

**Launch Event of FEE Discussion Paper “Compliance with Laws and Regulations: Audits and Assurance Engagements in the Public Sector”,
6 December 2007**

Speech by EC Vice President Siim Kallas

[To be checked against delivery]

Honourable President of FEE, Jacques Potdevin, honourable members of the profession, of the standard setters at IFAC, of the CIGAR network, and staff of the Community Institutions, and not the least Mike Hathorn, the chairman of IPSASB who has greatly assisted the Commission by participating in its Accounting Standards Committee, I would first like to thank FEE for inviting me to speak at the official launch of its discussion paper on audits and assurance engagements in the public sector.

You are no doubt more used to listening to the point of view of my colleagues such as Charlie McCreevy, who is responsible for legislation which directly affects the auditing and accounting profession.

Why should I, as Vice-President responsible for administration, audit and the fight against fraud be interested in the highly technical subject matter of this paper?

The answer is very simple: I represent the Commission in its relations with the European Court of Auditors, which reports a high rate of error in the claims submitted under a number of EU policies. I also represent the Commission in its relations with the Budgetary Control Committee of the European Parliament, which quite rightly expects the Commission to do something about the errors found by our auditors.

I am driving forward the Commission's action plan for achieving a reduction of the rate of error to an acceptable level, and this within the lifetime of the present Commission.

The errors are not in the accounts. Since 2005, these are prepared on a full accruals basis, and our auditors state that they show a true and fair view, having found errors of less than 1% in our balance sheet.

Nor are there material errors in the way in which we, or the Member States which pay out 80% of the budget on our behalf, process the claims on Community funds.

Most errors are found in the claims submitted by beneficiaries. It is perhaps a peculiarity of Community funding that the beneficiaries determine themselves how much to claim. They declare that they have incurred a certain amount of expenditure which, under the terms of their grant agreement, is eligible for Community funding. But the Community rules are complicated, and often part of this expenditure is not eligible, or certain time-limits or other conditions of the grant are not met. Such errors can only be detected by going on-the-spot and checking the claimants' books and records. Who better to do such work than the auditing profession?

But when we required beneficiaries to have their claims audited by professional and independent auditors, we still found an uncomfortably high rate of error remained in the claims submitted. And when we engaged auditors to undertake audits on our behalf, of projects financed under the research programme, of development aid, and of structural funds, we experienced difficulties of such an order that it seemed easier to do the work ourselves.

We found cases where the respect of the eligibility rules and other conditions had not been properly checked, or the reports were late, and with insufficient information to support the recovery of the errors found.

We put a lot of business your way, but finally the Commission hesitated to continue to invest in auditing services.

Why should such a situation arise? One answer was the lack of understanding of public sector needs by the auditors, who were more used to 'true and fair view' audits, another was the lack of understanding of auditing engagements by the Commission services, and the fact that each service had different reporting requirements. The expectations gap was extremely wide.

We expressed our concern to the FEE, as representatives of the profession in Europe. I am very pleased that it reacted firstly by advising us on the drafting of the terms of reference for 'agreed upon procedures' audits under the 7th Research Framework Programme, and now by drafting this discussion paper which aims at closing the expectations gap. I am sure that this discussion paper will assist the Commission's services to formulate their requests for auditing services in a way which is coherent with your professional standards, and that it will help your profession to undertake work on the EC programmes, free from the risks which arise from misunderstandings with your client. It is a win-win situation if you make a profit, and we get value for money. I must stress that the potential market is enormous: the public sectors in all Member States have the same needs as those of the Commission, and they control over 40% of Gross Domestic Product. It is worth ensuring that your profession develops adequate guidelines, audit manuals and training programmes so that audit work for the public sector is of the expected quality and your profession receives the recognition it should.

I look forward to seeing the fruits of your discussion paper, and wish you well in your work.

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