

VERIFICATION PROCEDURE EUROPEAN FUNDED PROJECTS THROUGH FINANCIAL AUDITS

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The work developed by the authors assumes a definite need for reflection on funding mechanisms and macroeconomic management at all levels of budget deficit, amid the economic crisis unprecedented in the recent history of Romania and the whole of Europe. In this direction, this paper attempts to highlight issues that arise in terms of absorption of European funds for economic development based on this absorption emphasizing the role of grants in the economy and the need to audit projects.

Keywords: financial Audit, reimbursable funds, agreed procedures, verification

JEL Code: M42

1. Introduction

End of 2008, beginning of 2009 represents the start of a difficult period economically, as purchasing power falls, household consumption is reduced by over 10% and thus stagnating production companies leading to layoffs, contracting loans or bankruptcy (1).

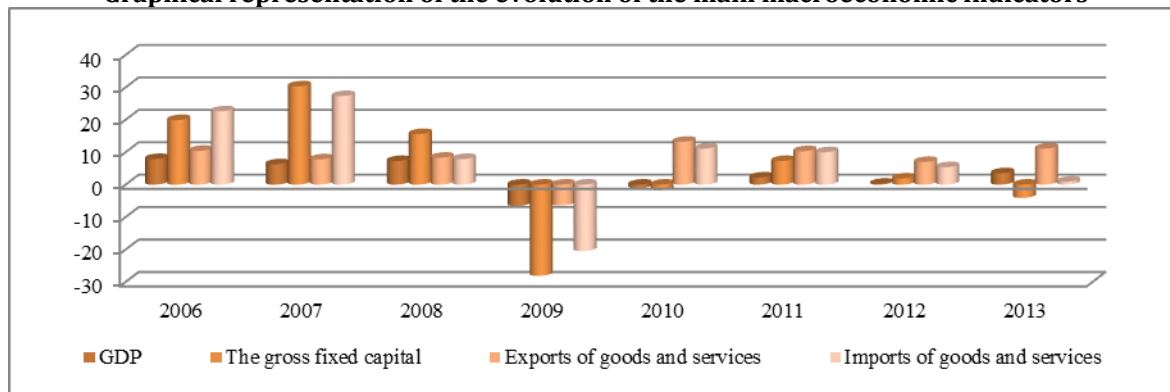
In the period 2009-2013, the GDP of Romania knew an oscillating evolution. After recording of a annual average rhythm of growth by 7.2% in 2006-2008, there was a steep drop in 2009 to -6.6% in 2010 and recorded again a decrease of -1.6%.

The trend was reversed starting with 2011, when GDP has known an increase of 2.5% . Romania has registered in 2012 a GDP of 587.4 billion lei, up 0.3% from 2011. GDP - estimated for 2013 (2) was 631.1 billion lei current prices, increasing - in real terms - by 3.5% compared with 2012.

Evolution of GDP - percentage changes compared to the corresponding period of the previous year

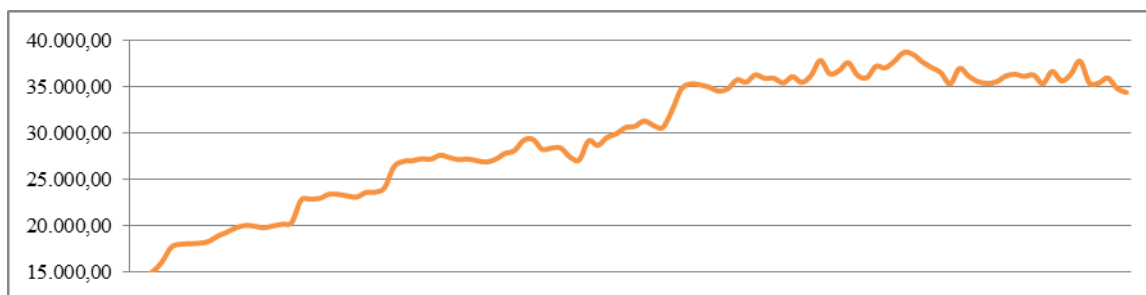
Item	2006	2007	2008	2009	2010	2011	2012	2013
Domestic demand, of which:	12,9	14,2	7,3	-12	-1,1	2,5	5,6	5,8
Private consumption	12,7	11,9	9	-10,1	-0,3	1,1	5,0	5,9
Government consumption	-4,1	-0,1	7,2	3,1	-4,7	0,2	6,3	5,4
The gross fixed capital	19,9	30,3	15,6	-28,1	-1,8	7,3	1,9	-4,1
Exports of goods and services	10,4	7,8	8,3	-6,4	13,2	10,3	7,0	11,1
Imports of goods and services	22,6	27,3	7,9	-20,5	11,1	10	5,4	0,9
GDP	7,9	6,3	7,3	-6,6	-1,1	2,2	0,3	3,5
Industry	7,2	5,4	1,9	-1,4	4,0	0,1	-0,2	2,3
Agriculture	3,4	-15,3	20,7	-3,3	-5,5	12,4	4,0	1,1
Constructions	23,4	33,9	26,2	-9,9	-4,5	-6,4	0,0	-1,2
Services	6,8	7	5,4	-7,4	-3,6	2,9	-1,3	0,1

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Graphical representation of the evolution of the main macroeconomic indicators

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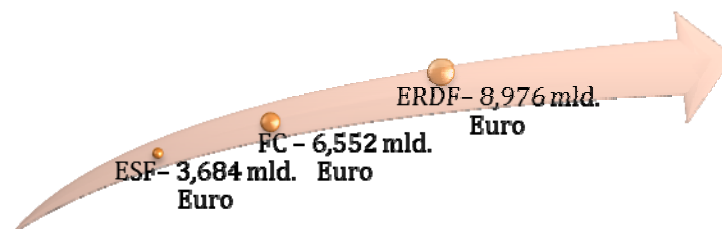
During 2009-2011, the foreign trade of goods recorded a significant advance on the background of GDP decline, with an average of -1.9%. Thus, in 2009, both exports and imports of goods recorded a negative trend from the previous year. Since 2010 this trend has changed, the value of exports has grown steadily in recent years even though, the first part of year, the advance has slowed because of continuing crisis in the Eurozone, the main export region of Romania (71% of exports Romania and 72.7% of imports in 2012). On the positive results of exporters and domestic currency depreciation contributed about 13.7% in the period 2009-2013 compared with 2008, a situation that also produced substantially reduce the current account deficit.

Romania's international reserves evolution between April 2005 - December 2013 (million EUR)

Source Own processing of the data on <http://www.bnro.ro/Baza-de-date-interactiva-604.aspx> last accessed 04/10/2014

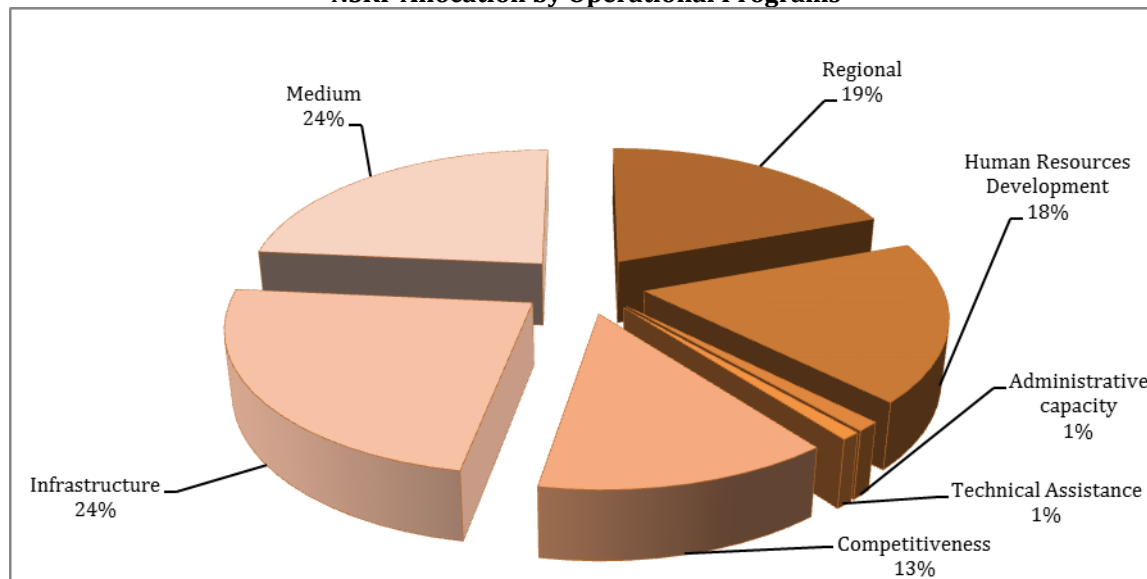
2. Achievements and perspectives of the Operational Programs implementation

The 7 Operational Programs under the Convergence Objective, which has implemented the National Strategic Reference Framework 2007-2013 received an allocation of 19.213 billion euros from the Structural Funds (3) and the Cohesion Fund, plus national co-financing estimated 5.6 billion. The 3 Distribution of EU funds allocation was highlighted in the figure below.:

Distribution of EU funds allocation

Source: Own processing of the data published by the Ministry of European Funds.

The percentage distribution of NSRF allocation (4) (the 7 Operational Programs (OPs) is illustrated in the figure below:

NSRF Allocation by Operational Programs

Source: Own processing of the data published by the Ministry of European Funds.

National Strategic Reference Framework 2007-2013 (5) has been approved by the European Commission in June 2007, and five of the seven Operational Programs were approved in July 2007 (Regional OP, SOP Environment, SOP Transport, SOP IEC and Technical Assistance OP). The 2 PO financed by the ESF, namely SOP Human Resources Development (SOP HRD) and OP Administrative Capacity Development (OP ACD) received European Commission approval in November 2007.

On 30 June 2013, the overall status of the implementation of Operational Programs under the Convergence Objective was as follows:

The total number of projects submitted for funding under the 7 PO 33 453 were in the amount of 57.8 billion euros of which 36.3 billion grant, exceeding the 89% allocation for 2007-2013.

The total number of projects approved for funding was 10,765 for the IS nonrefundable contribution amounts to about 16 billion euro representing 83% of the total EU allocation available for the period 2007-2013.

Progress in implementation is considerably in terms of number of the financing contracts signed, which amounted to 8,608, the amount required for EU funds of approx. 14 billion euros representing about 74% from the 2007-2013 programming period, the significant increase of 14% reported to the 30 September 2009.

Acting in pursuit the objectives for which it was created, the European Union acting through establishing a single market and an economic and monetary union and the implementation of common policies.⁴¹

According the European Commission proposal (6) national allocation for cohesion policy (EAFRD and EMFF free) will be limited to 2.5% of GDP of each Member State for the period 2014-2020, which will require a higher allocation to current period. But there are a number of proposals from Member States contributing net that can decrease the level allocations to all Member States.

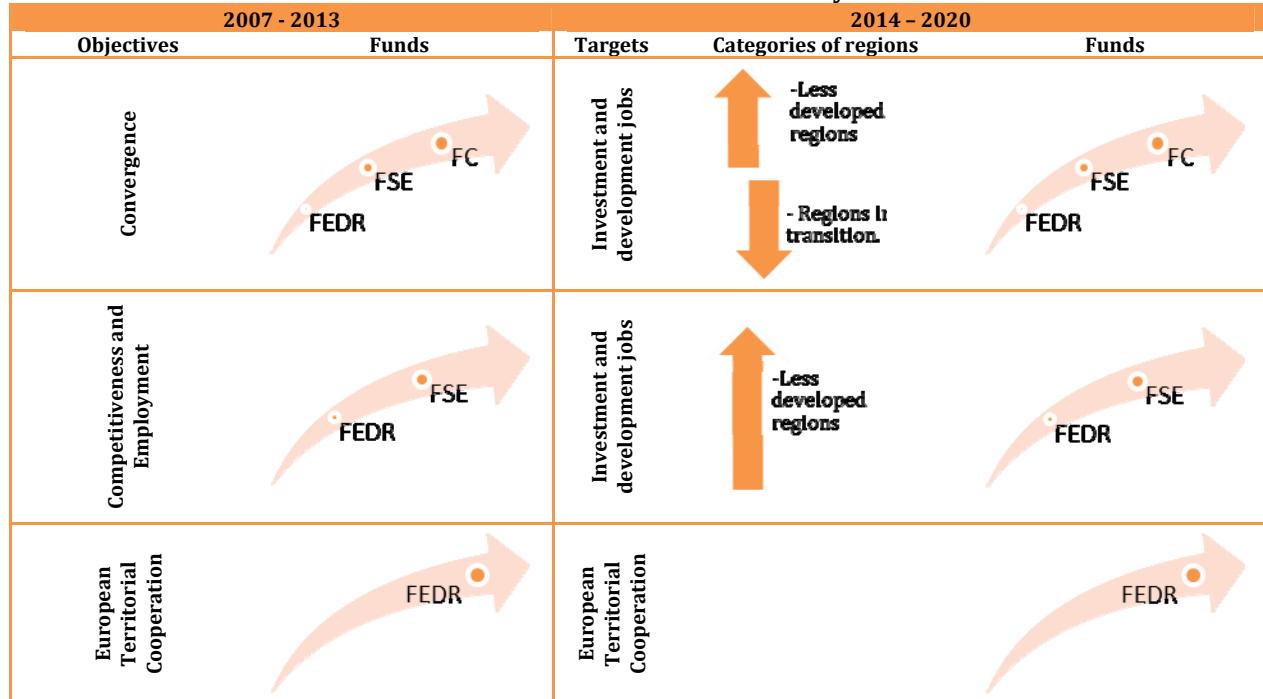
Financial allocations will be different depending on the type of region:

- Less developed regions - these region that have a GDP / capita below 75% of the EU27 average;
- Regions in transition - those regions that have a GDP / capita between 75 and 90% of the EU average;
- More developed regions - regions that have GDP / capita over 90% of the EU average.
- Development regions of Romania are classified as follows:
- Bucharest-Ifov counted in more developed regions;
- The other seven regions will remain in the category of less developed regions.

The architecture of cohesion policy, compared to the two periods 2007-2013/2014-2020 is as follows:

⁴¹ George Schin, „A local development project in the framework of public policies focused on regional development strategies”, Conference Proceedings Risk in Contemporary Economy, 2013.
<http://www.rce.fea.ugal.ro/images/stories/RCE2013/papers/Schin.pdf>

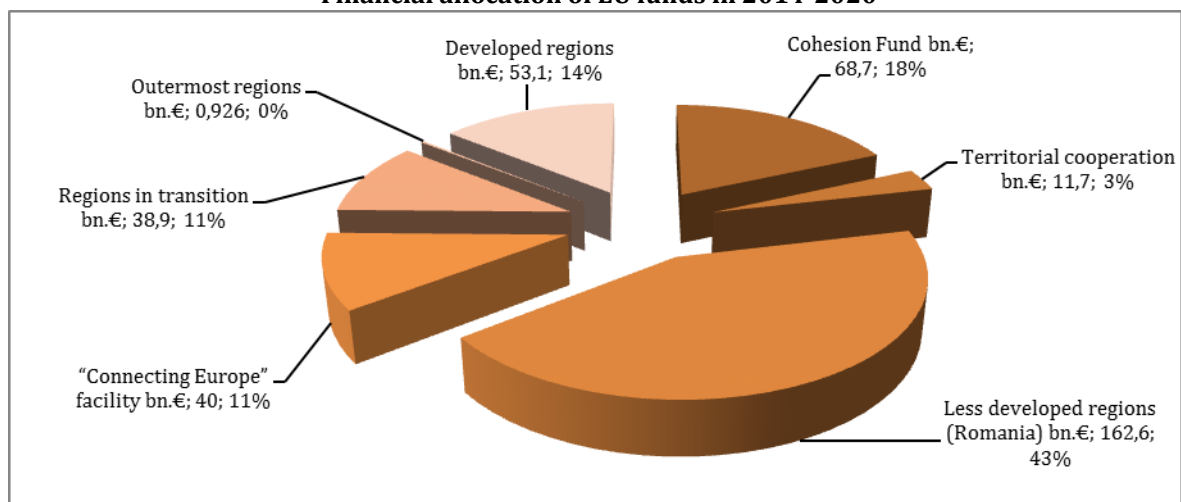
The architecture of Cohesion Policy



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Financial allocation of financial funds proposed budget for 2014-2020 amounts to 396 billion euros, as follows:

Financial allocation of EU funds in 2014-2020



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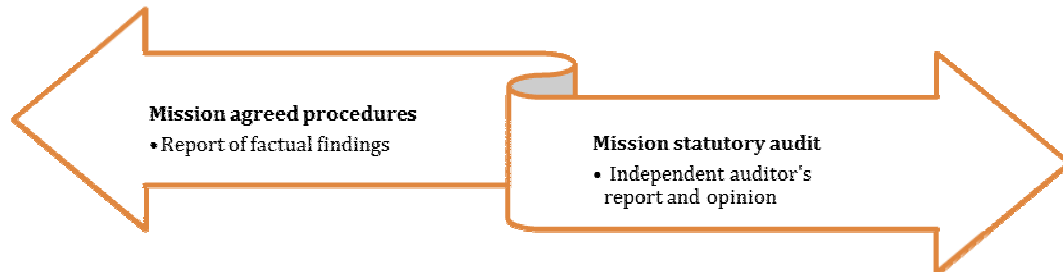
3. Verification missions projects co-financed by the Structural Funds

The objective of the mission we are carrying out the procedures agreed by the auditor of the procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and the auditor's report of factual findings.

Between mission agreed procedures and statutory audit mission, which is the main activity of auditors, there are differences and similarities which will be discussed below.

From the viewpoint of the type of report differences are highlighted in the figure below:

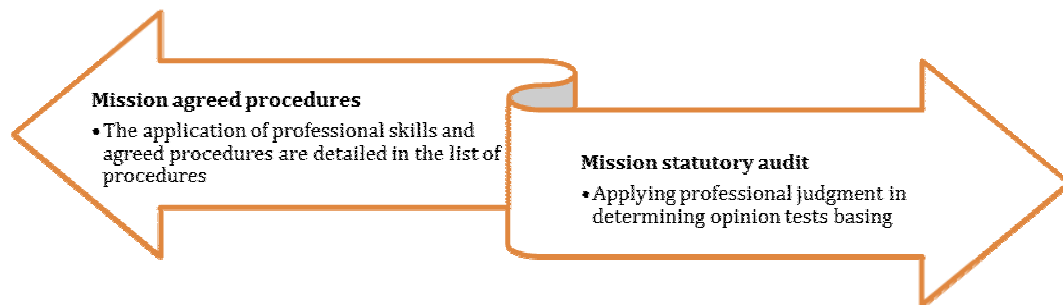
Differences between agreed procedures mission and statutory audit mission: the type of report



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From the viewpoint of procedures applied:

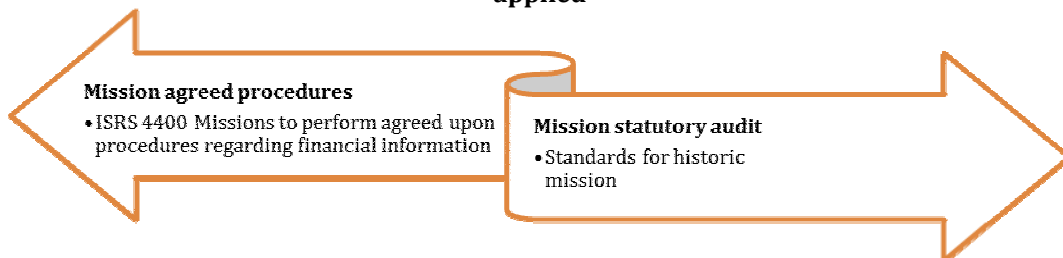
Differences between agreed procedures mission and statutory audit mission: the procedures



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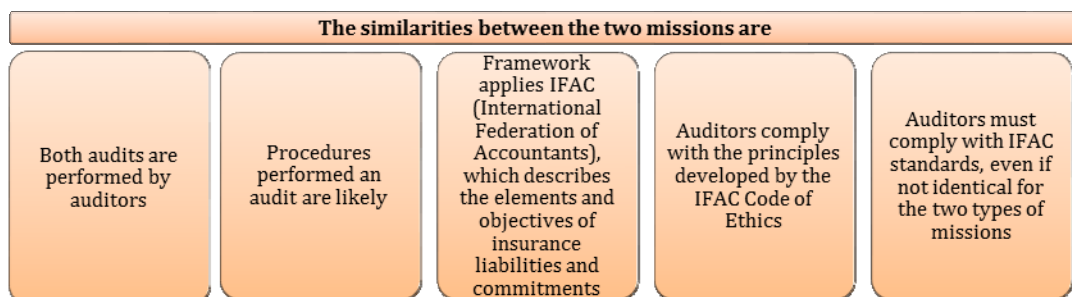
From the viewpoint of standards applied:

Differences between the agreed procedures mission and statutory audit mission: standards applied



Source Own presentation

Similarities between the agreed procedures mission and statutory audit mission



Source Own presentation

At international level concern is the review of audit standards to strengthen the role, relevance and quality of audit services related to the changing world. In this review process will enter 4400 Missions standard for the procedures regarding Financial Information (7).

For the accomplishment the audit on the basis of agreed procedures are undergoing the same steps as for other audit, planning, procedures and reporting background.

The planning of the mission is a basic stage of the activity that requires the highest level of professional judgment (8).

Repayment of expenditure is based on the complete set, consisting of:

- request for reimbursement of expenses
- track of expenses
- technical and financial report
- report of factual findings.

Auditor's report is an important component to request the reimbursement of expenses.

In an audit mission based on agreed procedures, auditor identifies specific procedures that were requested by the client, the beneficiary of the grant, according to the methodology developed by the financier. Procedures are specified and the auditor then shall draw a report outlining the findings of fact.

Therefore in the European projects, the phrase "agreed upon procedures" is not the most appropriate, as are procedures required by the funder, so may be called "procedure imposed" because the auditor does not establish, in agreement with the sponsor, which would be the procedures most appropriate for achieving the purpose of projects funded (9).

6. Conclusion

The 7 Operational Programs under the Convergence Objective by which has implemented the National Strategic Reference Framework 2007-2013 received an allocation of 19.213 billion euros from the Structural Funds and the Cohesion Fund, plus national co-financing estimated at 5 6 billion euros.

Expenditure verification mission carried out by European projects is done by the financial auditors, members of the Chamber of Financial Auditors of Romania. Audit profession can develop the credibility provided by the auditor reports.

Subject to the undertaking of auditors is mentioned in the financing contract, being represented by verification of all information required in the application for reimbursing expenditure (interim/final) which confirms that the grant was spent paid in accordance with the terms and conditions of the contract.

Mission to perform agreed-upon procedures for verification of expenditures made in European projects is based on the standard 4400 Missions to perform agreed upon procedures regarding financial information. The objective of the mission is the agreed upon procedures performed by the auditor's procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and the auditor's report on factual findings.

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