



EUROPEAN COMMISSION
DIRECTORATE-GENERAL
REGIONAL POLICY

GUIDANCE NOTE ON THE CONCEPT OF RELIANCE ON THE WORK OF OTHER AUDITORS

DISCLAIMER

This is a Working Document prepared by the Commission services. On the basis of the applicable Community law, it provides technical guidance to the attention of public authorities, practitioners, beneficiaries or potential beneficiaries, and other bodies involved in the monitoring, control or implementation of Cohesion Policy on how to interpret and apply the Community rules in this area. The aim of the working document is to provide Commission services' explanations and interpretations of the said rules in order to facilitate the implementation of operational programmes and to encourage good practices. However, this guidance is without prejudice to the interpretation of the Court of Justice and the Court of First Instance or evolving Commission decision making practice.

1 Preamble

The objective of this document is to provide guidance as regards the concept of "reliance on the work of other auditors".

The concept of reliance on the work of other auditors should be seen in the context of the "single audit approach". The European Court of Auditors noted in the opinion 2/2004¹ that there is no single recognised definition of "single audit". It nevertheless identified specific characteristics of a control system that follows the single audit approach. Such characteristics are:

- A Community internal control framework should contain common principles and standards (point I of the opinion);
- Controls should be applied to a common standard and coordinated to avoid unnecessary duplication (point II);
- Controls should be applied, documented and reported in an open and transparent way, allowing the results to be used and relied upon by all parts of the system (point III);
- To allow controls to be effective and efficient, legislation underlying policy and processes should be clear and unambiguous, and avoid unnecessary complexity (point IV);
- Internal control systems should have, at their basis, a chain of control procedures, with each level having specific defined objectives which take into account the work of the others (point V).

The opinion 2/2004 of the Court was based on the European Parliament discharge decision on the 2000 financial year, in which the Parliament noted that *"the control and audit activities in relation to the EU budget are characterised by a large number of auditors and audit services, each carrying out visits and drawing up reports almost independently but often on the basis of different standards"* and asked the Commission *"to draw up a report on the feasibility of introducing a single audit model in relation to the EU budget in which each level of control builds on the preceding one, with a view to reducing the burden on the auditee and enhancing the quality of audit activities, but without undermining the independence of the audit bodies concerned"*².

2 Legal basis

The concepts of the single audit and reliance on the work of other auditors are the basis for Article 73 (concerning the cooperation between the Commission and the audit authority) of Regulation (EC) No 1083/2006 and Article 23 of Commission Regulation (EC) No 1828/2006 (concerning the audit authorities and audit bodies at Member State level). In addition, Annex V (model audit strategy), Annex VI (model annual control report) and Annex VIII (model final

¹ Opinion No 2/2004 of the Court of Auditors of the European Communities on the "single audit" model (and a proposal for a Community internal control framework), OJ C 107, 30.4.2004, pages 1-20.

² Paragraph 48 of the Resolution of the European Parliament containing the comments which form an integral part of the decision concerning discharge in respect of the implementation of the general budget of the European Union for the financial year 2000 (Commission), OJ L 158, 17.6.2002, pages 1-22.

control report) of Regulation (EC) No 1828/2006 require information on the reliance on the work of others and the coordination and supervisory work of the audit authorities.

Article 62 of Regulation (EC) No 1083/2006 does not require the audit authority itself to carry out all the audit work in relation to a programme but it makes the audit authority responsible for ensuring the independence of the other audit bodies and the quality of their work.

For European Territorial Cooperation (ETC) programmes, Article 14 of Regulation (EC) No 1080/2006 provides for the single audit authority appointed for each programme to be assisted by a group of auditors comprising representatives of each participating Member State unless the participating Member States decide that the audit authority is authorised to carry out all audit work in the whole programme territory.

3 What does single audit mean in practice and what are its benefits?

- Underlying the concept of single audit and reliance on the work of other auditors is the objective of making better and more efficient use of audit resources and reducing the burden on the auditee by avoiding uncoordinated and overlapping audit activity. The requirements for achieving this are: good coordination between the audit authorities and other audit bodies in the planning phase, as well as during the execution of the audit plans;
- audit work carried out on the basis of common standards and methodology by the audit authorities and other audit bodies;
- immediate exchange and use of audit findings by both the audit authorities and the other audit bodies. Preparation and execution of audits at all levels involves the use of audit results of other parts of the cascade;
- meetings on a regular basis between the audit authorities and other audit bodies.

Where the national structures involve reliance by the audit authority on the work of other audit bodies, the quality of their work becomes a critical element for building up assurance, and the audit authority has the ultimate responsibility for the work of these audit bodies.

The audit authority is responsible for ensuring that the work carried out by such bodies

- is in line with internationally accepted audit standards
- is in line with the audit strategy
- is in line with the Community regulatory framework, and
- can be relied on for purposes of the annual control report.

In the case of ETC programmes, the group of auditors should draw up rules of procedure which make clear the assistance which will be provided to the audit authority and provide the means for the audit authority to satisfy itself on the work of other audit bodies.

4 Relevant Audit Standards

Relying on the work of other auditors is a widely accepted and applied audit practice and relevant internationally accepted audit standards have been developed so as to ensure a common understanding of the general principles involved (see section 6). The objective of this guidance note is not to restate the standards, but rather to highlight the most important elements and explain their application to audits in the context of structural actions.

Guideline No 25 of the European Implementing Guidelines for the INTOSAI³ Auditing Standards covers the concept of using the work of other auditors and experts by the European Supreme Audit Institutions.

International Standard on Auditing (ISA) No 600⁴ concerns the use of the work of another auditor. Study No 4 of the Public Sector Committee gives a public sector perspective in applying this standard and states that ISA 600 is also applicable in public sector auditing.

International Standard on Auditing No 610 covers the theme of considering the work of Internal Audit. This may be applicable in the case of Structural Funds controls, given that in many cases Internal Audit units or structures contribute to the overall audit work.

International Standard on Auditing No 620 concerns the use of the work of an expert.

International Standard on Quality Control No 1⁵ is also relevant in providing definitions and requirements for establishing and maintaining a quality control system.

Standard 2050 of the Institute of Internal Auditors⁶ (IIA) gives guidance on sharing information and coordination of activities with other bodies that provide assurance.

All the above include minimum standards to be applied when relying on the work of other auditors and specify what matters the principal auditor, i.e. the audit authority, has to consider when using the work of another auditor/internal auditors, i.e. other audit bodies.

Guideline No 25 specifically refers to the requirements to be respected depending on the extent of the reliance on the work done by other auditors at each phase of the audit, whether for planning purposes, as part of the audit evidence or at the end of the testing. The extent of procedures that the principal auditor should perform to obtain sufficient appropriate audit evidence that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment, depends on the phases of the audit where the work of other auditors may be used. Especially when the work is used as audit evidence, the audit authority's review will have to be more detailed.

The main principle in all the standards is that the principal auditor is expected to perform audit procedures to ensure that the quality of the work by the other auditors is acceptable and adequate

³ INTOSAI: International Organisation of Supreme Audit Institutions.

⁴ International Standards on Auditing are available in the website of the International Federation of Accountants (IFAC): <http://www.ifac.org/>

The European Guidelines for the INTOSAI auditing standards can be found in the website of the European Court of Auditors: <http://eca.europa.eu/portal/pls/portal/docs/1/133817.PDF>

The Public Sector Committee Study No 4 can be found in the website of IFAC: http://www.ifac.org/Members/DownLoads/PSC-Study_4.pdf

⁵ International Standard on Quality Control No 1 is also available in the website of the International Federation of Accountants (IFAC): <http://www.ifac.org/>

⁶ The standard can be found in the website of the Institute of Internal Auditors: <http://www.theiia.org/>. However, it is fully accessible only to members of the Institute.

and that it has been performed in accordance with internationally accepted audit standards. This is especially important for structural actions as the audit authority has sole responsibility for the audit work performed and the audit opinion expressed.

5 Different options for the organisation of the audit work for programmes

The management and control systems of the programmes of Convergence and the Regional competitiveness and employment objectives vary significantly from Member State to Member State, taking account of national administrative structures, practices and procedures. In relation to the audit work, the systems range from a wholly centralised system, where one audit authority performs the totality of the audit work, to highly decentralised structures, where a cascade of audit bodies are involved in executing the audit work under the overall responsibility of the audit authority. Organisation of the audit work for programmes of the European Territorial Cooperation objective may also vary considerably between cross-border, transnational and interregional programmes, as well as on account of the different participating Member States. In all cases, it is the audit authority which is required to submit the annual control report and audit opinion. The following non exhaustive list of scenarios can be identified:

1. The audit authority performs both systems audits and audits of operations. In this case, the audit authority will not be relying on other bodies. Nevertheless, the audit authority may need to take into account other audit work executed, for example internal audits in managing authority or intermediate bodies, in order to better plan and carry out its own audits.
2. The audit authority performs only systems audits and the audits of operations are carried out by other bodies. In this case, the audit authority should establish the initial level of assurance/reliability of the systems, which will serve as a basis for setting the confidence level needed for determining the sample size for the audits of operations. In preparing the annual control report and determining the overall level of assurance and formulating the type of opinion to be issued, the audit authority will need to rely on the results of the audits of operations.
3. The audit authority performs the audits of operations. The systems audits are performed by other bodies. In this case, the audit authority needs the results of the work of the other bodies in order to set a confidence level and select the sample. In addition, the audit authority will use its own results from audit of operations to corroborate the assurance levels set by the other audit bodies and prepare the annual control report and opinion.
4. Systems audits and audits of operations are performed by other audit bodies. In this case, the audit authority relies fully on the work of other bodies for the preparation of the annual control report and opinion. Its audit work is thus limited to supervising and coordinating the work of the other audit bodies. It should be noted that the overall audit planning and risk assessment is one function the audit authority should not delegate.
5. Systems audits and audits of operation are performed by both the audit authority and other bodies. In this case, the allocation of tasks/assignments must be clearly communicated and well coordinated.

Furthermore, some ETC programmes may have audit authorities – and members of the group of auditors - also involved in audit work of Convergence and Regional competitiveness and

employment programmes, while other audit authorities may be involved only in audit work of ETC programmes. There may therefore be different levels of experience between audit bodies within the same ETC programme, or for different ETC programmes, within the same Member State.

In the framework of the annual control report, the audit authority should report on its coordination and supervisory work on other audit bodies. For further details, see the guidance note with reference COCOF 07/0038/01 on the audit strategy, section 4.6 on reliance on the work of others and the guidance note [number to be added] on the annual control reports and opinion, section 4.

For ETC programmes, it is considered that proper coordination and supervision by the audit authority necessitates the timely adoption of clear rules of procedures and instructions to ensure consistency and quality of the audit approach, of the audit methodology and of the input and reporting expected from all representatives of the group of auditors or the audit bodies working on their behalf. The issue of working language(s) agreed in the group of auditors is an essential element to be established in the organisational provisions.

6 General Principles

The audit authority, in order to assume its responsibilities when it relies on the audit work of other audit bodies, needs to ensure that the general principles set out below are respected. As already indicated in section 4.6 of the guidance note on the audit strategy, it is expected that the audit authority will have to make an ex-ante assessment of the adherence to these general principles in order to establish the extent of reliance by the audit authority on the work of the other audit bodies.

Organisational Structure

The audit authority should verify the organisational structure of the audit bodies that are involved in the audit process. The tasks, functions and responsibilities entrusted to them and the scope of their work should be clearly and formally described in writing (and referred to in the audit strategy). All audit bodies should be aware of their role and their position in the audit cascade. A clear description of the reporting lines and obligations to the audit authority should also exist and should be communicated to all auditors involved.

Independence

In the audit strategy the audit authority is required to confirm that all audit bodies carrying out audits under Article 62 (3) of Regulation (EC) No 1083/2006 have the requisite functional independence. The independence of the audit bodies should concern all potential auditees, i.e. the audit bodies should be independent from managing authorities, certifying authorities, intermediate bodies and beneficiaries. In case where audit bodies are internal audit units, special considerations should be taken into account: the audit authority should be aware of the organisational set up and reporting lines within the organisation in question, in order to estimate the position of the internal audit unit and the risk of impaired independence.

For ETC programmes, confirmation of the independence of each member of the group of auditors should be obtained by the audit authority, where the members of the group of auditors carry out audit work themselves in their Member State or supervise/outsource the audit work. In cases where the audit work is outsourced, the contractor should be obliged by the contract to

immediately inform the audit authority in case of possible conflict of interests so that the audit authority, assisted by the group of auditors, can take appropriate measures. .

Coordination

Where multiple bodies are involved in the audit process, good coordination and clear communication of auditing and reporting requirements among all actors is essential for delivering reliable and timely results. The audit authority should make sufficient arrangements for the coordination of their efforts at the initial planning stage of the audit. This is typically the case of the rules of procedures for ETC programmes, which should set regular meetings of the group of auditors.

The audit authority should diffuse important information to the other audit bodies, which is of particular importance to their work, for example, on areas requiring special consideration or where changes occur in audit plans, so that the audit work can be adapted accordingly. Also, the other audit bodies should inform the audit authority of any difficulties encountered, and any scope limitations or significant findings/systemic issues, as soon as possible, so that the audit authority may decide whether supplementary audits are necessary.

The audit authority should hold regular (bilateral or multilateral) meetings with the audit bodies, so as to discuss issues of common interest, such as audit planning, preliminary audit results, follow-up of previous findings, methodology and work practices etc.

The audit authority for an ETC programme should also take account of any information which it receives from the Commission on the results of Commission audits concerning members of the group of auditors.

Professional competence and capacity

The audit authority should verify that the audit bodies have sufficient human and adequate resources to execute their tasks under the audit strategy. It should have up to date information of the number of posts, the job descriptions and the required and actual professional qualifications or experience of staff in each audit body. This knowledge may have been obtained from a previous review(s) of the audit body, for example review of its operating policies and procedures or periodic quality reviews of its working papers of selected audits.

For ETC programmes, the audit authority should obtain such information from the members of the group of auditors.

Conduct of work and quality control

The audit authority should have sufficient assurance that the working methods and procedures and audit standards applied by the other audit bodies are appropriate for obtaining reliable audit evidence. The Commission recommends the preparation by the audit authority of common procedures and methodology, in an audit manual used by all audit bodies, so as to ensure that all auditors apply the same standards.

Periodic quality reviews of working methods and procedures should be carried out by the audit authority to ensure that the audit reports and findings can be fully relied upon. As provided in section 4.6 of the guidance note on the audit strategy such reviews should cover the audit reports, audit files, working and supporting papers, monitoring and follow-up systems, audit manuals, etc. The quality review procedure (methodology, planning, scope and objectives) should be clearly described in the audit authority's audit manual, and should also include a description of

the reporting arrangements, coordination activities, preparation of common methodology and practices, where appropriate, training and guidance, etc. It should be clear that it does not mean duplicating the work carried out by the other auditors⁷.

The provisions of this paragraph also apply for ETC programmes. The procedures to allow the audit authority to carry out sufficient quality review should be established by the group of auditors.

Access to documents

The audit authority should have full and unrestricted access to all documents and records of the other audit bodies involved in the audit process, for purposes of carrying out quality reviews and obtaining adequate assurance that the work of other auditors can be relied upon.

In ETC programmes, the rules of procedure to be agreed between the members of the group of auditors should provide for information to the audit authority on the documents and records available; for their location and storage format; for the transmission on request to the audit authority of relevant documents such as audit files, working papers and supporting documents; and where relevant, for translation of any information judged necessary by the audit authority to fulfil its responsibilities. This can be organised either systematically for certain documents [e.g. all systems audit reports], or on request of the audit authority with agreed deadlines [e.g. for the follow-up of a detected weakness]. In addition, access of the audit authority to IT systems of other Member States should be arranged where necessary.

Monitoring and supervision

As required under Article 58 (e) of Regulation (EC) 1083/2006 the audit authority should have in place a system of reporting and monitoring of tasks entrusted to another body. The procedures applied by the audit authority for monitoring and supervision should be communicated to the Commission through the annual control report (section 6 of the report; the model of which is provided in the Annex VI of the Commission Regulation (EC) 182/2006).

Through proper monitoring and supervision of audit work the audit authority needs to have adequate assurance that the information and audit results obtained from other audit bodies are as equally accurate and reliable as its own results.

Documenting the reviews

The audit authority should keep records of the reviews that it carries out in the framework of monitoring and supervision of the work of other audit bodies and any periodic quality reviews. This may include *inter alia* the detailed planning, scope and objectives of the reviews, documentation of the results of the reviews, etc.

7 Outsourcing of audit work

The audit authority may request another body to enter into a contractual relationship with the contractor. However, the audit authority should be involved at least in the preparation of tender specifications, definition of the scope and methodology of the work, definition of the

⁷ It is not expected that the audit authority reviews every audit file in detail. However, the audit authority has to ensure that the working methods applied are in line with the internationally auditing standards. Therefore a periodic review of the procedures and a number of files should be sufficient. The audit authority should use its judgement to decide if re-performance of some parts is necessary ie if insufficient audit evidence exists.

professional standards to be met by the contractor and the evaluation of offers and selection of the contractor. The audit authority must be responsible for the supervision of the work and deliverables (reports etc).

Special considerations should be taken into account by the audit authority or the audit bodies when outsourcing audit work:

- the tender specifications should be clear and precise with regard to the scope and objectives, definition of tasks, responsibilities and the audit procedures that the external auditor will be requested to carry out;
- the audit authority or responsible audit body should have adequate assurance that the external auditor does have the requisite professional competence and capacity to perform the assigned tasks according to internationally accepted audit standards, including an adequate knowledge of the applicable Community regulations;
- in case the audit of operations are performed by the external auditor, the selection of the sample should be performed in accordance with the approved audit strategy;
- written confirmation should be obtained in respect of each audit assignment that the external auditor has no conflict of interest;
- The audit authority or responsible audit body should ensure through sufficient supervision of the work performed by the external auditor that all principles and practices mentioned in section 6 of this guidance note are respected, so that the results are of the appropriate quality and can be relied upon. A quality assurance review should be performed⁸.

Where the audit work is outsourced the terms of reference and the contract for the outsourced tasks should require the contractor to provide access of the audit authority or the audit body to working papers and supporting documentation held by the contractor.

Certain audit tasks should not be outsourced, such as strategic audit planning, risk assessment, selection of the complementary sample, communication and coordination of audit activity. The audit authority should indicate in its annual control report the tasks which have been outsourced.

As the tendering procedure can be a long and complex one, sufficient time should be built into the audit planning if audit work is to be outsourced. Therefore, adequate planning, good coordination of the work performed by all actors involved, internal and external, and clear communication are pivotal elements in the audit process.

⁸ Elements to be considered amongst others are: review of consistency between the executive summary and report, detailed discussions with the external auditors, review of the working papers without actual reperformance, obtaining some supporting documents, etc