# REFLECTING THE ACCOUNTING OPERATIONS OF PUBLIC ENTITIES GRANT

# REFLECTAREA ÎN CONTABILITATEA ENTITĂȚILOR PUBLICE A OPERAȚIUNILOR PRIVIND FINANȚAREA NERAMBURSABILĂ

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***Abstract:*** *In this paper we shall conduct a review of legal provisions regarding the way in which specific operations for grants access (structural funds) are reflected in a public entity's accountancy. It is appropriate to consider such a work, as grants are considered to be "life preserver" of Romanian agriculture, these funds can support projects aimed at rural development.*
*Focussing on the importance of these funds, we shall present the main accounting records on the management of funds by grant recipients using the National Rural Development Programme. We also tried to clarify the concept of "projects accounting."*

***Key words:*** *accounting, structural funds, rural development, RDP, EAFRD.*

## INTRODUCTION

Once Romania joined the European Union, there was a new financial opportunity, namely the possibility of accessing structural funds to finance the priorities identified by the National Development Plan 2007-2013. Structural Funds are funds granted for investment to the European Union member countries, based on eligibility criteria, and not to be returned, except in the case of non-contract conditions according to the funding contract signed between the beneficiary and Management Authority.

Based on the Council's Regulation (EC) no. 1698/2005 of 20 September 2005 on rural development support through the European Agricultural Fund for Rural Development (EAFRD), there was created the National Strategic Plan for Romania, which represents the basis for implementing the National Rural Development Programme for the period 2007-2013. The National Rural Development Programme, a document to be drafted at the Ministry of Agriculture and Rural Development, will receive in 2007-2013 7.5 billion euros.

Structural Funds are the main instruments of the European Union to promote economic and social cohesion and solidarity; the post accession fund allocated for rural development projects is the European Fund for Agriculture and Rural Development (EAFRD). It is an instrument used by the European Union to assist and support member countries in implementing the Common Agricultural Policy. Common Agricultural Policy (CAP) aims to develop a modern agricultural system, to ensure a fair standard of living of rural population, to stabilize markets and ensure supplies at reasonable prices for all consumers (Smith RI, 2007).

The European Agricultural Fund for Rural Development has begun to be accessed since March 2008 after the approval of the National Rural Development Programme (RDP).

## 1. SPECIFICATIONS REGARDING THE CONCEPT OF PROJECT ACCOUNTING

Project accounting records should not be limited to economic and financial operations (to be completed at this time according to the Minister of Public Finance Order no. 2169/2009 for the modification of procedures on organizing and leading public entities' accounting, published in the Official Gazette no.513 27 July 2009, for public entities and the Order of the Minister of Public Finance. 3055/2009 for the approval of Accounting Regulations in accordance with European directives) to ensure accuracy and completeness, it represents the whole system and procedures for financial and monetary transactions that take place in the economic entity at a project.

Project accounting is defined in the internal procedures manual for implementation, as the activity designed to monitor the management and development of assets and liabilities as well as the results obtained.

The European projects accounting activity is to be conducted according to Community and national provisions, so the general principles of accounting and its functions will be respected, of which the most important are, in this context, providing documents and information.

Project accounting is also found in literature under the name of project-oriented accounting, and it is defined as the way of organizing and keeping the accounting records of the project. This enables the person in charge with the project to aggregate data in accordance with auditing requirements of the donor (Ivan I., Dobre E., Pocatilu P., 2003).

The problems which arise in connection with accounting projects are related to its purpose or to the difficulties in framing it within the two forms of accounting: financial accounting or management accounting.

In connection with the first aspect, that of project accounting purposes, this represents, besides a proper accounting, effective management of funds, i.e. compliance with contractual provisions under which the financing was obtained financing (financing contract, applicant's guide or beneficiary's manual).

Project-oriented accounting must clearly outline the amounts received, how they have been used and especially how they have complied with the initial structure of the budget approved and the final uses, as reflected by the general accounts and / or dedicated to financial accounting and specific tools for management accounting.

From this statement, we can say that if a project is financed by structural funds, only the financial accounting corresponding to the grant account is used; this account is credited when financing on the bank and debited on expenditure documents and analytical expenditure accounts/project oriented. In this case the profit and loss account does not reflect the entity's project management, which is reflected only by the turnover and balance of special funds through the analytical statement of account (accounting monism).

In financing contracts and in the recipient's manual it is specified that that the beneficiary must keep separate accounting, using dedicated analytical accounts in accordance with the laws in force. The beneficiary will mention by regular accounting records on the project's references, using double-entry bookkeeping.

Among the beneficiary's contractual obligations, stipulated in the framework agreement financing through RDP, we shall mention, in this context, transparency, accuracy and systematic records of investments and expenditures afferent to the contract.

Beneficiaries, which are entities wholly funded from the state budget, state social insurance budget and special funds, state-owned companies (Article 5 nr.64/2009 OUG), will register in separate accounting the reimbursements afferent to structural instruments based on the notifications received from the Management Authority, in accordance with Art. 7 paragraph (2) of the Order of the Minister of Finance no.2548/2009.

Recipients of grants from structural funds must keep synthetic and analytical accounting records, according to the Accounting Law 82/1991, republished, modified and supplemented and the 3055/2009 Order of the Minister of Finance for approval of Accounting Regulations in accordance with EU Directives.

In addition, public entities will comply with the Order of the Minister of Finance 1917/2005 as amended and supplemented afterwards (see Official Gazette 2169/2009), to approve the detailed procedures for organizing and conducting public entities accounts, the chart of accounts for public entities and the application instructions thereof, as amended and supplemented.

Accounting records for the project will be conducted by a chartered accountant, under the law provisions, who will sign and date the records related to the project's operations. All operations performed on the project, carried out by both the beneficiary and its partners in the project, will be reflected in the accounts of the beneficiary and supported by documentary evidence. Both beneficiaries and their partners have the obligation of keeping separate accounts by using different analytical accounts.

For public entities beneficiaries which established, at the level of their institution, an accounting department, the chartered accountant can be represented by the head of the accounting department/the accountant appointed to ensure the project's accounting. Through administrative action, the head of the public institution will be able to employ a chartered accountant / licensed accountant, an active member of the Body of Experts and Licensed Accountants of Romania, to ensure the project accounts in accordance with the provisions of the financing contract.

## 2. EVIDENCE OF STRUCTURAL FUNDS ACCOUNTING OPERATIONS OF PUBLIC ENTITIES

The purpose of accounting records (accounting operations for the project) is to reveal in separate trial balances both the source of the money invested (European funds, own investment, income, expenses), and the kind of investment. Requiring a separate record of each project, we shall notice the need to create analytical notes for each account, where the amounts resulting from the execution of the contract are recorded.

Under Article 14 "Accounting and financial and technical controls for the National Rural Development Programme (RDP) it is necessary to create distinct analytical notes for each account in which the amounts generated by the performance of the contract are recorded.

The main accounting records related to European projects implemented by this class of beneficiaries are:

- pre registration of the amount received from the Certifying and Paying / Management Authority;
- paying suppliers, if during the budgetary execution to ensure the necessary resources to finance the project, the beneficiary appeals to reimbursable loans, from the available account of internal and external loans that he previously contracted;
- filing the application for the reimbursement of expenses submitted to the Certification Authorities / Management Authorities, the amounts to be repaid from structural funds and from the state budget;
- recording the amounts diminished with the value of pre-financing granted;
- registering the corrections made and transmission to the Certification Authorities / Management Authorities on the amounts requested in the application for reimbursement (in red), both from the structural funds and the state budget;
- receipt of amounts paid by the Paying Authority / Managing Authority; this record is based on data contained in the statement of account;

- recording the amounts which have been received in advance prior to the certification of amounts included in the application for reimbursement;
- recording the amounts owed to the Certification Authorities / Management Authorities in the financial year following the year in which revenues were recorded, representing amounts overpaid before certifying the amounts contained in the applications for reimbursement;
- compensating the amounts to be reimbursed with the amounts owed to the Certification Authorities / Management Authorities;
- paying the amounts owed to the Payment Certification Authority / Managing Authority, and registering the document supporting the payment order and the statement of account;
- recording the debit notes received from the Certification / Managing Authorities, as a result of the European Commission's notification, both from improper payments in response to requests for reimbursement, irrespectively debit notes from pre undue financing within the period specified in the financing contract;
- transferring the amounts representing debits in the accounts of the Certification Authorities / Management Authorities.

In projects funded by the National Rural Development Programme, the quality of Management Authority is fulfilled by the Directorate General for Rural Development, Ministry of Agriculture and Rural Development, and the technical and financial implementation of the European Agricultural Fund for Rural Development is achieved by the Paying Agency for Rural Development and Fisheries.

A distinct accountancy helps the financial responsible of the project to effectuate the documentation required to achieve reimbursement of eligible expenses, that is the payment application file. The payment application file is submitted by the beneficiary to the County Office of Payments for Rural Development and Fisheries (OJPDRP), where the beneficiary also submitted the Application Form and file in duplicate, on paper, and attaching the supporting documents in electronic format. The payment application file must include supporting documents including: the request for payment, statement of expenditure, payment statements, financial estimates, an affidavit of the beneficiary, diploma or certificate of training / studies (for the last request for payment), building permit (for

building acquisitions, at the first request for payment, both for the basic works and works having a provisional character, where applicable), documents issued by various authorities, and others.

## CONCLUSIONS

In conclusion, project accounting is based on a new vision that is based on obtained funding and is focussing on the result of the project, using the opportunities offered simultaneously by the financial and management accounting.

The role of accounting in writing projects can be demonstrated by the accounting information required by the financier in the application, but also to achieve the financial projections (claims for reimbursement chart) for the project implementation period in order to prove the beneficiary's abilities to implement a particular project (capacity implement projects) (Deju M., 2005).

During the project's implementation, the role of accounting can be demonstrated by the importance of operations' accounting records on financing, the operations needed for the accomplishment of the project, the operational control of costs, the calculation of economic and financial indicators, permanent monitoring and informing to the terms of the financing contract, as well as the project's liquidation.

Referring to the factors behind the failure in implementing projects, we can identify among the difficulties encountered in the implementation of projects financed from structural funds by beneficiaries, the lack of the financial capacity to co-finance, irrespectively financing the project from a request for reimbursement ( payment) to another.

Furthermore, according to the contract's stipulations, if during the project's implementation certain irregularities are found regarding the conclusion or execution of the contract, or disregard of the accounting procedures dictated by professional practice and law, the beneficiary will repay the grant amounts received, together with percentage interest and penalties established under the laws in force.

In this context, we consider that all these aspects that we have mentioned in this paper can be a strong argument for the majority of

economic entities in Romania to make an accurate accounting, so that the accounting information is as real and accurate regarding their activity and performance.

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