIT COMMITTEE**

At its meeting of October 2005, the Management Board discussed the establishment of an Audit Committee and decided to act as an interim Audit Committee until such Committee has been instituted. This note is aimed at clarifying the roles of the internal and the external auditors and at outlining, in particular, the role of the Audit Committee.

I - ROLES OF THE INTERNAL AND EXTERNAL AUDITORS

1) Internal Auditor

Regulation

The internal auditor role is defined in EFSA Financial Regulation adopted on 13th October 2003 by the Management Board¹ and in the Financial Regulation applicable to the general budget of EC².

Role of the Internal Auditor

The mission of the Internal Auditor within EFSA is to give assurance to the Executive Director and to the Management Board as to the adequacy and effectiveness of the Authority's internal control systems. EFSA's internal control system comprises all internal controls³, financial and otherwise, established by management in order to achieve its objectives, adherence to policies, safeguard assets and secure as far as possible the completeness and accuracy of all records and documents.

The auditor shall advise the Authority on dealing with risks, by issuing independent opinions on the quality of management and control systems and by issuing recommendations for improving the efficiency of management.

Responsibility for the implementation of audit recommendations rests fully with management under the ultimate responsibility of the Executive Director.

The Auditor follows-up the actions taken by EFSA in response to the audit recommendations.

Internal auditor's engagements and charter

The Internal Auditor will prepare a Forward Audit Plan (2006-2008) and an Annual Internal Audit Plan, with the aim of covering, as far as possible, all areas of EFSA activity over the course of a three year period.

An Audit Charter will also be adopted to formalise within a practical framework, the independence and mandate of the Internal Auditor, and so to avoid their arbitrary application.

¹ Chapter 7 of Title IV and Title XII of Implementing Rules (See *Annex 2*)

² Chapter 8 (Art. 85 to Art .87) of Council Regulation 1605/2002 dated 25th June 2002

³ Internal control is defined as all the policies and procedures conceived and put in place by EFSA to ensure the economical, efficient and effective achievement of objectives: the adherence to external rules (laws, regulations etc.) and to management policies; the safeguarding of assets and information; the prevention and detection of fraud and error and the quality of accounting records and the timely production of reliable financial and management information.

Once approved by the Executive Director, draft plans and the Audit Charter will be submitted to the Management Board for endorsement in January 2006. Once the Audit Committee is set-up, the Audit Plans will be approved by the Executive Director following review by the Audit Committee.

The engagements to be performed by the Internal Auditor would mainly consist of the following audits:

- Financial audit (to determine whether the overall financial statements are stated in accordance with generally accepted accounting principles) ;
- Operational audit (a review of any part of EFSA's operating procedures and methods for the purpose of assessing efficiency, effectiveness and economy)
- Compliance audit (to determine whether EFSA respects specific procedures or rules applicable)
- Informatics audit (audit of IT and related systems)
- Integrated audit (a combination of the above audits)

2) **Internal Audit Service and European Court of Auditors (IAS, ECA)**

IAS

The Internal Audit Service (IAS) is a structure giving support and advice to the European Commission as regards to its activities across all Directorates – General, Services and Agencies (including EFSA). While the internal audit structures of the individual departments are intended to provide a service tailored to the specific needs of the authority to which they report. That is to say, IAS will perform standard audits (implementation of internal control standards for instance) whereas the Internal Auditor is aimed at performing audits more closely related to mission and tasks of EFSA (e. g: processes for EFSA scientific opinions).

ECA

As per Article 248 of the Treaty, the European Court of Auditors (ECA) shall assist the European Parliament and the Council in exercising their powers of control over the implementation of the budget. In this context, the ECA shall scrutinise the accounts of the Authority. It shall draw up an annual report after the close of each financial year which shall be forwarded to the other institutions of the Community and shall be published, together with the replies of these institutions to the observations of the Court of Auditors, in the Official Journal of the European Union. The ECA may also, at any time, submit observations, particularly in the form of special reports, on specific questions and deliver opinions at the request of one of the other institutions of the Community.

A part of the *Internal Auditor's* tasks is to co-operate and liaise with both IAS and ECA and to follow-up the actions taken by EFSA in response to their audit recommendations.

II - THE AUDIT COMMITTEE

1) Role of the Audit Committee

The Audit Committee assists the Management Board by ensuring that the work of EFSA Internal Auditor, Internal Audit Service (IAS) and of the European Court of Auditors (ECA) is properly conducted and taken into account by the Management Board and the Executive Director and receives appropriate follow-up. It also guarantees the independence and objectivity of the Internal Auditor.

The main tasks of EFSA Audit Committee would be:

- to examine the Audit Plans and make proposals to the Internal Auditor to carry out audits where a particular need is perceived ;
- to follow-up implementation of audits and assess internal audit quality and control systems of the Authority ;
- to monitor action taken by EFSA in response to analyses, assessments and recommendations of internal and external auditors (ECA for instance) ;
- to ensure appropriate communication between itself and EFSA Management Board on the follow-up given by EFSA to the different audits, the quality of internal audit work and its own activities.

The Audit Committee is not responsible for the implementation of audit recommendations which rests fully under the ultimate responsibility of the Executive Director.

A Charter of the Audit Committee is also to be agreed in order to define the role, the composition, the organisation and the responsibilities of the Committee. (See proposal of Audit Committee Charter on *Annex I*).

2) Membership and attendance

The Audit Committee should comprise three members from the Management Board. To ensure adequate liaison with the Internal Audit Service (IAS), it is suggested to have a staff member of IAS sit on the Committee on a permanent basis. Furthermore, it is also suggested that a member of EFSA staff sits on the Audit Committee in order to bring a broad overview on EFSA's activities and audit matters. (Alternatively, the Committee could comprise 2 members from the Management Board and 2 members from EFSA staff, in addition to the IAS representative). The members will be appointed for a term of two years renewable once.

Meetings of the Audit Committee will be held at least three times per year or more frequently as circumstances require. Secretariat of the Audit Committee will be provided by EFSA Internal Auditor.

Annexes

Annex 1 : Proposed Charter of EFSA Audit Committee

Annex 2.I, 2.II : Regulation