

## AUDITOR`S REQUIREMENTS AND EUROPEAN FUNDS

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**Abstract:** *European funds are an important source of financing both the private and public institutions that make capital investments of national interest. After accessing some European projects, auditing is mandatory and is performed by auditors authorized by the Chamber of Financial Auditors of Romania. The reference framework which underpins the auditing of European projects is ISRS 4400 "Missions on agreed upon procedures regarding financial information" and The Code of Ethics emitted by the International Federation of Accountants. The Code of Ethics presents the fundamental ethical principles that a professional must comply when offering his services and these are: integrity, objectivity, professional competence, confidentiality, professional behavior.*

**Keywords:** *European funds, auditing European funds, ethical principles, requirements of the independent financial.*

**JEL Classification:** *M40, M41, M42.*

### 1. Introduction

European projects are financed from European funds made available to each member of the European Union, Romania being a member since 01 January 2007. The spending of these funds is verified professionals in accountancy through independent financial audit missions of projects in various stages of their development, from the beginning of the implementation until the completion of the projects and afterwards. The audit of the European projects is a professional examination of the information obtained from project implementation in order to achieve a factual data report, by reference to agreed procedures, established by management authorities, aiming towards an improvement of use of the information. The audit of the projects is a contractual obligation incumbent on the beneficiary according to the financing contract made with the managing authorities or with the intermediate bodies of those programs. The audit of the project will be carried out under a service contract between the project beneficiary and the financial auditor.

The purpose of the European funds auditing is to determine the verity, legality and eligibility of expenditures declared by the beneficiary in the reimbursement application. The auditor will collect and analyze information and documents from the beneficiary, and he can also hold talks with members of the project management team, in order to understand the project and the way it is being implemented. The verifying procedures carried out by the auditor are the following:

- the examination of the project beneficiary`s conformation to the stipulations of the financing contract;
- verifying the budget lines from the reimbursement application;
- the conformity between the information from the reimbursement application and the accountancy system of the project beneficiary;
- the conformity with the acquisition rules;
- the confirmation of the physical existence of the purchased goods;
- verifying the expenditures and reporting the exceptions and ineligible expenditures, where necessary;
- verifying the revenue which has been received inside the project.

After the verification, the auditor will make a report on the factual findings of the procedures which have been agreed-upon, on how to comply with the terms of the financing contract, signed with the managing authority. The independent audit report will

contain: the objective of the report; the framework; the sources of information, the presentation of the verifications which have been carried out; factual findings regarding the eligible expenditures of the project. The framework underpinning the auditing of the European projects that were in progress between 2007-2013 is ISRS 4400 "Missions on agreed-upon procedures regarding financial information" and The Code of Ethics emitted by the International Federation of Accountants.

## **2. Methodology**

The purpose of this research is to present the aspects of demands of accountancy professionals in auditing European funds. The methodology that we have used is based on the theoretical research concerning the concepts and regulations in the field of auditing European funds. In order to carry out this research we have resorted to studying the Code of Ethics, the works in auditing European funds, the analysis of regulations in the field.

## **3. Requirements that the auditors should comply with in order to be able to audit European funds**

In 2014, the Ministry of European Funds, having the role of regulator in the management and control of structural instruments and the Chamber of Financial Auditors of Romania signed a cooperation protocol on the organization and functioning of the financial activity of audit for European funds and other grants from other donors. The protocol is available on the website of the Chamber of Financial Auditors of Romania and sets the standards for carrying out audits and the terms which must be met by auditors in order to carry out auditing mission of European funds, as follows:

- To be Category A auditors and graduates of basic and advanced training courses for European funds organized by the Chamber of Financial Auditors of Romania, under the terms and stipulations of the current Protocol;
- To pass the test on the knowledge concerning the national and European legislation on the European funds;
- The inexistence of definitive punishment against auditors in the las three years.

## **4. The ethical principles obeyed by the auditors in auditing European funds**

The Code of Ethics for Professional Accountants, in its first part presents the fundamental ethical principles to be complied with by a professional accountant, as follows:

- Integrity - according to this principle a professional accountant should be sincere and honest in all professional and business relationships and should not be associated consciously with reports, statements, releases or other information when he considers that the information: contains a significantly false or misleading statement; contains statements or information recklessly made out or omit or hide information to be included where such an omission or obscurity would be misleading.
- Objectivity - according to this principle a professional accountant should be impartial, should avoid any conflict of interests and should not be under unwanted influence exercised by other parties that would prevail on his professional or business judgment. A professional accountant must refuse a professional service if a circumstance or relationship is biased or it can badly influence his professional reasoning in that service.
- Professional competence and due care - according to this principle a professional accountant must maintain professional knowledge and skills to a sufficient level in order to make sure that a client or employer receives

competent professional service based on the latest developments in practice, legislation and technics and acts expeditiously and in accordance with the technical and professional standards in force. Professional competence can be divided into two phases: obtaining a level of professional competence and maintaining the professional competence.

- Confidentiality - according to this principle a professional accountant should respect the confidentiality of the information to which he had access as a result of professional relationships and business, and therefore he must not disclose it to third parties without a specific appropriate authorization, unless there is a right or legal or professional obligation to reveal this information to his personal or other third parties` advantage.
- Professional behavior – according to this principle a professional accountant must comply with relevant laws and regulations and avoid any action that might bring to the profession.

### **5. Threats and protection measures of auditors in auditing European funds**

In carrying out their missions, the auditors may receive threats generated by a wide range of relationships and circumstances. The Code of Ethics presents the main categories of threats as being:

- The threat generated by personal interest is the threat according to which the financial interest or any other type of interest will influence the judgment or conduct of a professional accountant in an inadequate way.
- The threat generated by self-revision is the threat according to which a professional accountant will not properly assess the results of a past reasoning or service performed by the professional accountant or other person within the professional accountant`s firm or within the employing organization, an assessment on which the accountant will develop a reasoning as part of providing a current service.
- The threat generated by representation is the threat according to which a professional accountant will promote the position of a client or employer so that the professional accountant`s objectivity will be compromised.
- The threat generated by familiarity is the threat according to which, after a long and close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or will tend to accept too easily the results of their work.
- The threat generated by intimidation is the threat according to which a professional accountant will be deterred from acting objectively because of a real or perceived pressures including from the attempts to exert undue influence over the professional accountant.

These threats can be eliminated or reduced to an acceptable level, according to the Code of Ethics, by two types of measures:

- a) Safety measures created by the profession, legislation or regulations which include: the educational requirements which refer to training and the experience needed for access to the profession; requirements which refer to continuous professional development; applicable professional standards; regulations on corporate governance; professional and disciplinary procedures; external review of reports, results, communications or information submitted by an auditor by a third party authorized by the law.
- b) Safety measures associated with the working environment.

## 6. Conclusions

Auditing European funds is mandatory for European grant funding and is performed by auditors accepted by the Chamber of Financial Auditors of Romania, under a service contract between the project beneficiary and the financial auditor. The reference framework underpinning the auditor's mission is ISRS 4400 "Missions on agreed upon procedures regarding financial information" and the Code of Ethics emitted by the International Federation of Accountants.

The Code of Ethics presents the fundamental ethical principles which the auditor must comply with in auditing European funds, and these are: integrity, objectivity, professional competence, confidentiality and professional behavior. If there are threats concerning the reasoning and the auditor's professional behavior, then they should be eliminated or reduced to an acceptable level so that the auditor would be able to provide quality services. In exercising his activity, the auditor of European projects is meant to achieve some objectives such as: credibility, professionalism, service quality and trust.

The entity performing the audit services for ensuring that all audit processes are conducted in accordance with current regulations, must apply the policies and quality control procedures in the audit firm as well as at the level of individual audits.

According to the ISRS 4400 "Missions on agreed upon procedures regarding financial information" the procedures used by the auditor in auditing European funds are indicated by the authority which is offering finance. Thus, by auditing European funds one intends to fulfill the obligations undertaken through the financing contract, as well as eliminating the risk that the expenditures required for reimbursement to be declared ineligible.

The audit of European funds is a mission on agreed upon procedures, in this type of mission, the audit report made by the auditor is a report of factual findings made available to the parties agreed in procedures, and the users set their own conclusions based on the findings reported within it.

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