



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

Remarks by FEE President Jacques Potdevin

[To be checked against delivery]

Good afternoon. I would like to welcome you all to the FEE offices here in Brussels. I am happy to see so many people here today for the launch of our discussion paper on compliance with laws and regulations.

Caroline Mawhood, the Chair of FEE's Public Sector Committee, is extremely sorry not to be here today but has been required by her Parliament and by the Comptroller and Auditor General to host 150 year symposium on the Public Accounts Committee. She has asked me to convey the message that she is sure that the launch will go well and is delighted by the support of the Commission, the Parliament and the Court of Auditors for this work.

I am very pleased to welcome Mr Siim Kallas to FEE. As you will know Mr Kallas is Vice-President of the European Commission, with responsibility for administration, audit and anti-fraud. He is also a former Prime Minister of Estonia. I am grateful to Vice-President Kallas for coming here today, and also for taking the time to speak at our event.

I am also pleased to welcome Mr Mike Hathorn, who is chairman of the International Public Sector Accounting Standards Board. I am also grateful to Mike as he will be making a presentation as part of our event today.

After Vice-President Kallas and Mike Hathorn have spoken, there will be a chance for you to ask questions. You are all also invited to stay and have some lunch with us.

Now I would like to introduce the discussion paper to you.

I would like to talk about three aspects of the discussion paper:

- Why has FEE produced a paper discussing compliance with laws and regulations?
- What is the scope of the paper?
- What areas does the paper cover?

I will then describe what will happen next, because of course this is a discussion paper so we will be very interested in your views and those of the wider profession.

Firstly I think it is important to define what we mean by compliance with laws and regulations in the paper. We include both financial regulations, which an entity has to comply with when preparing financial information, and non-financial regulations, which an entity has to comply with at an operational level.

In the public sector, there is an increasing focus on financial compliance. There is an increasing interest in the audit of European Union monies, such as the certification of grant claims. There is a trend towards the reporting of expenditures by programme category. And of course the attention paid to the European Court of Auditor's statement of assurance on the Commission's accounts.



More widely, there is a move towards including performance against budgets in an entity's financial statements. Some countries are including new requirements for management to make declarations of compliance, and the auditor is required to provide an opinion on that declaration.

These matters show a general increase in the number and scale of the engagements that the auditor might be asked to do, where he might be asked to look at compliance with laws and regulations.

It is important to say that this paper is not looking to replace any existing standards or guidance, or to add to them. What it is trying to do is raise issues which the profession might face in relation to the audit of compliance with laws and regulations. We believe that these issues can be faced in a very broad range of engagements:

- In an audit of general purpose financial statements in the public sector, the auditor may be required to give an opinion on compliance with financial regulations as part of the audit. Often, this will be a wider requirement than for a private sector audit
- The increased focus on the use of public monies means that accountants maybe engaged on more public sector assurance engagements, where the focus is on compliance with a particular financial or non-financial regulation
- The paper also mentions agreed upon procedures engagements, where the auditor does not provide an opinion on compliance, but produces a report on factual findings. The user of the report then forms their own opinion.

The paper considers four separate sections, and a case study:

Firstly, we consider what the relevant laws and regulations are.

The paper looks at principles which are common to all types of engagement. For example, the importance of the engagement letter, and how important it is that the recipient of the audit report understands what assurance the auditor can provide.

There is then a section dealing with an audit of general purpose financial statements. The paper includes some suggestions for the auditor to gain assurance over compliance with laws and regulations.

The final section discusses the more general issues applied to other assurance engagements. In particular it discusses the risk that the user of the report believes it has received more assurance than the auditor can provide, based on the work done.

The paper ends with a case study on agreed upon procedures. FEE has been working with the accountancy profession and the Commission on a way forward for the certification of grant claims made under the 7th research framework programme avoiding the differences in expectation both the Commission and the profession experienced with FP 6.

That is a very quick introduction to the contents of the paper. As this is a discussion paper, we would be very happy to receive any observations you have on the paper.

Now, it is my great pleasure to hand over to Vice-President Kallas, and invite him to address you on the interest of our paper to the activities of the EC.

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