

Court of Auditors audit policy and standards (20 April 2007)

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Court Audit policy and standards

In carrying out its duties and responsibilities within its mandate as laid down in the Treaty and the Financial Regulation, the European Court of Auditors (ECA) conducts its audits in accordance with the IFAC and INTOSAI International Auditing Standards and Codes of Ethics, in so far as these are applicable in the European Community context.

Auditors are required to respect the ECA Audit Manuals as well as all the audit procedures adopted by the ECA.

This document contains a definition of each relevant standard and provides a direct link to it. Reference is also made to the European Implementing Guidelines for the INTOSAI Auditing Standards.

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1. OBJECTIVES AND RESPONSIBILITIES

1.1. GENERAL

1.1.1. Professional Ethics

IFAC

Code of Ethics for Professional Accountants

INTOSAI

Code of Ethics

INTOSAI 2.2

In carrying out audits, auditors of the Court should have regard to the obligations of officials and other servants of the European Communities, as laid down in the Staff Regulation, and to the Code of good administrative conduct for staff of the European Court of Auditors. They should also conduct themselves in accordance with the INTOSAI Code of ethics and IFAC's Code of ethics for professional accountants. In particular, they 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.

1.1.2. Professional judgement

INTOSAI 1.0.15

The Court applies its own judgement to the diverse situations that arise in the course of government auditing.

1.1.3. Competencies of audit staff

INTOSAI 2.1

The Court should adopt policies and procedures to

- (a) Recruit personnel with suitable qualifications.
- (b) Develop and train employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff.
- (c) Prepare manuals and other written guidance and instructions concerning the conduct of audits.
- (d) Support the skills and experience available within the Court and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons to the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

1.1.4. Professional scepticism

ISA 200

The auditor should plan and perform an audit with an attitude of professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

1.1.5. Quality control

International Standard on Quality Control 1

The Court establishes a system of quality control designed to provide it with reasonable assurance that the Court and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the Court are appropriate in the circumstances.

INTOSAI 2.1

European Implementing Guidelines nr. 51

The Court adopts policies and procedures to review the efficiency and effectiveness of the Court's internal standards and procedures.

ISA 220

The engagement team should implement quality control procedures that are applicable to the individual audit engagement.

INTOSAI 3.2

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 a senior member of the audit staff.

1.1.6. Audit documentation

ISA 230

INTOSAI 3.5.5

European Implementing Guidelines nr. 26

The auditor should prepare, on a timely basis, audit documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor's report;
- (b) Evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

1.2. FINANCIAL / REGULARITY AUDIT

1.2.1. Objective and general principles governing an audit of financial statements

ISA 200

The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

In the EU context, the ECA's opinion on the EU financial statements consists in an annual statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions

INTOSAI 3.4

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the Court is to make sure, by all the means put at its disposal, that the EU budget and accounts are complete and valid. This will provide Parliament and other users of the audit report with assurance about the size and development of the related financial obligations. To achieve this objective the Court examines the consolidated accounts and financial statements of the EU with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of a "discharge".

In the EU context, the European Parliament, upon a recommendation from the Council, gives a discharge to the Commission in respect of the implementation of the budget.

1.2.2. Consideration of laws and regulations in an audit of financial statements

ISA 250

When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognise that non-compliance by the entity with laws and regulations may materially affect the financial statements.

INTOSAI 3.4

INTOSAI 1.0.39

European Implementing Guidelines nr. 52

In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

INTOSAI 1.0.28-1.0.29

An auditor should not consider compliance with accounting standards in a consistent manner as a definitive proof of presenting fairly the various financial reports. Fairness is an expression of an auditor's opinion that goes beyond the limits of consistent application of accounting standards. Such an assumption emphasises that the auditing standards are no more than the minimum requirements for an auditor's obligation. Going beyond that minimum is for the auditor's judgement.

1.2.3. Terms of audit engagements

ISA 210

The auditor and the client should agree on the terms of the engagement.

In the ECA context, the terms of the engagement are in general defined by the legal framework.

1.2.4. The auditor's responsibility to consider fraud in an audit of financial statements

ISA 240

In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud.

INTOSAI 3.0.3

Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicions.

When a case of suspected fraud, corruption or some other illegal activities 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, including those relating to communication of the matter to OLAF.

1.3. PERFORMANCE AUDIT

INTOSAI is currently working in developing more detailed standards on performance audit. In the meanwhile, performance audit should be conducted in accordance with the ECA Performance Audit Manual and following the INTOSAI Guidelines for performance auditing.

INTOSAI 1.0.27

The Court recommends to the audited entities that measurable and clearly stated objectives be established and that performance targets be set for these objectives.

INTOSAI 1.0.45-1.0.46

The Court works towards improving techniques for auditing the validity of performance measures

INTOSAI 3.4

INTOSAI 1.0.40 - 1.0.41

European Implementing Guidelines nr. 41

In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

2. PROGRAMMING AND PLANNING

2.1. PROGRAMMING

INTOSAI 3.1.2

The Court gives priority to any audit tasks which must be undertaken by law and assess priorities for discretionary areas within the Court's mandate.

2.2. PLANNING AN AUDIT

ISA 300

The auditor should plan the audit so that the engagement will be performed in an effective manner.

INTOSAI 3.1

European Implementing Guidelines nr. 11

The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

2.3. UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

ISA 315

The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures.

INTOSAI 1.0.30-1.0.31

It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is not the auditor's responsibility. It is also the obligation of the audited entity to ensure that

controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision making. However, this does not relieve the auditor from submitting proposals and recommendations to the audited entity where controls are found to be inadequate or missing.

INTOSAI 3.3

European Implementing Guidelines nr. 21

The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control

2.4. AUDIT MATERIALITY

ISA 320

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

INTOSAI 1.0.9-1.0.11

European Implementing Guidelines nr. 12

In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report.

2.5. THE AUDITOR'S PROCEDURES IN RESPONSE TO ASSESSED RISKS

ISA 330

In order to reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level.

2.6. AUDIT CONSIDERATIONS RELATING TO ENTITIES USING SERVICE ORGANISATIONS

ISA 402

The auditor should consider how an entity's use of a service organisation¹ affects the entity's internal control so as to identify and assess the risk of material misstatement and to design and perform further audit procedures.

3. AUDIT EVIDENCE

3.1. AUDIT EVIDENCE

ISA 500

The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.

INTOSAI 1.0.16

European Implementing Guidelines nr. 13

Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures.

INTOSAI 3.5

European Implementing Guidelines nr. 23

Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit

3.2. AUDIT EVIDENCE - ADDITIONAL CONSIDERATIONS FOR SPECIFIC ITEMS

ISA 501

When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless impracticable.

The auditor should carry out audit procedures in order to become aware of any litigation and claims involving the entity which may result in a material misstatement of the financial statements.

When long-term investments are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding their valuation and disclosure.

When segment information² is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its presentation and disclosure in accordance with the applicable financial reporting framework.

3.3. EXTERNAL CONFIRMATIONS

ISA 505

The auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion level. In making this determination, the auditor should consider the assessed risk of material misstatement at the assertion level and how the audit evidence from other planned audit procedures will reduce the risk of material misstatement at the assertion level to an acceptably low level.

3.4. INITIAL ENGAGEMENTS—OPENING BALANCES

ISA 510

For initial audit engagements, the auditor should obtain sufficient appropriate audit evidence that:

- (a) The opening balances do not contain misstatements that materially affect the current period's financial statements;
- (b) The prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated; and
- (c) Appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.

3.5. ANALYTICAL PROCEDURES

ISA 520

The auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment and in the overall review at the end of the audit.

INTOSAI 3.6

European Implementing Guidelines nr. 24

In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

3.6. AUDIT SAMPLING AND OTHER MEANS OF TESTING

ISA 530

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

3.7. AUDIT OF ACCOUNTING ESTIMATES

ISA 540

The auditor should obtain sufficient appropriate audit evidence regarding accounting estimates.

3.8. AUDITING FAIR VALUE MEASUREMENTS AND DISCLOSURES

ISA 545

The auditor should obtain sufficient appropriate audit evidence that fair value measurements and disclosures are in accordance with the entity's applicable financial reporting framework.

3.9. RELATED PARTIES

ISA 550

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial statements. Where there is any indication that such circumstances exist, the auditor should perform modified, extended or additional procedures as are appropriate in the circumstances.

3.10. SUBSEQUENT EVENTS

ISA 560

The auditor should consider the effect of subsequent events on the financial statements and on the auditor's

report.

3.11. GOING CONCERN

ISA 570

When planning and performing audit procedures and in evaluating the results thereof, the auditor should consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements.

3.12. MANAGEMENT RESPONSIBILITIES AND REPRESENTATIONS

ISA 580

The auditor should obtain appropriate representations from management.

INTOSAI 1.0.23-1.0.24

European Implementing Guidelines nrs. 32 and 53

Development of adequate information, control, evaluation and reporting systems by the management will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.

4. USING THE WORK OF OTHERS

4.1. USING THE WORK OF ANOTHER AUDITOR

ISA 600

INTOSAI 2.2.45

European Implementing Guidelines nr. 25

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

4.2. CONSIDERING THE WORK OF INTERNAL AUDIT

ISA 610

The external auditor should consider the activities of internal auditing and their effect, if any, on external audit procedures.

4.3. USING THE WORK OF AN EXPERT

ISA 620

INTOSAI 2.2.43 - 2.2.44

When using the work performed by an expert, the auditor should obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.

5. AUDIT CONCLUSIONS AND REPORTING

5.1. COMMUNICATION OF AUDIT MATTERS WITH THOSE CHARGED WITH GOVERNANCE

ISA 260

The auditor should communicate audit matters of governance interest arising from the audit with those charged with governance of an entity.

5.2. REPORTING

INTOSAI 4.0

European Implementing Guidelines nr. 31

At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.

ISA 700

The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements.

The auditor's report should contain a clear expression of opinion on the financial statements.

ISA 700 and 701

The detailed requirements on the form and content of the auditor's report in respect of financial audits as contained in ISA 700 and 701 should be complied with when reporting on the audit of financial statements.

5.3. COMPARATIVES

The auditor should determine whether the comparatives comply in all material respects with the financial reporting framework applicable to the financial statements being audited.

ISA 710

5.4. OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

ISA 720

The auditor should read the other information to identify material inconsistencies with the audited financial statements.

¹ A service organisation executes transactions and maintains related accountability or records transactions and processes related data (for example, a computer systems service organisation) on behalf of a client.

² Segment information refers to the reporting of financial information by line of business (e.g., by activity (ABB/ABM)) and geographical area.