

## **THE PARTICULARS OF THE FINANCIAL AUDIT IN THE FIELD OF EUROPEAN PROJECTS**

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**ABSTRACT:** *For the first programming period of accessing the European funds granted to Romania through the European Union budget, the financial auditing of European projects was mandatory, and in the second period it was declared optional for the beneficiaries of the funding. From the perspective of financial auditors, the market segment of services provided for European projects has become highly specialized and concentrated towards a very small number of local auditors and audit firms, who penetrate this market and accumulate the audit contracts awarded and the related significant revenues. Thus, a sustainable capacity to provide the requested services was formed, but there is a risk of threats to the auditors' independence due to the dependence on the income obtained through this activity. The regulation of the activity of financial auditors in this field is necessary and can be achieved through collaboration between professional bodies and management authorities or other bodies involved in the management, control and audit of European funds. By drafting a separate normative act on the mandatory financial audit of European projects, one can benefit from the standardization, stability and integrity of the activities carried out and obtain audit insurance, necessary for the protection against incorrect or illegal practices in accessing European funds. Considering the significant public interest presented by European funds, a higher degree of transparency, integrity and responsibility on the part of beneficiaries and financial auditors in the implementation of European projects contributes to ensuring the protection of the EU's financial interests. The transparency of the financial audit activity can be achieved by presenting the information related to the audited projects in transparency reports published by the financial auditors. The operational audit performed by internal public auditors and the operations audit performed by external public auditors have common elements with the financial audit performed by financial auditors, members of CAFR. These types of audit have similar objectives and are very similar in terms of the way the missions are carried out, being carried out at the location of the funding beneficiaries, by checking the original documents and inspecting the assets related to the projects. On this basis, audit methods and procedures, perfected through scientific research to be more effective in identifying errors and frauds, can be used in practice, both by financial auditors and by internal and external public auditors.*

**KEY WORDS:** *financial audit, internal public audit, external public audit, audit regulation, transparency reports.*

**JEL CLASSIFICATIONS:** *B 21, M 42.*

## **1. INTRODUCTION**

Projects financed from non-reimbursable European funds are audited both by financial auditors, members of national professional bodies, and by the authorities and, respectively, the departments responsible for external public audit and internal public audit of public institutions involved in the management of non-reimbursable European funds.

The intervention of financial auditors, members of the Chamber of Financial Auditors in Romania (CAFR) is necessary to verify the reality, accuracy and registration of the transactions carried out, compliance with public procurement procedures and the eligibility of the expenses declared by the beneficiaries of the funds in the reimbursement requests submitted to the management authorities. Financial auditors carry out specific missions to verify these aspects related to the implementation of European projects, based on the international auditing standards issued by the International Auditing and Assurance Standards Board (IAASB).

The management and implementation of operational programs are the responsibility of the management authorities established for each operational programme. In Romania, there were different requirements regarding the financial audit of European projects communicated by the management authorities. Even within the same operational programme, obtaining and submitting audit reports was either mandatory or optional, and the cost of audit services was either eligible or ineligible for EU funding, as stipulated in the applicant's guidelines issued for each call for projects.

The market of financial audit services of European projects represents a segment of a highly specialized nature, due to the specialized knowledge required regarding European funds, the European and national legislation that governs them and the specific procedures carried out by the institutions involved in their management and management. This market segment is highly concentrated to a very small number of local financial auditors and local audit firms, who enter this market and win the financial audit contracts awarded according to the procedures stipulated by the public procurement legislation.

## **2. FINANCIAL AUDIT REQUIREMENTS IN THE FIELD OF EUROPEAN PROJECTS**

The first studies carried out in Romania regarding the financial audit of the projects financed from European funds granted to Romania by the European Union focused on the description of the audit procedures used in the audit missions carried out by the financial auditors.

Pitulice (2009) presented the general framework of accessing European funds and the practical aspects in carrying out an operational audit mission of a project financed by the Sectoral Operational Program for the Increase of Economic Competitiveness (POSCCE). Based on professional reasoning, a practical test model was built, in the form of a checklist, based on the provisions of the financing contract.

Thus, the test was structured on the following components of the financing contract: beneficiary obligations, eligibility of expenses, ensuring co-financing and non-eligible expenses, reimbursement of expenses, payment of non-refundable financing, reporting of activity within the project, information, publicity and archiving. The authors highlight the fact that the success of the audit mission "presupposes, above all, the familiarization of the auditor with the activities of the audited entity", and "a clear vision of the operations and internal control points within the audited project is obtained through a preliminary check". which is the basis for the risk analysis and for conducting the phases of the audit mission.

Botez (2012) and Şuteu (2013) presented the stages and procedures used in practice by financial auditors in carrying out audit missions executed according to the requirements of the ISRS 4400 standard.

Şerban (2014) and Şuteu (2015) described the specific procedures and the level of assurance provided following the performance of audit missions according to ISA 805 and ISAE 3000.

Haţegan (2013) carried out a study of the market of financial audit services for the verification of European projects in Romania, showing that there is a tendency to concentrate the market of these audit services towards a small number of local auditors, who win most of the assigned audit contracts through the national electronic public procurement system. In that article, a proposal was made that "financial auditors prepare transparency reports regarding the audit activity of projects with non-reimbursable financing", as this "would contribute to the improvement and accountability of this activity, which is of public interest" and, it was also proposed "the formation of databases for the realization of the various studies necessary for the profession of financial auditor".

In more recent studies, the financial impact of the irregularities detected by the Audit Authority within the Court of Accounts of Romania following the external public audit of the projects/institutions financed by the operational programs of the two programming periods, 2007-2013 and 2014-2020 is presented.

Grosu and Mihalciuc (2019) focused on the comparative analysis of the audit results of European projects implemented in the 2007-2013 programming period and in the 2014-2017 period and, based on the information presented in the annual public reports published by the Court of Auditors of Romania, highlighted the most important irregularities/irregularities discovered by the auditors within each operational program financed by the structural funds and the Cohesion Fund.

Constantin (2019) presented a case study on the 2007-2013 Environmental SOP and the irregularities identified by the management authorities and the Romanian Court of Accounts through the Audit Authority.

Another recent article, Constantin and Sirbu (2018) captures the importance of financial auditing in the context of European grant projects, presenting the frauds/errors that can occur during project implementation and how auditors can identify them. In this paper, it was emphasized that preventing fraud and errors before they harm the European Union budget is easier than making corrections following subsequent (ex-post) audits carried out by the Audit Authority and the recommendation

was made to “to reinstate the audit as a mandatory condition in the project budget, given its great importance”.

### **3. SPECIFIC OBJECTIVES IN THE FINANCIAL AUDIT OF EUROPEAN PROJECTS**

Financial auditors provide independent external financial audit services for European projects. Their purpose is to identify errors and frauds by verifying that the European funds granted by the national management authorities have been used by the beneficiaries in accordance with the terms and conditions stipulated in the financing contracts, respecting the applicable national and European legal regulations.

The objectives of the financial auditor refer to obtaining a sufficient understanding of the project and the terms and conditions of the financing contract and to verifying the eligibility of the expenses requested by the beneficiary.

The understanding of the project and the financing contract is achieved by reviewing the financing request included in the financing contract, following the delimitation of the aspects regarding the beneficiary of the financing, the team that ensures the implementation of the project, the location and objectives of the project, the calendar of the project activities, the list of fixed assets to be purchased through the project, the anticipated results of the project, the risks of the project.

The review of the financing contract seeks to understand its clauses, in particular the following aspects: the legislation that regulates the financing of the respective project, the total value of the project, the eligible and non-eligible part of the project, the duration of the project, the number of reimbursement requests and their submission schedule, the percentage share and the co-financing amount of the beneficiary when implementing the project, the structure of the budget, whether pre-financing is received or not and what are the conditions for pre-financing recovery. A particularly important aspect is the verification of the budget structure and the understanding of the budget lines of the project and the financing package, respectively the breakdown of project costs by each expense category.

Checking the eligibility of the expenses requested for financing by the beneficiary requires the auditor to carry out some categories of procedures, which mainly aim at checking compliance with the applicable rules for the eligibility of the expenses of the audited project and checking compliance with the procedures provided by the applicable legislation on public procurement.

### **4. FINANCIAL AUDIT MISSIONS SPECIFIC TO THE AUDIT OF EUROPEAN PROJECTS**

The audit reports are drawn up by financial auditors, members of the Chamber of Financial Auditors from Romania (CAFR), in order to send these reports, by the beneficiaries of European projects, to the management authorities. The need for the audit procedures carried out aims to support the management authorities in evaluating whether the expenses requested by the beneficiaries in the submitted reimbursement requests have been made, are accurate and eligible. This type of financial audit of

European projects is included, according to GEO no. 75/1999 regarding the financial audit activity, in the category of "financial audit, other than the statutory one", and the verification of this activity is established by the Chamber of Financial Auditors of Romania (CAFR).

The audit standards that can be applied by financial auditors for auditing projects financed by European funds fall into three categories of international standards issued by the International Auditing and Assurance Standards Board (IAASB) within the International Federation of Accountants (IFAC), respectively the standards relating to related services, the standards relating to other assurance engagements and the auditing standards relating to financial audit engagements of historical financial information, and by applying these standards different levels of assurance are provided to users of audit reports.

From the category of financial audit missions of historical financial information, carried out according to international auditing standards (ISA), the standards regarding specialized fields, coded "800-899 SPECIALIZED AREAS", are applicable, and the standard applicable to the audit of European projects is "ISA 805 - Considerations special – audits of individual components of financial statements and specific elements, accounts or aspects of a financial statement".

The choice of the applicable audit standard for each project audit depends on the specific audit requirements for each category of European projects, established by the managing authorities of each operational programme.

The financial audit missions that were requested to the greatest extent by the management authorities in Romania are those carried out on the basis of the International Standard for Related Services (ISRS) 4400 - Commitments to carry out agreed procedures regarding financial information.

Although ISRS 4400 provides that independence is not a requirement for engagements regarding agreed procedures, the management authorities have requested that the auditor also comply with the independence requirements set forth in the Code of Ethics for Professional Accountants issued by IFAC. In this way, it was emphasized that the independence of the auditor is indispensable, vis-a-vis the beneficiary and vis-à-vis the audited European project, in order to ensure objectivity and impartiality in the auditing of projects financed by public funds.

By carrying out assignments according to the ISRS 4400 standard, no assurance is provided by the report issued by the financial auditor. The auditor performs the verification procedures on specified financial or non-financial information, specific procedures that have been agreed between the parties (the auditor and the beneficiary of the issued report) and reports on the factual findings, including sufficient details regarding the errors or exceptions identified following the application of the agreed procedures.

In the context of the audit of European projects, carried out according to ISRS 4400, the auditor performs procedures of the nature of the financial audit on the reimbursement/payment requests of the audited project, procedures that were agreed between the auditor and the beneficiary, respectively the management authority.

The purpose of the agreed procedures is established exclusively by the management authority according to the instructions issued, and the results of the work

performed by the auditors are used to formulate own conclusions based on the procedures performed by the financial auditor.

The report issued by the auditor is entitled "The report on the factual findings regarding the verification of the expenses incurred within the framework of a financing contract financed by ... (operational program)". The report issued by the auditor states that the procedures undertaken do not represent an audit or a review carried out in accordance with international auditing standards or international standards on review engagements, therefore the auditor does not express any assurance regarding the reimbursement requests verified. Users of the auditor's report make their own assessment of the procedures performed by the auditor and the findings reported in the auditor's report and draw their own conclusions based on the procedures performed by the auditor.

Another category of audit mission requested for financial auditing of European projects is the mission performed according to the International Standard on Assurance Engagements (ISAE) 3000 "Assurance missions other than audits or reviews of historical financial information." In applying ISAE 3000, the auditor must comply with this standard and any other ISAE that addresses a specific subject and is relevant to the engagement. Also, the auditor must comply with the parts of the Code of Ethics issued by IFAC, which concern assurance missions or with other professional provisions or provisions imposed by laws or regulations that are at least as strict.

By performing this category of assignments, either reasonable or limited assurance can be provided, depending on the procedures applied, regarding the fact that the specific information verified does not contain significant distortions, and the report issued by the auditor is entitled "Assurance Report".

In the framework of the audit of European projects, through the assurance report issued by the financial auditor, assurance is provided on the reality, regularity and eligibility of the expenses declared by the beneficiary to the management authority through the reimbursement request/audited payment.

In Romania, audit missions according to ISAE 3000 were requested for projects financed by the National Rural Development Program (PNDR), by the management authority of PNDR. The objective of the verification of expenses by the financial auditor was established with reference to providing a reasonable assurance that the amounts requested for payment are related to the financing contract, that they are real and accurate, have been correctly recorded in the beneficiary's accounting and are in accordance with the legal provisions. In addition, checks were requested regarding the documents on the basis of which the invoiced expenses were certified and correctly recorded in the beneficiary's accounting, as well as the fact that these expenses are included correctly and according to the budget lines, in the reports to the management authority.

As a result, in the assurance reports issued, the financial auditors certify that the declared expenses are real, accurate and eligible, in accordance with the contractual terms and legal provisions. Also, it is confirmed that, based on the checks carried out, no ineligible expenses were identified or the value and description of the ineligible expenses identified by the auditor is specified.

The third category of audit mission requested in the financial auditing of European projects is the mission performed according to the International Auditing Standard (ISA) 805 "Special considerations - audits of individual components of financial statements and of specific elements, accounts or aspects of a financial situations".

The ISA 805 standard is part of the category of international auditing standards, as a result in the execution of an engagement according to ISA 805, the auditor must comply with all international auditing standards (ISA 200-ISA 899). The auditor must also comply with the independence requirements according to the Code of Ethics issued by IFAC.

By performing this category of assignments, reasonable assurance is provided regarding the fact that the specific information verified does not contain significant distortions due to errors or fraud. The report issued by the auditor is entitled "The independent auditor's report" and is drawn up according to the standard "ISA 700 Forming an opinion and reporting on the financial statements" or "ISA 705 Changes to the opinion of the independent auditor's report", in the case of a modified audit report.

ISA 805 engagements are the most complex for financial auditors due to the requirement to apply all International Standards on Auditing (ISAs) within an engagement. The financial audit involves performing procedures to obtain audit evidence regarding the values and presentations of the audited statements.

The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial information, whether due to fraud or error. A financial audit also includes evaluating the degree of adequacy of accounting policies used and the degree of reasonableness of accounting estimates made by management, as well as evaluating the general presentation of financial information. The audit involves testing on a sample basis the elements subject to verification, selected based on the auditor's professional judgment and experience.

In the case of the audit of European projects, through the report issued by the auditor, assurance is provided regarding the eligibility of the expenses declared through the reimbursement request/audited payment. The objective of the verification of expenses by the financial auditor refers to providing reasonable assurance on the reality, legality and compliance of the expenses incurred by the project beneficiary. In this regard, the auditor will plan and perform the audit in accordance with international auditing standards, in order to obtain reasonable assurances that the reimbursement requests that are the subject of the audit contract do not contain material misstatements and are drawn up in all material respects in accordance with the framework of reporting identified.

In addition to the financial audit missions of the European projects presented previously (performed based on the ISRS 4400 and ISAE 3000 standards), the mission according to ISA 805 involves the performance of additional checks by the auditors, such as:

- verifying the implementation and functioning of the relevant internal controls established by the beneficiary in order to prepare reimbursement requests that do not contain distortions resulting from fraud or error, by testing the effectiveness of the entity's internal control;

- evaluation of the accounting policies selected and applied by the project beneficiary;
- verifying the implementation of the appropriate procedures by the beneficiary in order to identify significant risks that could affect the smooth running of the financing contract.

Following the financial audit of European projects through missions according to ISA 805, in addition to the audit report, the financial auditors can prepare and send to the audited entity a separate letter, communicating the identified aspects regarding the deficiencies found in the functioning of the accounting and internal control system. The letter can present the main findings regarding the audited financial information, other findings related to the project's accounting records, as well as recommendations regarding the necessary measures to be implemented by the audited entity to remedy deficiencies and improve the internal control system regarding project accounting and financial reporting.

In conclusion, engagements performed in accordance with ISA 805 provide the highest level of assurance, as the performance of these engagements requires the application of all International Standards on Auditing (ISAs) by the auditor and a level of reasonable assurance is provided to the users of the audit report. At the opposite pole is the application of the related engagement standard, as no assurance is provided as a result of using ISRS 4400, while engagements performed under ISAE 3000 provide a limited level of assurance as a result of using only one engagement standard insurance, without applying international auditing standards.

The financial audit report provides assurance not only on the eligibility of the expenses declared for reimbursement, but also on the accuracy of the accounting records and the faithful picture presented from a financial-accounting point of view by the entities. The accounting of transactions carried out through European projects presents a very specialized nature and very high monetary values, therefore the errors produced in their accounting and presentation can lead to significant distortions in the annual financial statements published by these entities, which requires the specialized expertise of financial auditors to verify the correctness of the financial information presented. Related to these aspects, we believe that the involvement of financial auditors serves the interests of the beneficiaries, the business environment, investors and the general public interest.

Since the application of the ISA 805 standard can provide the highest level of assurance, we recommend the use of this standard in carrying out financial audit missions of European projects, based on the financial audit requirements formulated by the management authorities in this regard. Thus, the management authorities could rely, to a greater extent, on the opinion expressed by the financial auditor, which would facilitate the verifications, by survey, carried out by the verification officers within the management authorities and the identification of possible errors or frauds during project implementation.

## **5. THE EVOLUTION OF THE FINANCIAL AUDIT REQUIREMENTS OF EUROPEAN PROJECTS IN ROMANIA**

Given that financial auditors carry out financial audit engagements for the verification of European projects according to the different requirements communicated by the managing authorities for each operational programme, we conducted a qualitative research based on documentation, with the aim of summarizing the financial audit requirements for European projects from the period 2007-2020. These requirements have been established by legislation, protocols, the applicant's guides – general and specific conditions for the operational programs and by other instructions issued by the management authorities in Romania.

The acquisition of audit services is done according to the legislation on public procurement applicable to public beneficiaries, respectively according to the simplified procurement measures applicable to private beneficiaries.

With regard to the requirements established by the management authorities regarding the financial auditing of the European projects implemented in Romania, 3 successive stages are distinguished in their evolution, in the time period 2007-2022.

The first stage corresponds to the 2007-2013 programming period, and the audit requirements were applicable during the entire implementation period of the projects in this programming cycle, respectively the calendar period 2007 until 31.12.2015.

At this stage, legal regulations were issued to establish the lists of eligible expenses for each operational program, in which the cost of external financial audit for projects was included as an eligible expense. The management authorities issued instructions for the purchase of financial auditing services of the contracts financed under the operational programs under their management and terms of reference for the verification of expenses by the financial auditors. Through the terms of reference, the managing authorities established and communicated the types of financial audit missions of the requested European projects, the audit standards on the basis of which the audit missions should be carried out, including the formats of the audit reports that the financial auditors had to must use. The interim and/or final audit reports had to accompany the interim and/or final reimbursement applications submitted by the beneficiaries.

As a general rule, the financial audit of the projects was mandatory, the cost of the audit services was eligible for funding, and the requested audit missions were the missions according to the ISRS 4400 international standard.

As an exception, in the case of POSCCE, the cost of the audit was considered as an ineligible expense for financing from European funds, given that the financial audit was requested (mandatory) and only some measures related to very high value projects provided for the audit financially binding, and its cost eligible.

In the case of PNDR, for some measures the audit was not mandatory and its cost was ineligible, while the measures concerning high value projects required the mandatory financial audit and its cost was eligible. In all cases, the type of audit mission requested was the mission executed according to the ISAE 3000 international standard, and the model of the audit report was made available to the financial auditors

to be used by them, mandatorily, according to the instructions issued by the Payments Agency for Rural and Fisheries Development (APDRP) within the Ministry of Agriculture and Rural Development, for the programming period 2007-2013.

Therefore, in the first programming period, it was requested that the financial audit missions for the audit of European funds be carried out by financial auditors according to the ISRS 4400 and ISAE 3000 international standards.

The second stage covers the time period 2014-2017 and is characterized by the fact that an inter-institutional collaboration protocol was concluded and applied regarding the organization and conduct of the financial audit activity of European projects. The collaboration protocol was signed on January 21, 2014, by CAFR as the authority responsible for organizing and exercising the financial audit activity in Romania and by the Ministry of European Funds (MFE) as the authority that regulates the activity in the field of coordination, management and efficient use of European funds (structural instruments).

The collaboration protocol was concluded for an unlimited period of time, but was applicable until June 8, 2017, as it was terminated based on a notice of its termination, submitted on May 24, 2017 by the Ministry of Regional Development, Public Administration and European Funds (subrogated in rights and obligations to the Ministry of European Funds). In the submitted termination request, it was stated that the collaboration protocol remained without object, in the context of the new regulations regarding the 2014-2020 programming period, which "no longer provide for the existence of the independent financial audit activity".

The protocol referred to the professional training of financial auditors in the field of European funds and the application of national and European legislation and to the adoption of common measures for the supervision of financial auditors carrying out financial audit activities of European projects. Thus, it was established that financial auditors are required to attend specialization and training courses for European funds organized by CAFR and to take tests to verify the knowledge they have acquired, and their activity will be supervised by both signatory institutions, based on the lists of financial auditors approved that can carry out audits of European projects. Most importantly, in the signed protocol no reference was made to the ISRS 4400 standard, instead the financial auditors were required to carry out audit missions of specialized fields, by applying the international auditing standards ISA 100-805, which meant an increasing the level of assurance provided through audit reports. ISAE 3000 remained applicable for PNDR, as in the previous stage.

The protocol had limited applicability, not only in terms of the time period for which it was in force (2014-2017), but especially in terms of the fact that it addressed only the projects launched for the second programming period 2014-2020, for which few purchases were started, from the launch (January 1, 2016) until June 8, 2017. According to a statement published on the CAFR website, the protocol addressed projects implemented in the second programming period, and for projects related to the first programming periods (2007-2013), with the deadline for the completion of project implementation activities 31.12.2015, it was mentioned that the financial audit requirements as established for that period are maintained.

Although this protocol sought collaboration between the CAFR and all 12 management authorities operating at that time, in practice the protocol was mainly applied by the MFE for the operational programs that this ministry managed as the management authority (POSDRU, POSCCE, POAT), while other managing authorities declared that this protocol was not applicable to operational programs under their management, as these authorities were not signatories to the protocol. For example, by Instruction no. 122 of 02.06.2014, it is announced that the provisions of the collaboration protocol are not applicable for the procurement procedures of audit services related to projects financed through the 2017-2013 ROP, motivated by the fact that the Collaboration Protocol applies only to operational programs under the management of MFE.

Therefore, in the second stage, it was requested that the financial audit missions for the audit of European projects be carried out by financial auditors according to the international standards ISA 805 and ISAE 3000.

The third stage covers the time period 8 June 2017 - present and refers to projects launched in the 2014-2020 programming period. The audit requirements have changed substantially with the launch of the new operational programmes, according to the provisions stipulated in the specific guidelines of the operational programmes, later being confirmed by the applicant guidelines issued as the project calls were opened.

The financial audit of European projects has become optional for project beneficiaries, and the cost of external financial audit services has become ineligible as a general rule. No further instructions and terms of reference have been issued by the managing authorities on the types of audit engagements that should be carried out, nor on the audit report models required to be submitted for the reimbursement of funds. In practice ISRS 4400 and ISAE 3000 are still used, and audit missions performed according to ISA 805 appear very rarely in practice, according to the documentation made based on the information (specifications for financial audit services) available online.

Some exceptions to the general rule are found under the POC, POIM and POCA, in the sense that the financial audit is required compulsorily, as we will describe below. It is noted that the management authorities have made additional clarifications regarding certain conditions related to the exercise of the financial audit, which the financial auditors must comply with, or restrictions on the reimbursement of the financial audit expenses in the event of the detection of irregularities within the project, which were not reported in audit reports.

Under the POC, the cost of the financial audit was declared a non-eligible cost. Within the Single Guidelines issued for AP 1 and AP 2 of the POC, it is specified that the financial audit activity of the project is not eligible for funding, but is mandatory for project implementation. In addition, the following 3 conditions are presented that must be met by the external auditors, regarding the assurance of the independence of the opinion issued by the auditor and the professional training of the auditor:

- the auditor must be an external and distinct person from the beneficiary, and must not be in a relationship of subordination or incompatibility with him;
- the auditor must be a person distinct from the providers/suppliers of the services/products/works in respect of which the audit activity is to be carried

out and, at the same time, not to be in a relationship of subordination/incompatibility with them;

- have the necessary specialized studies and hold all the necessary authorizations required by the legislation in force, including those regarding the protection of classified information - if applicable.

In the case of POIM, for the projects related to priority axes AP1-"Improving mobility through the development of the TEN-T network and metro transport" and AP2-"Development of a quality, sustainable and efficient multimodal transport system", it is specified that this type of expenditure, with the financial audit of the project, is not eligible and the submission of financial audit reports is not required. Within other priority axes of the POIM, for example in the applicant's guide related to the call "POIM/819/9/1/Consolidation of the capacity to manage the health crisis COVID-19" launched in 2020, the financial audit is nominated within the fundable activities, being eligible for funding, but audit reports are not required. The applicant's guide for the call "POIM/881/9/1/Strengthening the capacity of state education units in order to manage the pandemic situation generated by the SARS-COV-2 virus", also nominates the financial audit within the activities eligible for funding and adds the fact that the financial audit is mandatory only for projects with a value greater than 500,000 euros.

The POCA management authority has attached, to the POCA beneficiary's guide, "Annex 4 - Instructions and terms of reference for the purchase of audit services", communicating in this way the instructions and terms of reference that must be taken into account by the funding beneficiaries. It is specified that the independent financial audit of the projects is no longer a contractual obligation of the POCA beneficiaries, for the 2014-2020 programming period and that, in the event that the beneficiaries still want an authorized opinion on the reality, legality and eligibility of the expenses declared within reimbursement requests, in accordance with the legislation in force and based on international auditing standards, the expenditure related to the project audit is eligible for financing.

For the submission of audit reports (interim audit/final audit), the use of the ISRS 4400 standard, the procedures for verifying the declared expenses and the audit report model, respectively "The report on the factual findings regarding the verification of the expenses carried out under a Contract of financing financed by POCA", the use of which is mandatory, by the auditors. Also, in the POCA beneficiary's guide, it is specified that, "the finding of irregularities in the project, which were not reported in the audit reports, result in the ineligibility of the expenses regarding the external audit".

Some particularities are repeated in the case of POCU and ROP, regarding the establishment of limits for the eligibility for funding of financial audit expenses. Thus, in the case of POCU, in the general guide, respectively the document entitled "Guidelines regarding access to financing within the Human Capital Operational Program 2014-2020", it is specified that "financial audit and accounting expertise services are not mandatory. In the situation where, for the implementation of the project, the applicant decides to use these services, the related expenses will be included in the category of indirect expenses".

Therefore, the financial audit was declared as an optional activity for the beneficiaries of the projects, and the cost of the audit is eligible within very low limits, being considered as part of the indirect costs of the projects, and the indirect costs of the projects have quite low values, being established as a percentage of the total direct costs of the projects.

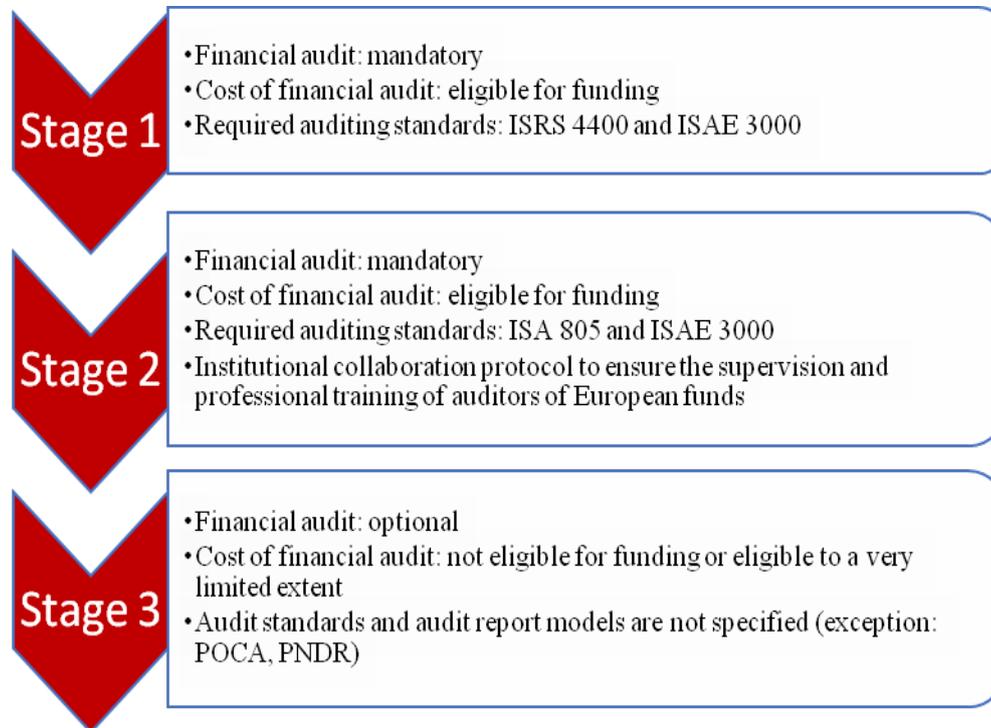
In the case of the POR, a special situation is found, in the sense that the financial audit activity is not mandatory, but is considered an optional activity, for which the audit expenses are eligible to a limited extent. Concretely, in the Applicant's Guide - general conditions for the receipt of funds there are no mentions regarding the financial audit of the projects, but in the applicant's guides issued on the occasion of the launch of each project call, AMPOR specifies the limit established for the eligibility of financial audit expenses, for most projects being set at the level of 5,000 RON, without VAT, quarterly, corresponding to the project activities that can be audited in the respective quarter.

In the case of the PNDR 2014-2020 program, the financial audit is still required, mandatorily, only for some high-value projects, as for example in the case of Sub measure 19.4 - "Support for operating and animation expenses". The support under this sub-measure is granted for the operating costs and animation activities of the selected Local Action Groups (LAG). For the operation of the LAG, the costs related to the management of the implementation of the strategy are eligible, among which the audit costs are nominated. According to the applicant's guide for this sub-measure, the costs for the payment of the financial auditor are eligible, being eligible in the amount of a maximum of 3.0% of the amount authorized for payment related to each payment request, and the acquisition of the auditor must be carried out no later than drawing up the first Payment Request by the beneficiary. The financing contract stipulates that the payment will be made based on the payment request submitted by the beneficiary and authorized by the Contracting Authority, and the payment request will be accompanied by the Assurance Report issued by an authorized financial auditor.

In the case of Sub-Measure 19.1 - "Preparatory support", auditor payment expenses are eligible up to a maximum of 2% of the total eligible expenses from Chapter II, exclusive of the audit expenses. The type of audit engagement requested was the engagement performed according to the international ISAE 3000 standard, and the audit report model was made available to the financial auditors for their use, in a mandatory manner.

In our opinion, the limits established for the eligibility, i.e. the financing of financial audit services from European funds, have a rather low level, which does not encourage the voluntary acquisition of audit services and the involvement of financial auditors in the audit of European projects. From a practical perspective, carrying out the financial audit activity of European projects requires time resources from the project management teams and cost allocations for the audit fees, in the conditions that the project budgets and the schedules of the activities to be executed for the implementation of the projects are subject to very strict budgetary and time constraints. With these considerations in mind, our view is that the optional financial audit is adopted to a small extent by the beneficiaries, on a voluntary basis.

We present below in a synthetic way the stages in the evolution of the financial auditing requirements of the European projects implemented in Romania.



**Figure 1.- The evolution of the financial audit requirements established for European projects implemented in Romania**

Following the research carried out, we note, for the current period, the lack of regulation of the financial audit activity of European projects, by declaring financial audit as an optional activity within European projects, as well as the difficulty of meeting the demand and supply of financial audit services, respectively between project beneficiaries and financial auditors, due to the very different requirements of each project category. In our opinion, this aspect can be remedied by the compilation and publication by the competent bodies of centralized information on the audit requirements of the management authorities, so that the optimal functioning of the market is supported.

It is also noted that, in the absence of the legal regulation of the financial audit activity of European projects, it has not been possible to ensure, until now, the stability of the operation of the verification activity of European projects through the financial audit, as proof being the 3 stages, respectively 3 different work variants that have existed until now, following the changes made by the management authorities regarding the collaboration with financial auditors for the verification of European financed projects.

For the first programming period, the management authorities in Romania established that the financial audit of European projects is mandatory and issued instructions and terms of reference regarding the purchase of the services requested from the financial auditors. In contrast, in the second programming period, the financial audit was declared optional, the decision being left to the project beneficiaries, whether they will use these services and include the necessary amounts, voluntarily, in the project budgets.

Although in Romania an attempt was made to increase the level of assurance provided following the intervention of financial auditors in the verification of European projects and to implement measures to regulate and standardize the requirements of financial auditing of projects, through a collaboration protocol between institutions, finally this course was changed in the direction of reducing the financial audit requirements and reducing the involvement of financial auditors in the financial audit of European projects.

Especially in the case of the funds for agriculture and rural development and the funds for the development of human resources, the registration of the most suspicions of fraud is found, and the level of audit assurance obtained, by performing the public audit and the external financial audit, is very low.

## **8. CONCLUSION**

The lack of regulation of the financial audit activity, by declaring it as an optional activity for European projects, by terminating the collaboration protocol with the professional body of financial auditors and by imposing very limited values for the eligibility of audit expenses in project budgets, can lead to a significant reduction of the external audit activity carried out by financial auditors on European projects and the assurance provided, in the assembly, through the audit of European funds. Due to the cost and time constraints encountered in project implementation activities, we appreciate that the optional financial audit is contracted by the beneficiaries only to a very small extent, on a voluntary basis.

The involvement of financial auditors in the auditing of European projects encourages financial discipline among the beneficiaries, who are responsible for the implementation of the projects by carrying out the activities provided for in the approved projects. While the audit of the operations carried out by the Audit Authority and the control actions carried out by the DLAF in the periods subsequent to the implementation of the projects involve difficulties in the detection of fraud and the late recovery of European funds paid improperly, on the other hand, the involvement of financial auditors would contribute to the prevention and early detection of errors, irregularities and fraud regarding European funds. In this way, the activities carried out by the financial auditors during the project implementation period contribute to the fight against fraud or other illegal activities that may affect the financial interests of the EU.

Our proposal is that the financial audit be declared mandatory for all ongoing European projects, in order to be able to support, by the external financial auditors through the audit procedures applied, both the audit strategies developed by the audit

authorities and the anti-fraud strategy of EU. The regulation of the financial audit activity of the projects financed from European funds should be carried out for each operational program by the member states, in order to ensure the fulfilment of the requirements regarding the protection of the financial interests of the EU.

Regulation can be achieved through collaboration between professional bodies and management authorities or other bodies involved in the management, control and audit of European funds. By drawing up a separate normative act on the financial audit of European projects, it is possible to benefit from the uniformity, stability and integrity of the activities carried out and to ensure protection against incorrect or illegal practices in accessing European funds. Joint actions can be planned and carried out to supervise the activity of financial auditors and to increase their technical expertise in national and international legislation applicable to European funds. Through cooperation and collaboration, financial auditors can fulfil the role of control filter and support of the authorities involved in the management, control and public audit of European funds, the ultimate goal being the protection of the financial interests of the EU.

The financial audit activity serves the interests of the beneficiaries, the business environment, investors and the general public, as European projects can have a significant impact on the annual financial statements published by the entities that benefit from European funds, and the verification of the accounting and presentation of European funds requires specialized expertise, so such as the expertise of financial auditors. Financial audit, if it were to be mandatory for European projects, would cover all operations, including low-value projects, for which financial audit services are lacking but necessary. The Audit Authority would benefit from the assurance obtained from the checks carried out by the financial auditors and would have the possibility of allocating more resources to other types of external public audit.

The information on the audit engagements carried out by financial auditors for the verification of European projects should be presented to the public, by publishing transparency reports, in a similar way to the procedures on the statutory audit carried out on the financial statements of public interest entities. The transparency of the activity is necessary due to the fact that European funds are of significant public interest at the national and international level, due to the fact that they are part of the general budget of the EU, and a higher degree of responsibility on the part of the beneficiaries and the financial auditors in the absorption process of European funds contributes to ensuring the protection of the financial interests of the EU.

The market of financial audit services of European projects represents a segment of a highly specialized nature, due to the specialized knowledge required regarding European funds, the European and national legislation that governs them and the specific procedures carried out by the institutions involved in their management and management. This market segment is highly concentrated to a very small number of local financial auditors and local audit firms, who enter this market and win the financial audit contracts awarded according to the procedures stipulated by the public procurement legislation. Most of the auditors active in this market are small firms, which have a very small number of employees and are established in different counties of Romania.

We appreciate that the service offer can be supported by financial auditors who have acquired this specialization and experience in the field, as well as by other auditors who can penetrate this market segment, ensuring a sustainable capacity to provide the necessary audit services. The risk that appears in the context of market concentration is that of ensuring the independence of auditors vis-à-vis the beneficiaries of the projects, because the dependence on the audit fees charged from the audit of European projects, following the specialization in this activity, may endanger the maintenance of independence by the auditors. This threat can be supervised by the competent authority, through the permanent monitoring and analysis of market developments and the performance of quality assurance checks.

It is necessary for the internal public audit to give greater importance to the field of European funds, by intensifying specific audit missions and by more extensive reporting of the results obtained, thus ensuring visibility among public institutions and other categories of auditors (financial auditors, auditors external publics) and the possibility of adopting the best audit practices. The information on the auditors' findings and recommendations would also be useful at the level of the beneficiaries, to avoid irregularities in the use of European funds.

Among the types of public audit performed by auditors employed in various public institutions involved in the management and auditing of European funds, the operational audit performed by internal public auditors and the operations audit performed by external public auditors have many elements in common with the financial audit performed by financial auditors, members you have CAFR. These types of audit are very similar in nature, being carried out at the location of the funded projects, by verifying the original documents and assets acquired through the funded projects. The auditors have similar objectives, mainly aiming at verifying the way public procurement is carried out and verifying the eligibility of expenses requested for reimbursement by the beneficiaries of funds. On this basis, we appreciate that the improvement of European project audit methods and procedures, carried out through scientific research activity, can be useful and can be capitalized in practice, both by financial auditors, members of CAFR, and by internal public auditors and external.

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