
LESSONS LEARNED IN THE AUDIT OF PROJECTS

Munteanu Florea Ionela¹ and Mirea Marioara²

¹⁾ Bucharest University of Economics Studies

²⁾ "Ovidius" University of Constanta, Romania

E-mail: consultant.munteanu@gmail.com; E-mail: mm_mirea@yahoo.com

Abstract

The goal of our research is to bring to attention, through a qualitative research, the characteristics and roles of the audit projects in conducting the audit missions of the projects which were financed by European funds, based on the analysis of the specialized documentation, of the national and European legislative provisions, but also the professional judgment. The project audit is usually conducted in the end, when the achievement of the designed technical parameters, the performances, and the degree of the expected objectives are measured. The main purpose is the detection of the risks of the projects failure to achieve the planned parameters, and the final result of the projects audit is the elaboration of an audit report. The management of the projects evolved, the volume of the European funded projects has increased and therefore, the auditing need has emerged.

The necessity of the research is given by the professional practice evolution. The audit activity of a project is primordial in order to evaluate the precision/correctness of the way in which the project is developing and in order to evaluate how the European funds were administrated.

Keywords

public institutions; projects management; non-reimbursable financing; projects' audit.

JEL Classification

M40, M42

Introduction

As a member of the European Union, Romania benefits from European grants that are for lowering the development differences between Romania and the other member states of the European Union. The European Union has created a distinct policy of reducing these differences between the levels of economic development from different regions.

These grants are the instruments through which the policies of the European Union are put into practice. They finance a large spectrum of activities from different domains, having development opportunities through projects. Although the usual terminology regarding the European funds is nonreimbursable financial contribution, accessible only through projects undertaken by applicants, the funds recipients are required to meet a series of provisions assumed through a financing contract and in if these conditions are not fulfilled, the sums must be returned. For accessing and managing these European funds, the Romanian state has created an institutional system that meets the European conditions, a system that is at the disposal of the potential funds beneficiaries.

In the public administration, the government has approved regulations that stimulate the projects' management, aiming to support and to boost the local public administrations in order to easier access external funds for development and modernization.

The development of our countries' capacity to absorb through projects the nonreimbursable external funds and the running in good conditions of the projects that were financed from the states' budget and from the other budgets is very important and very actual. The problematic of the projects is of great actuality in the context of the financing that is available to the beneficiaries from European funds, but, in the same time, the number of the requests regarding the operational audit rises.

The project is a temporary effort, a multitude of activities with a very precise and finite duration, using important but limited resources, aiming of a achieving a common goal, with an appropriate management of coordinate transformation with a general positive impact. (Dumitraşcu & Pascu, 2005)

The audit of the projects is an internal activity of the project that accompanies the projects' achievement, or it can be defined as an external activity which was realized after the fact. The audit concept is defined as a detailed examination of different aspects with financial characteristics; nevertheless, the audit of a project is more flexible and, if required, it can concentrate itself on any aspect of the project. The concept of project audit has the characteristics of an evaluation in the sense of quantitative assessment of value, and not only of value. The evaluation of the accomplishment of the goals that were assumed through the financing contract of a project is realized through some audit reports done by the auditors. Therefore, the audit or the evaluation of a project concerns its success or failure.

The main goal is represented by discovering the risks of not having the project done within the planned parameters, and the final result of the projects audit is the elaboration of an audit report. These conceptual delimitations that concern the management techniques of the projects are useful for the auditors and for all those interested of projects given the fact that the current economy still does not have enough experience in managing the projects, and the European funds are still available and waiting to be accessed.

The aim of the research

The aim of our research is to draw into attention through a qualitative research the particularities of the projects' audit and the role of their knowledge in conducting the audit missions of the projects that were financed from external funds, starting from the analysis of the specialized documentation, of the national and European legislative provisions and from the professional judgment. The necessity of the research is underlined by the evolution of the professional practice that may put the auditors that are confronting themselves in the actual period with the situation of accepting an audit project without being able to use a guide or minimal criteria. The aim of the research is to demonstrate that the application of the International Standard regarding Related Services ISRS 4400 – “Engagements to perform the agreed upon procedures regarding financial information” is useful in the case of the projects' audit due to the fact that this corresponds to its objective. The final objective of the research was to underline the utility of the agreed upon or appointed procedures in contracting and conducting the projects audit. From the research it appears that through their nature, the audit projects missions are not assurance missions, but they serve for the applicant formation upon the financial report of the project and the conformity of the expenses with the budget, the analytical transparency and the costs eligibility. Therefore, the result of this research, having at the base the practical aspects met in the current activity of the specific audit entities and an extensive documentation has led to the configuration and the dissemination of the profile of the specific audit type and the empowerment of the auditors when they accept an audit project commitment. From the beginning, the practice of the projects audit was supposed to represent a contribution at the completion of the range of

means through which the management can benefit from an objective and competent opinion regarding the performance level touched and the risks of the completion of the assumed objective through the appropriate and effective usage of the resources that can be used. We are sure that any development process in the practice of the projects audit represents in the public sector a real assistance in the activity they perform. In the current research report we have proposed ourselves that through a complex approach which is very well documented and through reporting ourselves to an ample bibliographic material which is very actual to improve the concept of the project, of the project management, of the projects audit particularities and their role in the conduct of the projects audit. These aspects have the aim to encourage and to support the funding and the implementation of the projects, to develop the managerial capacities in this field and to develop de abilities and the professional audit practices of the projects.

The objects of the projects audit as an evaluation

The project is evaluated as a whole when it is finished, but the projects evaluation is also undertaken in some specific moments of the projects. An important instrument of the evaluation is the audit, which is an investigation more or less formal upon the different faces of the projects. The evaluation means to give a certain value – it can represent the support of different decision concerning the future of the projects. The re-examination and the projects audit are the major ways and means of its valuation, being researches that are more or less formal of any aspect of the project. The evaluation of a project appreciates and estimates not only its progress in comparison with the its goals and the performances which were established in its initial phase or in comparison with the evolution and the performances of other similar projects, but also the decision taken during the management process of the project. For this, the evaluation must be completed and presented in a manner and a format that needs to assure the management of the consideration of all the significant aspects of the project. Therefore, the evaluation needs to be credible for the managers for which it is undertaken, and for the project team that undertakes the project as well.

In numerous cases, the beneficiaries, the person involved that represent an interest for the accomplishment of a project ask for the projects audit. Interest in the accomplishment of the project without being beneficiaries can have the partners involved in projects like: the governments of the hosting countries, the local councils and even the suppliers and the clients, the inputs and the outputs of the projects as well. Therefore, the evaluation of a project must be organized and controlled like the project itself.

The evaluation can be done in the implementation period (intermediate evaluation), at the end (final evaluation) or after the implementation period (post evaluation) in order to be beneficial for the projects conducting process or in order to draw the needed conclusions for the future projects. The evaluation should lead to a decision for continuity, revision or stopping a specific project and the conclusions and the recommendations should be taken into account in the elaboration process and in the implementation process of future similar projects. Obviously, the general aim of the evaluation is constituted by the supporting the achievement of the planned objectives. In this sense, different aspects are researched for identifying and understanding the good and the weak parts of the projects.

The result is a set of recommendations that can help the ongoing and future projects: to identify the problems faster; to clarify the relations between performance, costs and deadlines; to improve the performances; to find opportunities for future developments; to determine the quality of the projects' management; to accelerate the results; to offer the client information; to confirm the interest of the principal organization. (Pascu,2010)

The objective of a projects' audit is not to be beneficial for the projects history, but to surprise the main causes of the success or of the failure of the projects in order to exploit them in the remaining time of the present project or to benefit from them in future projects.

For this, the causes must be understood and evaluated. The projects evaluation must not be solely a after the fact analysis, but it should be taken especially in the main point of its life. Concerning the projects audit which are not realised by management, but by individuals or by independent entities, the experience and the projects' management technique have underlined two principal objectives:

- the evaluation of the success factors of the projects;
- the alignment of the project at the accomplishment of the general objectives of the organisation.

The most important objective of the projects evaluation is the evaluation of its success. This approach has appeared when the projects' management became a practice which was recognized for the internal and external projects of the organizations. The objectives of a projects' audit are direct and subsidiary or secondary. The direct or the principal ones can easily be identified and evaluated or audited, whereas the secondary ones are much more difficult to evaluate because they are related with the intimacy of the activities, with the relations within the team. The accomplishment of these direct objectives shows us the degree in which the projects' team respects the accomplishment of the projects objectives.

The studies of the projects' managers (Newton, 2006) reveal to us that the success of a project is related to four main elements:

- the objectivity and the realism in establishing the goal, the budget, the deadlines and the solutions. Due to the fact that one of the main causes of a failure is the lack of objectivity in establishing these parameters, the decisions that affect the initiation of the project and the establishment of all its initial parameters must be protected from favouritism and inadequate diligences;
- the necessity of experience personnel, which is very well prepared professionally from all the hierarchic levels of the project. The existence of experienced personnel from the clients' side and from the side of the contractor as well serves for: maintaining an attitude of cooperation and of solving the issues from both sides; imposing and establishing the main objectives that need to be reached and those that can be already given in order to be used, using professional techniques of management and maintaining a permanent contact with the client for the accomplishment of the project;
- the authority correlated with the responsibility. From the moment in which the project already has a specific goal, but it is limited by time and budget, it is needed that in order to achieve this goal, the project manager must have the authority to compromise between these objectives (goal, budget and time);
- the total accounting of the operations and of the projects' activities. The accounting must be responsible in order to assure that all the involved parts are fulfilling their established jobs. The accounting must present in detail all the contracted aspects and all the purchase orders. This should include the details concerning the projects' management, the person that has done the estimations, the contractor, the suppliers, the final users. The evaluation of achieving the assumed objective through the financial contract is done based on the audit reports that are done by authorized auditors. The audit activity of a project is primordial for the evaluation of the correct manner in which it is undertaken, and for the way in which the European funds were managed. The projects audit is usually conducted at the end, when the measurement of the projected technical parameters was achieved, the performances and the degree of accomplishment of the expected objectives.

The defining elements of the projects' audit

The audit represents the process undertaken by individuals or by entities that were legally qualified, called auditors, through which in a professional manner there are analyzed and evaluated information regarding this entity, using specific techniques and procedures with the aim of obtaining proofs, named audit proofs, on which the auditors create a document

called audit report and a responsible and independent opinion through using evaluation criteria that result from legal regulations or from good practice that is unanimously recognized in the field in which the audited entity is conducted. (Ghiță & Sprânceană, 2006) The above definition needs some specifications: the audit process, called audit mission as well, is undertaken on the base of national or international standards; the auditors are persons that obtain this quality under the strict conditions of the existing legislation; the audited entity can be: a heritage unit, the government, ministries or departments from ministries, programs, actions, transactions, operations; the analysis of the information in the audit mission is grounded on some procedures and techniques that are unanimously recognized in the domain, which elaborate audit proofs to the auditor, on which he is elaborating his opinion; the evaluation and the interpretation of the obtained results is done under the conditions of existence and of taking into account some evaluation criteria which are based on identified accounting references (national or international accounting norms or accounting norms that are unanimously recognized in the field) or the healthy management principles, in respect to the good managerial practice that is recognized by the experts in that field. The audit has started from the correction of the frauds in the financial and accounting documents and they continued with the global appreciation of the reports done by the economic entities, with critical analysis of their structures and with the evaluation of the way in which they are respected by the managers of the entities, by the principles of the economy, of the efficiency and of the effectiveness in using the financial resources (the audit of the performance). The audit process does not only underline the sanctions, but it underlines the quality of the management, of its decisions and even of the manner in which the management of the audited entities create the recommendations with the aim of improving their activity. Institutionally, there are national and international organs that are constituted and developed, organs that have organizing, coordination and methodological guidance attributions of the audit in the public sector. (Gisberto-Chițu & Ioanaș, 2005)

The project audit is an internal activity of the project that accompanies its realization or that can be defined as a *post-hoc* external activity. The project audit is more elaborate than the evaluation reports of the project results or than the periodic reports. The project audit appeals to the measurement of the efficiency and to the evaluation of the expected information. Therefore, the audit is a means of complete verifying of all the influential factors that are associated with an ongoing project and with the management of the future projects. The project audit represents an examination in detail of the project's management, of the procedures, of the methodology used, of the budgets and of the level of the objectives' fulfilment. The major goal is represented by the detection of the non-fulfilment project risks at the planned parameters, the final result of the project's audit is the elaboration of an audit report (Nistorescu & Constantinescu, 2008). The audit report of a project is presented in various ways, but the following aspects must be included: the current phase of the project: are the activities that are already ongoing capable to assure that the objectives will reach the planned level? the future state of the project: must the existing deadlines be changed? the situation of the main activities: what level of progress was reached in the activities that can determine the success or the failure of the process? the determination of the risks: what are the chances for the project to fail or what are the chances for the budget to be exceeded? useful information for other projects: what recommendations are taken from the process of this project can be done to other projects done by the organization? the limits of this audit: what premises or limits affect the audit?

The audit can concentrate itself on the project as a whole or only on a part of the project, manifesting itself with great force over two phases of its life: during the process and at the end. The audit that is done during the project is realized upon all the sequences of execution of the project, allowing correction measurements to be adapted, concentrating itself over the performance and the process of the project through the examination of the influential

factors. It must be quickly done and the audit report must be as positive and constructive as possible. The audit after the project is much more in detail and much more profound and it usually aims the improvement of the future projects' management and it generates influences on a time horizon that is longer than for the time horizon of the current projects. There are many factors that limit a projects' audit. Time and money represent two of the most obvious and common factors that limit the depth of the investigation and the detail level of the presentation in the audit report. Another factor is represented by the anxiety caused by any investigation in general and determines the involved individuals to have a defensive attitude. If the report is not written in a constructive manner, the moral of the team is going to be affected. Frequently, the audit of the technical aspects cannot be written very profound due to the fact that the person that investigates does not have the needed technical knowledge. In this case, a technical audit is needed. The moments in which the audit is done are different. In general, the later it is done, the smaller its immediate value will be for the project, but it will have a greater value for the organization. Even though the most often in the projects' audit it is perceived more financially, due to the used procedures, there must be noticed some differences between the financial audit and the projects' audit.

The life cycle of the projects' audit

The audit report is a formal document that is asked in the contractual provisions. In the situation in which the client is coming from a government, the nature of the projects' audit is more or less defined in a precise manner as the audit process actually is.

As the project itself, its audit has a life cycle that includes the following stages:

- the initiation of the audit process: with the definition of the audit purpose, gathering sufficient information in order to determine the audit methodology which is going to be used. This phase belongs to the formal group of experts and to the group that is constituted by some members of the projects' team that are agreed upon to make the audit;
- defining the standards; in order to have a comparison basis for the real performances of the projects;
- establishing a database for the audit: the information is needed by the audit team in their mission and they can vary from the technical ones that concern the behaviour of the projects' team. In this sense it is recommended to collect few information that is significant for the project;
- the preliminary analysis of the project; even though the judgment and the interpretations are the prerogative of the high management, the data must be analyzed and interpreted by the audit team in order to be presented in a easy to understand manner with the corresponding explanations. The duty of the auditor is to constantly inform the projects' manager about his discoveries and his opinions about them. The objective of the audit is not only the improvement of the projects' audit management, but the improvement of the whole process of the projects' management as well;
- the preparation of the report: in the audit report it will be included a recommendation set along with a plan for its implementation, if these are outside the project there the support of the high management will be needed.
- ending: the review of the process and establishing improvements for future audits.

With the ending of the project after the goals were achieved, the audit process of the project must finish as well. The audit can be considered done and the team can be dissolved only after an analysis of the audit process was done. From practical experience that was achieved in the audit field in the public sector and from the research that was undertaken it resulted that the success of an audit mission financed from European funds requires first of all the level of knowledge of the auditor regarding the abdicated entities, the analysis of the European and national legislation, after which the identification of the auditable objectives from the project is done: the performance of the public acquisitions; the evaluation of the

eligibility of the expenses; reporting the activities within the project; the evaluation of the payment accomplishments; the evaluation of the accounting system and of its reliability; the evaluation of the informational, advertisement and archiving activities within the project.

The procedures for the public acquisitions must be completed in conformity with the internal regulations for acquisitions, as a distinct annex of the financing contract mentions.

Concerning the financing expenses from European funds there are some eligibility limits that are imposed from a component and level point of view. The auditor verifies the expenses and reports all the exceptions and the deviations that result from this identified auditable objective by evaluating the financial impact. The risk assessment represents an important phase within the audit mission and has as a purpose the identification of the risk zone within the activities that are conducted through the project that is going to be audited, but the internal system evaluation of control that can prevent, eliminate or lower the detected risks, and on the base of the risks and of the controls that were identified it is established the area of the audit that is going to be undertaken. After this phase, within the projects' audit phase, the testing of the audit control is taking place using audit procedures with the start of the field mission in order to control the final receivers, collecting reasonable proofs on which they can establish the report or the opinion. In this phase, starting with establishing the sample through statistical or non-statistical methods that involve the professional reasoning of the auditors the elaboration of the testing is taking place. The tests can be detailed ones that have as a goal the determination of the sample that has been used and control tests that have the role of offering the possibility to the auditors to express an opinion upon the internal controls that were implemented with the view of lowering the risks that were detected, and their conclusions are going to form an audit opinion.

The constant deviations, based on the answers from the verification list from the projects' audit mission are written in a report and for their remedy recommendations that represent the base of the opinion formulated by the auditor are done. The report that represents the base of the observed results through audit tests and the professional reasoning of the auditor, respecting the standards of the audit that can be applied on an international and/or national level and it will contain the expressing of an opinion regarding the achievement of the objectives that were assumed through the financing contract. This report of the auditor is addressed to the projects' manager and it contains the report itself, its details and the annexes. Through its nature, the projects audit is not an assuring mission, but it serves as an opinion done by the person that asks for it over the financial report of the project and the compliance of the expenses with the budget and with the eligibility of the expenses. For this purpose, it is verified if the financial report is according to the conditions of the financing contract, the information from the financial report are reconciled with the accounting and registration system of the beneficiary, it is verified if the correct exchange rates were applied for the foreign exchange, and, if it is required, if correct exchange rates were applied in the reporting, in accordance with the financing conditions contract.

The auditor realises an analytical review of the expenses headings from the reimbursement request and: verifies if the budget from the expenses reimbursement request corresponds with the budget of the financing contract (the authenticity and the authorization of the initial budget) and if the realized expenses were stipulated in the budget of the financing contract; verifies if the total sum that was asked at the payment by the beneficiary does not exceed the maximum non-reimbursable financing that was stipulated and the total sums that were stipulated on expenses categories; verifies if any amendment at the financing budget contract is according with the conditions for such amendments (including if the necessity of an addendum at the financing contract is applied). In the case in which the audit opinion is not favourable, and if the objectives that were assumed through the financing contract are not fulfilled or if they are fulfilled without respecting the obligations of the beneficiary, he will be forced to reimburse the sums that were collected from the European financial

contribution. The verification of the way in which the recommendations are implemented is done on the field, after a period of time which is established according to each case, regarding the nature of the activities and the recommendations that are included in the audit report. The results of these verifications are written down by the audit team in a report that tracks the manner in which the recommendations were implemented.

Therefore, the audit activity of a project is primordial for the evaluation of the correctness of its development and of the way in which the European money were managed.

Conclusions

The development of the our countries' capacity to absorb through projects nonreimbursable external funding and the ongoing in good conditions of the projects that are financed from the states' budget and from other budgets is very important and very actual.

The problematic of the projects is of great actuality in the context of the financing available for the beneficiaries of European funds, but, in the same time, the number of requests regarding their operational audit rises.

The conclusions in the ending of the projects' audit of a public institution are the following:

- the objectives of a project that an audit must verify and analyze are done directly, and in this way they are helping the fulfilment of the goals and the objectives of the project, and indirectly as well, sometimes even hidden, secrets that are very well kept – subsidiary objectives;
- the audit report must contain references to the current phase of the project and of the main duties, when the risks are assumed the information regarding other projects and any limits and constraints that are met by the auditor in their framing;
- the planning and the time limit of the audit works represent critical points in the audit process;
- the most difficult responsibility of the auditor is to honestly present and interpret the results of the audit;
- the life cycle of an audit includes the beginning of the audit, the definition and identification of the main lines of the projects, preparing the report and its finalization;
- some of the essential conditions of a credible audit are: a credible audit team, access to information;
- in particular, the measurement of the incomes is a special problem;
- the procedures that are agreed upon are specified in the commitment letter and in the report with de facto observations for the verification of the expenses.

References/Bibliography

- Dumitrașcu, D.D. and Pascu, D.D., 2005. *Managementul proiectului*. Sibiu: Editura ULBS.
- Ghiță, M. and Sprânceană, M., 2006. *Auditul intern în sistemul public*. București: Editura Tribuna Economică.
- Gisberto-Chițu, A. and Ioanaș, C., 2005. *Auditul în instituțiile publice*. București: Editura CECCAR.
- Newton, R., 2006. *Managerul de proiect. Măiestrie în livrarea proiectelor*. București: Editura CODECS.
- Nistorescu, T. and Constantinescu, T., 2008. *Managementul proiectelor. Fundamente, metode si tehnici*. Craiova: Editura Sitech.
- Pascu, V.R., 2010. *Managementul Proiectelor*. Sibiu: Editura ULBS.