An auditor’s angle on Horizon 2020

IAASB meeting, 19 March 2015
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About FEE

47 institutes

800,000 professionals

36 countries

28 EU member states
Agreed-upon procedures (AUP)

- Increasingly important
  - Significant project for the IAASB
- Not just a replacement for audit of financial statements
  - Provide level of comfort for non-financial information
- EU directive 2014/95/EU (22 October 2014) regarding disclosure of non-financial and diversity information by certain large undertakings and groups
- Horizon 2020…
H2020: development and importance

Previous framework programmes (FPs): 6, 5, 4…

• ISA audit and report on certificate on financial statement
  ► Check whether declared costs eligible

• Difficult for auditors to meet EC objectives

Since FP7, H2020

• Agreed-upon procedures (AUP) for:
  ► Certificate on financial statement (CFS)
  ► Certificate on methodology (CoMUC)

H2020: €70bn funding for research and innovation (2014–2020)

• Important inspiration for other FP funding
Issues

EC’s PRACTICAL expectations v IAASB’s TECHNICAL standards:

• Tripartite engagement
  ► Duty of care and liability
  ► Access to working papers

• Assurance v agreed-upon procedures (AUP)
  ► EC Procedures and report embedded in legislation: can auditor deviate to comply with own standards?
  ► Responsibilities of beneficiary: represent facts (rep. letter)

• Terminology
  ► ‘Review’ ≠ review
Parties involved

**EUROPEAN COMMISSION**
- Sets procedures / factual findings to be reported
- Not a party to engagement letter
- Receives and relies on report on factual findings
- Assesses the findings reported by the auditor
- Draws own conclusions regarding eligibility of costs and adequacy of methodology

**AUDITOR**
- Not involved in setting procedures
- Party to the engagement letter
- Performs specific procedures // terms of reference
- Reports on factual findings
- Does not express any assurance or audit opinion

**BENEFICIARY**
- Not involved in setting procedures
- Party to the engagement letter
- Provides complete & accurate information to auditor
- Sends auditor’s report to the European Commission

Contractual relationship (agreed-upon procedures)
ISRS 4400 on agreed-upon procedures

- **Para 9**: auditor and entity parties to *engagement letter*
  - H2020: EC not a party, but *sets the procedures*

- **Para 6 and 12**: report restricted to parties that agreed to procedures (auditor and entity)
  - H2020: report also sent to EC

- **Para 16**: terminology *agreed-upon procedures (AUP)*:
  - ‘Check’ versus ‘review’ = giving assurance?
  - ‘… is reasonable’ or ‘… is major’ = use of judgement?
  - ‘check necessary/any document’ = decision-making?
Resolution sought

- Difficult for auditor to follow the EC and IAASB rules
- What takes precedence?
  - Limitations in the EC terms of reference
    - (no expression of assurance, restricted agreed-upon procedures (AUP) and report on factual findings)
  - or
  - Terminology in prescribed AUP/factual finding report
    - Auditor forced to raise exception or remark in report?
    - EC accepts different auditor reports to pay beneficiary?
    - IAASB and EC work together?
Any questions?
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