

Memo technical objections to CFS Horizon Europe programme

Introduction

At the end of 2020 the European Commission adopted the Horizon Europe grant programme. The programme, which replaced the Horizon 2020 programme, refers to the European budget period 2021-2027.

As was also the case with the Horizon 2020 programme, a 'Certificate on the Financial Statements' (CFS) must be provided with the financial statements for a Horizon Europe project, to be issued by a qualified independent (external) auditor, as set out in Article 393 section 1 of the Dutch Civil Code 2 (DCC 2).

The website of the European Commission contains a model for the CFS (V1.1 – 15.03.2023) that is prescribed for this purpose. It prescribes that the auditor must perform specific agreed activities, under application of international standard ISRS 4400 (Revised) *Agreed-Upon Procedures Engagements*. This model has been modified relative to the model used for the Horizon 2020 programme.

Due to technical objections COPRO has advised (<https://www.nba.nl/themas/controleprotocollen/uitkomst-copro-beoordelingen/europese-subsidies/horizon-europe/>) not to use the model that was published in December 2021 and revised in March 2023 in its present form. Below, these objections are set out in more detail.

Technical objections

The model 'Certificate on the Financial Statements' (CFS) published by the European Commission in December 2021 comprises 2 sections:

- the Terms of Reference (ToR);
- the Certificate.

The auditor's product ('Certificate') reports on the outcome of the (agreed upon procedures) activities performed. These activities are described in the ToR, to which the Certificate refers. Use of the model is mandatory.

The following technical objections are raised against the model CFS:

- A) While the ToR provides that the engagement is an ISRS 4400 (revised) engagement, the text of the Certificate includes terms that suggest that an audit or review engagement is performed. This is because the Certificate uses terms like 'verified' and 'certify'. According to ISRS 4400.A34, these terms are not appropriate in the case of an ISRS 4400 engagement. Where in the ToR the activities are listed, it is stated that the auditor 'examined', 'verified', and 'assessed', and terms like 'ensure' and 'audit' are used. These are activities / terms that are associated with an assurance-engagement, rather than with an agreed-upon procedures engagement.
- B) The auditor's report ('Certificate') does not (fully) satisfy the requirements imposed on it by the standard (ISRS 4400.30).

Requirements cf. ISRS 4400.30	To what extent is the model compliant?
The agreed-upon procedures report shall be in writing and shall include:	
(a) A title that clearly indicates that the report is an agreed-upon procedures report;	'Certificate' does not suggest a report on (actual) findings
(b) An addressee as set forth in the terms of the engagement;	√

(c) Identification of the subject matter on which the agreed-upon procedures are performed;	√
(d) Identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report may not be suitable for another purpose;	<p>The purpose of the engagement is not set out in the auditor's report but in the ToR, as follows: "The purpose of the CFS is to provide the EU granting authority with sufficient information to be able to assess whether costs that are declared on the basis of actual costs or costs according to usual cost accounting practices (if any) and, if relevant, also revenues comply with the conditions set out in the Grant Agreement. The engagement is to perform specific agreed-upon procedures to verify the eligibility of the costs claimed under the Grant Agreement."</p> <p>Both the auditor's report and the ToR lacks a phrase such as the following: Our report is solely for the purpose of assisting the European Commission in determining whether the declared costs are compliant with the legal and financial provisions of the Grant Agreement and may not be suitable for another purpose.</p>
(e) A description of an agreed-upon procedures engagement stating that: (i) An agreed-upon procedures engagement involves the practitioner performing the procedures that have been agreed with the engaging party (and if relevant, other parties), and reporting the findings; (ii) Findings are the factual results of the agreed-upon procedures performed; and (iii) The engaging party (and if relevant, other parties) has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement;	These elements are missing.
(f) If applicable, the responsible party as identified by the engaging party, and a statement that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;	This element is missing.
(g) A statement that the engagement was performed in accordance with ISRS 4400 (Revised);	The ToR mentions the standard. The auditor's report refers to the Terms of Reference, but lacks a direct reference to the standard
(h) A statement that the practitioner makes no representation regarding the appropriateness of the agreed-upon procedures;	This element is missing.
(i) A statement that the agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;	The ToR provides: "It is not an assurance engagement; the auditor does not provide an audit opinion, nor express assurance.". The auditor's report does not contain such phrase.
(j) A statement that, had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported;	This element is missing.

(k) A statement that the practitioner complies with the ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;	The ToR includes a reference. The auditor's report refers to the ToR, but does not contain a direct reference to the IESBA Code.
(l) With respect to independence: (i) If the practitioner is not required to be independent and has not otherwise agreed in the terms of engagement to comply with independence requirements, a statement that, for the purpose of the engagement, there are no independence requirements with which the practitioner is required to comply; or (ii) If the practitioner is required to be independent or has agreed in the terms of engagement to comply with independence requirements, a statement that the practitioner has complied with the relevant independence requirements. The statement shall identify the relevant independence requirements;	The ToR states that the auditor is independent of the participant and refers to the IESBA Code's independence requirements. The auditor's report lacks such direct reference.
(m) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1;	This element is missing.
(n) A description of the procedures performed detailing the nature and extent, and if applicable, the timing, of each procedure as agreed in the terms of the engagement;	The auditor's report does not contain a description of the activities (nature, scope, timing). It refers to the ToR in this regard.
(o) The findings from each procedure performed, including details on exceptions found;	The auditor's report solely reports in detail on the exceptions found.
(p) The practitioner's signature;	√
(q) The date of the agreed-upon procedures report; and	√
(r) The location in the jurisdiction where the practitioner practices.	√

C) Pursuant to ISRS 4400.22 an engagement may only be accepted if the activities to be performed are not open to multiple interpretations. While the ToR describes the activities, these are not unambiguously phrased. Examples of this include:

- The size of the selections is not defined. This depends on the 'confidence level' that follows from the basic systems checks. Nor is the selection method prescribed. How this should be extrapolated to the activities to be performed is unclear.
- Reference is made to 'comparable procedures' under the EU Grants Indicative Audit Programme. The Indicative Audit Programme that is referenced is not yet available at this time. It is unclear what the auditor is expected to do. It is expected that, in line with standard ISRS 4400 (Revised), the European Commission will prescribe the procedures to be implemented.
- The auditor is expected to obtain a 'basic understanding' of the participant's accounting system, time-recording system and usual practices. For this purpose the documentation must be examined. Among other things, the auditor is expected to verify that the

accounting system and time recording are reliable. The depth of these activities regarding basic system checks is open to multiple interpretations.

- The auditor is expected to assess the eligibility of costs declared by testing transactions on a sample basis. For this purpose the documentation identified for each cost item must be examined. The size of the selections and the manner of selection are not defined. See also the first bullet.
- The auditor must verify that the costs declared comply with the general eligibility rules set out in the Grant Agreement. Several of these rules cannot be determined objectively but require an opinion. For instance, to what extent it is necessary to incur the costs to implement the project?
- Regarding the personnel costs the auditor must verify that personnel costs are “specified in an employment or other type of contract, not exceeding the average rates corresponding to the participant’s usual policy on remuneration”. It is unclear what activities the European Commission expects to be undertaken.
- Regarding in-house consultants and seconded personnel it must be verified that the costs are not significantly different from those for personnel performing similar tasks under an employment contract. It is not made clear what 'significantly different' means, exactly, nor how to deal with the situation in which there is no personnel under an employment contract that performs comparable tasks.
- The auditor must verify “that the management and accounting system ensures proper allocation of the personnel costs to various activities carried out by the participant and funded by various donors.” It is unclear what specific activities the auditor is expected to perform.
- For travel and subsistence costs it must be verified that these do not exceed the amounts usually accepted by the Granting Authority. It is unclear what this standard is.
- It is stated for specific cost categories: “The verifications for specific cost categories depend on the specific eligibility conditions set out in the Grant Agreement.”. It is not mentioned what activities must be performed. Regarding Horizon Europe these include at any event the internally invoiced goods and services.

D) It is not required to report on discrepancies/exceptions found, which are adjusted in the financial statements. However, the auditor should also report on non-adjusted discrepancies or findings that are of a ‘more serious systematic nature’, or findings about which the auditor is in doubt. The auditor is also requested to mention any general comments and other observations that may be relevant for the European Commission. This is not in accordance with the standard. According to ISRS 4400 (Revised) the auditor reports his findings further to each procedure completed. Findings are defined in this respect as follows: “Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in this ISRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make”.

As mentioned earlier, in B above, omitting to mention the activities performed in the auditor's report is not in accordance with the standard ISRS 4400 (Revised). According to A33 of the standard the nature and scope of the activities performed must be clear to the intended user. It is not possible to infer the nature and scope of the activities to be performed from the model of the auditor's report and the ToR does not provide sufficient indications for this.