

Court Audit Policies and Standards - CAPS (10 April 1997)

Caption: Court Audit Policies and Standards (CAPS), codified in 1997.

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Court Audit Policies and Standards, codified in 1997

Preface

The annual and special reports of the European Court of Auditors provide an essential element in the process of democratic accountability of the financial activities of the European Communities.

The Court has always sought to provide the European Parliament, the Council and the wider European public with relevant, objective and independent reports which are formulated on the basis of audits carried out to the highest professional standards. By ensuring adherence to these standards, the Court is assured that the reports it adopts are based on high quality audit work.

In this year, during which it will celebrate its twentieth anniversary, the Court has decided to codify its auditing policies and standards and to make them available to the Parliament and Council, to the institutions and organisations that it audits, to the national audit institutions and other bodies with which the Court has working relations and to other organisations and individuals who express an interest in the work of the Court. It does this in the interests of transparency and to better explain to those that it serves, to those that it works with and to those that it audits how it goes about its work. As such, these policies and standards represent a clear statement to the users of the Court's reports about the basis upon which they are prepared and of their qualities of independence, objectiveness and reliability.

Bernhard Friedmann
President of the European Court of Auditors

Luxembourg, September 1997

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Introduction

The Court's aim, in adopting a comprehensive set of audit policies and standards, is to set out in a unique document the principles that determine the way in which its audits are planned, executed and reported. These policies and standards are not new to the Court, but reflect and codify the working methods that have evolved over the twenty years since the Court's creation. These policies and standards were formally adopted by the Court at its 546th meeting on 10th April 1997.

The Court's audit policies and standards are based upon the best international practice, such as the Auditing Standards published by the International Organisation of Supreme Audit Institutions (INTOSAI) and in the International Standards on Auditing prepared by the International Auditing Practices Committee of the International Federation of Accountants (IFAC). They have been adapted, however, to reflect the Court's particular duties and responsibilities as laid down in the Treaty and the Financial Regulation and to take account of the European Community context. The policies and standards are also fully compatible with the auditing guidelines for the external audit of EC activities being developed by an ad hoc working group established by the Contact Committee of Presidents of the EU Supreme Audit Institutions.

These audit policies and standards define the basic principles that govern the work of the Court. They thus provide an overall framework for determining the detailed auditing procedures and practices to be used in planning, carrying out and reporting individual audit tasks. These detailed procedures and practices are in turn laid down in the Court's audit manual.

The demands upon the European Court of Auditors and the environment in which it works are constantly changing. Meanwhile, auditing methodology is constantly evolving. To ensure that its work keeps up to date with these changes and continues to be carried out to the highest professional standards, the Court will, from time to time, revise its audit policies and standards. The observant reader may note that some gaps have been left in the numbering of the policies and standards. This is to allow the later insertion of further policies and standards as the need arises.

These policies and standards are applicable both to financial audits (including the Statement of Assurance audits) and examinations of sound financial management carried out by the Court.

Hubert Weber
Member of the European Court of Auditors responsible for working methods

Luxembourg, September 1997

Court audit policies and standards (CAPS)

1 Objectives and responsibilities

10 Objectives and general principles governing the Court's audits

10/01 In carrying out its audits, the Court seeks to achieve the following global aims:

- fulfil the requirements of the Treaty and of other legislation;
- assist and, where appropriate, advise those responsible for deciding upon and managing Community programmes and finances so as to improve financial management;

10/02 The auditor (¹) should conduct an audit in accordance with the INTOSAI Auditing Standards and the IFAC International Standards on Auditing insofar as these are applicable in the Community context. The auditor should also have regard to the rules of procedure for the Court which prescribe the basis on which annual reports, special reports, opinions and observations should be examined and adopted by the Court.

10/03 The policies and procedures required to conduct an audit in accordance with international auditing standards (INTOSAI and IFAC) are defined in this document and in the Court's audit manual. The auditor should follow these procedures and fully document and have approved by the hierarchical superior any divergence from these procedures that becomes necessary in the circumstances of the specific audit. Compliance with these policies and procedures will also ensure that the audit is undertaken in accordance with the European Implementing Guidelines prepared under the authority of the Contact Committee of Presidents of the EU supreme audit institutions.

As regards financial audit, proper application of the Court Audit Policies and Standards and of the procedures described in the Court's revised audit manual and in the DAS Practical Guidelines will provide evidence whether all relevant transactions have been correctly undertaken, completed, passed, paid (or received) and recorded and thus whether the Community accounts are reliable and the underlying transactions legal and regular.

10/04 In planning and performing the audit, the auditor should be alert that information obtained during the course of the audit may be misleading or misstated.

10/05 In carrying out audits, the auditor should have regard to the obligations of officials and other servants of the European Communities, as laid down in the Staff Regulation, and to any additional guidance adopted by the Court regarding the meeting of these obligations in the external audit context. In particular, the auditor should ensure that audits are conducted in such a way as to protect and enhance the Court's independence, integrity, objectivity and professional standing, and to protect the confidentiality of information obtained in the audit process.

12 Quality control for audit work

12/01 The auditor should implement those quality control procedures which are, in the context of the policies and procedures of the Court, appropriate to the individual audit.

12/02 The work of the audit staff at each level and audit phase should be properly supervised during the audit; and documented work should be reviewed by the audit task team leader or, in the case of work carried out by the team leader, the Head of Division. The objective of this review should be to ensure that sufficient, relevant and reliable evidence has been obtained. This review should be evidenced in the working papers. Work initially reviewed by the audit task team leader should be subject to further reviews by the Head of Division and by the responsible Director. These further reviews should also be documented in the working papers. The responsible Director should ensure that a quality control system is in place that operates effectively.

12/03 Each year the Court will decide on the basis of a proposal by the ADAR Group upon a programme of quality assurance reviews to be carried out on completed audits (ie. audits where the resulting report has been adopted by the Court after contradictory procedure) to provide assurance that the audits concerned were carried out in accordance with the Court's policies and standards.

13 Documentation

13/01 The auditor should document matters which are important in providing evidence to support the audit findings and evidence that the audit was carried out in accordance with the audit policies and auditing procedures of the Court.

13/02 The auditor should prepare working papers which are sufficiently complete and detailed to provide an overall understanding of the audit.

13/03 The auditor should record in the working papers information on planning the audit work, the nature, timing and extent of the audit procedures performed, the results thereof, and the conclusions drawn from the audit evidence obtained.

13/04 The audit task team leader, Head of Division and/or Director who reviews the working papers (see 12/02 above) should document the review in the working papers.

13/05 The auditor must observe the Court's procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the professional needs of the Court and in accordance with Community rules on record retention.

14 Error, irregularities and fraud

14/01 The primary responsibility for the prevention, detection and investigation of errors and irregularities rests with those responsible for the management and execution of EC programmes (ie. the Commission and

the Member States). The Court must assess whether the Commission and the Member States fulfil their responsibilities in this field. The work of the Court in this area should focus primarily on assessing the performance of the Member States and the Commission in preventing, deterring and correcting irregularities.

14/02 The auditor should be aware of the possibility of unintentional or intentional acts or omissions that could have a material effect on the accounts, on the results of examinations of legality and regularity or on the auditor's opinion regarding the soundness of financial management. Thus, when planning and performing audit procedures and in evaluating and reporting the results thereof, the auditor should consider the risks resulting from errors and irregularities (including fraud, corruption and other illegal activities).

14/03 When a case of suspected fraud corruption or some other illegal activity affecting the Community's financial interest is detected during the course of an audit, the auditor should follow the procedures laid down by the Court.

14/04 When a case of suspected fraud, corruption or some other illegal activity is reported to the Court, the auditor receiving the denunciation should follow the procedures laid down by the Court to enable these findings to be communicated as quickly as possible to the European Anti fraud Office, OLAF.

15 Consideration of laws and regulations (Legality and regularity)

15/01 In order to plan the audit, the auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity or activity being audited and how the entity seeks to comply with that framework. This legal and regulatory framework (eg Procurement Directives, Environmental legislation, ...) consists primarily of the budget and of the specific legislation on which the expenditure is based. In addition, the auditor should also consider other provisions in the Community legal order as well as national legislation and rules put in place as a requirement of EU legislation in so far as these have an effect on income and expenditure.

15/02 When the auditor becomes aware of information concerning a possible instance of noncompliance ⁽²⁾, the auditor should obtain an understanding of the nature of the act and the circumstances in which it has occurred, and sufficient other information to evaluate the possible effect on (depending upon the objectives of the specific audit) the reliability of the accounts, the legality and regularity of the underlying transactions or the soundness of financial management. (see also Court Audit Policies/Standards 15/06 - 15/09).

15/03 When the auditor believes there may be noncompliance ⁽²⁾, the auditor should document the findings and, except when the auditor considers the noncompliance may be intentional, discuss them with management.

15/04 When adequate information about the suspected noncompliance ⁽²⁾ cannot be obtained, the auditor should consider the effect of the lack of audit evidence on the audit report.

15/05 If in the auditor's judgement, a noncompliance ⁽²⁾ with laws and regulations is believed to be intentional, the auditor should consider whether the suspicion of fraud arises, even when the noncompliance is not considered material by value. Where fraud is suspected, CAPS 14/03 above applies. Furthermore, the auditor should consider the impact of the noncompliance on the audit report.

15/06 If, in an audit of the reliability of accounts and/or the legality and regularity of the underlying transactions, the auditor concludes that the noncompliance ⁽²⁾ has a material effect on the reliability of the accounts or on the legality and regularity of the underlying transactions and has not been properly reflected or corrected in the accounts, the auditor should draft a qualified or an adverse opinion.

15/07 If, in an audit of the reliability of accounts and/or the legality and regularity of the underlying transactions, the auditor is precluded by the entity from obtaining sufficient, relevant and reliable audit

evidence to evaluate whether noncompliance ⁽²⁾ that may materially affect the reliability of the accounts or the legality and regularity of the underlying transactions, has, or is likely to have, occurred, the auditor should draft a qualified opinion or a disclaimer of opinion on the accounts on the basis of a limitation on the scope of the audit.

15/08 If, in an audit of the reliability of accounts and/or the legality and regularity of the underlying transactions, the auditor is unable to determine whether noncompliance ⁽²⁾ has occurred because of limitations imposed by the circumstances rather than by the entity, the auditor should consider the effect on the audit report (“non-opinion”).

15/09 If, in an audit other than an audit of the reliability of accounts and/or the legality and regularity of the underlying transactions, the auditor concludes that material noncompliance ⁽²⁾ has occurred in the area being audited, the auditor should make references to the circumstances in the audit report.

2 Planning

20 (3) Planning

20/21 The auditor should plan the audit work so that the audit will be performed in an efficient and effective manner.

20/22 The auditor should develop and document an overall Audit Planning Memorandum (APM) describing the expected scope and conduct of the audit, the main questions to be answered, the nature of the audit evidence to be obtained, the methods for obtaining it and the basis for evaluating it. The APM should also include a summary of the results of the analytical procedures performed, a timetable for executing the audit and preparing the audit report and a budget for audit resources and mission costs. The APM should be agreed by the responsible Head of Division after consultation with the Director and presented by the Member responsible for the audit to the Audit Group. The primary purpose of the APM is to provide the basis for decisions regarding the proposed audit by the responsible Member. Thus the APM should be a succinct document.

20/23 The auditor should develop and document an audit programme setting out the nature, timing and extent of planned audit procedures required to implement the overall audit plan. The audit programme should address all the objectives set for the audit and all significant risks that have been identified and be approved by the Head of Division after consultation with the Director before audit testing work commences. The audit programme provides the basis for communicating to the audit team the way in which the audit is to be executed and a basis for the team leader the Head of Division and the Director to manage and control the audit. It should thus contain sufficient detail to achieve these functions.

20/24 The APM and the audit programme should be revised as necessary during the course of the audit. Significant revisions should be approved by the Member responsible. Less significant revisions (ie. That do not require significant additional audit resources and do not imply modification of the audit objectives) must be approved by the Head of Division in consultation with the Director. The Member responsible should be informed of any such revisions.

21 Knowledge of the audited entities and activities

21/01 In performing an audit, the auditor should have or obtain a knowledge of the entities and activities concerned sufficient to enable the auditor to identify and understand the events, transactions and practices that, in the auditor’s judgement, may have a significant effect on the accounts or on the examination or audit report.

21/02 The Head of Division and the team leader should ensure that all audit staff assigned to an audit task

obtain sufficient knowledge of the entities and activities concerned to enable them to carry out the audit work delegated to them.

21/03 The auditor should review financial and non financial data to ascertain whether it is consistent with the auditor's knowledge of the entities and activities being audited. This review should be undertaken at the planning stage, to identify areas that might merit further examination, and at the end of the audit, to confirm the consistency of the audit findings.

22 Materiality

22/01 The auditor should consider materiality and its relationship with audit risk when conducting an audit.

22/02 For each individual audit finding, the auditor should consider the possibility that it is material because of its value, its nature or because of the context in which it arises.

22/03 Materiality should be considered by the auditor when:

- a) determining the nature, timing and extent of audit procedures; and
- b) evaluating the findings of the audit.

22/04 In evaluating the reliability of the accounts, the auditor should assess whether the aggregate value of uncorrected misstatements that have been identified during the audit is material. Errors relating to the completeness and the presentation and publication of the accounts and to the reality of underlying operations and the measurement of underlying transactions must be considered in assessing the reliability of the accounts ("image fidèle").

22/05 In evaluating the legality and regularity of underlying transactions, the auditor should assess whether the aggregate value of illegal and irregular transactions that have been identified during the audit is material. In addition, the auditor should consider the nature and context of illegal and irregular transactions.

22/06 In planning an audit of the reliability of accounts and/or the legality and regularity of underlying transactions, the auditor should normally set a materiality threshold between ½% and 2% of gross expenditure (or gross revenue, if applicable). Any divergence from this range should be fully documented in the audit working papers agreed by the responsible Head of Division after consultation with the Director and approved by the responsible Member before audit testing work commences. In the case of an audit undertaken as part of the statement of assurance on the general budget, any divergences from the materiality threshold established for the audit as a whole should be agreed with the DAS Coordination Sector before audit testing procedures commence.

22/07 In evaluating the soundness of financial management, the auditor should assess whether the audit findings include any matters relating to the economy, efficiency and/or effectiveness of the management of the entities and/or activities examined that merit inclusion in the Court's annual report or in a special report.

3 Internal control

30 Risk assessments and internal control

30/01 The auditor should obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an efficient and effective audit approach (See CAPS 30/03 - 30/05 below). The auditor should use professional judgement to assess audit risk and design audit procedures to ensure it is reduced to an acceptably low level. (Audit risk is the risk that the Court expresses an opinion that the accounts are reliable when in fact they are not, that the underlying transactions are legal and regular when

this is not the case or that financial management has been sound when it was not).

30/02 In developing the APM, the auditor should assess inherent risk at the level of the activity/entity as a whole. In developing the audit programme, the auditor should relate this assessment to each component ⁽⁴⁾ of an audit, or assume that inherent risk is high for the component concerned. (Inherent risk is the risk related to the nature of the activities, operations and management structures that errors or failures in financial management will occur which, if not prevent or detected and corrected by internal control procedures, will cause the accounts to be unreliable, the underlying transactions to be materially illegal or irregular or financial management to be unsound).

30/03 For financial audits and when necessary for audits of sound financial management, the auditor should obtain an understanding of the accounting system sufficient to identify and understand:

- a) major classes of transactions in the entity's operations;
- b) how such transactions are initiated;
- c) significant accounting records, supporting documents and accounts in the financial statements; and
- d) the accounting and financial reporting process, from the initiation of significant transactions and other events to their inclusion in the Community accounts.

30/04 The auditor should obtain an understanding of the control environment sufficient to assess management's attitudes, awareness and actions regarding internal controls and their importance in the entity.

30/05 The auditor should obtain an understanding of the control procedures sufficient to develop the APM.

30/06 After obtaining an understanding of the accounting and internal control systems, the auditor should make a preliminary assessment of control risk for each relevant component ⁽⁴⁾ which is material and falls within the audit objectives. (Control risk is the risk that internal control procedures will fail to prevent or detect and correct on a timely basis material errors or material failures in financial management. Such a failure may arise either because of the absence of appropriate control procedures or because existing internal control procedures do not operate effectively, continuously and consistently).

30/07 The preliminary assessment of control risk for each component ⁽⁴⁾ of an audit should be high unless the auditor:

- a) is able to identify internal controls relevant to the specific control risk which are likely to prevent or detect and correct the error, irregularity or failure of sound financial management concerned; and
- b) plans to perform tests of control ⁽⁵⁾ to support the assessment.

30/08 The auditor should document in the audit working papers:

- a) the understanding obtained of the entity's accounting and internal control systems; and
- b) the assessment of control risk.

30/09 The auditor should obtain audit evidence through tests of control to support any assessment of control risk other than "high risk". The lower the assessment of control risk, the more support the auditor should obtain that the accounting system (for financial audits) and the internal control system (for all audits) are suitably designed and operating effectively, continuously and consistently.

30/10 Based on the results of the tests of control, the auditor should evaluate whether the internal controls are designed and operating as contemplated in the preliminary assessment of control risk.

30/11 Before relying on procedures performed in prior audits [when performing tests of control], the auditor should obtain audit evidence which supports this reliance.

30/12 The auditor should consider [when performing tests of control] whether the internal controls were in use throughout the period.

30/13 Before the conclusion of the audit, based on the results of substantive procedures and other evidence obtained by the auditor, the auditor should consider whether the assessment of control risk is confirmed.

30/14 The auditor should consider the assessed levels of inherent and control risks in determining the nature, timing and extent of substantive procedures required to reduce audit risk to an acceptable level.

30/15 In audits of the reliability of accounts and/or the legality and regularity of underlying transactions, regardless of the assessed levels of inherent and control risks, the auditor should perform some substantive procedures for material account balances and classes of transactions. In financial audits which are largely concerned with an examination of the system, the auditor should consider the extent of substantive testing to be undertaken.

30/16 In audits of the reliability of accounts and/or the legality and regularity of underlying transactions, the higher the assessment of inherent and control risk, the more audit evidence the auditor should obtain from the performance of substantive procedures.

30/17 In audits of the reliability of accounts and/or the legality and regularity of underlying transactions, when the auditor determines that detection risk regarding a general audit objective for a material account balance or class of transactions cannot be reduced to an acceptably low level, the auditor should draft a qualified opinion or a disclaimer of opinion. (The detection risk is the risk that the auditor's substantive procedures will fail to detect an error or failure in financial management which, individually or when aggregated with other errors/failures, could be material. Such a situation may cause the Court to express a positive opinion about the reliability of the accounts, the legality and regularity of underlying transactions or the soundness of financial management when a qualified or adverse opinion should be expressed).

31 Auditing in a computerised information systems (CIS) environment

31/01 The auditor should consider how a CIS environment affects the audit.

31/02 The auditor should have sufficient knowledge of the CIS to plan, direct, supervise and review the work performed. The auditor should consider whether specialised CIS skills are needed in an audit.

If the use of a specialist with CIS skills is planned, the auditor should obtain sufficient, relevant and reliable evidence that such work is adequate for the purposes of the audit, in accordance with Court Audit Policies and Standards 52/01 - 52/04, "Using the Work of an Expert".

31/03 In planning the portions of the audit which may be affected by the audited body's CIS environment, the auditor should obtain an understanding of the significance and complexity of the CIS activities and the availability of data for use in the audit.

31/04 When the CIS are significant, the auditor should also obtain an understanding of the CIS environment and whether it may influence the assessment of inherent and control risks.

4 Audit evidence

40 Audit evidence

40/01 The auditor should obtain sufficient, relevant and reliable audit evidence to be able to draw reasonable conclusions on which to base the audit opinion or report.

40/02 When obtaining audit evidence from tests of control, the auditor should consider the sufficiency and relevance and reliability of the audit evidence to support the assessed level of control risk.

40/03 When obtaining audit evidence from substantive procedures, the auditor should consider the sufficiency and relevance and reliability of audit evidence from such procedures taking account of any evidence obtained from tests of control carried out on the component ⁽⁶⁾ concerned.

40/04 In drawing conclusions, the auditor should consider the sources and the nature of the evidence obtained. Whenever possible, the auditor should prefer written evidence, evidence obtained directly by the auditor and evidence obtained from third parties. When evidence from different sources relating to a material matter is contradictory, the auditor should seek to resolve the contradiction by obtaining further evidence. When, in an audit of the reliability of accounts and/or the legality and regularity of underlying transactions, it is not possible to resolve such a contradiction, the auditor should consider drafting a qualified opinion (CAPS 60/26) or a disclaimer of opinion (CAPS 60/27).

42 Analytical procedures

42/01 The auditor should apply analytical procedures at the planning and overall review stages of the audit.

42/02 The auditor should apply analytical procedures at the planning stage to assist in understanding the audited entity or activity and in identifying areas of potential risk.

42/03 In financial audits and where applicable in the context of audits of sound financial management, the auditor should apply analytical procedures at or near the end of the audit when forming an overall conclusion as to whether the audited financial information as a whole is consistent with the auditor's knowledge of the audited entities and activities.

42/04 When analytical procedures identify significant fluctuations or relationships that are inconsistent with other relevant information or that deviate from predicted amounts, the auditor should investigate and obtain adequate explanations and appropriate corroborative evidence.

42/05 Analytical procedures will normally provide only an indication of possible inconsistencies in information. Thus the auditor should consider carefully the appropriateness of using analytical procedures to obtain substantive evidence in support of the audit objectives. When used as a substantive procedure to confirm the accuracy of figures making up part of accounts, any analytical procedure should take the form of a predictive test. The auditor should accept only a small difference between the predicted and actual figure (normally within a tolerance level of less than one percent), unless reasonable explanations can be found and confirmed to explain this difference.

43 Audit sampling

43/01 When designing audit procedures, the auditor should determine appropriate means for selecting items for testing so as to gather audit evidence to meet the objectives of audit tests.

43/02 In obtaining evidence, the auditor should use professional judgement to assess audit risk and design audit procedures to ensure this risk is reduced to an acceptably low level (for a definition of audit risk, see CAPS 30/01).

43/03 When designing an audit sample, the auditor should consider the objectives of the test and the

attributes of the population from which the sample will be drawn. (Consideration of these matters assists the auditor to define what constitutes an error and what population to use for sampling).

43/04 In determining the sample size, the auditor should consider whether sampling risk is reduced to an acceptably low level. (Sampling risk is the risk that the auditor's conclusion, based on a sample, is different from the conclusion that would have been reached if the entire population had been subjected to the same audit procedure).

43/05 The auditor should select sample items in such a way that the sample can be expected to be representative of the population. Thus, all sampling units in the population should have a chance of selection.

43/06 The auditor should perform audit procedures appropriate to the particular test objective on each item selected.

43/07 Having carried out, on each sample item, the appropriate audit procedures, the auditor should:

- a) analyse the nature and cause of any errors detected in the sample and their possible effect on the particular test objective and on other areas of the audit;
- b) project the monetary errors found in the sample to the population and consider the effect of the projected error on the particular test objective and on other areas of the audit; and
- c) reassess whether preliminary assessments of the relevant characteristics of the population (inherent risk, control risk, sampling risk ...) is confirmed or needs to be revised.

46 Subsequent events

46/01 During the period between the completion of audit testing procedures and the final adoption by the Court of the report (after contradictory procedure), the auditor should remain alert to any major developments that might influence the contents of the audit opinion or report. Where such developments occur, the auditor should analyse these and draw the conclusions of the analysis to the responsible Head of Division, Director and the Member of the Court with responsibility as rapporteur, with a view to including appropriate comments in the audit report.

46/02 During the period between the adoption of the final report (after contradictory procedure) and its publication, the auditor should remain alert to any major developments which may affect the observations or conclusions included in the report. The auditor should draw any such matters to the attention of the responsible Head of Division and Member, so that due account can be taken of them during the discharge procedure.

48 Management Representations

48/01 The auditor should consider the sufficiency relevance and reliability of evidence - particularly oral assertions - that are provided by the management of audited entities. When assertions made by management relate to material matters the auditor should whenever possible obtain sufficient, relevant and reliable corroborating evidence from other sources to confirm the management assertions.

5 Using the work of others

50 Using the Work of Another Auditor

50/01 The Court publishes its reports in its own name and under its own responsibility. When an auditor of the Court uses the work of another auditor in preparing a draft report, the auditor must ensure that the work of the other auditor provides sufficient, relevant and reliable audit evidence for the purposes of the Court's draft report.

The work of the National Audit Institutions of the Member States (NAIs):

50/02 When the work of an NAI is used or a joint or coordinated audit with an NAI is undertaken, the Court's auditor should follow any principles and/or procedures for cooperation with NAIs established by the Contact Committee of Presidents and/or the meetings of Liaison Officers of the Court and the NAIs. In addition, in any work carried out in cooperation with NAIs, auditors of the Court must maintain appropriate relations of professional equality.

The work of external auditors other than Member State NAIs:

50/03 When the auditor uses the work of another auditor, the auditor should determine how the work of the other auditor will affect the audit.

50/04 The auditor should consider whether his/her own participation is sufficient to be able to act as the principal auditor.

50/05 When planning to use the work of another auditor, the auditor should consider the professional competence of the other auditor in the context of the specific assignment.

50/06 The auditor should perform procedures to obtain sufficient, relevant and reliable audit evidence that the work of the other auditor is adequate for the auditor's purposes, in the context of the specific assignment.

50/07 The auditor should consider the significant findings of the other auditor.

50/08 In audits of the reliability of accounts and/or the legality and regularity of underlying transactions, when the auditor concludes that the work of the other auditor cannot be used and the auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the auditor should draft a qualified opinion or disclaimer of opinion because there is a limitation in the scope of the audit.

50/09 In audits other than those of the reliability of accounts and/or the legality and regularity of underlying transactions, when the auditor concludes that the work of the other auditor cannot be used and the auditor has not been able to perform sufficient additional procedures regarding the matters audited by the other auditor, the auditor should consider the impact upon the audit report.

50/10 When the auditor bases the audit opinion solely upon the work of another auditor regarding the audit of one or more components, the auditor's report should state this fact clearly and should indicate the magnitude of the components audited by the other auditor.

51 Considering the Work of Internal Audit

51/01 The auditor should consider the activities of internal audit or equivalent bodies and their effect, if any, on the Court's audit procedures.

51/02 The auditor should obtain a sufficient understanding of internal audit activities to assist in planning the audit and developing an effective audit approach.

51/03 During the course of planning the audit, the auditor should perform a preliminary assessment of the internal audit function when it appears that internal auditing is relevant to the Court's audit of specific areas.

51/04 When the auditor intends to use specific work of internal audit, the auditor should evaluate and test that work to confirm its adequacy for the Court's purposes.

52 Using the Work of an Expert

52/01 When planning to use the work of an expert, the auditor should assess the independence, objectivity and professional competence of the expert.

52/02 When using the work performed by an expert, the auditor should obtain sufficient, relevant and reliable audit evidence that the scope and detail of such work is adequate for the purposes of the audit.

52/03 The auditor should assess the appropriateness of the expert's work as audit evidence in the context of the objectives of the audit.

52/04 If the results of the expert's work do not provide sufficient, relevant and reliable audit evidence or if the results are not consistent with other audit evidence, the auditor should resolve the matter.

6 Audit conclusions and reporting

60 Reporting

Communicating audit results to audited entities and the Commission - sector letters:

60/01 The auditor should prepare a sector letter addressed to the appropriate Member State authorities as soon as possible and not later than two months after the completion of each mission to a Member State. This letter, which should be signed by the Member of the Court responsible for the audit and normally be in the language of the Member State concerned, should detail all the significant facts and findings arising during the mission and invite comments upon these by the Member State authorities within a reasonable time. The sector letter should include sufficient documentation and/or explanation that the audited entity can identify and understand the facts and findings and verify that these are correct. Sector letters should not open an exchange of views regarding the Court's eventual interpretation of those facts.

60/02 CAPS 60/01 applies by analogy to audit missions carried out to the Commission and other Community institutions and bodies.

60/03 When observations arise during the course of an audit that require urgent attention by management, the auditor should prepare a special sector letter for the signature of the responsible Member as quickly as possible to draw the attention of management to the facts.

60/04 Sector letters should be drafted in such a way as to make it clear that their contents do not engage the Court.

60/05 The audit team should analyse the replies received to sector letters and consider their impact upon the audit report. This analysis should be reviewed by the Head of Division. This analysis should give rise, in principle within three weeks, to a response that sets out succinctly the position of the sector regarding the explanations given by the Member State in respect to the findings communicated in the sector letter with the objective of reaching agreement on the facts. If the deadline of three weeks cannot be met, the sector must send a letter informing the Member State of the approximate date on which the letter following up the replies will be sent.

60/06 Where no reply is received to a sector letter by the required date, the auditor should enquire as to whether a reply will be forthcoming. When these enquiries are made on an informal basis, they may be made

by the audit team under the direction of the Head of Division. Where the Member, upon the advice of the Head of Division (and, where appropriate, the Director), considers that the enquiry should be made on the basis of a formal letter, the procedure for sending this letter should conform to the principles outlined in CAPS 60/01 (?).

60/07 When the reply to a sector letter reveals an unresolved difference of opinion over the facts concerning an observation, the audit team, under the responsibility of the Head of Division, should seek to resolve this, at the latest by the time of the contradictory procedure with the Commission, through further contact with the audited entity. If any difference of opinion over the facts has not been resolved by the time of the contradictory procedure for the resultant draft report, the Head of Division (and, where appropriate, the Director) should advise the Member responsible as to whether the observation can remain in the draft report. When the observations not withdrawn or modified, the Head of Division (or, where appropriate, the Director) should draw the details of the difference in opinion over the facts to the attention of the Commission before or during the contradictory procedure so that they can be taken into account in the replies of the Commission.

60/08 Sector letters, replies, follow-up letters and replies to these should be copied by the auditor to the responsible service within the Court ⁽⁸⁾ for transmission to the Commission service responsible for budgetary and accounting matters.

60/09 The sector letter arrangements for audits in Member States described in CAPS 60/01 to 60/06 apply by analogy for missions to third countries. In such cases, the resulting sector letters should be addressed to the responsible Commission service.

Annual and Special Reports:

60/20 At the end of each audit the auditor should review and assess the conclusions drawn from the audit evidence obtained. The auditor should prepare a draft report, based on this evidence, setting out the observations, conclusions and recommendations of the audit. The draft report should be in a form that supplies readers with a clear picture of why the issues were examined and the results of the examination (see 60/21 below).

60/21 Draft audit reports should take due account of replies to sector letters and should be objective, clear, concise, constructive, timely and based on appropriate audit evidence:

- a) objective - reports should aim to be balanced, free from distortion and should enhance the Court's reputation as an independent institution;
- b) clear - reports should be drafted with the reader in mind. They should be easily understood, unambiguous and logical;
- c) concise - reports should be to the point and avoid unnecessary detail;
- d) constructive - reports should assist management to overcome or avoid problems in the future. Management should not be unduly criticised for matters that were beyond their control, except in cases where such matters might reasonably have been foreseen;
- e) timely - reports will achieve greater impact when they are presented at an appropriate time and without undue delay;
- f) appropriate audit evidence - that which is sufficient for the drawing of valid conclusions, is relevant to the issues examined and is obtained from reliable sources.

60/22 In audits of the reliability of accounts and/or the legality and regularity of underlying transactions, the draft report resulting from the audit should consist of two elements: an audit opinion (which may be referred

to as a “statement of assurance” or similar) and a supporting report giving details of the significant audit observations. When the audit opinion is unqualified and there are no significant matters to be reported, the supporting report will normally be omitted.

60/23 An audit opinion arising from an audit of the reliability of accounts and/or the legality and regularity of underlying transactions should:

- a) be preceded by a suitable title;
- b) identify those to whom it is addressed and the legal basis providing for the audit;
- c) identify the accounts and the entity that have been audited, including the date of and period covered by the accounts;
- d) include a statement that the accounts are the responsibility of the entity’s management, and a statement that the responsibility of the Court is to express an opinion on the accounts based on the audit;
- e) indicate that the audit was conducted in accordance with the auditing policies and standards adopted by the European Court of Auditors;
- f) include a statement that the audit was planned and performed to obtain reasonable assurance about whether the accounts are reliable and/or the underlying transactions are materially legal and regular;
- g) include a brief summary of the audit procedures employed;
- h) include a statement by the Court that the audit provides a reasonable basis for the opinion;
- i) clearly state the Court’s opinion as to whether the accounts are reliable and/or the underlying transactions are legal and regular;
- j) be dated. Where the date attached to an audit opinion is later than the date upon which audit work was completed, the opinion should also state this earlier date so as to indicate that the effects of any events or transactions occurring in the period between the completion of audit work and the signing of the opinion are not reflected in the opinion;
- k) name a specific location at which the opinion was signed;
- l) be signed, usually by the President of the Court and possibly by the Member responsible for carrying out the audit.

60/24 In an audit of the reliability of accounts and/or the legality and regularity of underlying transactions, the auditor should draft a report with an unqualified opinion if the auditor is satisfied that, in all material respects, the accounts are reliable and/or the underlying transactions are legal and regular.

60/25 In an audit of the reliability of accounts and/or the legality and regularity of underlying transactions, the auditor should draft a report in which an unqualified opinion is modified by adding a separate paragraph if it is considered necessary to draw attention to material unusual or important matters (“emphasis of matter”).

60/26 In an audit of the reliability of accounts and/or the legality and regularity of underlying transactions, a report with a qualified opinion should be drafted when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being ‘except for’ the effects of the matter to which the qualified relates.

60/27 In an audit of the reliability of accounts and/or the legality and regularity of underlying transactions, a report with a disclaimer of opinion should be drafted when the possible effect of a limitation on scope is so material and pervasive that the Court has not been able to obtain sufficient, relevant and reliable audit evidence and accordingly is unable to express an opinion as to the reliability of the accounts and/or the legality and regularity of the underlying transactions.

60/28 In an audit of the reliability of accounts and/or the legality and regularity of underlying transactions, a report with an adverse opinion should be drafted when the effect of a disagreement is so material and pervasive to the reliability of the accounts and/or the legality and regularity of the underlying transactions that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the accounts and/or the aspects affecting the legality and regularity of the underlying transactions.

61 Comparatives

61/01 In an audit of the reliability of accounts, the auditor should obtain reasonable and appropriate evidence as to the reliability of any comparative data presented in the financial statements being audited. In addition, the auditor should consider the appropriateness, in the context of the financial reporting framework, of the comparative data thus presented.

61/02 In an audit of the reliability of accounts, when the prior period accounts are not audited, the auditor should state in the auditor's report that the corresponding figures are unaudited.

(1) Depending upon the context in which it appears, the term "the auditor" may be interpreted specifically (ie. as the individual auditor charged with carrying out the work to which the policy/standard applies) or generically (ie. all the audit staff of the Court).

(2) i.e. failure to comply with both: (i) the EU legislation and any rules or regulations (including national legislation) enacted or put in place as a requirement of or as a consequence of this EU legislation which directly govern the activities conducted by the audited entity; and (ii) all other Community legislation which has an impact upon the way in which the entity is required to conduct its operations (e.g. Procurement Directives, Environmental legislation, ...).

(3) A space has been left in the numbering to allow the later insertion of policies relating to multiannual planning, in case this becomes necessary.

(4) In the context of an opinion on the reliability of the accounts and/or the legality/regularity of underlying transactions, a "component" is taken to mean a financial statement assertion (existence, rights and obligations, occurrence, completeness, valuation, measurement, presentation and disclosure, legality and regularity) which should be confirmed by the audit.

(5) The term "tests of control" replaces "compliance tests" to bring the Court into line with international practice.

(6) See footnote (4) attached to CAPS 30/02.

(7) ie. the letter should be prepared by the auditor, should be signed by the Member responsible, should normally be in the language of the Member State concerned and a copy should be sent by the auditor to the responsible service in the Court for transmission to the Commission service responsible for budgetary and accounting matters. Depending on the circumstances of individual cases, it may not be possible to conform with the times foreseen in CAPS 60/01.

(8) currently ADAR.