



EUROPEAN COMMISSION

## **Guidance Note on the Audit Strategy**

**(under Article 62 of Council Regulation (EC) N°1083/2006)**

### **1. PREAMBLE**

The objective of this document is to provide guidance to the audit authority and other competent bodies responsible for the preparation of the audit strategy.

It aims to clarify the expectations from the Commission for the various sections of the audit strategy by indicating minimum elements to be provided together with additional explanation and guidance where appropriate.

The overall audit strategy sets the scope, objectives and methodology for all the audit work to be carried out to fulfill the requirements of Article 62 of Council Regulation 1083/2006. The audit strategy is a planning document that is prepared in order to ensure that the audit authority will be in a position, by 31 December each year, to produce the annual control report under Article 62(1)(d)(i) and to provide, pursuant to Article 62(1)(d)(ii), “an opinion, on the basis of the controls and audits that have been carried out under its responsibility, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular”. The audit strategy is first established at the beginning of the 9-year implementation period and is an important element for the Commission in building up its assurance on the national systems.

The audit strategy should be reviewed, at least annually, to take into account changes in events and circumstances, for example major changes in management and control systems<sup>1</sup>, results of audits, expected partial closures. Changes to the audit strategy must be noted in section 3 "Changes to the Audit Strategy" of the annual control report. This obligation can also be fulfilled by resending the original audit strategy highlighting the changes.

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<sup>1</sup> For example, reallocation of CA, MA, audit functions to other authorities, organizational structures change such as splitting a ministry, major changes in staff, new IT systems etc...

The recommended elements to be included in the audit strategy are summarised in boxes after each section heading. Additional explanation and guidance is presented underneath the boxes. At the end of every section, the specificities to be considered for the European Territorial Cooperation (ETC) programmes have been included.

As some of the required information can be more easily provided in table format, it is recommended to use the table in Annex 1 as far possible.

All correspondence related to the Audit Strategy between the Member State and the Commission will be carried out via SFC 2007.

## **2. REGULATORY REQUIREMENTS**

The following articles are of particular importance:

Council Regulation (EC) No 1083/2006

Article 62(1)(c) states:

*"The audit authority of an operational programme shall be responsible in particular for:*

*[...]*

*(c) presenting to the Commission within nine months of the approval of the operational programme an audit strategy covering the bodies which will perform the audits referred to under points (a) and (b), the method to be used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period.*

*Where a common system applies to several operational programmes, a single audit strategy may be submitted."*

In the case of a common system, the nine months period will only start as from the date of adoption of the last operational programme to be covered by the common audit strategy. However, when substantial delays are expected in the approval of one of the operational programmes, the audit authority could consider submitting a separate audit strategy for the delayed operational programme in order to comply with the deadline established in the Regulation.

Article 62(3) states:

*"Where the audits and controls referred to in paragraph 1(a) and (b) are carried out by a body other than the audit authority, the audit authority shall ensure that such bodies have the necessary functional independence".*

Article 62(4) states:

*"The Commission shall provide its comments on the audit strategy presented under paragraph*

*1(c) no later than three months from receipt thereof. In the absence of comments within this period it shall be considered to be accepted."*

### Commission Regulation (EC) No 1828/2006

Article 18 (1):

*"The audit strategy referred to in Article 62(1)(c) of Regulation (EC) No 1083/2006 shall be established in accordance with the model in Annex V to this Regulation. It shall be updated and reviewed annually and, if necessary, during the course of the year".*

For certain programmes, the above requirements are not applicable, as stated in Article 74(1) of Regulation (EC) No 1083/2006:

*"For operational programmes for which the total eligible public expenditure does not exceed EUR 750 million and for which the level of Community co-financing does not exceed 40 % of the total public expenditure:*

*(a) the audit authority is not required to present to the Commission an audit strategy under Article 62(1)(c)."*

However, considering the requirement of Article 62(2) that the audit work has to take account of internationally accepted audit standards, it is expected that the body(ies) responsible for the audit work will prepare(s) an audit strategy for their own planning purposes, in order to ensure that sufficient audits are carried out to be able to prepare the annual control report including the audit opinion (Article 62(1)(d)(ii)).

### **3. OVERVIEW OF THE APPLICABLE INTERNATIONAL AUDIT STANDARDS**

There are three main sets of international audit standards which are generally accepted within the auditing profession in Europe:

1. The standards issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), which include a short identification of issues that may be relevant to the public sector. These have also been completed by Public Sector Studies.
2. The standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI) which are generally used by external public service auditors – European Court of Auditors and the National Supreme Audit Institutions. These have been completed with the European Implementing Guidelines for the INTOSAI Auditing Standards.
3. The standards issued by the Institute of Internal Auditors, used by internal auditors in the public and private sector.

These sets of standards comprise standards of ethics, standards related to work performance and standards related to reporting. They are therefore an important point of reference for the drafting of the audit strategy.

#### 4. CONTENT OF THE AUDIT STRATEGY

##### 4.1. Introduction

- ***Identification of the audit authority responsible for drawing up the audit strategy and of any other bodies which have contributed. The procedure followed for drawing up the audit strategy should be explained.***

- Identification of the audit authority responsible for drawing up the audit strategy
- Identification of the other bodies which have contributed
- Brief explanation of the procedure followed for drawing up the audit strategy, including the preparation, coordination, and final approval and for determining the annual audit plan
- Brief explanation of the procedure for monitoring implementation, reviewing and updating the audit strategy

All auditing actors should intervene at the appropriate level in the procedure of preparing and updating the audit strategy. The overall procedure of preparation and coordination with the other audit bodies should be briefly described (i.e. the instructions and general strategy given top down by the audit authority, and the information provided from the other auditing bodies – bottom up approach). The process of final approval of the audit strategy should also be covered. Within the audit authority, the documentation on the preparation of the audit strategy should be available. The audit strategy provides the framework within which the annual audit plan is established. Therefore, in the audit strategy the annual planning exercise should be described.

This section should set out how the implementation of the audit strategy will be monitored to ensure that the objectives are met. It should be indicated who will be responsible for monitoring and whether it will be done at a central level or following a decentralised, but coordinated, approach.

Finally the procedure for review and updating the audit strategy should be described.

- ***Specification of the overall objectives of the audit strategy***

- Specification of the overall objectives
- The steps taken by the audit authority to ensure the alignment of the objectives with all audit bodies.

If other audit bodies have contributed to the audit strategy, the audit authority must ensure that their objectives are aligned with those of the overall audit strategy as the audit authority takes responsibility for the final coordination and the quality of the work. The way that the audit authority will ensure this, should be described in the audit strategy (for example through instructions, regular meetings, etc).

This is of particular relevance for the ETC programmes, where the audit work will be carried out in several Member States.

- ***Explanation of the functions and responsibility of the audit authority and other bodies carrying out audits under its responsibility.***

- Explanation of all functions and responsibilities of the audit authority, including those not relating to the Structural Funds, with reference to mission statement/audit charter where available
- Explanation of the functions and responsibilities of other bodies carrying out audits under its responsibility, with reference to mission statement/audit charter where available. For ETC programmes, this should also cover the group of auditors with reference to the rules of procedures adopted

The functions and responsibilities of all audit bodies involved in the operational programme(s) should be explained. Other responsibilities, not relating to the Structural Funds audits, should also briefly be indicated. It is recommended that the audit authorities/bodies have a mission statement, or audit charter in which their functions and responsibilities are described.

For the ETC programmes, it is important to refer to specificities with respect to the respective authorities, and the functions and responsibilities of each of the audit actors (audit authority, group of auditors, other audit bodies) should be described in the rules of procedures. A reference to the adopted rules of procedure is therefore requested. The following articles of Regulation (EC) No 1080/2006 are of particular importance

Article 14(1):

*"Member States participating in an operational programme shall appoint [...] a single audit authority, the latter being situated in the Member State of the managing authority. ..."*

Article 14(2):

*"The audit authority for the operational programme shall be assisted by a group of auditors comprising a representative of each Member State participating in the operational programme and carrying out the duties provided for in Article 62 of Regulation No 1083/2006. The group of auditors shall be set up at the latest within three months of the decision approving the operational programme. It shall draw up its own rules of procedures. It shall be chaired by the audit authority for the operational programme."*

*The participating Member States may decide by unanimity that the audit authority is authorised*

*to carry out directly the duties provided for in Article 62 of Regulation (EC) No 1083/2006 in the whole territory covered by the programme without the need for a group of auditors as defined in the first paragraph. ..."*

- ***Indication of the independence of the audit authority from the managing authority and certifying authority.***

- Indication of the independence of the audit authority from the managing authority (MA) and certifying authority (CA), with reference to the relevant organisation chart and reporting lines.
- For ETC programmes, indication of the independence of the audit authority and the group of auditors from the MA, CA, the Joint Technical Secretariat (JTS) and the controllers, with reference to the relevant organisation charts and reporting lines. Assistance provided by the JTS to the audit authority should not interfere with its independence.
- Explain how independence will be ensured.

Independence from the audited entity is a requisite for all auditors. Therefore, it is important to explain in detail the relationship of the audit authority with the different MA, CA, intermediate bodies and beneficiaries, with reference to the relevant organisation chart and the reporting lines, and the way in which independence will be ensured.

For the ETC programmes, there has to be a guarantee of the independence of the audit authority from the MA, CA, intermediate bodies and beneficiaries, the bodies specifically nominated for ETC programmes, such as the JTS, and the controllers under Article 16(1) of Regulation (EC) No 1080/2006 as stated in Article 14(2) of the same Regulation. Assistance by the JTS to the audit authority should not interfere with its independence.

In this context, reference is made to the (1) European Commission's recommendation on statutory auditors' independence which was issued in May 2002 OJ L191/22 of 19/07/2002 (determination of independence threats and risks).() (2) to the International standard on quality control N° 1, (3) the Code of Ethics of the INTOSAI and (4) Standards concerning independence of the IIA.

- ***Confirmation by the audit authority that the bodies carrying out audits under Article 62 (3) of Regulation (EC) No 1083/2006 have the requisite functional independence.***

- Confirmation by the audit authority of independence of audit bodies from the MA, CA, intermediate bodies and beneficiaries with reference to the relevant organisation chart and reporting lines. For ETC programmes, this confirmation should also be given for each member of the group of auditors.
- Indication of which audit bodies will be contracting any outsourced audit activities. For the outsourcing of audits, indicate how the independence of the contracted auditors will be ensured.
- Describe the procedures developed by the audit authority to avoid/treat situations of conflict of interest in the case of ETC programmes.

Independence is not only required at the level of the audit authority but also at the level of all bodies involved in the audit of the operational programme(s).

A confirmation of independence should be provided by the audit authority for all audit bodies involved in carrying out the audits (including outsourced audits).

Therefore, it is important to confirm the independence of all the audit bodies from the MA, CA, intermediate bodies and beneficiaries with reference to the relevant organisation chart and the reporting lines.

If audit activities are to be outsourced, it should also be clarified who will be contracting the outsourced activities and how independence of the contracted auditors will be ensured.

For ETC programmes a confirmation of the independence of each member of the group of auditors should be provided.

For these programmes, it must in addition be ensured that audit bodies are independent from the controllers acting under Article 16 of Regulation (EC) No 1080/2006 and the JTS.

In that respect it is suggested that a procedure to avoid /treat situations of conflict of interests is elaborated by the audit authority within this strategy document.

#### **4.2. Legal basis and scope**

- ***Indication of any national regulatory framework that affects the audit authority and its functions.***

- Indication of any national regulatory framework that affects the audit authority and its functions
- Indication of discrepancies between the national regulatory framework and the requirements of the Community Regulations with respect to the audit work to be performed by the audit authority, and possible consequences
- Indication of the actions that will be taken by the Member State to address the discrepancies, where necessary.

The audit authority is expected to provide an overview of the audit provisions in the national regulatory framework that affect the functions of the audit authority and other auditing bodies.

It should also identify whether there are any discrepancies between the national regulatory framework and the Community regulations and how this affects the work of the audit bodies. If this is the case, it should be indicated what action will be taken by the Member State to address the discrepancies. If there are no discrepancies, this should be specified in the audit strategy.

- ***Indication of the period covered by the strategy.***

- Confirmation that the strategy covers the entire implementation period.

The audit strategy should cover the whole implementation period up until closure and, as stated in Article 62(1), include an indicative planning of audits to ensure (i) that the main bodies are audited<sup>2</sup> and (ii) that audits are spread evenly throughout the programming period.

- ***Indication of the Funds, programmes and areas covered by the strategy.***

- Specify the Funds, programmes, areas covered, including authorities and bodies. This information can be provided in the table at Annex 1.
- Where the audit strategy covers more than one programme, specification of the common key control elements justifying the common system.

Article 62(1)(c) provides that when a common system applies to several operational programmes a single audit strategy may be submitted. A common system can be considered to exist where the same management and control system supports the activities of several operational programmes. The criteria to take into account are the presence of the same key control elements<sup>3</sup>. The audit authority has to confirm the existence of a common system (see Article 62(1)(c)) and specify the common key control elements. The audit strategies for the ETC programmes have to be drawn up separately.

### 4.3. Methodology

- ***Indication of the audit methodology to be followed taking account of internationally accepted audit standards (including, but not limited to, INTOSAI, IFAC and IIA), audit manuals and other specific documents.***

- Indication of the international audit standards to be taken into account, and other applicable standards to be applied.
- Confirmation that an audit manual is available.

<sup>2</sup> MA, CA and IB managing an important financial contribution of the operational programme.

<sup>3</sup> Defined in the Guidelines for financial correction COM(2001) 476 (*to be updated incorporating the requirements of the new Regulations*)

The audit standards which are applied have to be identified. If national standards are used, it must be indicated if they are based on any of the internationally accepted audit standards. An audit manual has to be prepared which gives a description of the working procedures for the different phases of an audit, i.e. audit planning, preliminary survey, risk assessment, performance of engagements, recording and documentation, supervision, reporting, quality assurance process and external review, using the work of other auditors, use of any computer assisted audit techniques (CAATs), sampling methods used etc. In this section, the audit authority should confirm whether the audit manual is available and if not, provide an explanation.

In the case of ETC programmes, it should be specified which audit standards will be predominantly applied for the programme and how any differences between audit bodies and/or with international audit standards will be resolved.

#### **4.4. Audit approach and priorities**

- ***Materiality thresholds for planning purposes and for reporting deficiencies.***

- Indication of the materiality threshold for planning purposes.
- Indication of the materiality threshold for reporting deficiencies if different from above

The ISA 320 has given the following definition for “Materiality”: “Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”

This is directly linked to the concept of reasonable assurance (in the context of an audit engagement) which is defined as a high, but not absolute, level of assurance, expressed positively in the auditor’s report as reasonable assurance, that the information subject to audit is free of material misstatement.

The Commission has stated in point 2 of Annex IV to Commission Regulation No 1828/2006 that the maximum materiality level is 2 % for the purposes of the random statistical sample.

In this context, reference is made to the (1) ISA 320 and (2) Implementing Guidelines N° 12 for the INTOSAI Auditing Standards.

- ***Indication of the types of audits to be carried out (system audits, audits of operations).***

***For system audits:***

***a) specification of the body or bodies responsible for the audit work;***

- A list of the bodies carrying out the system audits can be provided in the table at Annex 1.

***b) specification of the bodies to be audited;***

- A complete list of bodies that may be covered by the system audits can be provided in the table at Annex 1 (The MA, CA and all intermediate bodies should be mentioned).

It is expected that the audit authority will have to audit all bodies included in the management and control systems of a certain operational programme during the programming period.

For ETC programmes, the specification of the bodies to be audited should cover all bodies having responsibilities for ETC programmes in all Member States, including the controllers under Article 16 of Regulation (EC) No 1080/2006.

***c) indication of any horizontal issues to be covered by the system audits, such as public procurement, state aid, environmental requirements, equal opportunities and IT systems***

- The horizontal issues to be covered can be included in the table at Annex 1.

Any other specialised audits planned should be indicated, for example those designed to cover specific risks, such as the compliance with the EU rules (public procurement etc), the treatment of irregularities and the review of IT systems.

With respect to IT systems, reference is made to the following international accepted standards: (1) International Standards Organization 17799/British Standard 7799: Code of practice for Information Security Management (BS ISO/IEC 17799); (2) Bundesamt für Sicherheit in der Informationstechnik: IT-Grundschutzhandbuch/IT Baseline Protection Manual (BSI); (3) Information Systems Audit and Control Foundation: Control Objectives for Information and related Technology (COBIT).

***For audits of operations:***

***a) specification of the body or bodies responsible for the audit work;***

- A list of the bodies carrying out the audits of operations has to be provided.

***b) specification of the criteria for determining the assurance level gained from system audits and reference to the documentation used for applying the sampling methodology set out in Article 17 of Regulation (EC) No 1828/2006;***

- Determine and describe the key control elements for the MA, CA, IB
- Describe the methodology developed for the quantified assessment of all key elements of the systems, including the criteria to be used for determining the assurance level gained from system audits and the process of determination of the expected error rate to be used for the sampling
- Include a reference to the documentation available for applying the sampling methodology.
- Indicate the random statistical sampling method selected and the justification for it
- For ETC programmes confirm that the sampling documentation include the criteria to determine when the audit will be carried out on the spot at the lead beneficiary only and when it will cover all partner beneficiaries should be described.

The reliability of the systems will form the basis for the determination of the technical parameters of the sampling, in particular the confidence level and the expected error rate.

The audit authority is expected to determine the key elements of the systems, the methodology used for the quantified assessment of all key elements, including the criteria that will be used to determine the reliability of the management and control systems and the assessment of the level of assurance for the purpose of the sampling. The audit authority should also describe how the expected error rate to be used for the sampling will be determined. The Commission in collaboration with the ECA is developing a methodology for the evaluation of the key elements of the systems, which it expect to issue in the second half of 2007. It is recommended that the audit authority takes account of this methodology.

It is expected that at the beginning of the programming period, before there are results available from systems audits, the reliance to be placed on the systems will generally be considered low (related confidence level 90 %). However, there could be an exception to this when the management and control system remains the same as in the programming period 2000-2006 and the system was found to be properly functioning.

In this part of the audit strategy, the random statistical sampling method selected should be indicated. The reasons for selecting this method should be described. The sampling methodology used to choose the audits of operations must meet the criteria laid down in Annex IV of Commission Regulation (EC) No 1828/2006.

For ETC programmes, the criteria to determine when the audit will be carried out on the spot at the lead beneficiary only and when it will cover all partner beneficiaries should be described in the documentation.

***c) specification of the procedure for determining steps to be taken where material errors are detected*** (see also "Materiality thresholds" above)

- Specification of the procedure for determining steps to be taken where material errors are detected, including the indication of who will be responsible for assessing the errors, how this will be coordinated between the audit authority and different audit bodies, the method to be used, the criteria for expanding the sample if needed, the criteria to assess whether the errors are random or systemic.

Where material errors are detected the audit authority must decide on the appropriate steps to take to satisfy itself of any possible systemic effect of the errors and whether to extend the sample, for example. The procedure should be described.

- ***Indication and justification of the priorities and audit objectives established for the whole of the programming period.***
- ***Explanation of the linkage of the risk assessment results to the audit work planned.***
- ***An indicative audit schedule of audit assignments for the forthcoming year provided in a table format.***

The recommended minimum elements to be included in the audit strategy for the 3 bullet points above have been included in the box below.

- Indication of priorities and audit objectives established for the next 3 years and the more general planning for the subsequent years of the programming period. This can be included in annex 1 and can then be considered to provide the indicative audit schedule for the forthcoming year.
- Describe the criteria used to determine the priorities and audit objectives.
- The linkage of the risk assessment results to the audit work planned can be shown in the table at Annex 1.

A description of the criteria used to determine the priorities and the justification should be included.

The results of the risk assessment exercise (see below in section 4.5.) should be the main basis for prioritising the systems audit work planned.

The audit authority should provide an indicative timetable showing how they plan to cover the entire management and control system to gain reasonable assurance on its effectiveness.

It is recommended that the audit authority prepare a general planning for the whole programming period, a more detailed planning setting out the priorities for the next 3 years and an indicative audit schedule of audit assignments for the forthcoming year. The latter should show the detailed audit scope and objectives for the coming year.

For the purposes of coordination, a detailed audit plan (also called audit mission schedule) should

be provided annually to the Commission in the quarter prior to the 1 July of the audit year and in time for the annual bilateral coordination meeting. This audit plan will have to describe the detailed audit scope and objective for the coming year and include both the system audits and audits of operations.

#### 4.5. Risk assessment

- ***Indication of the procedures followed, including the extent to which the results of previous audits of the bodies and systems have been taken into account (for example, audits from the 2000-2006 period, audit work for the compliance assessment).***

- Explain briefly the overall risk assessment method followed, indicating amongst other the authorities responsible for its preparation, the process of coordination and validation. Confirm that the audit authority has validated the results of the exercise with the different audit bodies.
- Explain briefly the risk assessment model. The audit authority can provide the completed risk assessment model.
- Specify the extent to which the results of the previous audits of the bodies and systems have been taken into account.

The overall risk assessment model (analysis of inherent and control risks) should be briefly indicated (assumptions taken, risk ranking methodology, project level, measure level, ...). The risk assessment process is a continuous exercise and is to be updated on a yearly basis. If there is a change of procedures, the Commission should be informed in the framework of the annual control report. In the risk assessment, the results of previous audits and the compliance assessment exercise can be considered.

- ***Indication of the managing authority, certifying authority and intermediate bodies covered.***

- Indication of the bodies covered in the risk assessment. This information can be provided in the table at Annex 1.

The overall risk assessment should cover all authorities and intermediate bodies of the management and control system.

For ETC programmes, the Joint Technical Secretariats and the first level controllers designated under Article 16 of Regulation (EC) No 1080/2006 should also be included.

- ***Indication of the risk factors taken into account, including any horizontal issues identified as risk areas.***

- Indication and explanation of the risk factors taken into account and description the scoring system used.

A list of risk factors considered should be included in this section. Some examples which may be considered are the following: amount, management competence, quality of internal controls, degree of change or stability in the control environment, time of last audit engagement, complexity of the organizational structure, type of operations, type of beneficiaries etc...

- ***Indication of the results through identification and prioritisation of the key bodies, processes, controls and programmes and priority axes to audit.***

➤ Indication of the results can be included in the table in Annex 1.

Not all bodies can be covered from the beginning and therefore priorities will have to be established based on a risk assessment. The risk assessment exercise is the main basis for prioritising the audit work planned (key bodies etc).

In this context, reference is made to the relevant (1) ISA 315 and 330, (2) Implementing guideline N° 10 and IIA Standard 2010.

#### **4.6. Reliance on the work of others**

- **Indication of the extent to which certain components are audited by other auditors and the extent of potential reliance on such work.**

- Indication of the extent to which certain authorities/bodies/priority axes in the framework of system audits and audits of operations are audited by other auditors or outsourced.
- Indication of the extent of potential reliance on such work, for example only for planning purposes, as audit evidence, for confirming the audit authorities audit results.
- For ETC programmes, indication to what extent the audit results covering the bodies of convergence or competitiveness programmes will be considered.

The audit authority should identify the audit bodies on which they will rely and for which types of audits the latter will be responsible. From this description it should be clear how the audit authority will build up its annual opinion. It is expected that the audit authority will have to make an ex-ante assessment of the independence, procedures, etc... applied by the audit bodies to establish the extent of reliance.

When those ETC programmes are partly delivered, managed or controlled through bodies common with those acting under convergence or competitiveness programmes, the audit authority of the ETC programmes will indicate how the audit results covering these bodies will be taken into consideration for its own reports and opinion.

- **Explanation of how the audit authority will ensure the quality of the work carried out by the other audit bodies, taking account of the internationally accepted audit standards.**

- Provide a brief description of the quality control that will be performed by the audit authority to ensure that the work of the audit bodies is acceptable, adequate and that internationally accepted audit standards have been taken into account.
- Indication on how the audit authority will review the outsourced audit activities or will supervise the process of outsourcing of audit activities by other audit bodies.
- Indication of the agreed procedures between the audit authorities and the audit bodies of the ETC programmes with respect to the reliance on each others work.

It is expected that the audit authority will develop a procedure to ensure that the quality of the work carried out by the other bodies is acceptable, adequate and that the internationally accepted audit standards have also been taken into account by these auditors. A description of the process to be followed in order to rely on the work of other audit bodies should be included in the audit manual to which a reference can be made in this section (for example instructions given in order to have a common audit approach, administrative agreement, review of files (detailed review), discussion with the other audit bodies on the findings, limitations in access to the files/ in the work done, quality assurance of the work done, check whether auditors have the necessary expertise to check the specificities of the SF, reporting to the coordinating body with deadlines and contingency plan, etc...). A summary of this procedure should be included in the audit strategy in this section.

The Commission recommends that the audit authority is given unrestricted access to the audit working papers.

If audit activities are outsourced, the process of supervision to ensure adequate work is performed, is important. The responsibility for supervision of these outsourced activities should be specified. Where it is not the audit authority, it should be indicated how the audit authority will review the process of supervision to ensure adequate work is performed.

For ETC programmes, it is expected that measures and procedures have been agreed before submission of the audit strategy to enable the audit authority to rely on the work of the other audit bodies performing work under its responsibility in line with the internationally accepted audit standards.

The audit authority should identify the standards taken into account in this context. From the analysis of these standards, it can be concluded that in order to rely on the work of others, a number of conditions have to be fulfilled. For further details, we refer to the following standards: (1) ISA 600, (2) Implementing Guidelines N° 25 of the INTOSAI auditing standards and (3) the IIA standard 2050. The Commission is recommending the adherence to these.

#### **4.7. Resources**

- *Indication of planned resources to be allocated, at least for the forthcoming year.*

- Indication of the human resources available at least for the forthcoming year using the table below.

An overview of the resources can be made following this table:

Audit body Resources by Type of Audit	Audit Authority	Audit body 1	Audit body 2	
System audits	Number of staff	Number of staff	Number of staff	
Audits of operations	Number of staff	Number of staff	Number of staff	

The audit strategy should indicate the human resources in auditor days available to accomplish its objectives for the coming year, including the resources of other audit bodies and outsourced audit activities. It is recommended to indicate the auditor days available at the level of the audit authority, other audit bodies and outsourced activities separately. An indication of available auditor days per audit type (system audit and audit of operations) should be included as well as a short description of the professional experience of audit staff. It is essential to provide for adequate resources from the beginning of the programming period as the audits should be spread evenly throughout the programming period (Article 62(1)(c)) and as the Audit Authority has to issue an annual control report and opinion on the basis of the controls and audits that have been carried out (Article 62(1)(d)(i)(ii)). The use of any specialist skills required should be identified. In this section of the audit strategy, the audit authority is requested to demonstrate and confirm that the necessary resources are available for the work spelled out in the audit strategy.

In the Regulations, the minimum level of skills and experience needed for performing the different types of audits have not been specified. However, considering that the audit authority has to take account of the international audit standards, it is important to note that the code of ethics and the standards include general principles such as integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, which have to be followed by the audit authority.

It is recommended to have a long-term planning so that future requirements in recruitment, training and continuing professional development can be adequately planned in advance.

In case the audit authority and/or audit bodies are the same as those for the programming period 2000-2006, it is important that adequate resources are also be planned with respect to the ongoing period. Therefore, the audit authority has to confirm that the resources indicated are available in addition and separate to the resources allocated to the remaining audit work for the current programming period.

In terms of audit resources, we refer to the (1) INTOSAI European Implementing Guidelines N°

11 and the (2) IIA standards.

#### 4.8. Reporting

- ***Indication of internal procedures for reporting, such as provisional and final audit reports, and of the right of the body audited to be heard and to provide an explanation before a final position is taken.***

- Brief description of the reporting procedure (including the different phases of reporting (draft/contradictory procedures/final), deadlines for reporting, formatting of reporting (including executive summary), addressees of reports, criteria used for the opinions, reporting on follow up procedure and annual control reporting.

At the end of each audit, the auditor should prepare an audit report with an opinion. It is recommended that a standard format, including an executive summary, is used by all audit bodies. The reporting procedure, including the reporting on the follow-up process and from the monitoring tools, should be indicated in this section.

For reference, a reporting procedure should include:

- a description of procedure for preparing the draft report, the contradictory procedure ("the right of the body audited to be heard") and the issuance of the final report including an indication of the deadlines. This procedure should ensure the timely preparation of the reports;
- a description on the reporting lines within the administration as well as the procedure for reporting to the Commission (individual reports to be included). Only the system audit reports are to be submitted to the Commission. Other reporting lines (for example to an audit committee) should be specified. It is expected that in addition to the auditee, copies of the reports should also be provided to the relevant bodies having particular interest in these reports (such as CA and/or MA). This will help to assess the need for the establishment of further controls in the framework of the functions allocated to them.
- a description of the procedures of reporting between the different audit bodies and
- a description of reporting on the follow-up procedures. This refers to the system which tracks the implementation of the recommended actions which are raised by the audits carried out at all levels. The audit authority should define a process to determine the adequacy, effectiveness and timeliness of actions taken by the auditees on all reported findings and recommendations.

In addition to that the monitoring tools available within the audit authority from which data can be extracted such as status of implementation of the audit schedule, reporting on findings/recommended actions (number, type, systemic findings, status of implementation of recommended actions, error rates, amount of irregular expenditure, ...) should be described.

The audit authority should develop criteria for the provision of the opinions in order to assure consistency on the approach between the different audit bodies and describe these as well.

The procedures to be followed for the preparation of the annual control report/partial closure report and the annual opinion should be described as well. The audit authority should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the annual audit opinion.

In the rules of procedures adopted for the ETC programmes, procedures on reporting languages and procedures for translation should be included. In fact, it should be clear upfront what the reporting languages and what the procedures for translating audit reports will be. The rules of procedures should also include the process of transmitting reports to the relevant parties involved (MA, controllers, JTS, CA, AA and group of auditors).

## **5. WHAT CAN YOU EXPECT FROM THE COMMISSION?**

As described in Article 62(4): "The Commission shall provide its comments on the audit strategy presented under paragraph 1(c) no later than three months from receipt thereof. In the absence of comments within this period it shall be considered to be accepted".

This means that the relevant Structural Funds DGs will examine the audit strategy submitted and will either indicate that it is approved or not. In practice the Commission will respond formally in each case within the time period. The evaluation will be done along the same lines in both DGs. In case of non approval, it will indicate the reasons and the deadline for providing the additional elements to the Commission. If necessary, a bilateral meeting may be organised to discuss these elements. The updated audit strategy during the life of the operational programmes will be reviewed in the framework of the annual coordination meeting foreseen in Article 73 (1).

The Commission will reply to each audit strategy document sent, via SFC 2007.

## Annex 1: overview table of audit activity planned.

CCI number (s) <sup>4</sup>		Name of programme(s) <sup>4</sup>			Funds <sup>4</sup>				
		Audit assignments for year							
Bodies to be audited (Authorities) <sup>5</sup>	CCI number <sup>4</sup>	Amount approved <sup>6</sup>	Body responsible for auditing <sup>7</sup>	Result of risk assessment <sup>8</sup>	2007 <sup>9</sup> Priorities, audit objective and scope	2008 <sup>11</sup> Priorities, audit objective and scope	2009 <sup>12</sup> Priorities, audit objective and scope	2010 <sup>13</sup> Priorities, audit objective and scope	2011-2015 <sup>14</sup> Priorities and audit objective
Horizontal issues <sup>10</sup>									

Reference to the section included in the guidance note.

<sup>4</sup> Section 4.2. Specification of funds, programmes areas covered by the audit strategy

<sup>5</sup> Section 4.4. Specification of the bodies to be audited and section 4.5. an indication of the managing authorities, certifying authorities and IB covered in the risk assessment.

<sup>6</sup> Amount approved under the responsibility of each of the bodies to be audited (Authorities) mentioned in the first column.

<sup>7</sup> Section 4.4. Specification of the body or bodies responsible for the audit work. Also related to section 4.6. of the guidance note on reliance on the work of others

<sup>8</sup> Section 4.5. Explanation of the linkage of the risk assessment results to the audit work planned. Indication of the results of the risk assessment

<sup>9</sup> Section 4.4. An indicative audit schedule of audit assignments for systems audits 01/01/2007-30/06/2008 + indication and justification of the priorities, audit objectives and scope for that year.

<sup>10</sup> Indication of any horizontal issues to covered by the system audits

<sup>11</sup> Section 4.4. Indication and justification of the priorities, audit objectives 01/07/2008-30/06/2009 +

<sup>12</sup> Section 4.4. Indication and justification of the priorities, audit objectives 01/07/2009-30/06/2010 .

<sup>13</sup> Section 4.4. Indication and justification of the priorities, audit objectives 01/07/2009-30/06/2010 .

<sup>14</sup> Section 4.4. Indication and justification of the priorities, audit objectives 01/07/2011-30/06/2015 .

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