

ORGANISATION EUROPÉENNE POUR LA RECHERCHE NUCLÉAIRE
CERN **EUROPEAN ORGANIZATION FOR NUCLEAR RESEARCH**

Action to be taken

Voting Procedure

For information	FINANCE COMMITTEE 359 th Meeting 15 March 2017	-
For approval	RESTRICTED COUNCIL 184 th Session 16 March 2017	Two-thirds majority of all the Member States

**TERMS OF REFERENCE FOR A
CERN AUDIT COMMITTEE**

**SUBMITTED BY THE
STANDING ADVISORY COMMITTEE ON AUDITS (SACA)**

Pursuant to Article V, paragraph 12, of the CERN Convention, the Council is invited to approve the Terms of Reference for a CERN Audit Committee, set out in the annex of this document, this Committee replacing the Standing Advisory Committee on Audits (SACA) and its Terms of Reference replacing those of SACA (set out in CERN/2883/Rev. 2).

The Council is further invited to transfer the appointments of the incumbent members of SACA *mutatis mutandis* to the CERN Audit Committee.

TERMS OF REFERENCE FOR A CERN AUDIT COMMITTEE

As explained in the Whiter Paper submitted to the Council at its December 2016 Session, the Standing Advisory Committee on Audits (SACA) has invested considerable time over the past two years in reviewing its Terms of Reference in order to align them with best practice with respect to audit committees and thus to allow it to provide the Council with the optimum level of assurance in the audit domain. For the purposes of the review, SACA referred closely to the Institute of Internal Auditors' "Model Public Sector Audit Committee Charter"¹ and adapted the contents to the CERN context.

Audit committees are of prime importance to public organisations and constitute an essential component of good and efficient governance. They use a suite of assurance tools, focussing not only on financial audits but also on a variety of other factors that influence the risk landscape of the organisation concerned, in order to provide the governing body with objective advice and recommendations and to build trust and confidence in how the organisation is managed. The importance of independent and impartial audit committees to public-sector organisations is widely recognised, and their existence has become standard practice the world over.

It should be recalled that the CERN Council first established an audit committee (the "CERN Audit Committee") in 2002² with a view to obtaining independent advice on emerging risks. This audit committee was subsequently replaced by SACA in 2009³. The latest review of SACA's aims and purposes has led SACA to the conclusion that, in order to receive optimum assurance in the audit domain, the Council should establish a "CERN Audit Committee" with appropriate terms of reference. This new Committee, with its Terms of Reference, would succeed SACA and the latter would, thus, cease to exist.

The proposed Terms of Reference for a new CERN Audit Committee, set out in the annex of this document, would enable the Committee to direct its activities towards interacting with the internal audit services of CERN and the Pension Fund respectively, as well as with the External Auditors, and at the same time to advise the Council on audit matters and to provide it with assurance that adequate control mechanisms to mitigate risk are in place throughout the Organization.

During the Council's discussion of the White Paper submitted in December 2016, it was emphasised that the workload of the proposed CERN Audit Committee would remain essentially unchanged compared with that of SACA and would not increase the workload of the CERN Management and key services of the Organization.

As requested by the Council at its December 2016 Session, SACA herewith submits a formal proposal for the Terms of Reference for a new CERN Audit Committee to take effect immediately upon Council approval. The appointments of the incumbent members of SACA would transfer *mutatis mutandis* to the new Committee.

¹ <https://global.theiia.org/standards-guidance/Public%20Documents/Independent-Audit-Committees-in-Public-Sector-Organizations.pdf>

² Establishment of an Audit Committee CERN/2471

³ CERN Audit Committee - Future Terms of Reference and Name - Proposal by the President of Council and the Chairman of the Finance Committee CERN/SPC/939 CERN/FC/5406 CERN/2883

Proposal:

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Annex

CERN Audit Committee Terms of Reference

I - General remit and Authority

1. The CERN Audit Committee (hereinafter referred to as “the Committee”), a subordinate body established by the Council in accordance with Article V, paragraph 12, of the CERN Convention, provides oversight of the Organization’s⁴ governance, risk management and internal control arrangements. The Committee assists the Council by providing independent, objective advice and guidance on the adequacy and effectiveness of the Organization’s arrangements in the following areas:
 - a) Governance structure;
 - b) Risk management;
 - c) Values and ethics;
 - d) Internal control framework;
 - e) Oversight of internal and external audit;
2. The advice and guidance to be provided by the Committee may include opinions, suggestions and recommendations relating to these arrangements.
3. In the discharge of its responsibilities, the Committee has access to CERN employees and information, including records, data, and reports.
4. The Director-General of CERN and the Chief Executive Officer of the Pension Fund respectively provide the Committee with all information at their disposal and provide all the support it may require to fulfil its remit.

⁴ “Organization” hereinafter refers to CERN and its Pension Fund.

II – Detailed Responsibilities

5. The responsibilities of the Committee are the following:

a) Governance structure

6. To obtain reasonable assurance with respect to the Organization's governance arrangements, the Committee reviews and provides advice on the governance arrangements established and maintained within the Organization and the procedures in place to ensure that they are operating as intended.

b) Risk management

7. To obtain reasonable assurance with respect to the Organization's risk management arrangements, the Committee:

- receives reports on risk management;
- provides oversight on significant risk exposures and control issues, including fraud, governance and other matters needed or requested by the Council;
- reviews and provides advice on the risk management arrangements established and maintained by the CERN Management and the Pension Fund Management and the procedures in place to ensure that they are operating as intended;
- annually reviews the Organization's risk profile.

c) Values and ethics

8. To obtain reasonable assurance with respect to the Organization's values and ethics practices, the Committee:

- reviews and assesses the policies, procedures, and practices established by the competent bodies of the Organization to monitor compliance with its codes of conduct and ethical policies by all managers and other contributors of the Organization;
- reviews and assesses the mechanisms established by the CERN Management and the Pension Fund Management to ensure and maintain high ethical standards for all managers and other contributors of the Organization.

d) Internal control framework

9. To obtain reasonable assurance with respect to the Organization's internal control framework, the Committee:
- reviews and provides advice on the Organization's internal control framework and the application thereof;
 - receives reports on all matters of significance arising from work performed by others who provide financial and internal control assurance to the CERN Management, the Pension Fund Management and the Council.

e) Oversight of internal and external audit

i) Internal audit

10. To obtain reasonable assurance with respect to the work of the internal audit activity at CERN and its Pension Fund, the Committee:
- reviews and approves the internal audit charters of the internal audit services at least annually to ensure that they are consistent with changes in the financial, risk management, and governance arrangements of the Organization and reflect developments in internal audit professional practices;
 - reviews proposed risk-based internal annual audit work plans and makes recommendations concerning internal audit projects;
 - advises the Director-General and all relevant parties regarding the qualifications, recruitment, retention and release of the Head of the CERN Internal Audit service;
 - provides an opinion on the performance of the internal audit services to the CERN Management and the Pension Fund Management;
 - comments on the resources available to the internal audit services;
 - receives internal audit reports and other assurance reports provided to the CERN Management and the Pension Fund Management;
 - is informed of any special investigations and other non-audit activities performed by the internal audit services and of the human resources used;
 - reviews and tracks the action plans of the CERN Management and the Pension Fund Management to address internal audit recommendations;
 - receives an annual report on the internal audit activities;

- reviews and provides input on internal audit services’ strategic plans, programme goals, performance measures, and outcomes;
- checks that the internal audit services have an internal quality assurance review every second year and an external quality assurance review at least every five years;
- reviews the results of the independent external quality assurance review and monitors the implementation of the action plans to address recommendations made;
- advises the Council of any recommendations concerning the continuous improvement of the internal audit activity.

ii) External audit

11. To obtain reasonable assurance with respect to the work of the External Auditors, the Committee meets with the External Auditors during the planning of their interim and year-end audits and prior to their presentation to the Council of the audited financial statements and of their recommendations to the CERN Management and Pension Fund Management.
12. The Committee advises the Council on the appointment and renewal of the External Auditors.
13. The Committee is responsible for oversight of the independent audit of the CERN and the Pension Fund’s financial statements by the External Auditors, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance and ethics.

f) Follow up on Management action plans

14. To obtain reasonable assurance that the CERN Management and the Pension Fund Management have acted on the observations and recommendations from internal and external audit, the Committee reviews regular reports on the progress of implementing approved Management action plans and audit recommendations resulting from audit activities.

g) Other responsibilities

15. In addition, the Committee:
 - performs any other activities within its remit, as requested by the Council;
 - institutes and oversees special investigations, as requested by the Council;

- regularly evaluates the performance of the Committee.

III – Membership, qualifications and requirements

a) Membership

16. The Committee is composed of a minimum of four and a maximum of six members comprising:

- a) the Chair of the Finance Committee,
- b) Council delegate(s) appointed by the Council (at least one),
- c) experts appointed by the Council (at least two).

17. The Committee is chaired by the Chair of the Finance Committee.

18. Following a call for applications, experts are appointed by the Council upon proposals by the Committee made in consultation with the President of Council.

19. The term of office of members of the Committee is three years. An extension for a maximum additional period of two years may be approved by the Council.

b) Qualifications

20. The members of the Committee should collectively have the skills, knowledge and experience needed to fulfil the Committee's remit (e.g. previous responsibilities in the management of research laboratories or international organisations, audit functions, financial expertise, etc.).

c) Requirements

21. The members of the Committee act independently and in the best interest of the Organization.

22. As CERN contributors, subject to the CERN Code of Conduct, the members of the Committee act, in particular, with integrity and professionalism.

23. The members of the Committee are responsible for disclosing any conflict of interest or the appearance of a conflict of interest, as follows:

- for the Chair referred to in paragraph 16 a): to the President of Council;
- for the members mentioned in paragraphs 16 b) and c): to the Chair.

24. The Organization strives to provide the members of the Committee with orientation and training on the purpose and remit of the Committee and on the Organization's mission, activities and legal framework.

IV - Meetings and Attendance

d) Conduct of meetings

25. The Committee meets at least four times a year and may convene additional meetings as required.
26. The Committee establishes an annual work plan for the upcoming year to ensure that its work is scheduled and will be carried out.
27. For the Committee to meet, the quorum is a majority of its members.
28. The Chair prepares the meeting agendas in consultation with the other Committee members.
29. At any time during a meeting, a Committee member may request that specific items of the agenda be discussed in a closed operating mode, with restricted attendance.
30. The Committee may hold private sessions with the Director-General, CERN employees or external assurance providers, as appropriate.
31. The Committee strives to reach decisions by consensus. Where consensus cannot be reached, decisions are taken by a majority of its members taking part in the meeting. Should the votes be equally divided, the Chair has the casting vote.
32. Minutes are prepared in accordance with the established procedures for the minutes of the Council and its subordinate bodies.
33. The Head of the CERN Internal Audit service (or another appropriate designee) facilitates and coordinates meetings, and provides ancillary support to the Committee.

34. The costs incurred by the members of the Committee for their participation in its meetings are borne by CERN in accordance with the rates and conditions laid down in CERN's Staff Rules and Regulations.

35. All documents and information submitted to or produced by the Committee remain confidential unless otherwise determined. Members of the Committee acknowledge their individual obligation to maintain confidentiality, in writing at the time of their appointment.

a) Attendance

36. In addition to the members of the Committee, the President of Council may attend the meetings.

37. The following persons attend, at the invitation of the Chair, all or part of the meetings:

- a) the CERN Legal Counsel;
- b) the Head of the CERN Internal Audit service;
- c) any other person whose attendance is deemed necessary.

V- Reporting

38. The Committee makes an annual report to the Council summarising its activities and gives regular updates as appropriate.