

Mr Marc Bellens Head of Unit - External Audits

European Commission DG Research & Innovation M1 ORBN 05/51 1049 Brussels, Belgium

Sent by email: Marc.Bellens@ec.europa.eu

17 December 2013

Ref.: AUD/AAC/HBL/NRO/EBL

Dear Mr Bellens,

Re: Role of the auditor in Certification of Financial Statements and Methodology in Horizon 2020 EC grants

Thank you for meeting FEE on 21 November 2013 to discuss the auditor's Involvement in Horizon 2020 (H2020). At the meeting, it was very interesting to learn more about this new grant scheme and the expected involvement of the auditor thereon.

We would very much appreciate the opportunity to discuss further ways of cooperating and as indicated, FEE is open to help to raise awareness on Horizon 2020 in general and within our profession more particularly. As some of the Horizon 2020 grants are reserved for Small and Medium-sized Entities (SMEs), we are also very keen on being instrumental in 'spreading the message' to SMEs on the opportunities this programme creates specifically for them.

During the meeting, you asked whether we could consider the matters more fully and provide suggested wording improvements to be included in the Horizon 2020 documentation. There are other aspects in the substance – like duty of care, liability and responsibility of tripartite engagement – on which we will not comment in this letter.

As emphasised to you in the course of this meeting, clarity and simplicity would increase the probability that:

- Organisations and auditors will more fully understand their role and responsibilities;
- Organisations will be able to fully comply in a practical manner with the requirements of the model agreement;
- The quality of certificates on methodology and financial statements will be enhanced.





Duty of care

The European Commission has preferred to state that it is not a party to the agreement. However, we believe that auditors accepting this type of engagement will effectively be assuming a duty of care to the European Commission as the European Commission is the party commissioning the engagement and setting the rules on the work effort and reporting. Under ISRS 4400¹, 'the report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results'. As the European Commission does not sign the engagement letter, it should be stated in the engagement letter that the European Commission can rely on the report and use it even though they are not signing the engagement letter.

Assurance versus Agreed-Upon Procedures

As far as the involvement of the auditors with the certificates on methodology and financial statements are concerned, we understood that the European Commission has chosen to go ahead with Agreed-upon procedures for this grant scheme, as was the case under the Framework Programme 7 (FP7). FEE is very appreciative of the European Commission continuing to take this route.

FEE is also very supportive of including in the document a statement noting the limitations of such procedures like 'as this engagement is not an assurance engagement, the auditor does not provide an audit opinion or a statement of assurance' (ISRS 4400 paragraph 18 (j)). It is equally important to add, as required by ISRS 4400 paragraph 18 (k), the following: 'a statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported'.

In addition, we understand that in the draft documents – to which some members of our profession have had access – there are items which ask for an opinion or a positive statement (which is assurance) rather than a statement of factual findings (which results from agreed-upon procedures).

Some of the tests seem to be **designed to give comfort on systems rather than on reporting results or facts**. Providing a positive statement in the way in which the European Commission suggests would require the auditor to carry out **sufficient tests to enable him to make such a judgement** (which can only be provided under an assurance engagement). It should also be clear in the wording of the detailed procedure to be carried out that **the tests are applicable to the sample selected only** and are not meant to be an extrapolation of the results to the entire population – which is not a factual finding report.

http://www.ifac.org/sites/default/files/downloads/b015-2010-iaasb-handbook-isrs-4400.pdf

¹ International Standard on Related Services (ISRS 4400) 'Engagement to perorm agreed-upon procedures regarding financial information' available at:



In order to illustrate our concerns, we have provided some examples of these issues below. As currently drafted parts of the text comply with an agreed-upon procedure engagement, but other parts would need some amendment. FEE would be happy to provide more detailed suggestions as to where it perceives a need for clarification of the exact wording, if so desired. In continuing our exchanges about the H2020 guidelines, we could assist the development of transparent and clear guidance that results in high quality and efficient audit work.

Terminology

With the risk of being seen as too 'biblical', we would like to raise awareness about the following misleading terminology that could lead to practical issues and potential inconsistencies in the work performed by the auditor, especially in the context of international professional standards:

- Certain of the detailed procedures appear to expect that the auditor uses his/her professional judgment and concludes. In agreed-upon procedures, the auditor should not and does not conclude. It is up to the users of the report to assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor's work. For instance, the auditor compares the information to be reported with supporting documentation and describe the documentation used in the factual finding report.
- The use of the term "review" is inappropriate in an agreed-upon procedure engagement since it suggests that a review engagement, which concludes by giving limited assurance, has been performed. It also does not comply with the requirements of ISRS 4400. "Review" could be replaced by "examined", "compared to", or "checked".
- The description of the procedures should be sufficient for the auditor to clearly understand the nature and extent of the work effort to be performed. For instance:
 - Stating that the 'reasonableness of the personnel costs has to be reviewed' de facto includes judgment. This is inappropriate in an ISRS 4400 assignment as it is not a factual finding.
 - Stating that 'all necessary documents have been reviewed' suggests that the auditor should decide what documents are appropriate.

Other similar issues have been reported to us by our Member Bodies. Such wording is in contradiction with the overall objective of the mission. In the framework of agreed-upon procedures, we cannot expect the auditor to decide which procedures have to be performed: the auditor is not responsible for the suitability or appropriateness of these procedures. This is rightly stated in the terms of reference resulting into a contradiction between the terms of reference and the annex with procedures.





International framework

Standards such as ISRS 4400 are produced by the International Auditing and Assurance Standards Board² (IAASB) – which is an independent board of IFAC and not IFAC itself. When referring to this type of standards, it should be clear that it is under the auspices of the IAASB and not IFAC.

In addition, regarding the independence of the auditor from the beneficiary, it may be useful to make reference to the Code of Ethics for Professional Accountants issued by the International Ethics Standard Board for Accountants³ (the IESBA Code) – IESBA being another independent board of IFAC. This reference is included in ISRS 4400.

For further information on this FEE letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Noémi Robert at +32 2 285 40 80 or via email at noemi.robert@fee.be from the FEE Secretariat.

Yours sincerely,

André Kilesse President Olivier Boutellis-Taft Chief Executive

² http://www.ifac.org/auditing-assurance/about-iaasb

http://www.ifac.org/ethics/about-iesba