

AUDITING OF EUROPEAN FUNDED PROJECTS

Niculina, Stănescu¹

Abstract:

A mission on the European funded projects performed by the financial auditor consists in the complete checking of the amounts requested for reimbursement by the beneficiary in the Reimbursement/payment application of the costs for the action financed in compliance with the terms and conditions of the financing contract, fitting the project budget into the sums planned, verifying the registration in the bookkeeping, the reconciliation of the accounts, the drafting of the expenditure and the submission of the report of the factual findings to the beneficiary on the agreed procedures applied. Thus the checking of the expenditure is done by the auditor in terms of reality, legality, accuracy and eligibility.

Keywords: *financial audit, european funded projects, factual findings report, reimbursement application*

JEL Classification: M40, M42

1. Introduction

The citizens' welfare, aimed at developing regions, the EU's cohesion policy provides the member countries the possibility of investing in agriculture, environment, human resources, etc., amounts that are obtained after explaining and respecting the project assumed by the beneficiary of the financing.

In this regard, the auditor performs the procedures agreed upon to verify the data included in the reimbursement application requesting the recovery of the amounts specified representing the eligible expenditures made by the beneficiary of the project as a contracting party within the financing contract signed with the Managing Authority. The beneficiary is responsible for drawing up the reimbursement applications according to the appropriateness framework (financing contract, instructions, government decisions, etc.); while the auditor is responsible for the findings resulted from the procedures applied according to the factual findings report.

2. The Financial Auditor's Role in Achieving the Factual Findings Report

Financial auditors may conduct audits of financial statements on 30 December by applying the provisions of the International Standards on Auditing, of reviewing the interim financial statements by applying the ISRE 2410 provisions, of reviewing the historical financial statements by applying the ISRE 2410 provisions, of reviewing the financial information by applying the ISRE 3400 provisions, missions based on the agreed upon procedures by applying the ISRS 4400 provisions and compilation missions by applying the ISRE 4410 provisions.

The category of missions performed based on the procedures agreed upon which means understanding and complying with the ISRS 4400 provisions also include the auditing missions of the projects financed from EU funds. According to the Standard on Related Services (ISRS 4400) the auditor does not express any assurance and therefore does not issue any opinion. The Managing Authority / Intermediary Body will express their own conclusions as a result of the procedures made by the auditor and of the findings set out in the factual findings report.

The auditing of projects financed from EU funds is compulsory. According to the cooperation protocol 1005/21.01.2014 signed between the Ministry of European Funds and the

¹ PhD Lecturer, "Constantin Brancoveanu" University of Pitesti, email: niculina.stanescu@yahoo.com

Chamber of Financial Auditors (CAFR), the financial auditors who perform missions on the EU-financed projects must meet three cumulative conditions: to be rated with the A qualifier at the last inspection by the CAFR Department of Competence and Monitoring, to promote the checking test of the knowledge on the national and European legislation on EU funds, the auditor should not have been definitively disciplinarily sanctioned in the last 3 years.

The auditor's objective regarding the audit of projects financed from EU funds is to achieve the agreed-upon procedures regarding the checking of the expenditure (if it is real, accurate and eligible) and stipulated within the financing contract signed by the beneficiary with the Managing Authority. The agreed procedures are performed in accordance with the grant agreement, the International Standard on Related Services ('ISRS') 4400 *Missions to Achieve the Agreed-Upon Procedures Regarding the Financial Information* issued by the International Federation of Accountants ('IFAC') and adopted by CAFR and the Code of Ethics issued by IFAC. The auditor prepares the factual findings report respecting the provisions contained in the specifications and in the existing financing contract. For the new European funds that are launched for the period 2014-2020, the Chamber of Financial Auditors of Romania (CAFR) has developed a series of projects for the standard contract format, letter of mission and the financial auditor's report that will be used by the financial auditors in performing the missions after the CAFR consultation with the Ministry of European Funds. Furthermore, the financial auditors will audit the eligible costs in compliance with the International Standards on Auditing (ISA 100-805) and will issue a financial audit report with an opinion according to ISA 700 in conjunction with ISA 805, or where appropriate, a modified audit report under ISA 705 and the eligible expenses from the reimbursement application will be fully checked (the coverage ratio of the expenditure will be 100%).

Currently, for the 2007-2013 European Funds, although ISRS 4400 provides that the independence is not a requirement for the missions on the agreed-upon procedures; the Managing Authority requires that the auditor also complies with the independence requirements of the Code of Ethics.

Without conducting an audit mission or a reviewing mission, according to the conceptual framework of the International Standards on Auditing, the financial auditor when making agreed upon procedures does not provide any assurance on the expenditure made and set forth in the reimbursement application.

The EU funds auditing services according to ISRE 4400 "Missions based on the agreed upon procedures regarding the financial information" are provided under a service contract that is included in the specifications of the grant's beneficiary. The auditor also may draw up a letter of assignment.

The mission letter represents a confirmation of the auditor's agreement with the beneficiary on the terms and objectives of the mission, as well as on the nature and limitations of the services that the auditor will provide and it must include the terms of reference for checking the expenditure of a grant contract financed by the European Community, as well as the agreed upon procedures to be carried out.

In order to apply the procedures that consist in investigations and analyses, recalculations, comparisons and other checking of the accuracy of the calculations, observations and inspections, the auditor should obtain from the beneficiary of the EU funding at least the following documents:

- ✓ Financing contract with its annexes including the project budget and the activities schedule;
- ✓ Financing application form;
- ✓ Application for pre-financing and notification of the Managing Authority for grant pre-financing;

- ✓ all notices with the Managing Authority including those relating to the budget changes, personnel changes, changes in the activity calendar, findings/financial corrections notes;
- ✓ notifying the Managing Authority on the acceptance for payment of the amounts related to the reimbursement application;
- ✓ written decisions of the beneficiary for the project implementation;
- ✓ payroll and related documents of payment (payment orders, bank statements, payment orders) for the beneficiary, salary centraliser, calculation method, collective timesheets, individual timesheets, activity reports – if applicable;
- ✓ reimbursement application or payment request – as appropriate;
- ✓ Proof of procurement procedures, as well as tender documents, tender offers and evaluation reports;
- ✓ Commissioning minutes;
- ✓ Delivery-reception minutes;
- ✓ Services/goods supply contracts;
- ✓ Accounting documents (invoices, accounting notes, bank register, cash register, journal register, general ledger, account sheets, trial balance, 112 statement);
- ✓ For salaries: copies of labour contracts, addenda, state payroll, timesheets, payroll summary, activity reports, payment orders, account statements;
- ✓ Proof of service delivery, as well as approved reports, transport tickets (including boarding passes), proof of seminars attendance, conferences and training courses (including relevant documentation and materials obtained, certificates), etc;
- ✓ For fuel expenditure: consumption roadmap for used vehicles, travel orders, receipts, invoices, summary list of the distances covered;
- ✓ The application for opening separate project accounts and book-keeping on separate analytical accounts;
- ✓ progress report/financial and technical report;
- ✓ expenses evidence (for POSDRU)

The expenditure presented by the beneficiary and requested to be settled according to the field and the axis (environment, human resources, etc.) is usually presented under the following items of expenditure: human resources, travel, market research and assessment, expenditure on health/consulting, audit expenses, equipment and supplies, furniture, audit expenses, consulting, IT equipment, administrative (indirect) costs, other expenses.

Planning the checking of the expenditure by a financial auditor must aim to ensuring that there is a clear understanding on the set procedures and the conditions of the mission, that the expenditure checking team members comply with the general principles of a mission concerning the agreed-upon procedures, that there has been a sufficient understanding of the terms and conditions of the financing agreement and its annexes by checking it and other relevant information and through which all issues were clarified through discussions and visits with the beneficiary, requesting additional information.

The audit team members must comply with the general principles of professional ethics, including the independence principle, which although it was not mandatory for the missions represented by ISRS 4400, represents a requirement of the managing authority.

In order to obtain sufficient appropriate evidence, the auditor performs procedures to check if:

- ✓ The expenses requested in the reimbursement application of the expenditures are in accordance with the terms of the financing agreement and therefore of the budget project as an annex to the grant agreement;

- ✓ The expenditure presented in the reimbursement application corresponds in terms of eligibility, accuracy and registration, to the reality, classification, etc.
- ✓ The information in the application for reimbursement of the expenses are reconciled with the accounting system and the Beneficiary's records;
- ✓ For the expenses shown in accounting, separate accounts for the Project are used;
- ✓ The expenses were recorded chronologically in the Beneficiary's accounting system;
- ✓ The accounting system used is in accordance with the national legislation in force;
- ✓ The expenditure made and set forth in the reimbursement application and which does not exceed the non refundable financing provided for in the financing contract.
- ✓ The expenditure categories are supported by appropriate supporting documents (services contract, invoice, report of handing over the good/service, report on commissioning and training) and which were properly entered in the accounts (according to the accounting notes, journal register, trial balance, account records).
- ✓ Compliance with the accounting rules and records retention: whether the accounting records drawn up by the beneficiary related to the project implementation are updated and presented accurately; whether the beneficiary has used the principle of double-entry accounting;
- ✓ Assessment of the efficiency and effectiveness of expenditure contained in the reimbursement application;
- ✓ The categories of expenditure in the reimbursement application correspond to the categories of expenditure in the budget;
- ✓ The expenses requested in the reimbursement application are in accordance with the national and EU legislation;
- ✓ The expenditure for a transaction or action has been performed under the contract and were assumed by the beneficiary;
- ✓ The employer's expenditure for achieving the project implementation was properly allocated to the action which is the subject of the financing contract and was passed correctly in the reimbursement application of the expenses;
- ✓ The cost for a transaction or selected action was performed by the beneficiary during the project implementation;
- ✓ The payee's records are in accordance with the rules stipulated in the financing contract and according to the applicable national regulations;
- ✓ The categories of expenditure claimed by the beneficiary in the applications for payment correspond to those in the project budget;
- ✓ The expenditure for a transaction or selected action was classified properly in the request for payment;
- ✓ All types of expenditure accounted reflects the accounting amount of the underlying transactions regardless of the type and nature of the transaction;
- ✓ The expenses required are necessary for making the project, and they are set out in the contract signed with the beneficiary and are consistent with the principles of a sound financial management;
- ✓ The documentation of the nonconformities and their discussion with the management team;
- ✓ The amount requested for reimbursement does not exceed the maximum amount of the financing and the compliance with the values stipulated for each category of expenditure;
- ✓ The beneficiary entered in his/her own accounting the expenditure requested based on the supporting documents, they are verifiable and can be proven by original documents and can be identified in the beneficiary's balance;

- ✓ The auditor checked the reality of the expenditure for the transactions or actions performed by examining the proof of the services rendered in connection with the project objectives during the payment request;
- ✓ The expenses were incurred and paid by the beneficiary until the date of filing of the final reimbursement application;
- ✓ The expenditure submitted by the beneficiary in the payment request in the interest of the project, real and accurate.

Regarding the public procurement, the auditor checks the compliance with the provisions of the national and European legislation in force, established by the Managing Authority concerning the granting of public procurement contracts if the granting of public procurement contracts necessary for the project implementation was achieved with the compliance of the principles: non-discrimination, equal treatment, mutual recognition, transparency, proportionality, efficient use of public funds, accountability. The auditor also checks how legislation was applied in the field of public procurement by transposing the stages in the activity of the beneficiary: public procurement program preparation, drafting the granting documentation, the call for competition, carrying out the granting procedure, granting the public procurement contract, conclusion of the public procurement file, carrying out of the contract, contract completion.

Thus, the auditor checks the public procurement file for each purchase made according to the procedure (bidding, direct assignment, etc.), the existence of the documents proving that the goods have been delivered, works performed/services provided (invoice, receipt, etc.), establishing the goods were received, registered in accounting (including the recording accounting note).

The auditor must mention in the report of factual findings whether there is any hint to make him/her believe that public procurement did not comply with the public procurement rules and shall determine whether such costs are eligible or not.

The auditor must also check the income generated from the project, whether it is properly submitted in the reimbursement applications of the expenses, whether it is properly recorded in the accounts of the project. Another chapter is the checking of the indirect costs and their fitting into the standard rates set out in the Financing Agreement.

The completion of the expenses checking mission must meet the quality assurance objectives:

- The existence of the procedures provided in the “Quality Audit Guide” applicable ISRS 4400;
- Each procedure must include worksheets detailing the evidence of the results obtained;
- Documentation on the issues of independence (independence declaration section B, the team of auditors list);
- Evidence on communication with the project management and drafting of letters (of mission, of representation);
- Compliance with the minimum number of hours according to CAFR Council Decision No. 52/12.12.2013 (time budget – section B);
- Existence of audit plan (worksheet – section B);
- Existence of conclusions issued by the auditor (worksheets);
- Documentation of consultation of the previous auditor (if applicable);
- Respecting the structure of the worksheets;
- Signing and dating all working documents;
- The mission is properly documented in a folder of the mission indexed and organised;

- The provisions were complied with ISRS 4400 standard and of the specific rules issued by the managing authorities or implementing bodies of the Structural Funds.

The final step of the auditor's mission is the preparation of the factual findings report. The report, addressed to the project manager, is prepared solely for the confidential use of the beneficiary and of the Managing Authority/Intermediary Body and exclusively for the purpose of transmission to the Managing Authority/Intermediary Body.

The report consists of the report itself, the report details with information on the financing contract and project, procedures performed and the effective findings and the annexes, respectively the terms of reference, the reimbursement application.

The auditor's report should include the minimum mandatory elements set forth by the ISRS 4400, such as: the recipient of the financial information on which the procedures agreed upon were applied, a statement of the fact that the procedures performed were those agreed upon with the customer, a statement that the engagement was performed in accordance with ISRS 4400 applicable to the engagements related to the agreed-upon procedures, a listing of the specific procedures performed, the sufficiently adequate detailing of the non-compliances, a statement that the procedures performed do not constitute either auditing or reviewing and therefore no insurance is expressed, as well as the limitation of that report, the fact that it is addressed strictly to those parties that have agreed on the procedures to be performed.

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