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## **EUROPEAN PATENT OFFICE CHARTER FOR INTERNAL AUDIT AND OVERSIGHT<sup>1</sup>**

### **Part I Introduction**

- 1) The Internal Audit and Oversight function is recognised as an important element of corporate governance in the European Patent Organisation (hereinafter referred to as "the Organisation"). This Internal Audit and Oversight Charter (hereinafter referred to as "the Charter") defines the purpose, scope, authority and responsibilities of Principal Directorate Internal Audit and Oversight (hereinafter referred to as "PDIAO") in the European Patent Office (hereinafter referred to as "the Office").

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### **Part II Mission**

- 2) The mission of PDIAO is to provide independent, objective assurance services designed to add value and improve the compliance, performance and quality of operations. It helps the Organisation to accomplish its objectives by bringing a systematic, disciplined approach to appraise and improve the effectiveness of risk management, control and governance processes.

### **Part III Scope of work**

- 3) PDIAO encompasses the following functions:
- Internal Auditing: the examination and appraisal of the adequacy and effectiveness of internal control systems and the quality of performance in carrying out assigned responsibilities.  
  
In particular, Internal Auditing carries out thorough and systematic examinations to establish whether:
    - risks are appropriately identified and managed,
    - all relevant provisions of the Organisation are being observed,
    - the President's directives and objectives are being implemented properly and effectively,
    - the internal control system and the information and operational systems are comprehensive and reliable,
    - the assets being administered are properly recorded and sufficiently protected,
    - liabilities and commitments are properly recorded,

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<sup>1</sup> Decision of the President from 17.01.2013.

- operational procedures (including financial transactions) conform to the principles of efficiency, economy and effectiveness,
- quality and continuous improvement are fostered,
- ethics and values are promoted inside the Organisation,
- accountability is ensured.

Internal Auditing may also provide advisory/consultancy services on issues concerning corporate governance, internal controls and other related matters.

- Investigations: carrying out investigations of alleged misconduct, including harassment, in accordance with Circular No. 342, Guidelines for investigations at the EPO. This Circular includes all details of the investigative process, procedures and reporting. These details are not repeated in this Charter.
- Quality Audit: monitoring the conformance to both the requirements for the Office's products, as set out in the European Patent Convention and the respective Guidelines and other instructions, and to the Quality Management System. These details are not repeated in this Charter.
- Compliance and risk assurance services and audits in the area of the Reserve Funds for Pensions and Social Security (hereinafter referred to as "the Funds"), in accordance with the Regulations of the Funds. These details (including planning, procedure and reporting) are not repeated in this Charter.
- Other assurance services (as specified by the President).

#### **Part IV**

### **Authority and responsibilities**

- 4) As part of the Office, PDIAO shall operate on the basis of the Organisation's regulations, complemented by the provisions set out in this Charter and generally recognised professional standards<sup>1</sup>, as well as a Code of Ethics (see Annex).
- 5) PDIAO's work shall be carried out on the President's behalf (or on behalf of the Supervisory Board of the Funds). The Head of PDIAO shall report administratively to the President, be directly subordinate to him alone and be answerable to him for disciplinary purposes.
- 6) The risk assurance and compliance officer functions of the Funds shall report solely to the Head of PDIAO. For this purpose, due to the prerogatives of the Fund Administrator and of the Supervisory Board of the Funds, the functional reporting line for the Head of PDIAO when dealing with Funds-related matters shall be to the Supervisory Board of the Funds.

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<sup>1</sup> The Internal Auditing function performs its audits according to its generally recognised professional standards, namely the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

This shall apply in particular to audit plans and audit reports. (Resources for this task will be allocated by the President to the PDIAO as appropriate, taking into account proposals from the Supervisory Board of the Funds.)

- 7) In the framework of their mission, PDIAO staff members and any person duly assigned by the Head of PDIAO shall have unrestricted rights to carry out examinations throughout the Office (and also in relation to the Funds) and unrestricted access to all personnel, operational facilities and documents.
- 8) The Office's staff members shall have a duty to fully co-operate with PDIAO.
- 9) The Head of PDIAO shall have no authority to issue operational instructions. PDIAO staff members shall not engage in operational duties nor in any work which would compromise their function of independent objective appraisal and report.

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## **Part V**

### **Internal Auditing planning, reporting and follow-up**

- 10) PDIAO's responsibilities in carrying out the Internal Auditing function for the Funds are described in the Regulations of the Funds. The remaining paragraphs of Part V. refer solely to Internal Auditing in relation to the Office.
- 11) For Internal Auditing activities in relation to the Office, the Head of PDIAO shall submit annually to the President his proposals for a risk-based Medium Term Plan which shall cover a three-year period on a rolling basis and an Annual Programme which shall be reviewed and decided upon annually by the President in the light of available resources. The Annual Programme shall be consistent with the Medium Term Plan.
- 12) In preparing the Medium Term Plan and the Annual Programme, the Head of PDIAO shall seek the views of the Vice-Presidents of the Office and shall consult with those who have operational responsibility for the core systems of control in the Office.
- 13) The Head of PDIAO shall also, without prejudice to the independence of the Board of Auditors, seek to ensure that internal audit work is effectively co-ordinated with the work of the Board of Auditors.
- 14) The Medium Term Plan and the Annual Programme submitted by the Head of PDIAO to the President shall, in accordance with Article 77 FinRegs, be sent to the Board of Auditors.
- 15) The President shall endorse the Medium Term Plan and the Annual Programme submitted by the Head of PDIAO or shall justify his refusal to endorse them in part or in full.
- 16) The President may, at any time, require the Head of PDIAO to amend the Medium Term Plan or the Annual Programme and to undertake a

specific internal audit task/investigation. The Head of PDIAO shall send any amended Medium Term Plan and Annual Programme to the Board of Auditors.

- 17) The Head of PDIAO shall send to the Board of Auditors all internal audit reports in accordance with Article 77 FinRegs.
- 18) Internal audit reports shall be submitted to the President for decision on the recommendations. The Head of PDIAO shall, unless he considers that it would be inappropriate in any particular case, forward a copy of the internal audit report to the head of any unit which has been the subject of an internal audit and to the relevant Vice-President.
- 19) Any recommendation made in an internal audit report and not implemented by the date of the report to the President shall include the designation of the unit responsible and a recommended date for its implementation.
- 20) In case of refusal or amendment of a recommendation, the President shall inform the Head of PDIAO of the reasons.
- 21) Implementation of any recommendation accepted by the President, or directed by him to be implemented in amended form, shall belong to the responsibility and accountability of the implementing unit.
- 22) Any recommendation shall, after the relevant implementation date has passed, be the subject of a follow-up report to the President.

## **Part VI Independence**

- 23) The activities of the PDIAO as described in this Charter must be free from interference.
- 24) The Head of PDIAO shall report only to the President (except for the duties specified above on behalf of the Supervisory Board of the Funds) and shall attend the meetings of the governing bodies (such as the Administrative Council, the Budget and Finance Committee and the Supervisory Board of the Funds).
- 25) PDIAO shall at the end of each year prepare a report covering the activities of the year and confirming whether the organisational independence of Internal Audit and Oversight, in accordance with this Charter, has been maintained. PDIAO shall submit this report to the President, with a copy to the Board of Auditors.

## **Part VII Proficiency**

- 26) PDIAO staff members must enhance their knowledge, skills and other competence through continuing professional development.

## Code of Ethics

### Principles

The Head of PDIAO, the internal auditors and any person duly assigned by the Head of PDIAO are expected to apply and uphold the following principles:

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#### 1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

#### 2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

#### 3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

#### 4. Competency

Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

### Rules of Conduct

#### 1. Integrity

Internal auditors shall:

- 1.1. perform their work with honesty, diligence and responsibility.
- 1.2. observe the law and make disclosures expected by the law and the profession.
- 1.3. not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the Organisation.
- 1.4. respect and contribute to the legitimate and ethical objectives of the Organisation.

#### 2. Objectivity

Internal auditors shall:

- 2.1. not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation

includes those activities or relationships that may be in conflict with the interests of the Organisation.

2.2. not accept anything that may impair or be presumed to impair their professional judgment.

2.3. disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### **3. Confidentiality**

Internal auditors shall:

3.1. be prudent in the use and protection of information acquired in the course of their duties.

3.2. not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Organisation.

### **4. Competency**

Internal auditors shall:

4.1. engage only in those services for which they have the necessary knowledge, skills and experience.

4.2. perform internal audit services in accordance with generally recognised professional standards.

4.3. continually improve their proficiency and the effectiveness and quality of their services.

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**HAVING REGARD TO ARTICLE 72 FINREGS, THE BOARD OF AUDITORS OF THE EUROPEAN PATENT ORGANISATION HAS DRAWN UP THE FOLLOWING RULES OF PROCEDURE:<sup>1</sup>**

**Article 1  
Composition and spokesman**

The Board of Auditors ("the Board") shall consist of three auditors on a footing of equality selected by the Administrative Council ("the Council") on a rota basis and for a minimum period of five years in accordance with Article 49 of the European Patent Convention, Article 71 of the Financial Regulations and the Council's decision of 15 December 1994.

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The Board shall for each calendar year elect a "spokesman" from among its members who shall represent the Board in its dealings with the outside world and also, in particular, the Council and its Committees and the European Patent Office ("the Office"). The spokesman shall also act as the person authorised to accept service on the Board's behalf. The Council and the Office shall be informed accordingly.

**Article 2  
Distribution of tasks**

Before starting work on the annual audit, the Board shall establish a distribution of its tasks amongst its members which shall in any case cover the following areas:

- audit of the annual accounts, including their correlation with the books and a comparison with the budget;
- audit for adherence to the budget and the budgetary provisions;
- audit of the cash and securities on deposit and in hand; comparison of cash holdings with the cash accounts; congruence of the bank accounts with the statements received from the banks;
- spotcheck auditing of vouchers;
- auditing of the internal control system and organisation of bookkeeping and settlements;
- building matters and capital investments;
- electronic data processing (organisation, capital investments and projects);
- pension reserve fund (organisation, internal settlements and investment of funds);
- other auditing tasks.

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<sup>1</sup> See CA/20/95.