ANNEX 3 ASSESSMENT PROCEDURES

3.1 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’ mean the record of assessment procedures performed, relevant evidence obtained and conclusions the auditor reached. An ‘assessment file’ refers to 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 their professional judgement 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 contracting authority for 5 years from the date of payment by the contracting authority of the auditor’s final invoice for this engagement. The contracting authority should, 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 five-year period.

4 Access to the entity’s records and documents

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 the entity’s employees and locations insofar as this is possible and relevant to the assessment. The auditor may ask the entity for access to its banks (e.g. to request a bank confirmation), consultants and others, or to firms the entity has engaged.
3.2 Planning

1 Preparatory meeting with the entity

The entity normally plans for a preparatory meeting with the auditor. This meeting will take place at the entity’s headquarters or another location, depending on which is most appropriate and convenient for both parties. The purpose of this meeting is to discuss the assessment planning, fieldwork and reporting and to clarify outstanding issues. The entity and the auditor may agree on alternative methods to prepare the assessment (e.g. conference calls). During the preparatory meeting, the auditor may request additional information and documents that it considers necessary or useful for the assessment planning and fieldwork.

The entity should inform the Commission about this meeting which may be attended by Commission representatives.

2 Planning activities, assessment plan and assessment work programmes

The auditor should plan the assessment so that it is carried out effectively and efficiently. Adequate planning involves devoting appropriate attention to important assessment areas, identifying and resolving potential problems promptly, and properly organising and managing the assessment so that it is effective and efficient.

The auditor should have an assessment plan (or a similar planning document such as an assessment work plan or a planning memorandum) setting out the assessment approach and key principles of planning, fieldwork and reporting. The auditor should have assessment work programmes that detail and document the assessment tests and procedures.

3.3 Fieldwork

1 Obtaining evidence on 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 that are relevant for the pillar concerned.

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

- talking to members of the entity’s 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 instructions 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 for example to: (i) the entity’s regulatory framework for external audit; (ii) grant and procurement
procedures; and (iii) financial instruments and financial instrument transactions; and

- repeating controls and procedures.

The auditor may wish to use flowcharts or questionnaires to help assess 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 prevented, detected and properly and promptly corrected.

When designing and carrying out tests of the controls, the auditor should:

- carry out other procedures in addition to inquiries 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 procedure’s objectives.

When determining the extent of tests of the controls, procedures or rules, the auditor must consider factors such as the characteristics of the population to be tested, 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, interviewing the management and others within the entity, confirmation, recalculation and repeating certain procedures.

3 Sampling and other means of selecting items for testing

When designing and performing tests of systems, controls, procedures and rules, the auditor may use sampling or other ways of selecting items for testing. Sampling involves applying the procedures to less than 100% of items of relevance to the assessment (e.g. a selection of transactions or account balances) such that all sampling units have a chance of being selected. This will provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
Sampling can take either a statistical or non-statistical approach. The auditor may make a well-judged 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 on the rest 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 they: (a) determine 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 auditor may request a letter of representation signed by the member(s) of the entity’s management who have the primary responsibility for the entity’s systems, controls, procedures and rules.

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 that have resulted from the fieldwork and recommendations. A copy of the memo should be sent to the contracting authority’s audit task manager.

7 Closing meeting

The auditor should organise a closing meeting with the entity. The entity should inform the Commission about this meeting which may be attended by Commission representatives.

The purpose of this meeting is to discuss the debriefing memo and to obtain the entity’s confirmation and initial comments on the auditor’s findings and recommendations. The auditor and the entity can agree on the 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 them into account for the assessment report.
3.4 Reporting

1 Basic reporting requirements and language

The auditor should report the assessment’s results 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 terms of reference (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.

3 Procedure for the consultation and submission of the draft report

The auditor should submit a draft report to the contracting authority within 12 calendar days after the day of the closing meeting (i.e. the end of the field work). The draft report should include the entity’s comments insofar as these have already been obtained during the assessment fieldwork 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 entity may send a copy of the draft pillar assessment report to the European Commission to seek the Commission’s view on specific elements of the draft report.\(^1\)

The contracting authority should provide comments to the auditor within 5 calendar days from receipt of the draft report.

The auditor should submit to the contracting authority a revised draft report which takes into account any comments received within 7 calendar days from receipt of the comments.

The contracting authority should submit comments to the auditor within 2 calendar days from receipt of the draft report.

4 Procedure for the consultation and submission of the final report

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\(^1\) Without prejudice to the supervisory measures that the Commission shall take, in accordance with Article 154(5) of the Financial Regulation
If no additional fieldwork is required, the auditor should submit a pre-final report to the contracting authority within 5 calendar days from the receipt of comments on the draft report. The word ‘pre-final’ should be indicated on the cover page of the pre-final report. The contracting authority should inform the auditor in writing whether it accepts the pre-final report within 5 calendar days from receipt of the pre-final report.

The auditor should submit a final report within 7 calendar days from receipt of the 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 entity.

The reports should be provided on the auditor’s original letterhead. 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) to the entity.

The period between the closing meeting and the submission to the contracting authority of the final report should not exceed 10 calendar days or 2 weeks.

The auditor should send an electronic and a paper copy of the final pillar assessment report to the European Commission:

European Commission
Directorate-General for […]
Audit and Control Unit
1040 Bruxelles/Brussel, BELGIQUE/BELGIË