

SOME CONSIDERATIONS REGARDING THE AUDIT OF EUROPEAN FUNDS

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***Abstract:** As part of an audit mission of the European funds regarding the agreed procedures, the auditor sets the objective, under the conditions of the applicable standard, respectively ISRS 4400, to perform procedures related to the nature of an audit in relation to which the auditor, the audited entity and any other entitled entities have agreed, and the auditor will finally present a report on the actual findings.*

The applicable procedures used will be investigations, recalculations, on-site observation, inspections, obtaining confirmations.

***Keywords:** audit of European funds, audit procedures, report of actual findings, procedure of auditing European funds.*

1. Procedure for auditing European funds

The auditors prepare an audit file for each reimbursement request audited. The audit file opens with a worksheet in the first stage of the reimbursement request and we finalize it at the final reimbursement request.

The subject of the audit commitment, in case of auditing projects financed from European funds, includes auditing the requests for reimbursement of expenses. This means checking all the information necessary to confirm that the requests for reimbursement of expenses contain expenses: real; accurate; legal; eligible.

It should be mentioned that independence in the procedures agreed by ISRS 4400, is not a mandatory condition, as I said above, but when it is affected, the situation will be mentioned in the report. The ethical principles, embodied in: integrity, objectivity, competence, confidentiality, conduct, technical standards, must be respected. The applicable principles regarding the planning and collection of evidence will be respected, in particular the documentation of the mission. The applicable procedures used will be: investigations, recalculations, on-site observation, inspections, obtaining confirmations.

In carrying out an audit mission for EU funding projects, we go through the following steps in requesting information; mission contract and letter; pre-planning stage; the planning stage; the verification stage; the completion stage. Eligibility means that the funds provided under the grant have been spent in accordance with the terms and conditions of the grant agreement.

Since this commitment is not an insurance undertaking, the auditor does not provide an audit opinion and does not express an assurance.

The auditor verifies that the non-reimbursable financing granted has been spent in accordance with the terms and conditions of the financing contract, as required in the financing contract.

For this purpose, the auditor performs the procedures specified in the financing contract and uses the evidence obtained from these procedures as a basis for the report of the factual findings. The auditor must use documents that are important in providing evidence to support the factual findings report and evidence that the factual findings report has been prepared in accordance with ISRS 4400.

The report on factual findings should describe the purpose and the agreed procedures of this commitment in sufficient detail to enable the beneficiary to understand the nature and extent of the procedures performed by the auditor. The use of the factual report format in accordance with the financing guide is mandatory.

The auditor develops and fulfills the verification work program in accordance with the purpose and purpose of this commitment and the procedures to be performed as specified below. During the performance of these procedures, the auditor may apply techniques such as investigation and analysis, recalculation, comparison, other accuracy checks, observations, inspection of records and documents, inspection of assets and obtaining confirmations. The auditor must use documents that are important in providing evidence to support the factual findings report and evidence that the factual findings report has been prepared in accordance with ISRS 4400.

The report on the factual findings must describe the purpose and the agreed procedures of this commitment in sufficient detail so as to enable the beneficiary and to understand the nature and the Auditor obtains a sufficient understanding of the terms and conditions of the financing contract by reviewing the financing contract and its annexes and others. relevant information, as well as by querying the beneficiary.

The financial auditor obtains adequate and sufficient evidence from these procedures to be able to prepare a report of the factual findings.

For this purpose, the auditor may use the guidance provided by the International Auditing Standard 500 "Audit samples" and in particular the paragraphs that refer to "adequate and sufficient audit evidence". The auditor exercises a professional judgment as to what means adequate and sufficient evidence, if it is considered that the guidance provided by ISA 500, the terms and conditions of the financing contract and the financing guide for this commitment are not sufficient.

He auditor must use documents that are important in providing evidence to support the factual findings report and evidence that the factual findings report has been prepared in accordance with ISRS 4400.

The report on the factual findings must describe the purpose and the agreed procedures of this commitment in sufficient detail so as to enable the beneficiary and to understand the nature and the Auditor obtains a sufficient understanding of the terms and conditions of the financing contract by reviewing the financing contract and its annexes and others. relevant information, as well as by querying the beneficiary.

The financial auditor obtains adequate and sufficient evidence from these procedures to be able to prepare a report of the factual findings. To this end, the auditor may use the guidance provided by the Indicative List of the types and nature of the evidence that the auditor can often find when verifying expenses.

- accounting records, in electronic or manual format from the beneficiary's accounting system, such as the logbook, its subchapters and all the salary accounts, the records of the fixed assets and other relevant accounting information;
- the justification of the procurement procedures such as the tender documents, the tenders for the tenders and the evaluation reports;
- justification of commitments such as contracts and order forms;
- justification for the provision of services such as approved reports, timetables, transport tickets (including boarding passes), proof of participation in seminars, conferences and training stages (including relevant documentation and materials obtained, certificates);
- the justification of receiving the goods as reception documents from the suppliers;
- justifying the completion of works such as invoices and receipts;
- justification of payment such as bank statements, payment notices, proof of payment from subcontractors;
- for gas and diesel expenses, a centralized list of distances covered, consumption of used vehicles, fuel price and maintenance costs;

- the records regarding the salary payments and the personnel as well as the related contracts, the state of payment of the salaries, the time sheets.

The auditor should conduct the agreed procedures and use the evidence obtained, as a basis for the report on actual findings.

The procedures applied in a mission to carry out the agreed procedures may include the following: interviewing and analysis, repeat calculations, comparisons and other checks of the accuracy of the drafting, observation, inspection, or confirmation.

The auditor verifies that the accounting records of the beneficiary are in accordance with the rules for keeping records and with the accounting rules in the financing contract.

The financial auditor verifies the eligibility of the direct costs with the terms and conditions of the financing contract. It checks whether these costs:

- are necessary to carry out the action. In this respect, the auditor verifies whether the expenses for a transaction or action have been assumed for the proposed purpose of the action and if they were necessary for the activities and objectives of the action. The auditor further verifies whether the direct costs are included in the budget of the financing contract and if they are in accordance with the principles of rigorous financial management, in particular regarding the cost-efficiency and the best use of money.
- they were assumed by the beneficiary or his partners during the implementation period of the action.
- are recorded in the beneficiary's accounts and are identifiable, verifiable and proven with the originals of the supporting records. The auditor considers these costs to be ineligible as described in the contract and financing guide.

The auditor verifies whether the expenses for a transaction or action have been properly recorded in the beneficiary's accounting system and whether they are supported by adequate records and supporting documents. This includes proper assessment and the use of correct exchange rates, when appropriate.

The auditor is professionally seeking to obtain adequate and sufficient evidence regarding the verification of expenses incurred and, if applicable, the existence of assets. The financial auditor examines which public procurement rules apply for each category of expenses, types of expenses. The auditor checks whether the beneficiary is in compliance with such rules and whether the expenses in question are eligible.

When appropriate, the auditor verifies that the income generated by the beneficiary in the context of the action has been appropriately allocated to the action that is the subject of the financing contract and has been correctly accounted for.

The objective of this commitment is to verify by the auditor that the amounts (expenses) requested by the beneficiary for the action financed by the financing contract have been performed (the reality of the development), are accurate (exact) and eligible and the transmission to the beneficiary of the factual report with regarding the accomplishment of the agreed procedures.

Eligibility means that the non-refundable funding provided has been spent in accordance with the terms and conditions of the financing contract.

The objective of a mission based on the agreed procedures is the carrying out by the auditor of procedures related to the nature of an audit, agreed by the auditor, entity and any appropriate third parties and reporting on the actual findings.

As the auditor provides only a report on the actual findings related to the agreed procedures, no assurance is expressed. Instead, the users of the report themselves evaluate the procedures and the findings reported by the auditor and make their own conclusions based on the auditor's activity.

The mission report based on agreed procedures should describe in sufficient detail the purpose and agreed procedures of the mission to enable the reader to understand the nature and extent of the activity.

Because the procedures we undertake do not represent an audit or a review conducted in accordance with International Standards on Auditing or International Standards on Review Commitments, we do not express any assurance as to our mission.

If we had undertaken additional procedures or had performed an audit or a review of the Beneficiary's financial statements in accordance with International Standards on Auditing, other elements could have been brought to our attention, which would have been reported to you.

2. Case study on the audit of European funds

➤ Report of actual findings

According to the provisions of the Audit Contract no. xxxx from the date of xxxx, for carrying out an insurance mission on the project entitled "Agricultural methods and innovative techniques for farmers Measure 1:" Actions for knowledge transfer and information actions ",

Sub-measure 1.1 .:" Support for vocational training and the acquisition of competences, "by using standard costs" related to the financing contract for service projects Nr. xxxxxxxxxxxxxxxx / xxxxxxxxxxxx, we provide the present Report of actual findings regarding the payments made in the period from 09.10.2019 to 09.01.2020, related to the activities carried out during the period from 09.10.2019 to 09.01.2020.

All payment documents are issued and all payments were made within the period mentioned in the Report of Actual Findings.

Our commitment was to carry out the procedures regarding the verification of the expenses related to the financing contract signed between SC xxxxxxxxxxxx SRL, as beneficiary and the Agency for Financing Rural Investments - Regional Center for Financing Rural Investments North-West, as Contracting Authority.

The purpose of the verification of expenses is for the auditor to provide a reasonable assurance that the amounts requested for payment by the beneficiary are related to the aforementioned financing contract (for each activity covered by the financing contract, that they are paid, real and accurate, have been recorded correctly in the beneficiary's accounting and are in compliance with the legal provisions.

We also carried out the necessary checks on the documents based on which the expenses invoiced and correctly recorded in the beneficiary's accounting were certified, as well as the fact that these expenses are correctly classified according to the budget lines (Annex II to the Financing Contract - ,, Budget project ", including budgetary basis). Our procedures were performed exclusively on the Financing Contract for service projects Nr. xxxxxxxxxxxxxxxx this 09.10.2019.

Our commitment was made in accordance with: The International Standard on Related Services 4400 " as promulgated by the International Federation of Accountants (IFAC) and adopted by the Chamber of Financial Auditors in Romania.

According to this standard, our conclusion is based on the procedures we have performed and which are mentioned below.

This Report, effective findings only relates to the Financing Contract for service projects Nr. xxxxxxxxxxxxxxxx from 09.10.2019 mentioned above and does not extend to any financial statements of the beneficiary.

The report includes the information provided by the beneficiary management in relation to the specific questions or which have been obtained or extracted from the beneficiary's computer systems and accounting and verified by the audit.

➤ **Procedures performed**

We have designed and fulfilled the work program in accordance with the objectives and purpose of this commitment and with the procedures specified in the following. In performing these procedures, we used techniques such as investigation and analysis, restoration of calculations, comparison, accuracy checks, observations, inspection of records and documents and obtaining confirmations.

Based on these checks, we have obtained sufficient evidence to prepare this Report of effective findings.

We checked the eligibility of the expenses with the unit cost per learner for one day of training and it falls within the maximum eligible value established in the financing contract concluded by the beneficiary with AFIR (at the last payment installment, the compliance with the unit cost per student is verified compared to the total authorized value.).

The amount requested for payment is within the budget line of the Project Budget.

The rules of eligibility of the expenses stipulated by the financing contract are respected.

The costs of carrying out the project in the amount of 775,889,81 lei (excluding VAT), total value, represent, under all significant aspects, the expenses paid, real, accurate and eligible, in accordance with the contractual terms and the legal provisions.

Based on the checks we performed, we did not identify ineligible expenses. The total expenses, which were the subject of the performed procedures, amount to 775,888.81 lei. The project expenses respect the amounts stipulated in Annex II to the Contract - The project budget (including the budgetary basis), are related to the activities presented in this report and in the FINANCING CONTRACT for service projects Nr. xxxxxx from 09.10.2019 and have the following structure:

Name of the service	UM	Quantity	no. days	Standard unit cost / student / training day Participant	Cost / course	Total eligible value (excl. VAT) euro	Total eligible value (excl. VAT) lei
				euro	6=4X5	7=3x6	7=3x6
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Student training	Student	605	5	55	275	166.375,00	775.889,81
Total expenses						166.375,00	775.889,81

Source: own projection

This value represents the value of the expenses from the period 09.10.2019 to 09.01.2020, related to the activities carried out by the beneficiary, described in the Report of actual findings, related to the payment request no. 1., for the project "Agricultural methods and innovative techniques for farmers)", Financing contract for service projects Nr. xxxxxxxxxxxxxx from 09.10.2019 and is presented as follows: (details the expenses invoiced and paid by types of activities, according to the budget lines of the Project Budget and the budgetary basis).

The verifications carried out by us on the expenses presented in the previous paragraph are detailed in Annex no. 1 of this Report.

The eligible value of the project is equal to the product between the standard unit cost (type A and / or B according to the funding request), the number of participants approved and the number of training days.

Name of the service	UM	Quantity	no. days	Standard unit cost / student / training day Participant	Cost / course	Total eligible value (excl. VAT) euro	Total eligible value (excl. VAT) lei
				euro	6=4X5	7=3x6	7=3x6
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Student training	Student	605	5	55	275	166.375,00	775.889,81
Total expenses						166.375,00	775.889,81

Source: own projection

➤ Conclusion

We offer a reasonable assurance that all the expenses that were at the base of the amount requested in the payment request no. 1 were made in accordance with those provided in the financial contract for service projects Nr. xxxxxxxxxxxxxx from 09.10.2019, appeared during the period of implementation of the contract, were paid, correctly recorded in the beneficiary's accounting, are identifiable and are supported by original documents and corresponding supporting documents, being in accordance with the legal provisions. In our opinion, the sum of 775,889,81 lei (excluding VAT), represents, under all significant aspects, real, accurate and eligible expenses, in accordance with the contractual terms and legal provisions, as follows:

Name of the service	UM	Quantity	no. days	Standard unit cost / student / training day Participant	Cost / course	Total eligible value (excl. VAT) euro	Total eligible value (excl. VAT) lei
				euro	6=4X5	7=3x6	7=3x6
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Student training	Student	605	5	55	275	166.375,00	775.889,81
Total expenses						166.375,00	775.889,81

Source: own projection

As a result of the verifications we carried out, we did not identify non-eligible expenses.

The unit cost per learner for one day of training falls within the maximum eligible value established under the Financing Agreement concluded by the beneficiary with AFIR (at the last payment installment, the unit cost per learner is verified as compared to the total authorized value).

This report of actual findings is confidential and will be used by the beneficiary and the Contracting Authority only for the purpose for which it was requested, respectively to provide reasonable assurance regarding the reality, regularity and eligibility of the expenses realized and paid by the beneficiary under the financing contract. mentioned and which were correctly recorded in the beneficiary's accounting. This report of actual findings may not be used by the beneficiary or the contracting authority for any other purpose and may not be communicated to a third party. The contracting authority may communicate this insurance report only to the entities / institutions authorized for this purpose, by the relevant Community and Romanian legislation, as identified by the contract.

This report of actual findings refers only to the expenses associated with the activities included in the present report related to the payment request no. 1 and does not extend to any other financial statement of the beneficiary.

We offer a reasonable assurance that all the expenses that were at the base of the amount requested in the payment request no. 1, were made in accordance with those provided in the financing contract for service projects no. xxxxxxxxxxxxxx from 09.10.2019, appeared during the period of implementation of the contract, were paid, correctly recorded in the beneficiary's accounting, are identifiable and are supported by original

documents and corresponding supporting documents, being in accordance with the legal provisions.

Name of auditor xxxxxx-accounting expert and financial auditor

Auditor (name, signature) xxxxxxxx

Date, Report of actual findings xxxxxxxx

3. Conclusions

In the context of a mission regarding the agreed procedures, the auditor sets as an objective in accordance with the applicable standard, respectively ISRS 4400, the carrying out of procedures related to the nature of an audit in relation to which the auditor, the audited entity and any other entitled entities agreed, following as in finally the auditor to present a report on the actual findings.

It is specified that ISRS 4400 is used in Romania for auditing European funds, being a non-insurance service. In fact, the audit missions of the European funds came to Romania via this ISRS 4400, but also via the ISA 800 "Special considerations - the audit of the financial statements prepared in accordance with the general purpose frameworks" and ISAE 3000.

By applying ISRS 4400 in the audit of European funds, no assurances are expressed, the users of the audit mission result embodied in the Audit Report will appreciate the procedures and conclusions.

The audits of the European funds will be accompanied by the Reports of the factual findings, in which the auditor:

- will verify that the expenses presented by the beneficiary (the person who accessed the community fund) in the request for intermediate or final reimbursement were made in the interest of the project and if they are correct and eligible;
- the auditor will plan his activity so that the verification of the expenses will be carried out effectively (100%) and comply with the procedures provided. Also, the auditor will mention in his report that it was prepared in compliance with the terms of reference and in accordance with ISRS 4400;
- the auditor will obtain on the basis of checks sufficient evidence to express an opinion on the reality, legality and conformity of the expenses incurred by the beneficiary;
- the auditor has the obligation to acquire a sufficient understanding of the terms and conditions of the financing contract by analyzing it and its annexes, as well as the other relevant information, and by checking with the beneficiary.

There fore, by applying ISRS 4400 in the audit of projects for accessing community funds, it is found that:

- no assurance is expressed, the persons to whom the Audit Report is addressed will analyze its procedures and conclusions;
- the report is addressed exclusively to those parties that have agreed on the (agreed) procedures to be performed.

Bibliography

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Radu Dorin LENGHEL, doctor in economics, associate professor at the Department of Finance and Accounting, within the Faculty of Economic Sciences Cluj-Napoca. He is the author of numerous scientific papers and specialized books in the field of accounting, control and financial audit. He is currently the holder of the bachelor's and master's courses in the disciplines: Financial control and audit, Financial auditing, Internal control and audit, Public institutions accounting, Managerial accounting.