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Abstract

To enhance the credibility of the information provided to different categories of users, entities make use of services provided by a financial auditor. Thus, auditing also applies to EU-funded projects, being an obligation of the Beneficiary of the project, and it is performed in accordance with ISRS 4400 “Engagements to perform agreed-upon procedures regarding financial information”. This standard has a wide scope including, besides the audit of EU-funded projects, the verification of accounts receivable, accounts payable, a financial statement or even a complete set of financial statements.

The audit of EU-funded projects is an audit based on agreed-upon procedures, which are established by the Managing Authority or the Intermediate Body. Agreed-upon procedures can be defined as engagements made in accordance with ISRS 4400, applicable to agreed-upon procedures, where the auditor undertakes to carry out the agreed-upon procedures and issue a report on factual findings. The report provided by the auditor does not express any assurance. It allows users to form their own opinions about the conformity of the expenses with the project budget as well as the eligibility of the expenses.

INTRODUCTION

Auditing is a complex process whereby the auditor, based on their theoretical and practical knowledge, and as a result of appointments received from certain bodies, performs an analysis of the information and operations carried out by an entity or regarding a particular activity in order to express an opinion or make recommendations. To conduct their engagement, the auditor applies concrete procedures and examination standards established by the authorized bodies. (Danescu,2007).

The various categories of users of accounting information such as shareholders, employees, stock exchange bodies, investors, suppliers and creditors, customers and debtors, and banks need assurances expressed by independent auditors regarding the information contained in the statements provided by entities. (Oprean, 2002)

Due to the importance of the topic, there is a series of papers, books and articles in the field literature. Thus, auditing is a widely debated topic in works such as: *Audit financiar – convergențe între teorie și practică (Financial Audit - Convergence between Theory and Practice)* by Tatiana Dănescu; *Contabilitate financiară – o abordare europeană și internațională (Financial Accounting – A European and International Approach)* by Niculae Feleagă; *Audit financiar. Concepte. Standarde. Norme (Financial Audit. Concepts. Standards. Norms)* by Emil Horomnea; *Audit financiar. Misiuni de asigurare și servicii conexe (Financial Audit. Assurance Engagements and Related Services)* by Horia Neamțu & all; *Audit. Concepte și practici (Auditing. Concepts and Practices)* by Laurențiu Dobroțeanu, Camelia Liliana Dobroțeanu.

Niculae Feleagă, in his paper *Contabilitate Financiară – o abordare europeană și internațională (Financial Accounting – A European and International Approach)*, p.161, defines auditing as “the activity where concrete procedures and examination standards are applied independently, in order to evaluate the adequacy and functioning of the actions taken by an organization by reference to standards.” (Feleaga,2005)

METHODOLOGY

Our research aims to present theoretical aspects of agreed-upon procedures engagements as well as the procedures taken into account in auditing EU-funded projects.

As research methods and techniques, in our study we used theoretical documentation, comparison, synthesis and practical documentation. Theoretical documentation consisted in studying field literature. We used comparison when presenting

aspects of engagements expressing assurance and engagements expressing no assurance.

We used synthesis when presenting theoretical aspects, since auditing implies a vast field of study. We made use of practical documentation when we searched data concerning agreed-upon procedures engagements.

EXAMINATION OF INFORMATION BASED ON AGREED-UPON PROCEDURES

Examination of information based on agreed-upon procedures is made in accordance with ISRS 4400 “Engagements to perform agreed-upon procedures regarding financial information”. This standard stipulates that “the objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.” (Neamțu, 2012)

Conducting an agreed-upon procedures engagement regarding financial information takes into consideration the main objectives and principles of the engagement as well as the procedures applied and the reporting on the results obtained during the course of the engagement. The objective of such engagement is expressed through three components:

- The financial audit procedures and techniques agreed upon with the client or other interested bodies/parties,

- the subject matter of the audit

- the results of applying the procedures to the subject matter of the audit (the report of factual findings)

The auditor should ensure that the beneficiary and other specified parties will receive copies of the report of factual findings and that there is a clear understanding regarding the agreed procedures and the conditions of the engagement. (Briciu, 2014)

Matters to be agreed upon with the beneficiary are: (Chersan, 2013)

- nature of the engagement, including the fact that the procedures performed will not constitute an audit or a review, and that accordingly no assurance will be expressed;

- stated purpose for the engagement

- identification of the financial information to which the agreed-upon procedures will be applied;

- specific agreed-upon procedures to be applied;

- anticipated form of the report of factual findings

- Limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement.

In conducting an agreed-upon procedures engagement, the auditor should comply with the ethical principles set out in Part A of the Code of Ethics, as follows: (Morariu, 2008)

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behaviour
- Technical standards

In addition to complying with ethical principles, the auditor shall plan the work so that an effective engagement will be performed. The auditor should also document matters which are important in providing evidence to support the report of factual findings, and evidence that the engagement was carried out in accordance with ISRS 4400. (Dobroteanu, 2002)

The auditor should carry out the procedures agreed upon and use the evidence obtained as the basis for the report of factual findings.

ISRS 4400 suggests that the procedures applied in an engagement to perform agreed-upon procedures may include the following: (ISRS 4400, 2008)

- Inquiry
- Recalculation, comparison and other clerical accuracy checks
- Observation
- Inspection
- Confirmation

ISA 500 Audit Evidence defines the procedures mentioned above as follows: (Bunget, 2010)

- Inquiry consists of seeking information of knowledgeable persons within the entity or outside the entity.
- Recalculation consists of checking the mathematical accuracy of documents or records.
- Observation consists of looking at a process or a procedure being performed by others.
- Inspection involves examining records or documents, whether internal or external, in paper form or electronic form, or a physical examination of an asset.
- Confirmation consists of a direct written response to the auditor from a third party, in paper form or electronic form.
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AUDITING EUROPEAN GRANTS

European grants are an important source of funding various activities carried out by economic agents. Their auditing is an obligation of the Beneficiary of the project and it is performed by virtue of a service providing contract between the Beneficiary and the auditor. Auditing of EU-funded projects is performed in accordance with ISRS 4400 “Engagements to perform agreed-upon procedures regarding financial information” and the Code of Ethics for Professional Accountants that sets out

the ethical principles that the auditor shall comply with in conducting an agreed-upon procedures engagement. (Mihailescu, 2010)

The objective of an audit of EU-funded projects consists of the verification performed by the financial auditor regarding the reality, legality and eligibility of expenses declared by the Beneficiary of the project in the application for reimbursement of expenses. (Mataragiu, 2013)

The auditor will collect and analyse information and documents from the Beneficiary of the project, and for a thorough understanding of the project and of its implementation, they can discuss with the members of the project management team. The procedures to be performed by the auditor are: (Mares, 2007)

- verification of the beneficiary’s compliance with the provisions of the grant agreement;
- verification of the budget lines in the application for reimbursement submitted by the beneficiary;
- consistency of the information in the application for reimbursement with the beneficiary’s accounting system;
- compliance with procurement rules;
- confirmation of the physical existence of the goods purchased under the project;
- verification of expenses and reporting on exceptions and ineligible expenses, if any;
- verification of the income received under the project.

As a result of the engagement, the auditor will issue a report of the factual findings of agreed-upon procedures regarding the compliance with the terms of the grant agreement, without expressing an opinion or assurance as to the subject matter of the audit, the beneficiary of the audit report and other stakeholders drawing their own conclusions about the application of agreed-upon procedures.

An audit of an EU-funded project is not an assurance engagement, and therefore the auditor reporting on the engagement should make a clear distinction from the assurance report so as not to confuse the intended users. (Horomnea, 2010).

The conceptual framework of assurance engagements defines assurance engagement as an “engagement in which a practitioner expresses a conclusion designed to increase the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.” (IFAC, 2008)

The specific elements of an assurance engagement are: (Domnisoru, 2011)

- a tripartite relationship including the practitioner as a service provider, the responsible party and the users of the audit report.
- an appropriate subject matter
- appropriate criteria

- sufficient evidence
- an assurance report issued in writing

REPORTING ON AN AGREED-UPON PROCEDURES ENGAGEMENT

The report issued by the auditor on an agreed-upon procedures engagement should set out in detail the purpose and the agreed-upon procedures of the engagement, so that the user of the report may understand the nature and the scope of the activity carried out.

As a result of practical documentation, I found that the report on an agreed-upon procedures engagement conducted for an EU-funded project has the following structure:

1. The title, which may have the following form: "Report of the factual findings concerning the verification of expenses of a grant agreement for external actions funded by the EC"

2. Addressee (ordinarily the client who engaged the auditor); the addressee's identification data should be specified

3. Identification of the information to which the agreed-upon procedures have been applied; it includes the presentation of information concerning the grant agreement and the action:

- Reference number and date of the grant agreement
- Title of the grant agreement
- Country/region
- Beneficiary
- Reference of the Project Proposal Application
- The legal basis for the grant agreement
- The start date of the action
- The end date of the action
- The total cost of the action
- The maximum amount of the grant
- The total amount received to date by the Beneficiary from the Managing Authority
- The total amount of the application for intermediate reimbursement
- Managing Authority/Intermediate Body
- Financial auditor

4. The purpose for which the procedures were performed is established by the Managing Authority, and the procedures were performed solely to assist the Managing Authority/Intermediate Body to evaluate whether the expenses claimed are accurate and eligible

5. A statement that the engagement was performed in accordance with ISRS 4400 applicable to agreed-upon engagements, or with relevant national standards or practices

6. A listing of the specific procedures performed may be as follows:

a) Sufficient understanding of the action and of the terms and conditions of the grant agreement

requires that the auditor should receive a copy of the grant agreement with its annexes in order to understand its terms and conditions, the interim technical financial report, copies of the accounting records and balance sheet.

b) Procedures for verifying the eligibility of the expenses claimed by the Beneficiary in the Financial Report of the Action.

- General procedures. Reimbursement of the project's expenses shall be made in instalments, based on the applications for reimbursement submitted by the Beneficiary of the project, and the information therein contained shall be verified in terms of consistency with the documents where they have been recorded.

a) Verification whether the Intermediate Application for Reimbursement, the Record of Expenses and the Technical Financial Report are consistent with the terms of the grant agreement

b) Verification whether the Beneficiary has complied with the accounting rules in the Grant Agreement

c) Verification whether the information in the Record of Expenses is consistent with the accounting records reflected in the Trial Balance and the accounting affidavits

d) Verification whether the payments of the invoices have been made from pre-funding or from the beneficiary's own contribution

- Compliance of expenses with the budget and analytical review; verification whether the information contained in the application for reimbursement is consistent with the project budget.

- Selection of expenses for verification; taking into consideration the expenses claimed by the beneficiary in the application for reimbursement.

- Verification of expenses; taking into account possible differences between the provisions and terms of the grant agreement and the way of carrying out the project's operations.

a) Eligibility of direct costs; verification of the eligibility of direct expenses with the provisions of the grant agreement.

b) Accuracy and recording; it requires that all operations of the project be recorded in appropriate accounts and be based on supporting documents

c) Classification; verification of whether the expenses have been accurately recorded in the application for reimbursement, in accordance with the categories of expenses set forth in the budget.

d) Reality; it requires that the auditor obtain evidence of the operations performed under the project

e) Compliance with public procurement rules; it requires the verification of the compliance with the public procurement rules of the project

- f) Administrative costs – checking the accurate application of the lump rate specified in the grant contract
- Verification of the action's income (receipts) – checking whether income is appropriately recorded.
- c) A description of the auditor's factual findings regarding the procedures performed
- d) A statement that the report is restricted to those parties that have agreed to the procedures
- e) Date of the report
- f) Auditor's address
- g) Auditor's signature

CONCLUSIONS

The framework of reference underlying the auditing of EU-funded projects as well as the verification of accounts receivable, accounts payable, a financial statement or even a complete set of financial statements, is ISRS 4400 "Engagements to perform agreed-upon procedures regarding financial information" and the Code of Ethics issued by the International Federation of Accountants. ISRS 4400 suggest that the procedures used by auditors may include the following: inquiry, recalculation, observation, inspection, confirmation, and the Code of Ethics sets out the principles that should govern each engagement conducted by auditors. In auditing EU-funded projects, the procedures to be performed by the auditor are:

- verification of the beneficiary's compliance with the provisions of the grant agreement;
- verification of the budget lines in the application for reimbursement submitted by the beneficiary;
- consistency of the information in the application for reimbursement with the beneficiary's accounting system;
- compliance with procurement rules;
- confirmation of the physical existence of the goods purchased under the project;
- verification of expenses and reporting on exceptions and ineligible expenses, if any;
- verification of the income received under the project.

As a result of the engagement, the auditor will issue a report of the factual findings of agreed-upon procedures regarding the compliance with the terms of the grant agreement, without expressing an opinion or assurance as to the subject matter of the audit, the beneficiary of the audit report and other stakeholders drawing their own conclusions about the application of agreed-upon procedures.

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