

REGULATION AND TRANSPARENCY OF THE FINANCIAL AUDIT OF EUROPEAN PROJECTS – A COMPARISON WITH STATUTORY AUDIT

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Abstract. Financial auditors, members of the recognized national professional bodies, provide independent services such as statutory audit of the annual financial statements published by economic entities and other financial audit services, out of which an important category is represented by the financial audit of projects financed through European funds. In this paper, we present a comparative study of the way these two activities are undertaken in Romania, from the point of view of the aspects concerning the regulatory and the transparency status of the audit services delivered.

Following our analysis, we will present the common elements that have been identified between the two audit fields, the most important being the significant public interest presented by the audited information, the verification of the accounting of some complex economic transactions, the possibility of the appearance of errors and frauds in the process of the preparation and presentation of the audited information and the specific financial audit procedures that are applied by financial auditors in their audit work. Further, we will highlight the main differences existing between the two fields, respectively the legislative regulation as opposed to performing the audits based on the options of the management authorities or of the beneficiaries of the European funding, the different audit supervising bodies (ASPAAS - The Authority for Public Supervision of the Statutory Audit Activity and, respectively, CAFR - The Chamber of Financial Auditors of Romania) and the situation regarding the ensuring of the transparency of the audit activities performed. As a result of this research, we draw conclusions about the necessity and the means through which the financial audit of EU-funded projects can be better organized, monitored and exploited in order to support the protection of the financial interests of the European Union and implicitly of the European citizens.

JEL classification: M41, M42

Key words: financial audit, statutory audit, EU-funded projects, transparency, regulation

1. INTRODUCTION

As a Member State, Romania receives structural and cohesion funds from the European Union's long-term budget which is established in multiannual financial

frameworks. Funds have been allocated in two programming periods, 2007-2013 (over 27 billion EUR) and 2014-2020 (over 31 billion EUR) by means of operational programmes approved by the European Commission in specific domains such as human resources development, enterprises competitiveness, regional development, environment and transport infrastructure, development of the administrative capacity, agriculture and rural development. More European funds will be available in the next period, as Romania was allotted an amount of 31.5 billion EUR for the programming period 2021-2027. In addition, new programmes have been put in place in the last years by the European Commission, using NextGenerationEU as a temporary recovery instrument meant to address the economic and social problems provoked by the coronavirus pandemic (with a proposed total allocation of 33 billion EUR for Romania). Within NextGenerationEU, the Recovery and Resilience Facility was designed to finance essential reforms and public investments in Member States between 2020 until the end of 2026 and Romania was allocated funds amounting to 29.2 billion EUR according to the National Recovery and Resilience Plan (PNRR) approved by the European Commission on 27 September 2021 [12].

With reference to the structural and cohesion funds, the funding beneficiaries, both public and private, have to comply with the financing contracts stipulations and with the EU and national applicable legislation regarding the expenses incurred in the projects implementation. In this context, financial audit services are needed for projects verification in order to support the management authorities which provided the finance in making sure that „the granted non-reimbursable financing has been spent in conformity with the terms and conditions of the financing contracts” [3].

According to Șerban, M. [3] and Șuteu, A. [4], the verifications are performed according to certain international standards issued by IAASB, which can either be standards on related services (ISRS), standards for assurances engagements (ISAE) or standards on auditing (ISA). “The reimbursement requests under audit contain the financial information related to the projects and are accompanied by the technical report, the expenses situation and also the justifying documents (invoices, bank statements, payroll etc.) referring to the finance” [4]. Financial auditors deliver audit reports in which they express an audit opinion regarding the audited expenses, by which they certify that „the expenses requested for reimbursement are eligible according to the applicable legislation (supported by legal transactions, based on real justifying documents and real transactions), the declared amounts being correct and correctly classified” [3].

Statutory audit means an audit of the annual individual or consolidated financial statements which is executed according to the international standards on auditing and it can be either mandatory as required by EU or Member States law, or it can be executed voluntary at small entities and the audited financial statements are published together with the statutory audit report, according to the law. Statutory auditors examine the financial statements prepared by the entity’s management and provide a „motivated opinion regarding the true, clear and complete image of the position, financial situation and results according to the adequate accounting and financial reporting framework” [1]. Statutory audit can only be performed by statutory auditors, who are financial auditors authorised by the competent authority according to the conditions stipulated in the statutory audit law.

2. OBJECTIVES

Our paper makes a contribution to the specialty literature concerned with the audit of EU-funded projects by making an analysis of the current situation in the accomplishment of legal regulation and transparency of this activity in Romania.

We have considered the situation in the statutory audit as a good example of the solutions that can be implemented regarding these aspects and, consequently, we chose to make a comparison of the situation in the financial audit of EU-funded projects as opposed to the status in the field of statutory audit. For this comparison, we have pointed out the common elements and the differences existing between the two audit fields.

As a result of the research, we aim to draw conclusions regarding the modalities in which the financial audit of EU-funded projects can be better organized, monitored and utilized in the benefit of EU financial interests protection.

3. METHODOLOGY

In order to meet our research objective, we have analyzed the available information that we have extracted from the following sources:

- the relevant legislation of Romania regarding the statutory audit;
- the information published by the professional bodies in the field of financial audit in Romania (CAFR, ASPAAS);
- the information published by the Ministry of Investments and European Projects (MIPE), former Ministry of European Funds (MFE), and the management authorities of the operational programs implemented in Romania from European funds.

After extracting and analyzing the relevant information, we have synthesized the most important common aspects and differences regarding the regulation and the transparency, that exist between the statutory audit and the financial audit of EU-funded projects, in order to discover the elements that are lacking in the field of the financial audit of European projects and the practical measures that can be adopted for their implementation.

4. ANALYSES

4.1. Common elements of statutory audit and financial audit of EU-funded projects

The most significant common elements that we have identified between the two audit fields refer to the following:

- audit procedures used by the auditors;
- significant public interest presented by audited information;
- verification of some complex economic and financial transactions accounting;
- likelihood of frauds and errors appearance.

Financial audit procedures are used by auditors in order to collect audit evidence on which to base the audit opinion they issue. The specific procedures are described by the international standards on auditing and they have been also nominated in the audit instructions published by the management authorities of European funds. The procedures are commonly used in the course of statutory audit and financial audit of EU-funded projects and they are presented in the table below.

Table 1- Audit procedures

Audit procedure	Description of the procedure
Inspection of records and documents	Examining the accounting records concerning the transactions and operations realized by the audited entity and also the documents supporting them.
Inspection of tangible assets	Examining the assets, meaning their physical verification, which certifies primarily the assets' existence, but no assurance is obtained regarding the audited entity's rights and obligations upon them or the assets valuation.
Observation	Looking at a process or procedure as it is performed by others, for example the observation of inventory counts performed by the audited entity's personnel.
Inquiry	Seeking financial and non-financial information of experienced and competent persons within or outside the audited entity, either in a formal written form or as informal oral inquiries.
External confirmation	A specific type of investigation, representing the process of obtaining a direct written declaration to the auditor from a third party (banks, suppliers, customers, borrowers, insurers) with regard to certain informations or existing situations or conditions (operations, documents).
Recalculation	Checking the mathematical accuracy of information in documents or records
Reperformance	The auditor's independent execution of procedures or controls that were originally performed within the entity's internal control system.
Reviewing (verification)	The process through with the accounting data is analysed and verified in order to identify important or unusual situations referring to amounts, movements, account balances, operations. This procedure results in the identification of irregularities concerning the values or components of the items under verification by analysing the transactions, the accounting records, the adjustments, the reconciliations and other documents and detailed reports.
Analytical procedures	Evaluations of financial information based on the analysis of specific indicators (evolutions, comparisons) and correlations between different information, both financial and nonfinancial. Includes also the analysis of fluctuations and correlations that have been identified, which are not consecvent or correlated with other relevant information or which deviate significantly from reasonable or expected values.

Source: Own adaptation based on Munteanu V. et al. [2]

Both annual financial statements subject to statutory audit and reimbursement requests prepared in order to receive the European financing present significant public interest. While the statutory financial statements of entities are important to investors, other interested parties such as customers, suppliers, creditors, employees, the government, other regulation authorities and to the general public, the European

projects present significant interest because they are financed through public funding coming from the national budgets and from the EU general budget. The users of statutory financial statements are counting on the audit reports for certifying the correct accounting and reporting of financial information and consequently statutory audit contributes to the good functioning of markets. Audit reports issued upon EU-funded projects support the management authorities in making sure that the non-reimbursable funds have been utilized in accordance with the terms and conditions established in the financing agreements and by complying with the applicable national and European regulations. As a result, in our opinion financial auditors fulfill a public interest function by verifying the way in which the European projects have been implemented and the European funds have been utilized, just as in the case of auditing the statutory financial statements of entities.

EU-funded projects involve carrying out and recording some complex and great value economic and financial transactions, the same situation that is encountered also within the annual financial statements and financial auditors deal with the verification of the accounting records of such significant transactions. The economic and financial transactions are realized between the beneficiary and the management authority, the beneficiary's bank, the suppliers of goods and services acquired from the project's budget, the management team and customers in case through the project revenues are produced. The accounting records of European projects are kept separately for each project, using specific accounts and accounting entries which will have an impact on annual the financial statement as well. The funds awarded and later paid are recorded as subsidies/grants, in relation to which expenses and corresponding revenues are recorded as the project's activities are realized and the main information about the projects are also presented in the explanatory notes attached to the annual financial statements.

In both cases there exists the likelihood of frauds and errors occurrence in the process of the preparation and presentation of the information submitted for auditing. In the course of statutory audit, the auditors seek to obtain reasonable assurance that the statutory financial statements do not contain significant misstatements caused by error or fraud. Errors and frauds may appear in the process of preparing and presenting the reports submitted to the management authorities because of the time pressures, budget constraints and conditions and indicators that must be fulfilled and reported in order to maintain the non-reimbursable financing. Errors can be made unintentionally in the reporting of projects' activities and their underlying accounting records. Frauds may appear as intentional deceiving acts realized by means of fraudulent financial reporting and misappropriation of projects' assets [5]. The errors and frauds discovered by financial auditors must be communicated to the management authority and to other competent authorities for taking the necessary measures.

4.2. Differences between statutory audit and financial audit of EU-funded projects

The main differences that we have identified between the two audit fields relate to the following aspects:

- different audit regulation regimes;
- different audit supervising bodies;
- insuring the transparency of the audit activities performed.

In Romania, the legal regulation of statutory audit of financial statements is realised at present by legal acts as presented below

Table 2- Legal acts regulating statutory audit

Legal act	Regulated aspects and requirements established
Accounting Law no. 82/1991, republished	It touches general aspects regarding statutory audit: <ul style="list-style-type: none"> - annual financial statements of public interest entities (PIE) are subject to mandatory statutory audit - annual financial statements of other entities are also under the statutory audit obligation as prescribed by specific regulations.
Order no. 1802/2014 regarding the approval of the accounting regulations	It states the general requirements regarding statutory audit: <ul style="list-style-type: none"> - medium and large entities, national companies and those with integral or majority state-owned capital and autonomous administration companies have the obligation to submit their financial statements to statutory audit - the companies that exceed the limits of 2 of the following 3 criteria date have the obligation to submit their annual financial statements to statutory audit: total assets of 3.650.000 EUR, net turnover of 7.300.000 EUR and average number of employees during the year of 50 - some aspects regarding the audit report and the audit opinion are established.
Law no. 162/2017 regarding statutory audit	It governs the statutory audit of annual financial statements as prepared based on the accounting law and the accounting applicable regulations, by regulating the following aspects: <ul style="list-style-type: none"> - financial auditors must execute the statutory audit according to the international standards on auditing as adopted by the European Commission, - financial auditors have to present the results of statutory audit in a statutory audit report - financial auditors are subject to a system of quality insurance referring to their audit work. It transposes other aspects included in the Directive 2014/56/EU, referring to: <ul style="list-style-type: none"> - authorisation of financial auditors as physical and juridical persons and the public register of financial auditors - professional knowledge and continuous training - professional ethics, independence and objectivity - quality insurance and liability of auditors - public supervision system - investigations and sanctions
EU Regulation no. 537/2014 regarding statutory audit of PIE	It is directly applicable by EU Member States and it establishes certain requirements regarding the statutory audit of annual financial statements of public interest entities (PIE), including transparency requirements.

Source: Own adaptation based on Munteanu V. et al. [2] and legislation review [6], [8], [9], [10]

In contrast with the current situation in the field of statutory audit, the regulation of financial audit of EU-funded projects has not been realized to date. We notice the lack of any legal acts having been adopted in this domain. Starting from 2007, there have been different institutions involved in the management of each operational programme, which have established different requirements regarding the type of audit missions to be performed by financial auditors and the assurance degree to be offered. We found no centralized public information to show the different requirements of all management authorities involved in this field. The audit requirements were communicated through different channels, including the applicants' guides, instructions and terms of reference regarding the contracting and rendering of financial audit services [12].

In the first programming period (2007-2013), financial audit was required for the majority of EU-funded projects and its cost was eligible for funding, as established through orders approving the lists of expenses eligible for funding on each operational programme. Currently, in the second programming period (2014-2020), financial audit is not required anymore by the management authorities of operational programmes. Financial audit has become optional for funds beneficiaries and they must bear the cost of financial audit as it is not eligible anymore for funding out of the non-reimbursable funds. No intervention of management authorities is noticed regarding the financial audit of projects, the audit missions and the audit reports to be issued by financial auditors [12].

We conclude that in the period 2007 to date, no stability was achieved in the functioning of the activity of European projects' verification through financial audit. We also notice the lack of collaboration between the Ministry of European Funds (currently MIPE - The Minister of Investments and European Projects) and the professional organisms of financial auditors. No authorisation system has been established and no public register is maintained and published regarding the financial auditors acting in the field of EU-funded projects verification. We consider that a system of professional training is also needed for achieving and maintaining specific knowledge in the field of European funds and their auditing methods as this is a very specialized field.

Another differentiating factor between the two fields is represented by different audit supervising bodies in the two domains of audit activity under our analysis. In the statutory audit field, ASPAAS (The Authority for the Public Supervision of the Activity of Statutory Audit), functioning in the subordination of the Ministry of Finance, is the competent authority responsible for the supervision in the public interest of statutory audit [11]. ASPAAS has the attributions for implementing all the statutory audit aspects related to financial auditors and audit firms as provided by the Law no. 162/2017. The main aspects refer to the authorisation of statutory auditors, the publication of the Electronic Public Register of auditors and audit firms that perform statutory audits, the organization of continuous professional training programmes, the undertaking the inspections for quality insurance of the statutory audit and implementing the system of investigations and sanctions for detecting, correcting and preventing the inadequate execution of statutory audit [9].

In the field of financial audit of EU-funded projects, the audit activity supervising body is CAFR, the Chamber of Financial Auditors of Romania. CAFR is the authority competent for the regulation and monitoring of the financial audit activities in Romania, other than statutory audit [11]. Its attributions are established by

the Government Emergency Ordinance no. 75/1999. The main activities undertaken by CAFR refer to the inspections of quality insurance of the audit missions performed by financial auditors upon EU-funded projects and, in case situations of inadequate execution of audit are discovered, CAFR applies the administrative sanctions against financial auditors [7].

Regarding the ensuring of the transparency of the audit activities performed, we found that in the field of statutory audit, it is partly ensured. Information is not published by auditors about all the statutory audits performed, but it is disclosed for the statutory audits of public interest entities (PIE), due to specific requirements established by the EU Regulation no. 537/2014. The main obligations for statutory auditors are set as follows:

Table 3- Transparency requirements and information provision to competent authorities in statutory audit

1.	Auditors have the obligation to publish annual transparency reports within 4 months from the end of each year, these must be published on the financial auditor’s web site and will remain posted for a minimum period of five years from their publication.
2.	The transparency reports contain the list of public interest entities (PIEs) for which the auditor has performed statutory audits in the last reporting year and the total turnover realized from this audit activity, together with a presentation of the total revenues obtained from statutory audits rendered to other (non-PIE) entities and total revenues obtained from other permitted non-audit services delivered to PIE and to non-PIE entities.
3.	Other information must also be disclosed relating to the juridical structure and the audit firms’ owners, its organisational and governance structure, the functioning of the audit firm’s internal quality control system, the independence compliance practices, the continuing education of statutory auditors, the basis for partners’ remuneration, the rotation of key partners and staff.
4.	Auditors have to provide annually to the audit competent authority the list of audited PIEs, together with the revenues collected from them for performing both statutory audit and other services.

Source: Own summarisation and presentation based on information of article 13 and article 14 of Regulation (EU) No 537/2014 [8]

As opposed to statutory audit, in the field of financial audit of European projects, the transparency of audit activities performed is not realized in any way due to the fact that there are no provisions or specific requirements in this respect. Financial auditors do not publish any information about the projects’ audits. Also, CAFR do not present in their annual activity reports the situation, at the national level, of the audit missions performed on European projects [11]. As a result of measures not having been adopted for transparency accomplishment, there are no organised and publicly available databases regarding the financial audit services rendered on European projects and about the audit results, such as the type and amount of irregularities and frauds discovered by financial auditors.

On the other hand, the funds beneficiaries have the obligation, as requested through the financing contracts, to ensure transparent and correct information of the

mass-media and the large public about the undertaking of EU-funded projects, by publishing announcements in the press about the launching and finishing of projects' activities and by using certain advertising materials and activities. Management authorities are also subject to transparency requirements regarding the beneficiaries and projects funded, according to legislation regarding the free access to public interest information. Some elements of the financing contracts do not benefit of confidentiality and management authorities publish certain public interest information about the financing contracts that have been signed and about their execution [12].

4.3. Proposal of measures for better organization, monitoring and valorisation of the financial audit activity for EU-funded projects

Based on our research, the following measures can be taken, in order to improve the organization, monitoring and valorisation of the financial audit activity for EU-funded projects:

1. Ensuring a uniform and stable regulation regime for the financial audit of EU-funded projects by enforcing a specific regulation act

This can be done through the elaboration and adoption of a distinct normative act, which should provide for the mandatory financial auditing of EU-funded projects, at least those of great financial value (exceeding certain established limits) and should establish the audit assurance level to be provided, the mission type and the reporting requirements. The audit cost could be covered either through community or national non-reimbursable finance or by own resources of project beneficiaries, as co-financing. In Romania, the initiator of the legal act, for example a government ordinance, should be MIPE, as the body that initiates and elaborates normative act projects in the field of European funds administration.

2. Establishing some extended competencies and responsibilities for the audit professional body related to the organization and monitoring of audit activity in the EU-funded projects field

CAFR, as the competent audit authority in this field should be able to enforce additional measures concerning financial auditors, such as:

- a system of authorisation of financial auditors who are allowed to perform financial audit services for EU-funded projects based on their qualification in this field;
- making public a register of financial auditors authorised to activate in this field;
- organising specific training programmes for gaining and thereafter maintaining professional knowledge in the field of European funds;
- monitoring the matters of professional ethics, auditors' independence and objectivity in the audit missions performed;
- adapting the systems of quality insurance, investigations and sanctions applicable for this specific field;
- monitoring the auditing standards used in the audit missions and way reporting responsibilities are fulfilled by financial auditors, both toward the audit reports recipients (project beneficiaries and management authorities) and toward other public institutions involved in the investigation of irregularities and frauds if identified during the audit missions performed;
- monitoring the fulfilling by financial auditors of the transparency requirements as established for this field.

3. Ensuring the transparency of the financial audits performed upon EU-funded projects by publishing transparency reports

This can be accomplished in a similar way to the one implemented in the field of statutory audit, by financial auditors undertaking some specific procedures. Firstly, financial auditors should keep a separate record of audited EU-funded project in each year. The evidence should contain the identification of the audit contracts concluded and additional information about the audited project, such as: project's name, beneficiary, project location and total value; in case of audit firms, the name of the audit partner involved in the audit mission; the revenue obtained from auditing the project; the type of the audit mission (international standards applied).

Secondly, financial auditors should annually publish transparency reports for presenting information about the audited EU-funded projects for which audit reports have been issued in the respective year, such as: a list of audited projects with basic information about them (project's title, beneficiary, the operational programme through which it was funded, project's identification number - SMIS code), the total revenues obtained from this activity and the total turnover reported by the auditor/audit firm (in order to be able to ascertain the degree of the auditor's dependence on the revenues obtained from this activity) and also the total revenues obtained from other services delivered to the projects' beneficiaries (in order to ascertain whether the financial auditor could become excessively dependent on certain clients, as the high level of fees received from an entity can threaten the auditor's independence).

4. Providing information to the audit supervising authority about the audit activity performed upon EU-funded projects

Financial auditors should report annually to the competent audit supervising authority (in Romania, CAFR) information regarding the following aspects:

- the list of audited EU-funded projects, together with the information included in the transparency reports, as presented above;
- the international auditing standards that were used for each category of projects, as mentioned in the audit contracts;
- the aggregated financial value of irregularities detected through the projects' audits and presented as non-eligible expense in the audit reports issued and the specification of frauds/suspicious of frauds that were detected and reported to the competent authorities for further investigation and also their estimated value.

5. Publishing annual information about the contribution of financial audit activity to the protection of EU's financial interests

The competent audit supervising authority (CAFR) should present additional information in their annual activity reports regarding the activity of EU-funded projects auditing. Based on the information received from financial auditors, the summarisation of number of audit contracts that have been executed, value of audited projects and their split per categories of funding and the auditing standards used by financial auditors can be presented as aggregated at the national level.

In addition, the financial quantification of irregularities detected and the specification of frauds /suspicious of frauds detected and reported by financial auditors should be included in the annual activity reports for raising the degree of public awareness in this respect and for presenting to the public and to the competent authorities involved in the management and control of European funds the contribution

brought by financial audit for the good functioning of the process of European funds utilisation and for the protection of the European Union's financial interests.

5. CONCLUSIONS

The financial audit of EU-funded projects presents great importance in the process of European funds utilization because these encompass significant public interest at national and international level as part of the European Union's general budget. Therefore, ensuring a uniform and stable regulation regime for the conduct of financial audit of EU-funded projects is essential for increasing its contribution to the protection of the European Union's financial interests. In our opinion, it is necessary that extended competencies be awarded to the audit professional body for the specific organization and monitoring of the audit activity in this field and additional measures be taken for ensuring the transparency of the activities performed and making public the results obtained by financial auditors.

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