

Charter on good practices
promoted by the Audit Community (Commission and
Member State's audit authorities) when carrying out audits
under COHESION POLICY, EMFF and FEAD

The 2017 Homologues Group meeting was dedicated to the follow-up of the recommendations from the High Level Group on simplification for beneficiaries of ESIF Funds in relation to audit issues. There is a clear request and expectation from stakeholders to simplify the delivery and control mechanisms.

The Cohesion Policy, EMFF and FEAD Audit Community (Commission audit services and programmes' audit authorities) has analysed the recommendations of the High Level Group. While auditors are also facing difficulties due to the complexity of rules, procedures and management and control systems, they have to provide assurance against the background of constantly evolving or emerging risks. They are convinced that complexity contributes to the risk of errors. At the same time a certain level of complexity is inherent to the Funds due to the range of investments and intervention areas covered. Auditors are convinced they can contribute to the shared objectives of simpler implementation and constructive, fair and transparent relations between programme authorities and beneficiaries.

For this purpose, the Audit Community is committed, without prejudice to the independence of its members, to contribute as much as it is under its powers to simplification, improved legal clarity and reduction of the control burden to what is necessary to ensure the fulfilment of the respective roles and requirements. Auditors are also convinced that there is always room to further improve communication between programme authorities and this should remain a constant and shared objective. Improved communication can only contribute to mutual understanding, predictability and legal certainty for all. This can contribute in return to the reduction of unnecessarily complex rules and procedures at national level designed to avoid errors (fear of audits) but ultimately generating additional administrative burden, bureaucracy and further errors (gold plating).

At the same time, the Audit Community is striving for high quality audits, in line with relevant applicable audit standards and applicable rules and regulations. It notes that this requires continuous professional development of auditors, close supervision including for outsourced tasks, fair contradictory procedures with auditees and timely update of audit procedures and tools. The members of the Audit Community take account of and adhere to internationally accepted audit standards in their work, as required by the regulation and their institutional setup. In this charter reference is only made to some of these audit standards¹ that are specifically relevant for the topics subject to the reflection and discussions in the 2017 Homologues Group meeting.

We, members of the Cohesion Policy, EMFF and FEAD Audit Community, while taking account of our respective institutional set-up, available work force and proportionality principle and without prejudice to our professional independence, seek to constantly promote the following good practices in our audit engagements and relations with auditees.

¹ The reference in the document to ISSAI is purely for illustrative purpose and is without prejudice to other internationally accepted audit standards being used by the audit authorities, such as IFAC, IIA, etc

"The auditor shall explicitly identify the intended user(s) and the responsible party and consider the implication of their roles in order to conduct the audit and communicate accordingly."

ISSAI 4000 - Requirement 101

We recognize the need for clear and timely **planning of audit work**. We therefore promote the following practices:

1. To communicate timely the audit plans to the auditees, including the nature, timing and scope of the planned audit procedures (based for system audits on a regularly updated assessment of relevant risks).
2. To timely notify audit engagements to auditees via notification letter or formal correspondence. The audit announcement letter should be sent sufficiently in advance to allow the auditee to adequately prepare for the audit and should provide the scope of the audit, the dates planned, the composition of the team of auditors and the list of documents expected to be available for the audit. This contributes to a smooth, efficient and effective operation of the audit engagement.
3. To define and attach to the announcement letter a mutual expectations paper concerning the audit engagement, which should disclose: the expectations, rights and obligations of both parts during the different phases of the audit and the modalities related to reporting, contradictory and possibly appeal procedures.
4. To foresee an opening meeting with the auditee(s) (kick-off meeting).
5. To allocate appropriate audit resources to the engagement taking account of the complexity of the engagement and the audit staff experience.
6. To agree an indicative audit timetable with the auditee to allow as appropriate availability of the concerned staff for the complete audit cycle (on the spot work, indicative dates for reporting draft and final report and for expected contradictory replies).

"The SAI shall ensure that the audit team collectively has the necessary professional competence to perform the audit."

ISSAI 4000 - Requirement 85

We recognize the need for a professional **audit fieldwork**. we therefore promote the following practices:

7. To put processes and procedures in place to ensure that the work carried out is well-prepared and of professional quality, that the auditors performing such audits individually and/or collectively have the necessary competence and skills.
8. To ensure that the work of the audit team is appropriately directed, supervised and reviewed so that audit findings and conclusions are subject to quality review by other experienced auditors.
9. To organise as necessary regular meetings and/or feedback mechanism with (as appropriate) audit, managing and/or certifying authorities to provide informal update on progress of the audit engagement and emerging audit findings, in particular with potential financial impact.
10. To clarify in due time to auditees what piece of evidence is missing and to agree on a timetable to provide missing documents / evidence to avoid unnecessary preliminary findings.
11. To foresee a wrap-up meeting with the auditee(s) in order to summarise issues identified during the audit fieldwork. The wrap-up meeting should be held close to or after the finalization of the audit fieldwork in the presence of representatives of all entities who participated during the audit. It is an opportunity to raise preliminary findings as well as the positive aspects or good practices identified.

"The auditor shall prepare an audit report based on the principles of completeness, objectivity, timeliness, accuracy and contradiction."

ISSAI 4000- Requirement 202

"The auditor shall prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and conclusions reached. The auditor shall prepare the audit documentation in a timely manner, keep it up to date throughout the audit, and complete the documentation of the evidence supporting the audit findings before the audit report is issued."

ISSAI 4000- Requirement 89

We acknowledge that **reporting** is essential to communicate the outcomes of an audit. We therefore promote the following practices:

- 12.** To document the audit in a complete and detailed way to enable an experienced auditor, with no previous connection with the audit, to understand which audit activities were performed to support the conclusions.
- 13.** To disclose in the audit report only findings supported by sufficiently detailed evidence, taking account of additional information and evidence provided by the auditee subsequently to the fieldwork (and during the contradictory phase).
- 14.** To ensure the drafting of clear findings and conclusions which include the following information to guarantee confidence in the audit conclusions and to avoid misunderstandings: applicable legal provisions, work done, legal or other provision breached, the cause, impact and consequences of the finding on the EU budget.
- 15.** To seek, when necessary (e.g. in case of doubt or unclear provisions / eligibility rules / procedural issues) clarifications from experts and competent services, without prejudice to the auditors' professional judgement.
- 16.** To include in the (final) audit report at least the following elements: addressee, title, identification of the audit standards followed, executive summary (where providing added value, e.g. for long reports), description of the subject matter,

audit scope and approach, findings, (summary of) replies from the audited entity and the assessment by the auditors, conclusions and recommendations.

- 17.** To propose recommendations which address the finding and are achievable for the auditee within a realistic time period.
- 18.** To give sufficient time to auditees to react on the draft findings (contradictory procedure) but within a strict timeframe as defined in the mutual expectations paper (see n° 3 above) so that the auditor can timely and usefully issue audit conclusions and recommendations. To discuss, if needed, the draft findings with the auditee in order to ensure that these are complete, accurate and fairly presented; to incorporate replies from the auditees as appropriate in the report and to give answers and assessments in response to their replies.
- 19.** To have the report approved and signed by a person with appropriate authority to represent the audit authority / service.
- 20.** To report findings according to the typology of errors previously agreed by the Audit Community in order to contribute to the overall analysis of errors by the Commission.
- 21.** To also communicate to auditees, in the report or separately, minor findings which are deemed to contribute to improvements.
- 22.** To communicate the audit findings and results (reports) to all audited parties (including ensuring that beneficiaries are appropriately and timely informed for those findings that concern them).
- 23.** To perform an analysis of the preliminary findings not confirmed (dropped) following the contradictory procedure to improve the audit process / methodology.

"The auditor shall communicate in an effective manner with the audited entity and those charged with governance throughout the audit process."

ISSAI 4000- Requirement 96

We recognize the need for clear, accurate, objective and complete **communication**. We therefore promote the following practices:

- 24.** To hold regular technical meetings between all Cohesion Policy, EMFF and FEAD auditors to share practical solutions and identified deficiencies and good practices.
- 25.** To agree on an appropriate timetable, e.g. between the audit and the managing / certifying authorities for the transmission of the draft accounts, management declaration and annual summary.
- 26.** Appropriate communication with programme authorities with a view to facilitate the follow-up given to recommendations.
- 27.** To communicate timely the annual / multi-annual audit plans to all relevant parties (including but also beyond auditees).
- 28.** To contribute to the extent possible, taking into account available resources, to capacity building actions for auditors and auditees so as to develop a common understanding of errors to be avoided between the Commission, programme authorities and beneficiaries and with a view to share knowledge and information.
- 29.** To share audit methodologies, checklists and tools with programme authorities with a view to sharing expertise and to increase transparency of the audit process.
- 30.** To disclose an analysis of findings in summary reports (for example in annual control reports or ad hoc synthesis of audit findings) according to the typology agreed between the Commission and the audit authorities; to disseminate (anonymized) audit findings and the specific risk areas identified among programme authorities and beneficiaries in order to raise awareness and prevent similar irregularities in future.

- 31.**To contribute to the dissemination of identified good practices between programme authorities and stakeholders.
- 32.**To use IT audit tools, where this is considered proportionate, as depositories of audit findings in view of assessments and analyses of types of findings and the drafting of appropriate recommendations to tackle the most frequent weaknesses.
- 33.**With due regard to independence and integrity, to promote active communication through all channels, formal and informal, with managing / certifying authorities and their intermediate bodies, to ensure rapid and efficient exchanges of information.