



# References on the study and research of public external operational audit of structural non-reimbursable funds an epistemological approach

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*MOTTO: "I know that I know nothing and even this I don't know" – SOCRATES*

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## ABSTRACT

The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) is the international organism of standardization in the auditing field [1]. In our opinion, the theories, the methodologies and the standards issued by the mentioned organism, are still the paradigms with the most significant impact on audit rules and practices. Since some theorists define accounting as a social applied science, we can also affirm that the audit activity has a social role [2]. We intend to treat the mentioned subject not only from gnoseological point of view, in other words, we won't just broaden the current theories and practices. In research, beside the theoretical analysis work, we intend to have a critical attitude both regarding previous research and defining and spreading innovative ideas relating to the suggested topic, as well. We may say that studying theorists work who are linked to the field news, in order to formulate the rules of good practice is an epistemological matter. From the epistemological point of view, in auditing, we operate with valuable judgments, namely evaluations or practical assessments of the phenomenon which our work can influence by adopting an approval or disapproval attitude. Improving the audit of operations financed from external grants can and should be a leverage of the utmost importance for their strategic absorption, implementation according to the agreements signed with the European Commission under the full protection of EU financial interests. The present project is focused on increasing the optimization of audit procedures and techniques as regards grants audit operations so that their implementation to be transparent, effective, efficient and economic for the national economy, and complying with the financial interests of the European Union. The challenge of this approach is caused by the fact that the external public audit of the external funded grants should fully comply with International Audit Standards and Community Regulations. Therefore, personal contributions to the research subject theme must be reported to the conceptual, institutional and procedural existing framework. These ideas will be refined and consolidated over the scientific research.

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## 1. Introduction

Some authors consider that human existence is governed by control, and identify three stages in which we constantly find ourselves: controller, controlled and self-control. Because of the frequent controversies and confusions that occur between audit and control, we tried to make our contribution by clarifying these two concepts. Audit and control are two distinct concepts that have many common parts, as well as differences, of which the most obvious consist in the exercise and revaluation of the results of these activities. So, unlike control, which is research related to financial-accounts irregularities and damages discovered, apply coercive measures, proceed to recover damages and act to putting the situation in order, the audit issues just an opinion, make recommendations to settle the situation. So, the financial control along with the financial audit are the main elements of supporting the management of an economic entity, through their double role, both to prevent and notify disturbing situations of the system and rectify any infringement from the legal rules governing the activities undertaken within it [3]. The etymology of the word "control" comes from the Latin "contra rolus", which means "checking a duplicate of the original act" [4]. Control, in his semantic meaning is a "permanent or periodic analysis of an activity, of a situation, to follow its progress and take improvement measures." At the same time, control means a continuous moral and material supervision as well as ruling an activity, or situation [5].

In literature we also have other concepts, such as:

- in the Francophone acceptance, "control is a verification, a careful inspection of the correction of an act [6];

- in the Anglo-Saxon acceptance, “control is one’s supervision action, of something, a thorough examination or the power to lead like regulation instrument of a mechanism” [7].

The etymology of the word “audit” comes from the Latin “AUDIRE” and means to listen. The British give the meaning of “verification, audit, balance” [8]. Auditing is spoken about from the times of the ancient Assyrians, Egyptians, also during Charles the Great and Edward the First of England. Audit activities were also done in Romania, but known with other names. In the Audit Words vocabulary there is the following definition: “Internal audit is within an organization, a function exerted in an independent way and with mandate, of evaluation of the internal control. This specific approach is related to the sound control of risks by those responsible [9]. The use of the „audit” term, as it is understood today, is relatively new and comes from USA 1929 economic crisis, when business organizations hit by the economic recession had to pay large amounts for the consulting services, consisting in certification of the accounts of all the quotable enterprises, made by external auditors. In order to fulfill their tasks, the audit offices had to prepare certain paper works beforehand which increased the costs of the audit services. Under such circumstances, particularly with the purpose to reduce their expenditure, the enterprises started to organize their own internal audit offices, by taking over the preparatory works from inside the entity while applying to external audit offices for the certification of the activity. These external audit offices were also entitled to supervise the enterprise’s activity.

In order to distinguish between the external audit offices and those of the audited organizations, the former were called external auditors, while the latter were called internal auditors, because they belonged to the enterprise.

Alvin ARENS and James K.LOEBBECKE recognize three essential types of audit: financial audit, compliance audit and operational audit, as it is described in their work „Auditing, an Integrated Approach” [10]. We cannot ignore the fact that certain misunderstandings and confusions are still to be found in the literature regarding this topic and also in the Romanian legislation. Law No.94/1992 regarding the organization and the Activity of the Court of Auditors is a clear example, as it is stipulated in article.1, part.2 which specifies: „The function of checking performed by the Court of Accounts is accomplished through external public audit procedures, provided in the own auditing standards, in agreement with the generally accepted international audit standards.”

Therefore, not even the law of organization and functioning of the supreme auditing institution, clarified the two analyzed concepts which are defined as follows [11]:

- a) control - the activity of checking and pursuance of legal compliance as regards the formation, administration and use of public funds.”
- b) external public audit - the audit activity carried out by the Court of Accounts which mainly includes the financial audit and the performance audit.

By corroborating the Romanian legal provisions in the field of the Structural Funds with the ones of the international auditing standards and the practical aspects resulted from their application we identify several types of public auditing. The most eloquent criterion taken into consideration in identifying the types of auditing of Community grants regulated, at national level, was the one considering the organization of the activity according to which public auditing can be either inside the entities involved in the management and implementation of the European funds (internal) or exercised from outside of the entities (external).

The non-reimbursable structural funds represent financial instruments through which the European Union acts in order to reduce the economic and social discrepancies between regions aiming to achieve the economic and social cohesion in the European space. An essential condition in order to benefit from this Community support is the transparent management and implementation of the absorption process of the non-reimbursable structural funds, which implies: elaboration of projects in accordance with the Community Guidelines adopted by the European Parliament, Council (EC) and Commission (EC), public procurement made in accordance with the European Directives promulgated in this regard, contracting, construction, supervision, monitoring and impact of the projects financed from non-reimbursable structural funds. In order to protect the financial interests of the European Union, each of the 27 Member States appointed a body and, the European Commission has agreed, to watch and report with regard to the funds’ application, granting and utilisation as well as monitoring the outcomes expected to be achieved as a result of implementation of the Sectoral Operational Programmes approved by the European Forum. In order to accomplish the obligations in the field of external audit subject to granting the non-reimbursable structural funds undertaken by the Romanian State as a Member State of the European Union through the Treaty of Accession, our country has appointed an independent body, respectively the Audit Authority within the Romanian Court of Accounts. Being a part of the public external audit, the operational audit consists in obtaining the sufficient and relevant audit evidence based on which the auditors can obtain the reasonable assurance that the statements of expenses regarding the operations financed by non-reimbursable structural funds fairly present, under all material aspects, the incurred expenditures and the transactions which are based on are legal and fair [10].

## **2. Structural Funds in Romania**

The substantial differences between the Member States of the European Union create not only the cultural diversity specific to the European Union but they are also economical with local specificity in each region of the Member States. In order to reduce the economic discrepancies between various Member States of the E.U., each Member State being also divided in different types of regions, the European Union provides financial assistance to the Member States in form of structural funds. Therefore one of the most widely utilised definitions for the structural funds issue is that according to which these represent financial instruments through which the European Union acts in order to eliminate the economic and social disparities between regions aiming to achieve the economic and social cohesion [12].

The main pillar of this policy is the structural funds which finance long term investments based on programmes. These programmes are also structured depending on the priority fields and objectives of regional development [13]. Each programme financed by structural funds is focused on a certain general domain of intervention (e.g. environment, development of human resources, etc.) and includes some specific priority axis of financing. One of the main differences between the pre-accession and post-accession funds is that the amounts allocated are much higher than in case of post-accession funds and in this category are included also the structural funds. As an illustrative example, the funds allocated to Romania through the PHARE, ISPA and SAPARD Programmes to which the bilateral assistance programmes are added during 1991-2006 are of approximately 7,230 billions Euro [12].

A higher financial amount for the structural funds does not mean only more money allocated per project but implicitly also a larger scale of the executed projects, a larger financial responsibility especially from the part of public local authorities who manage public funds as well as the need to ensure higher co-financing in order to be able to win European projects financed from structural funds. Additionally there also other characteristics which make the difference between the structural funds and the pre-accession ones: the method of allocation on multi-annual programmes (7 years), decentralised management of funds, operating on the principle of reimbursement and based on the rule  $n+3/n+2$  which sets down the maximum limit of time in which Romania may spend the annual allocation. These new characteristics require on one hand also new rules of management and structuring of objectives for which the funds are allocated, to be known also by the public local authorities which have implemented projects financed from European funds until now.

The specialised literature includes in the presentation of the structural funds some key elements (types of funds, objectives, domains of intervention, etc.) which must be considered since the planning period of the project and preparation of financing application, because the final selection of eligible projects is made following on one hand the correspondence with the wide theme of each structural fund in part (the same for all the Member States) and on the other hand also with the priority objectives and measures specific to the sectoral operational programmes (varying from one country to another). The basic Regulations regarding the structural funds are found in the EC Regulation no. 1260 dated June 21<sup>st</sup> 1999 regarding the general provisions of structural funds.

Adaptation of all Member States to the European Unique Market requires among others also the harmonising the level of economic development of the various Member States through the support for those "delayed" regions /Member States , which is an objective of the European Union being named as securing the economic and social cohesion [14].

This objective is achieved also under the form of financial assistance from structural funds. From the Beneficiary's perspective meaning the public local authorities, the structural funds cover a wide range of possible domains in which interventions can be designed in the direction of local communities' development -from financing the infrastructure projects (European Fund of Regional Development) and professional reconversion of unemployed people (European Social Fund) to technological improvement of agricultural machinery (European Fund for Orientation and Agricultural Guarantee).

Therefore, the Public local authorities have at their disposal various domains in which, after a thorough evaluation of the local needs, to achieve a portfolio of eligible projects for financing from one of the mentioned structural funds. Together with the wide theme associated to each type of fund it is important to take into consideration also which are the objectives of the EU in allocating the financial assistance from each type of fund. The allocation of structural funds is achieved in accordance with the objectives clearly set down by the European Union which are meant to "translate" what is purpose of the structural funds allocated to the Member States. The priority objectives of the structural funds are partially overlapping with the wide theme for each type of structural fund. Among these the Objective 1 represents the main priority of the European Union in achieving the policy of economic and social cohesion and it is formulated as being "the support provided to develop the less prosperous regions". In order to make the difference between prosperous and underdeveloped regions of the European Union the criteria used is consisting of the Gross Domestic Product value per capita, which from the perspective of the Objective 1 must be below 75% of the European average.

All the Romanian regions of development have a lower value than 75% of the European average. Consequently all Romanian municipalities and county councils may submit eligible projects within the Objective 1 of structural funds.

The priority objectives of structural funds:

**Objective 1** (territorial): promotes structural developments and adjustments of the regions registering delays in development by providing the basic infrastructure and encouraging investments in business activities.

**Objective 2** (territorial): supports the economic and social reconversion of the areas confronted with structural difficulties covering inclusively the areas with economic and social changes in industrial and service sector, rural areas in decline, urban areas in difficulty and areas depending on fishing.

**Objective 3** (thematic): supports adaptation and modernisation of policies and educational systems, training and employment of workforce.

The domains of intervention present the European Union areas of intervention on each point, respectively where the money from structural funds is allocated. These specifically indicate delimited areas of intervention giving suggestions for possible projects proposed for financing from structural funds. The list of categories of intervention domains of structural funds is based on the Article 36 of the Regulation no. 1260/1999 of the Council and its purpose is to support the reporting tasks on the activities financed by structural funds. From point of view of public local authorities it is important to take into consideration that eligible projects are supported, for instance for rural municipalities- in field of agriculture, forestry and fishing and, for the county councils and for urban and rural municipalities - projects in the field of basic infrastructure (transportation, communications, energy, environment).

### 3. Introduction in the audit of non-reimbursable structural funds

Starting from the stated philosophical quote and the fact that a way to obtain, learn and disseminate knowledge is the activity of scientific research, we propose a study and a research of the contextual frame in which the activity of public external audit is achieved, especially the operational audit of foreign non-reimbursable funds.

The European Community has been established at Rome under the name of European Economic Community (EEC) on 25<sup>th</sup> of March 1957 by six Member States (Belgium, Germany, France, Italy, Luxembourg, Holland) of the European Coal and Steel Community (ECSC). Establishing the EC was based on the Treaty establishing European Community. Its original name was the Treaty establishing the European Economic Community, but the deed has also other usual names as "Treaty of Rome" or "EEC Treaty". In this Treaty the bases of joint management bodies have been established, among these being Unique Commission and Council. With establishing European Union (EU) also the name of EEC was changed in "European Community", "EEC Treaty" becoming "EC Treaty". These changes have expressed the qualitative changes suffered by EEC from a simple economic community to a political union. In the process of EU establishing also other EC' bodies were re-named.

The Council of European Communities is called since 8<sup>th</sup> November 1993 Council of European Union.

Commission of European Communities has turned in European Commission.

The Court of Accounts has changed its name on 17<sup>th</sup> of January 1994 in European Court of Accounts. The legal deeds adopted by these bodies still remain legal deeds of each community.

The measure taken by the Community on the ground of Article 158 of the Treaty follows consolidation of economic and social cohesion of European Union extended in order to promote a harmonious, balanced and durable development of the Community. This measure is applied by means of Funds, European Investment Bank (EIB) and other existent financial instruments. The measure aims reduction of economic, social and territorial disparities created especially in the countries and regions with delay in development and subject to economic and social restructuring and aging of population.

The measure integrates within funds at national and regional level the Community's priority in favour of durable development by consolidating economic development, competitiveness, number of jobs and social assimilation as well as by protecting and improving the environment quality.

The European Court of Accounts (ECA) is the organization responsible for external control of Community finances. It was established as independent body in 1975 by Treaty of Bruxelles and started to function in 1977 and the Treaties of Maastricht and Amsterdam has raised it to the rank of Community institution. The Community finances have certain particularities differing of the principles and norms considered traditional in public finances. First of all the particularities is referring to the political and constitutional process of European Union. Secondly there are also the result of occurrence of a new own management "culture", the outcome of its institutional development and cohabitation of different national management traditions. Beginning with financial reform in 1998, the Council, the Parliament and the Commission sign an inter-institutional agreement regarding budgetary discipline and improvement of budgetary procedure for a 7 year period.

Budget management is much decentralised. Even if the management and control systems of Community subventions are subject to the rules set down by the Council and the Commission, these can be different from a State to another even from a region to another. Thus the decentralised management needs coordination and supervision formed by the Member States and the Commission which finally is the body responsible for a good execution of the budget.

The structural funds are accounted in the form of multi-annual expenses and managed by advances and loans. European Fund for Orientation and Agricultural Guarantee, Guarantee department (FEOGA-G) has an annual character and functions based on the monthly statements of expenses and liquidation. This multiplicity of management and control systems needs a great expertise of the EEC auditors and needs the active cooperation of national control bodies.

Political control of public finances is exercised by the European Parliament (basically by means of the budgetary control commission) and the Council. The main expression of this control is drafting the financial statements or "management discharging" through which the Parliament approves the budget and accounts management presented by the Commission. The Council competences are now reduced because formulates only recommendations for management discharge but does not take a decision in this respect. By its reports and decisions, the Court of Accounts assists the Parliament and the Council in this function. The internal control has suffered a profound transformation beginning with the moment of approving the Reform White Paper. The Directorate General responsible with the FINANCIAL Control was eliminated; starting now each Directorate General will organise its own financial control of its services, including a department of evaluation and an audit structure. This system must check up the internal standards of control set down by the Commission. The internal audit is exercised by the Internal Audit Department depending by the Commissioner responsible for the reform. An Audit Committee was created its task being to provide the follow up of the reports and audit quality. An important part of the internal control is actually provided by bodies of the Member States. This delegation of control function is a consequence of management decentralisation. It also responds to the increasingly higher exigency of the management rigor combined with the incapacity of the Commission to provide an efficient control caused by the lack of means and the complexity of this activity.

Each time the responsibilities assigned to the national, regional or local control departments are higher; in certain fields as agriculture, the control function has been assigned even to the semi-public bodies or private entities have been hired in this respect. Decentralisation is provided in a strictly legal frame imposing control criteria, a number of inspections to be achieved, reporting procedures and follow up of results. One of the EEC's objectives is to verify if

indeed the Commission supervises fulfilment of these conditions. The control oriented to detect and investigate irregularities and frauds falls under the competence of the European Anti-Fraud Office (OLAF). OLAF has competences to investigate any irregularities and fraud to the detriment of the budget, committed either in a Member State or inside a Community institution or body.

Efficient fight against fraud largely depends on the activity of the control bodies of the Member States; a vast majority of the irregularities are committed in fields whose management and control depend on the national authorities: agriculture, Customs, structural funds. The Article 280 of the Treaty requires the Member States to adopt the same measures in order to combat fraud against the Community budget which are taken in order to combat fraud to the detriment of their own budget. The external control is exclusively exercised by the European Court of Accounts. In accordance with the Article 248 of the Treaty, the European Court of Accounts has to achieve its activity in cooperation with the national control institutions. The Court of Accounts examines the operations included in the general budget but also those done outside of this as European Development Fund.

As it usually happens in case of public external audit, the control is done *a posteriori*. The control is done on the documents and on site. The control on site is carried out in the Member or non-Member States that received European funds. The visit in the Member States are organised in cooperation with the national control institutions. ECC may control any person or body who intervene in the management of Community funds: Community funds, national public bodies, private intermediaries and final beneficiaries of the subventions. ECC carries out its audits in accordance with the international norms universally recognized. The Court of Accounts has adopted a document named "Policies and Norms of Audit" based on the INTOSAI and IFAC norms [15]. It has also an Audit Manual setting down in detail the procedures to be followed for planning, execution and preparation of the control documents and for drafting the reports. Each year adopts a working program containing the audit tasks to be achieved.

Selection is made starting from a detailed risk analysis and from the evaluation of other factors (materiality, opportunity, last control date etc.). The audit stages are classic: preliminary study, planning memorandum and audit program. An important aspect of planning consists in elaboration of as-called mission program detailing the visits on site in order to control the final beneficiaries. The procedure of elaborating and adopting a report of the Court of Accounts is characterised by a constant dialogue with the audited part, either talking about the subvention beneficiary, the national or regional body responsible for the management, or about the responsible Commission services. The inspection visit starts with a reunion with the audited part during which the audit objectives and procedures and evidences to be achieved are explained. A reunion takes place at the end of the visit during which the main conclusions – provisory- which have been reached and the applied audit procedures are detailed. After the visit on site and completion of all procedures, the audit team drafts a concluding letter (named Synthesis Note) which gathers, in writing, the first results obtained. The letter is addressed to the national authorities responsible for the management who have the opportunity to reply.

Starting from the analysis of the sent Synthesis Notes and the received answers the first draft of the audit report is elaborated, known as preliminary observations. The draft is sent to the Commission – in its capacity of final responsible manager- who has to reply in writing to the observations formulated. Thus the contradictory procedure is initiated which allows checking of the fact found and adaptation of the obtained conclusions. The key moment of this procedure is a reunion between the ECC and the Commission representatives during which the content of each text is discussed. ECC adopts the final report consisting in the Court of Accounts observations accompanied by the Commission replies.

#### **4. The institution designated for the audit of structural funds grants**

Each EU member state designates a public authority or a public or private national institution, regional or local, from the operational point of view independently of the management and certification authority, for each operational program and responsible for checking the efficient operation of the management and control system. Audit authorities of the Member States play a key role in the implementation of European funds, quality and results of their work representing an insurance factor for the European Commission.

The external audit of the non-reimbursable grant funds is performed by the Audit Authority within the Romanian Court of Auditors. From the operational point of view the Audit Authority is an independent institution from the Romanian Court of Auditors and from all the other authorities responsible with the administration and the implementation of the non-reimbursable grant funds.

The Audit Authority is the only national institution appointed to perform external public audit, in accordance with the communitarian and national legislation, on the non-reimbursable grant funds given to Romania by the EU before admission, the PHARE, ISPA and SAPARD programmes, on the structural and cohesion grants, on the European Agricultural Guarantee Fund, European Fund for Agriculture and Rural Development, European Fisheries Fund as well as the grants that are going to be given within post admission period. Audit policies and rules of the Audit Authority are based on best international practices, represented by audit standards published by the International Organization of Supreme Audit Institutions (INTOSAI) and international auditing standards established by the International Auditing Practices International Federation of Accountants (IFAC). These rules have been adjusted to consider the particular mission and responsibilities of the Audit Authority, as defined within European Regulations. Policies and rules are fully compatible with the other directives of the European Community related to external audit activities. These policies and audit rules are defining the basic principles governing the work of the Audit Authority.

These detailed procedures and practices are described in the manual audit of the Audit Authority. The demands faced by the Court of Auditors are constantly changing. At the same time, the audit methodology is constantly evolving. To ensure that his works are updated for these changes and in accordance with the most rigorous

professional standards, the Audit Authority will periodically review its policies and audit standards. The research allowed me to notice the fact that besides the organizational diversity, all Superior Audit Institutions have a common quality, that of being united into international (the International Organization of Superior Audit Institutions – INTOSAI – that includes the superior audit institutions from the EU member states, that issues audit standards, methodologies and ensures the instruction in the auditing field) and regional organization (EUROSAI). Another quality is that of performing the external public audit activity in accordance with unanimously accepted standards, also used by SAI in setting its own standards.

The goal of international and European audit organizations is to promote and develop the best practices regarding the external audit of the public grants of institutions. Audit standards have been developed to define the principles and the most efficient methods that could be used to audit the public grants available to organizations. These standards are the result of an agreement on the best practices in the field, namely the Audit Standards INTOSAI and the European Guidelines of applying the INTOSAI standards. Considering these standards and also IFAC standards, Romania's Court of Auditors has elaborated its own standards.

With the development of universal values, of democracy, freedom and state of law, more strongly has emerged the need to establish and strengthen some independent, professional and modern structures, for monitoring the public money, an important factor of the progress and prosperity. However, more than ever, current global financial and economic crisis requires deep reflection and appropriate behaviors, on all levels, including the absorption and use of community grant funds.

Establishment and effective use of public funds, including grants of EU funds is a prerequisite for the success of the current financial and economic reforms and of a sustainable development of Romania. Budgetary funds allocated to individuals/ public entities, are not so comfortable as to enable their unrestricted spending. This should be a call to the need for sustained efforts to find the most appropriate ways to use available resources.

Public audit has a key role in safeguarding financial resources, in promoting responsibility of entities involved in the absorption of EU funds. External public audit is not seen as a goal in itself but as a tool to optimize the use of funds by helping to identify the significant misstatements and their material correction. The recommendations offered by the audit will help to accelerate access to funds and their objectives fulfillment in terms of anticipation and appropriate risk management and efficient use of funds under the law. The literature reveals that external public audit is a process of monitoring and verification of public money, and with its help it can optimize the economic and financial activities for the fast and performance development of public entities. The need for operational external public audit derives from the complexity of programs financed from European funds, from activities and obligations of beneficiaries and institutions involved in programs management and implementation, and also from the requirement to fight against waste in the management of funds, against bureaucracy, prevention of dysfunction that can occur in the work of the actors mentioned above. The operational audit covers the actions of following the public financial resources which are lost through negligence, irregularities or fraud. The audit must provide accurate information on the management of public funds, including those from the European Union.

State targets which are wanted to be materialized in a more efficient economy, can not be achieved without an effective and efficient integrated audit, able to identify deviations from established performances and make recommendations for their adjustment. One issue to be permanently in view of public external audit should cover one of the most serious phenomena Romania is facing in the current phase, the corruption. Corruption embezzles resources of society from their destination, affecting public order and financial discipline ensuring, and also efficiency in the use of public money.

Corruption has adverse consequences for public entities, but also for honest citizens. Identification of specific forms in which corruption occurs, assessment of its size and control of the phenomenon, involves the external public audit which should focus its actions to protect public funds. Adapting the audit methodologies to the offenders' professionalism degree, expanding cross-border collaboration, alignment of the external audit to international standards and best practices, all of these must become a priority.

The main interest issues to auditors are:

- audit of public procurement - one of the areas most prone to errors in the implementation of structural funds;
- financial engineering instruments;
- methods of sampling and audit risk, and
- implementing "single audit principle", governed by Article 73 of Council Regulation (EC) No. 1083/2006 regarding structural funds control.

## **5. Conceptual dimensions of public external audit of the Structural Funds**

The multi-year cycle of structural funds implementation we confront to three key challenges, one concerning the old programming period, one concerning the present one and the other the future programming period.

### *Challenge 1: Closing the 2000-2006 programming period*

Most of the responsible national authorities, including the Romanian one are concerned with sending final closing reports.

### *Challenge 2: Implementation of the current programming period*

Implementation of the 2007-2013 programming period is now underway. Against the backdrop of high error rates reported by the European Court of Auditors in recent years - and the concerns expressed by the European Parliament and Council - the Commission adopted the Action Plan to strengthen the supervisory role of the Commission in the joint management of structural actions, which had the following positive effects:

- best audit results regarding legality and regularity of the 2007-2013 newly implemented programs, and
- an improvement in the role of supervisor of the Commission on the joint management of the Funds, including a more efficient implementation of financial corrections as monitoring our audit work in order to reduce the risk of loss in the EU budget.

Community and member states audits showed that most errors concern:

- The procedures for public procurement;
- Eligibility of expenditure;
- Quality of daily management verifications.

#### *Challenge 3: Future*

The third challenge concerns the review of Financial Regulation and the Cohesion Policy for the new programming period. The future architecture of the EU budget, including the one for Structural Funds is the key mechanism for achieving the Europe's 2020 priorities of smart, sustainable and favorable to inclusion, as well as to achieve greater European added value. These ideas will be refined and strengthened over scientific research. In light of these general considerations, tackling the mentioned matter is a natural but complex approach, given that the literature could not find a complete and exact treatment of these issues.

In a time when globalization and its effects make their presence felt both internationally and nationally, in all areas of society and therefore also in the economic environment, compliance and alignment with a set of general principles are now the main objective of regulating authorities and professional bodies in the field, under which each SAI is developing its own standards influenced by the cultural context in which operates.

Council for International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) is the international standardization body for the audit. In our opinion, theories, methodologies and standards issued by the mentioned body, remains the paradigms with the most significant impact on audit regulation and practices. As accounting is defined by some theorists as an applied social science, similarly we can say that the audit work play a social role, the arguments being the following: the objective of an audit of financial statements is to enable the auditor to express an opinion on the financial statements namely if they were prepared in all material respects, in accordance with the applicable financial reporting framework. Opinions issued by the auditor helps users understand the significance of the information in the financial statements, on which they make decisions that alter the economic value of entities, social groups / individuals.

We intend to deal with this issue not only in gnosiological terms, in other words we are not only concerned with widening current theories and practices. In research, outside theoretical analysis work, we understand to be critical on previous research and to define and spread of innovative ideas about the subject.

It can be said that the study of theorists' work that are connected to the news industry in order to formulate rules of good practice, is an epistemological issue. From the epistemological point of view, in the audit field we operate with value judgments and practical assessments of the issues that can influence our work by adopting an attitude of approval or disapproval. Value judgments are products of the individual mind and in the area we intend to search is the auditor's reasoning in assessing the conclusions of the audit work as basis for forming an opinion on the financial statement audit. To support the discussed concepts, I will mainly call to: bibliographic benchmarks study, identified within the literature in order to identify new directions in research; practical experience I gained in a supreme audit institution (SAI); scientific documentary research about the current state of the public audit organization and operation in Romania and its improvement opportunities; study research on the types of external audit performed by Supreme Audit Institutions European Union of member states; case studies on how the activity of external audit on the legality of the use of funds by their beneficiaries; a selective scientific research aimed to the specialists and connoisseurs in this field.

## **6. The objectives and scope of the operations audit**

The legal basis for the audit of operations is represented by Council Regulation (EC) no. 1083/2006 laying down general provisions on the European Regional Development Fund, European Social Fund and Cohesion Fund. The objective and goal of EU funds external audit are established by Commission Regulation (EC) no. 1828/2006 laying down rules for implementing Council Regulation (EC) no. 1083/2006 laying down general provisions of the European Regional Development Fund, European Social Fund and Cohesion Fund and Regulation no. 1080/2006 of the European Parliament and the Council on the European Regional Development Fund. Thus, the overall objective of the audit of operations is to obtain reasonable assurance that management and control system works and that the statements of expenditure presented to the Commission are correct and that the underlying transactions are legal and regular, and specific objectives are to verify the conditions under Article 16 of Commission Regulation (EC) no. 1828/2006. As for audit scope, it is to obtain sufficient, relevant and reliable audit evidence to support the annual opinion on the operation of the system, by applying audit detailed techniques and background procedures on operations.

Article 62 (1) (b) of Council Regulation (EC) no.1083/2006 establishes that the Audit Authority must: "ensure that operations audits are carried out on an appropriate sample in order to verify declared expenditure;" Under Article 62 (2) of Council Regulation (EC) no. 1083/2006: "The Audit Authority shall ensure that audits and control works comply with internationally recognized audit standards."

The Audit Authority approach is to verify expenditure declared to the Commission in N year (reference period for the random sample) in the first semester of the year N +1, in accordance with the audit strategy approved by the European Commission for each operational program.

The audit of transactions involve the following activities:

1) Planning of audit of transactions, which means a breakdown by region of the sample elements, the setting of entities to be audited, planning visits to the premises of beneficiaries.

2) Preparation of audit plan which will include the following main sections: introduction, the legal basis of the audit objectives and audit purposes, the method of sampling and sample extraction, the method of audit documentation, the organization of mission and coordinating work with audit teams within regional structures.

3) Implementation of operations audit by deploying field missions. Auditor applies audit procedures appropriate for each objective of the test on each item selected. Field missions can be conducted at the managing authorities, intermediate bodies and also at the beneficiaries based on documents kept by them as required under Article 16 (1) of Commission Regulation (EC) no. 1828/2006.

4) Preparation of audit report. International Auditing Standards established that at the end of each audit the auditor should prepare a written report or opinion, as appropriate, to include the findings in an appropriate form, its content to be easily understood and with no possibility of ambiguity or misunderstanding, including only information supported by relevant and competent audit evidence and to be independent, objective, accurate and constructive. Based on audit findings, after completing the field mission, auditors will draw up the draft audit report, which will contain sufficient details of the audit findings, conclusions and recommendations of auditees. After taking the steps to develop, review, adversarial proceedings and approving, the final audit report will be sent to the managing authority. The audit report is the main means of communication and information of results of auditors work to all interested persons.

5) Audit opinion is a short, clear and explicit statement about the general conclusions of the audit (ISA 700 Formation of opinion and reporting on financial statements, ISA 705 issues affecting the independent auditor's opinion, the INTOSAI Auditing Standards and guidelines for implementation INTOSAI Auditing Standards no. 31 - Reporting).

6) Follow-up (follow the mode of implementation of audit recommendations). Our approach is aimed at identifying ways and solutions to improve the audit work of the Structural Non-reimbursable Funds.

## 7. Conclusions

In the future, the thought to inspire the Structural Funds auditors - both the Commission and their colleagues in national authorities - is the transition to an integrated system, marked by the principle of complementarity, while preserving the autonomy of each partner. To achieve this, is essential to have greater complementarity of audit strategies of the Commission and of the national audit authorities, as well as harmonization of methodologies. For national auditors, the main challenge remains the presentation of annual reports and opinions offering to the Commission, on a level of trust, insurance required by Article 62 of the General Rules of the Structural Funds. To achieve this result, it will be necessary to have some solid results on the sample checks and a clear and objective vision on the effectiveness of control systems of management and certification authorities, and finally, vigilance must never be low on the early detection of any deterioration of these systems.

Structural Funds is one of the key policies of the European construction.

As auditors, we play an important role in ensuring an effective and legal management of the European taxpayer money. An effective and legal management is vital both for effectiveness and efficiency of public funds and to show our citizens the added value on European construction and especially the cohesion policy.

The tasks of auditing profession are unmatched considering the European Union budget, the number of countries involved, the languages used, the various applicable national legislation, the number of final beneficiaries. European Court of Auditors monitors the future implementation of Performance Audit on Structural Funds - obtaining the best quality - price of funds and monitoring the sustainability of projects after the funding ends, according to the principle of the three e: economy, efficiency and effectiveness.

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