THE PROJECTS AUDIT FINANCED THROUGH STRUCTURAL FUNDS. CONTROVERSY

AUDITUL PROIECTELOR FINANŢATE PRIN FONDURI STRUCTURALE. CONTROVERSE

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Abstract: *This paper approaches the issues of the European-financed projects audit presenting the results of the studies performed among financial auditors who implemented at least one audit mission within a grant, as well as in its literature.*

Given the conclusions presented in the last annual report of the European Court of Auditors, concurrently taking into account the problems the auditors as well as the structural funds beneficiaries deal with, we consider that the presented issues are of importance for the specialists within projects audit, but also for the applicants of grant-financed projects released to Romania in this programming period.

Key words: *audit, project, structural funds, expenses eligibility*

INTRODUCTION

The European Commission considers that the main bodies implied in the audit of structural funds-financed projects are: The European Audit Court (the external public audit of the European Commission), supreme audit institutions of the member states (the Audit Court by the Audit Authority, the external public audit), the audit services from the member states (the bodies with attributions in the performance of the internal public audit); the individual audit of the final beneficiaries (the independent financial audit).

As regards the indispensability of the project audit performance, the finance contract stipulates the imperative of the beneficiary to contract an authorized external auditor, member of a recognized body, for an audit

report of the activities, records and project accounts, established in compliance with the active audit standards, retaining all the original documents, including the accounting ones, regarding the activities and eligible costs, in order to ensure a proper audit path, in accordance with the community and national regulations.

According to the stipulations of the instructions set out by the management authorities, the stages of the independent financial audit mission, performed through structural funds, are as follows:

- Obtaining sufficient understanding of the project and of the terms and conditions of the Finance Contract;
- The eligibility control of expenses requested for refund by the beneficiary that contains: the general procedure, the accordance of expenses with the project budget, selection of expenses to be audited, control of expenses in terms of eligibility, reality, accuracy and record in accounting, as well as the control of the public acquisition procedure.
- The draft of the audit report.

Given the indispensability of the project audit, the beneficiary of a grant should elaborate a strategic plan regarding the audit of on-going projects, carrying out its actuality during the implementation period, knowing that each grant application must be accompanied by an audit report conducted by an independent auditor.

1. THE ROLE AND THE OBJECTIVES OF THE PROJECTS AUDIT

Since the project audit supposes a post control, without changing what has already happened, but capturing the main causes of a project's success or failure, in order to exploit them in future projects, all these point out that the outcome of a project, be it positive, or negative, should be understood and evaluated. The evaluation of a project, as a whole, refers to assessing its purpose.

An auditor may summarize the differences between the success and the failure of a project dividing them into four fundamental concepts:

1. Objectivity in determining the purpose, the budget, the deadline and the solutions. As one of the main causes of a failure is the lack of objectivity in setting these parameters, the decisions affecting the project implementation and the establishment of all its initial parameters must be free from encouragements and inadequate diligence.

2. The necessity of experienced staff at all hierarchic levels in the project. The existence of an experienced staff from both the client and the contractor is necessary for: maintaining the cooperation between the two parties, as well as solving the problems encountered between them; assessing and setting the main objectives, using professional management techniques, maintaining a permanent contact with the client.

3. Authority correlated with responsibility. Once the project has set a clear purpose, usually limited by budget and time, and in order to achieve this goal, the project manager must have the authority to make compromises between these objectives (purpose, cost, time).

4. The total accountancy of the project operations and activities. The accountancy must be responsibly performed in order to make sure that all parties involved in the project fulfil their assigned tasks. Accounting must disclose in detail all the contract aspects and all the purchase orders, including details regarding the project manager, the person who made the estimates, the suppliers, the contractor, as well as the client and the final users.

For our part, we consider that the objective of the project audit is to certify the eligible costs applied for refund, for they are real, legal and accurate, according to the stipulations of the financing contract and its annexes.

2. ISSUES AND CONTROVERSIES REGARDING THE PROJECTS AUDIT

In case of projects, audit is defined as the re-examination and evaluation of the project with its various forms and objectives and typical problems encountered in conducting the audit or evaluation process.

As regards the procedures used in the projects audit, they are similar to the ones used in the financial audit, meaning that each represents a careful investigation of the subject/object to be audited, their outcomes being different. In this context, we consider that the project audit is not a financial one. A different importance between the two is that the financial audit has a limited purpose, focusing on the storage, use and improvement of assets and liabilities of the audited body, while the project audit has a more general purpose and can deal with the entire project or with its distinctive elements, thus being concerned with any aspect of the project. The following table points out the main differences between the project audit and the financial audit.

Table 1.

The parallel financial audit – projects audit

	Financial audit	Projects audit
Mission	Audit objectives: the financial position, performances, intern control, intern audit of the organization	The project with its stages, activities, tasks and results.
Significance degree	It is determined as percentage and amount depending on certain indicators (total assets, turn-over, profit)	It is not determined for the technical, technological and quality aspects. For the costs and time budgets, such a significance degree can be calculated only with the agreement of the project manager.
Progress/stage	The assets, liabilities and commercial operations are confirmed in accordance with the accepted standards.	We take into account a basis for comparison (a plan) and the on time-performance stage of any project object must be confirmed.
Predictions	Refer to the economic status of the company (the financial position and its performance).	The status and the future evolutions of the project.
Measure method/ estimate	Appreciation of the financial position and of the performances is usually made in financial terms.	Appreciation is made in financial terms, but in relation to the time factor (the project calendar), the use of resources, the performance of subsidiary objectives.
Operations record and archive system	The format of this system is controlled by law and the professional standards.	The system is not standardized at the choice of the entity or dictated by contractual stipulations.
Existence of an informational system	The existence of a minimum of information (at least from the published financial statements) required for the audit mission release.	There is no basis for comparison because every project is unique; in order to perform an audit, a data base must be set up, taken from the project planning.
References	References usually refer to the management and the accounting reflection system control.	References are often required and may cover any aspect of the project or of its management.
Opinions	The financial audit is usually completed by expressing a qualified opinion, depending on the given conditions or on the relations to the entity management; rarely we deal with the impossibility of stating an opinion.	The qualification of expressed opinions usually refers to the audit shortcomings (e.g. lack of technical expertise, lack of funds or of time needed).

(Source: Dobre E., *Controlul şi Auditul Proiectelor*, Editura Economică, Bucureşti, 2007, pg.82-83)

In order to clarify the distinction between financial audit and project audit, we must stress out the fact that the audit report issued from a project audit mission with European funds will contain views on eligible expenses and supporting documents stipulated in the financing contract, while the financial audit report includes information necessary to provide reasonable and sufficient conclusions for the issue of some clear opinions regarding the image provided by the financial audit.

It should be noted that in the case of the project audit, the control program is made according to the objective and the purpose of the assumed engagement and to the procedures to be applied; we could use techniques such as: inquiry and analysis, evaluation/revaluation, comparison, or: observations, inspections of documents/registers, inspections of evaluations and confirmations. The Spanish literature approaches the issue of the differences between the management audit and the financial one, the main differences being synthesized in the following table:

Table 2.

The financial audit – management audit parallel

	Financial audit	**Management audit**
Purpose/Finality	It assesses whether the financial transactions have been performed in a legal manner and on a regular basis and in the case in which the accounts are reliable.	To assess whether the EU funds were used with economy, efficiency and effectiveness.
Application field	Financial, accounting operations and key control procedures.	Policies, programs, organizations, activities and management systems.
Academic basis	Economy, Political Science, Sociology.	Accounting and Law.
Methods	Standard format.	Depends on the financing source.
Audit criteria	Less standardized liberty criteria for the auditor. Criteria established by laws and regulations applicable to all auditors.	Greater appreciation of the auditor. A unique criterion for each audit.
Information	Annual reports. A more or less standardized structure.	The structure and the content vary depending on the objectives.

(Source: *Manual de auditoría de gestión*, La División de ADAR (*Audit Development And Reports*, Desarrollo de la auditoría e informes) del Tribunal de Cuentas Europeo (TCE) pg. 11)

A concept encountered in the Spanish literature is called "global audit", defined as a combination between the management audit and the financial one. The global audit is the one that combines the objectives of the project audit and of the financial audit. The decision of conducting a project audit or a financial one depends on the general professional approach adopted for each singular case. The auditors should keep in mind the fact that the "pure" project audit is a difficult task, but the global audit is even more complex.

As regards the multitude of factors that limit the project audit, time and money represent two of the most frequent and obvious factors, that limit the investigation and the detailed presentation in the audit report. Another factor is the anxiety caused by any investigation, in general, determining the implied persons to have a defensive attitude. If the report is not drafted in a constructive manner, the moral of the team will suffer. Often, the audit of the technical aspects cannot be very profound, because the auditor does not have the necessary technical knowledge. In this case, a technical audit is required. The moments in which the technical audit is preformed generally differ, the later it is performed, the lower will be its immediate value, for the project, but the higher it will be for the organization.

As for us, starting from the typology of the financial audit we may include the project audit within the category of a financial audit of compliance, determining whether the audited entity complies with certain procedures, rules and regulations defined by a controlling authority, in our case the Management Authority/ Paying Authority.

Related to the differences between the project audit and the internal audit of organizations, we can mention the fact that the project audit may be concerned with any aspect of the project management; nevertheless it is not a traditional audit of management and internal control, which is focused mainly on the management existence and efficiency. The project audit points out if the project is conducted adequately, using certain management methods and techniques, different for each type of project.

In conclusion, the management audit (the internal audit of the body) is concerned with the existence and use of the chosen management system, while the project audit studies the financial, managerial and technical aspects of the project as an integrated set applied to a specific project in a specific organizational environment. In this context, we consider that

independent financial auditors involved in conducting audits of projects financed through structural funds perform a financial audit of compliance regarding the requirements for refund and the expenses included in the refund application and in its annexes, the audit report containing opinions regarding the eligible expenses, in terms of reality, legality and accuracy.

CONCLUSIONS
ESSENTIAL CONDITIONS FOR A CHALLENGING PROJECT AUDIT

Instead of conclusions we consider it necessary to explain the concept of performance audit, as well as the presentation of the essential conditions for the performance of a professional project audit. In this context we used this concept in order to define an audit that meets the quality standards, achieving its established objective.

In the literature, we encounter the opinion according to which a project audit is one of performance only when the following objectives as achieved: it identifies the previous problems; clarifications performance/cost/operational programs are made; it improves the project performance; it identifies the future opportunities; it evaluates the project team performances, it presents solutions regarding the cost reduction; it informs the financer on the project stage; it reconfirms the project feasibility.

As for us, we consider that an audit can be of performance only if it reaches its objective, being a credible audit, accepted by the financers, by the project team, complying with the audit standards. Thus, determining factors for a performance audit are as follows: respecting the audit standards, the quality of the audit team members, communication with factors implied in the project implementation, and access to documents.

We can conclude that in the case of projects financed through structural funds, wrong predictions based on financial situations may lead to the impossibility of achieving certain indicators presented in the application to attract funding. All these factors can endanger the project development, which may entail a series of side effects such as: the impossibility of providing liquidities between the refund applications, of complying with the estimate graphic to submit the refund applications, or to perform the project objectives, determining the decrease of the budget or the indispensability of

returning the funds received, and most seriously, the impossibility of accessing future European funds.

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