

## **Annex 4 Assessment Procedures**

### **4.1 Assessment Documentation and Evidence**

#### *1 Assessment Documentation (Working Papers)*

The Auditor should in accordance with ISAE 3000, prepare documentation that provides:

- A sufficient and appropriate record of the basis for the auditor's report; and
- Evidence that the assessment was planned and performed in accordance with ISAE 3000 and applicable legal and regulatory requirements.

Documentation or working papers means the record of assessment procedures performed, relevant evidence obtained, and conclusions the Auditor reached. Assessment file means one or more folders or other storage media, in physical or electronic form, containing the records that comprise the assessment documentation or working papers for a specific engagement.

#### *2 Evidence*

The Auditor should in accordance with ISAE 3000, ensure that evidence is gathered to support the Auditor's conclusion and evidence that the assessment was carried out in accordance with the IFAC *International Framework for Assurance Engagements* and *International Standard on Assurance Engagements ('ISAE') 3000 for Assurance Engagements other than Audits or Reviews of Historical Financial Information*.

The Auditor should obtain sufficient appropriate evidence to support assessment findings and to draw reasonable conclusions on which to base the assessment conclusions. The Auditor uses professional judgment to determine whether evidence is sufficient and appropriate.

#### *3 Retention of Assessment Documentation (Working Papers)*

The Auditor should retain documentation for the engagement (including evidence for fees and expenses such as invoices for hotel accommodation, air plane boarding cards, ticket stubs, time sheets etc.) for inspection by the Commission for a period of 5 years from the date of payment by the Commission of the Auditor's final invoice for this engagement. The Commission shall, on request and in accordance with the legislation in the country where the office having responsibility for the assessment is based, have access to the assessment documentation within this 5 year period.

#### *4 Access to Records and Documents of the Entity*

The Auditor should have full and unrestricted access at any time to all records and documents (including accounting records, contracts, minutes of meetings, bank records, invoices etc.), to employees of the Entity and to the Entity's locations insofar as this is possible and relevant to the assessment. The Auditor may request the Entity to get access to banks (e.g. to request a bank confirmation), consultants and other persons or firms engaged by the Entity.

## **4.2 Planning**

### *1 Preparatory Meeting with the Commission*

The Commission normally foresees a preparatory meeting with the Auditor. This meeting will take place at DEVCO Headquarters in Brussels, or in the EU Delegation concerned by the assessment or at another place whichever location is most appropriate and convenient for both parties. The purpose of this meeting is to discuss the planning, fieldwork and reporting of the assessment and to clarify outstanding issues. The Commission and the Auditor may agree to use alternative methods to prepare the assessment (e.g. conference calls).

### *2 Opening Meeting with the Entity*

The Auditor should arrange for an opening meeting with the Entity to discuss and explain the planning, fieldwork and reporting. The Auditor will explain the nature, objectives and scope of the assessment. The Auditor should inform the Commission about this meeting which may be attended by Commission representatives including the Audit Task Manager ('ATM').

During the preparatory and opening meeting the Auditor may request additional information and documents that he/she considers necessary or useful for the planning and fieldwork of the assessment. The Auditor may contact the Entity directly to obtain such information.

### *3 Planning Activities, Assessment Plan and Assessment Work Programmes*

The Auditor should plan the assessment so that it will be performed in an effective and efficient manner. Adequate planning involves that appropriate attention is devoted to important areas of the assessment, that potential problems are identified and resolved on a timely basis and that the assessment is properly organised and managed in order to be performed in an effective and efficient manner.

The Auditor should have an assessment plan (or a similar planning document such as an assessment work plan or a planning memorandum) documenting the assessment approach and key principles of planning, fieldwork and reporting. The Auditor should have assessment work programmes which detail and document the assessment tests and procedures. The Auditor should provide copies of the assessment plan and assessment work programmes to the Commission's ATM on request.

## **4.3 Fieldwork**

### *1 Obtaining evidence regarding the design of systems, controls, procedures and rules*

The scope of work should include an assessment of the **design** of relevant systems, controls, procedures and rules which are relevant for the Pillar concerned.

Procedures to obtain evidence regarding the design of systems, controls, procedures and rules may include:

- Inquiring of Entity staff who may have relevant information;

- Evaluating whether descriptions, if available, fairly present the systems, controls, procedures and rules that have been designed and implemented by the Entity;
- Inspecting legal and regulatory documents (e.g. laws, regulations, contracts and agreements), internal instruction and guidance papers (e.g. operating rules, internal control manuals etc.) and any other document the Auditor may consider relevant;
- Observing operations and inspecting documents, reports, printed and electronic records of transaction processing, accounting procedures (e.g. bank reconciliation) and other key approval and internal control procedures (e.g. periodical expenditure reports, budget – actual comparisons, review and approval of timesheets etc.), documents relating to the Entity's regulatory framework for external audit, documents relating to grant and procurement procedures, documents relating to financial instruments and financial instrument transactions etc.;
- Reperforming controls and procedures.

The Auditor may consider using flowcharts or questionnaires to facilitate assessing the design of the controls, procedures and rules.

## 2 Tests of Systems, Controls, and Procedures

The scope of work should include an assessment of whether relevant systems, controls, procedures and rules are **operating effectively**.

A system, control, procedure or rule is operating effectively if, individually or in combination with other systems, controls, procedures or rules, it provides reasonable assurance that

- The Entity's objectives (e.g. objectives of the internal control system or of a grant or procurement process) are achieved and in particular that risks to the achievement of the objectives are properly managed and controlled;
- The risks of error, irregularities and fraud are properly and timely prevented, detected and corrected.

When designing and performing tests of controls, the Auditor should:

- Perform other procedures in combination with inquiry to obtain evidence about:
  - How a system operated or how a control, procedure or rule was applied;
  - The consistency with which the system worked or a control, procedure or control was applied; and
  - By whom or by what means controls, procedures or rules were applied;
- Determine means of selecting items for testing that are effective in meeting the objectives of the procedure.

When determining the extent of tests of controls, procedures or rules the Auditor shall consider matters including the characteristics of the population to be tested, which includes the nature of the controls, procedures and rules, the frequency of their application (for example, monthly, daily, a number of times per day), and the expected rate of deviation.

Tests of controls, procedures and rules may include but are not limited to inspection (of records, documents and assets), observation, inquiry of management and others within the Entity, confirmation, recalculation and reperformance.

### *3 Sampling and other means of selecting items for testing*

When designing and performing tests of systems, controls, procedures and rules the Auditor may apply sampling or other means of selecting items for testing. Sampling involves the application of procedures to less than 100% of items within a population of assessment relevance (e.g. a class of transactions or account balance) such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

Sampling can use either a statistical or non-statistical approach. The Auditor may use a judgmental selection of specific items from a population (e.g. high value or key items, all items over a certain amount, items to obtain information or items to test control activities or procedures or rules). Selective examination does not constitute sampling.

While selective examination of specific items will often be an efficient means of obtaining evidence, it does not constitute sampling. The results of procedures applied to items selected in this way cannot be projected or extrapolated to the entire population; accordingly, selective examination of specific items does not provide evidence concerning the remainder of the population. Sampling, on the other hand, is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it.

### *4 Using the work of internal auditors*

When the Auditor determines that an internal audit function is likely to be relevant for the assessment he/she (a) determines whether, and to what extent specific work of the internal auditors can be used, and (b) if using the specific work of the internal auditors, whether that work is adequate for the purposes of the audit. The Auditor should comply with *ISA 610 'Using the Work of Internal Auditors'* insofar as this ISA is relevant to the assessment.

### *5 Written representations*

In assurance engagements other than audits or reviews of historical financial information (ISAE 3000) the auditor should obtain representations from the management. A written representation is a statement by the management provided to the Auditor to confirm certain matters or to support other assessment evidence.

The Commission does not require that the Auditor obtains written representations but this may be useful in certain cases. The Auditor may request a letter of representation signed by the member(s) of the management of the Entity who have the primary responsibility for the systems, controls, procedures and rules operated by the Entity.

## 6 Debriefing Memorandum ('Aide Mémoire')

The Auditor will prepare a Debriefing Memo for discussion at the closing meeting. The Memo should outline the main assessment findings which have resulted from the fieldwork and recommendations. A copy of the Memo should be sent to the ATM.

## 7 Closing Meeting

The Auditor should organise a closing meeting with the Entity. The ATM and other Commission representatives can attend the meeting. The purpose of this meeting is to discuss the Debriefing Memo and to obtain the confirmation and initial comments of the Entity on the Auditor's findings and recommendations. The Auditor and the Entity can agree outstanding information to be provided by the Entity and where applicable a deadline for submission. The Auditor can inform the Entity about the reporting procedures. The Auditor should document any comments (verbal and written) made by the Entity and by Commission representatives and take these into account for the assessment report.

## 4.4 Reporting

### 1 Basic Reporting Requirements and Language

The Auditor should report the results of the assessment in accordance with the IFAC International Framework for Assurance Engagements and ISAE 3000, the practices of his/her audit firm and the requirements of these ToR.

The report should be objective, clear, concise, timely and constructive.

The report should be presented in the language as indicated in Section 6.4 of the ToR. If the language of the report is other than English or French the Auditor should also provide an executive summary of the report in English or French.

### 2 Date of the Assessment Report

The date of draft and pre-final reports should be the date when these reports are sent for consultation. The date on the cover page of the final assessment report should be the date when the final assessment report is signed.

Facts and events that have come to the Auditor's attention before the final report is signed and which have an impact on the findings in that report must be taken into account. However, the Auditor is under no obligation to enquire of the Entity's management and/or to carry out further procedures after the closing meeting and before the signature of the final report.

The Auditor may, where necessary or appropriate, propose a meeting with Commission and EU Delegation staff to discuss the draft report and the comments made thereon.

### 3 Procedure for the consultation and submission of the draft report

The Auditor should submit a draft report to the Commission (i.e. to the attention of the ATM) within 21 calendar days after the day of the closing meeting (i.e. the end of field work). The draft report should include the comments of the Entity insofar as these have already been obtained during the fieldwork of the assessment and the closing meeting.

A paper and an electronic version of the draft report along with a cover letter should be submitted. The word 'draft' should be clearly indicated on all versions.

The Commission should provide comments to the Auditor within 21 calendar days from receipt of the draft report. The ATM should collect the Commission's comments and ensure a proper and timely submission to the Auditor.

The Commission may request the verification team to carry out additional verification work in which case a reporting deadline should be agreed on a case-by-case basis.

The Auditor should submit to the Commission a revised draft report which takes into account the Commission's comments within 7 calendar days from receipt of the Commission's comments. After approval of the draft report by the Commission, the Auditor should submit the draft report to the Entity for consultation within 7 days from receipt of the Commission's approval of the draft report.

The Entity should submit comments to the Auditor within 21 calendar days from receipt of the draft report. If the Entity's comments are not received within this deadline, the Auditor reminds the Entity until a written reply from the Entity is received. In the exceptional case where the Entity does not reply or where the absence of a reply leads to excessive delays in the consultation and reporting process, the Auditor contacts the Commission to discuss a solution. The Auditor should record and document causes and reasons for delays in the consultation of reports for which the Auditor is not responsible.

The Commission normally foresees a debriefing meeting with the Auditor after receipt of the draft report. This meeting will take place at DEVCO Headquarters in Brussels, or in the EU Delegation concerned by the assessment or at another place whichever location is most appropriate and convenient for both parties. The purpose of this meeting is to discuss the draft report and any related issues that require specific attention. The Commission and the Auditor may agree to use alternative methods to discuss the report (e.g. conference calls).

#### *4 Procedure for the consultation and submission of the final report*

If no additional fieldwork is required, the Auditor should submit a pre-final report to the Commission (i.e. for the attention of the ATM) within 7 calendar days from receipt of the Entity's comments on the draft report. The word 'pre-final' should be indicated on the cover page of the pre-final report. The Commission should inform the Auditor in writing whether it accepts the pre-final report within 14 calendar days from receipt of the pre-final report.

The Auditor should submit a final report within 7 calendar days from receipt of the Commission's comments on the pre-final report.

The Auditor should then submit an original paper version and one electronic version of the final report along with a cover note to the Commission. In the cover note the Auditor should confirm that two original paper versions of the final verification report have been sent to the Entity.

The reports should be provided on original letterhead of the Auditor. The word 'final' should be clearly indicated on all versions. The Auditor should also send an electronic version of the final report (i.e. a scanned copy (in PDF format) of the signed and dated final report with the Auditor's letterhead paper) to the ATM.

The ATM will ensure submission of the final report to the Commission services concerned. The period between the closing meeting and the submission to the Commission of the final report should not exceed 105 calendar days or 15 weeks.