

CONSIDERATIONS REGARDING THE FINANCIAL AUDIT OF EU-FUNDED PROJECTS

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Abstract: Financial auditors, members of the Romanian Chamber of Financial Auditors, are involved in the activity of verifying that the implementation of EU-funded projects is compliant with the relevant national and European legislation. They conclude audit contracts with the beneficiaries of European funds, perform external financial audit services upon the projects' implementation activities and provide audit reports which are presented by beneficiaries to the management authorities in order to certify the eligibility of projects' expenses for reimbursement. In this paper, our aim is to perform a study upon this specific segment of the financial audit services market in Romania, by collecting and analysing data related to the financial audit contracts which have been awarded through the national public procurement electronic system in the time period 2013-2021. Our research results will respond to some specific objectives. Firstly, this study establishes how the number of audit contracts is spread over the main operational programs implemented in Romania and through which the audited projects have been financed. Further, we aim to discover if the market concentration to a small number of local audit firms involved in this field, which has been proved in a previous study covering the period 2011-2012, maintained or not from year 2013 to date. Finally, we will obtain an overview of the main audit firms acting in this market segment, based on researching which firms gained the biggest number of audit contracts and performed most of the required audit engagements in the analysed period.

JEL classification: M41, M42

Key words: EU-funded projects, financial audit, audit firms, audit contracts

1. INTRODUCTION

Auditing represents the professional examination of information in order to provide a responsible and independent opinion by reference to certain quality criteria (standards, norms). Audit services bring an added-value to the audited information by increasing the credibility of information to its intended users [4]. According to Domnişoru S. [1], the need for audit is connected to the decision process of information users. Thus, the odds that the adopted decision be better increase as we receive a constructive-critical, independent and impartial view upon the general situation, upon

the pros and cons of the decision choices that are available to us. In order to respond to such requirements, financial auditors offer assurance services, especially assurance concerning the quantity and the quality of information included in financial statements.

Upon becoming a Member State of the European Union as from 1st of January, 2007, Romania has benefited of European non-reimbursable structural and cohesion funds in two programming periods, 2007-2013 (over 27 billion EUR) and 2014-2020 (over 31 billion EUR). Funds are received through operational programmes, which represent strategic documents prepared by Member States and approved by the European Commission based on partnership agreements. They are designed to implement the sectoral and regional priorities set in the national development plans. The main operational programmes and their funding in the first period and corresponding ones in the second period are presented below in table 1.

Table 1: Operational programmes implemented in Romania and their funding from European funds

Programming period 2007-2013	Programming period 2014-2020	European Fund
Sectoral Operational Programme Human Resources Development (POSDRU)	Operational Programme Human Capital (POCU)	European Social Fund (FSE)
Sectoral Operational Programme Economic Competitiveness (POSCCE)	Competitiveness Operational Programme (POC)	European Regional Development Fund (FEDR)
Regional Operational Programme (POR)	Regional Operational Programme (POR)	European Regional Development Fund (FEDR)
Sectoral Operational Programme for Environment (POSM)	Large Infrastructure Operational Programme (POIM)	Cohesion Fund (FC) & European Regional Development Fund (FEDR)
Sectoral Operational Programme for Transport (POST)		
Operational Programme for the Development of Administrative Capacity (PODCA)	Operational Programme Administrative Capacity (POCA)	European Social Fund (FSE)
Technical Assistance Operational Programme (POAT)	Technical Assistance Operational Programme (POAT)	European Regional Development Fund (FEDR)
Operational Programme for Fisheries (POP)	Operational Programme for European Maritime and Fisheries (POPAM)	European Maritime and Fisheries Fund (FEPAM, previously named FEP)
National Rural Development Programme (PNDR)	National Rural Development Programme (PNDR)	European Agricultural Fund for Rural Development (FEADR)

Source: Own processing based on the description presented by Dornean, A. [2] and on information available at www.mfe.gov.ro and www.fonduri-ue.ro

The responsibility of managing and implementing the operational programmes is undertaken by management authorities as established for each operational programme [2]. In Romania, managing authorities required that financial audit of European projects was mandatory in the first programming period and they issued instructions and terms of reference regarding the audit engagements required, including templates for audit reports to be used by financial auditors. In the second programming period, the financial audit of European projects was declared optional and the decision is left to projects beneficiaries to acquire or not financial audit services for projects [5].

2. OBJECTIVES

This paper aims to make an analysis of the financial audit services market for European projects in Romania, which is a specific segment of the audit services market related to the professional services performed by financial auditors, members of CAFR.

Our paper makes a contribution to the specialty literature by collecting and analysing the available data in order to gain more insights into this specific segment of the market in Romania, as to date there are no readily-available public data bases about the audit services delivered on European projects in Romania and about the auditors and audit firms acting in this specific market.

Financial auditors do not have the obligation to publish transparency reports regarding their audit activity in the European projects field and the Romanian Chamber of Financial Auditors (CAFR) does not present in their public annual activity reports the situation of audit engagements performed at the national level upon EU-funded projects. The only source of information that we have identified in this respect is the national public procurement electronic system of Romania (SEAP), through which the biggest value contracts are awarded according to the requirements prescribed by the legislation on public acquisitions.

Our research results will respond to three specific objectives. The first objective refers to establishing which is the distribution, per the main operational programmes, of audit services performed on EU-projects in the analysed period. The second objective is to discover if the concentration of this segment of audit services market, as proved by a previous study performed by Hațegan, C.D. [3] which covered the period 2011-2012, maintained or not from year 2012 to date. The third objective is to ascertain the total value of the audit market and its structure per operational programmes, the number and type of auditors involved in this market and the description of the main audit firms engaged in this market by reference to the audit contracts awarded in the time period 01.01.2013-30.09.2021.

3. METHODOLOGY

For the period starting 01.01.2013 until 30.09.2021, we have exported annual reports from SEAP as available on the site www.e-licitatie.ro. The annual reports are extracted based on the specific code for audit services (CPV code 79212100-4) and they include contracts for all types of financial audit services, such as statutory audit, internal audit, other services performed by auditors. Further, based on the description of contracts, we have split the contracts related to audits of European projects from other audit contracts. We further performed the analysis of audit contracts per each operational programme based on audited projects' description.

In order to meet our research objectives, we have processed the information and analysed the audit firms acting in the market in the analysed period and the concentration of the market.

4. ANALYSES

4.1. The value of the market and the distribution of audit services per operational programmes

Based on the information extracted and processed from SEAP, in the period 01.01.2013-30.09.2021, a total number of 1565 audit contracts were awarded to financial auditors. Out of these, 838 audit contracts related to audit services for EU-funded projects, which represents 54% of the total audit market from the point of view of number of transactions.

Regarding the market value, the audit services contracts for EU-funded projects amounted to 27.215.573 lei, which represents 53% of the total audit market value, while the other audit services contracts amounted to 24.107.751 lei, representing 47% of the total audit market value.

As the financial audit services for European projects represents more than half of the market of audit contracts awarded through SEAP, we conclude that this market segment is a major field of activity for financial auditors.

Table 2- European projects audit contracts awarded per years

Year	No. of contracts	Total value (RON)
2013	109	4,889,004
2014	253	12,074,074
2015	121	4,646,397
2016	18	833,045
2017	44	1,476,341
2018	20	278,678
2019	95	886,223
2020	127	1,540,502
2021	51	591,308
Total	838	27,215,573

Source: Own processing based on information extracted from www.e-licitatie.ro

The evolution of the market per years follows the calendar set by the activities undertaken in the implementation of operational programmes. The distribution of audit contracts per operational programmes is presented below in table 3.

Table 3 - The distribution of audit contracts per operational programmes

Operational programme	No. of contracts	Total value (RON)	%
POR	387	9,404,178	34.55%
POSDRU/POCU	186	8,011,487	29.44%
POSCCE/POC	97	4,591,735	16.87%
POSM/POIM	59	2,042,859	7.51%
PNDR	59	1,697,848	6.24%
POCA	27	873,425	3.21%
POP/POPAM	17	293,362	1.08%
Others	6	300,679	1.10%
Total	838	27,215,573	100%

Source: Own processing based on information extracted from www.e-licitatie.ro

We conclude that the main operational programmes in which financial auditors were involved for auditing European projects in the two programming periods are the Regional Operational Programme (POR 2007-2013/POR 2014-2020), the human resources development programme (POSDRU 2007-2013/POCU 2014-2020) and the programme regarding the increase of economic competitiveness of enterprises (POSCCE 2007-2013/POC 2014-2020), which together provided 80% of the market value and of the number of audit contracts.

The Regional Operational Programme (POR) provided one third of the market value and almost half of the number of audit contracts awarded in total, being the main source for financial auditors to render financial audit services on EU-funded projects.

In the second layer of the market, we find POSM/POIM and PNDR with the same number of contracts awarded but POSM/POIM provided bigger contracts value.

Other programmes (POP/POPAM, POCA) record small numbers of contracts awarded and small total audit contract values.

4.2. The concentration of market segment of audit services for European projects

The audit services contracts for European projects (838 contracts) were awarded to a total number of 300 auditors in the analysed period, out of which the majority are audit firms (72%) and approximately one third (28%) are individual financial auditors, as presented in table 4 below.

Table 4 - The organisational structure of European projects auditors

Organisational type	No. of auditors	% of total	% as compared to the average number of auditors, members of CAFR
Juridical persons (audit firms)	216	72%	4.80%
Physical persons (individual auditors)	84	28%	1.87%
Total	300	100%	

Source: Own processing based on information extracted from www.e-licitatie.ro

As compared to the total number of auditors registered in Romania in the analysed period, the number of auditors involved in this market represent very small percentages (4.8% of audit firms and 1.87% of individual auditors). We deduct that this is due to the highly specialized nature of this market segment as additional training must be undertaken in order to attain special knowledge on European funds, on their underlying legislation and on the activities of institutions involved in their management.

We present below in table 5 the concentration of auditors market by reference to the number of audit contracts gained by each auditor involved in the market of EU-funded projects auditing. The market is highly concentrated to 12 auditors who have each obtained more than 10 audit contracts. One auditor gained the biggest number of contracts (69 contracts), while the others are much lagging behind this number. The majority of auditors acting in the market (169 auditors) gained only one contract each, but this represents only 20% of the total market. A number of 119 auditors gained between 2 and 9 audit contracts in this market. We have noted that individual auditors (physical persons) gained between 1-5 audit contracts in the market, while the biggest number of contracts were obtained by audit firms (juridical persons).

Table 5 - The concentration of European projects auditors market based on number of contracts

No. of auditors	No. of total contracts obtained by auditor	Total no. of contracts	% of total no. of contracts
1	69	69	8%
1	28	28	3%
1	25	25	3%
1	23	23	3%
1	22	22	3%
1	19	19	2%
1	17	17	2%
1	14	14	2%
2	13	26	3%

1	11	11	1%
1	10	10	1%
1	9	9	1%
5	8	40	5%
1	7	7	1%
8	6	48	6%
14	5	70	8%
13	4	52	6%
25	3	75	9%
52	2	104	12%
169	1	169	20%
300		838	100%

Source: Own processing based on information extracted from www.e-licitatie.ro

We present below in table 6 the concentration of European projects auditors market by reference to the value of audit contracts gained by auditors. The market is highly concentrated also from this point of view to 13 auditors who have cumulated 25% of the total market value and have obtained revenues bigger than 300.000 lei each, with only one auditor leading the market and having obtained contracts valuing in total more than 1 million lei. 62% of the total market value is shared between 151 auditors who have obtained revenues from this market between 50.000 lei and 200.000 lei. A small share of the market is owned by auditors gaining small values of contracts (less than 50.000 lei).

Table 6 - The concentration of European projects auditors market based on value of contracts

No. of auditors	The level of total revenues obtained by auditor (RON)	Total value of contracts (RON)	% of total market value
1	>1.000.000	1,289,200	4.74%
1	800.000-1.000.000	815,210	3.00%
1	600.000-800.000	630,150	2.32%
1	500.000-600.000	543,460	2.00%
4	400.000-500.000	1,797,189	6.60%
5	300.000-400.000	1,703,365	6.26%
16	200.000-300.000	3,868,084	14.21%

52	100.000-200.000	7,167,314	26.34%
83	50.000-100.000	5,787,264	21.26%
136	<50.000	3,614,337	13.28%
300		27,215,573	100%

Source: Own processing based on information extracted from www.e-licitatie.ro

The top 10 auditors/audit firms under analysis (out of the total of 300 auditors/audit firms involved in the market) have obtained 17.58% of the total value of audit contracts awarded in the period 2013-2021 in the analysed market.

The top 45 auditors/audit firms (out of the total of 300 auditors/audit firms involved in the market) have obtained 50.20% of the total value of audit contracts awarded in the period 2013-2021 in the analysed market.

We conclude that the market of financial audit services for European projects implemented in Romania is highly concentrated to a small number of local auditors and audit firms. This tendency, as demonstrated by Hațegan, C.D. [3] in a previous study referring to the period 2011-2012 has maintained to the present date.

4.3. The main market players in the Romanian audit services market for European projects

We present below in table 7 the top 10 European projects financial auditors acting in the market, based on the level of total revenues they obtained from audit contracts awarded through SEAP in the analysed period (01.01.2013-30.09.2021).

Table 7 – Top 10 European projects auditors

Crt. No.	Auditor	The level of total revenues obtained by auditor (RON)	Auditor's location
1	SC SENIOR AUDIT SERVICES SRL	>1.000.000	Țeșeș (Domnești), Ilfov county
2	SC AREXIM AUDIT SRL	800.000-1.000.000	Bucharest
3	SC SEVE FINANCIAL CONSULTING SRL	600.000-800.000	Bucharest
4	SC GHE STUBEANU 2000 SRL	500.000-600.000	Giurgiu
5	SC AUDIT CONSULT GROUP SRL	400.000-500.000	Bucharest
6	SC ROMCONTEXPERT SRL	400.000-500.000	Bucharest

7	SC EXPERT CONSULTING SRL	400.000-500.000	Piatra Neamt
8	SC BDO AUDIT SRL	400.000-500.000	Bucharest
9	SC RAO AUDIT OFFICE SRL	300.000-400.000	Targu Mures
10	SC CASA DE AUDIT CORVINIA SRL	300.000-400.000	Hunedoara

Source: Own processing based on information extracted from www.e-licitatie.ro

We noted that the top 10 market players presented in the table above are not the firms having won the greatest number of audit contracts, but they obtained a smaller number of big-value contracts. The top 3 audit firms that obtained the biggest number of audit contracts in the analysed period (69, 28 and 25 contracts) do not rank in the top 10 auditors based on the level of total revenues obtained from financial audit of EU-funded projects, but they occupy much lower places. Based on this information, we deduct that audit firms tend to concentrate either on winning many small-value contracts or winning fewer and bigger-value contracts, which may be related to the limited human and time resources that can be employed by the audit firms.

Regarding the auditors location throughout Romania, we found that most of them are territorially established in other cities of Romania's counties and less of them are located in Bucharest. From the top 45 auditors/audit firms, 40% of them are located in Bucharest and 60% are located in other cities of Romania. From the top 45 auditors/audit firms, 15% of them are individual auditors (physical persons) and 85% are audit firms (juridical persons).

We have studied the profile of the top 10 market players based on the information available on the site www.mfinante.gov.ro regarding their annual financial statements published in the analysed period. We found that the top 10 audit firms are small enterprises having 1 to 15 average number of employees in the analysed period, with only one medium-sized firm (BDO Audit SRL – more than 80 employees). For most of the small audit firms in top 10, the revenues obtained from audit services provided to European projects represent an important part of their total annual turnover obtained from rendering their entire categories of services, which also shows the great degree of specialisation in this market segment.

BIG4 audit firms are not involved in auditing European projects regarding the audit contracts acquired through SEAP or appear in very little circumstances (Deloitte Audit SRL – 2 audit contracts; KPMG Audit – 1 audit contract).

5. CONCLUSIONS

The financial audit market for European projects in Romania presents a very specialized nature due to special knowledge which must be attained on European funds, on their underlying legislation and the specific procedures performed by the institutions involved in their management. The evolution of the market per years is connected to the calendar of activities undertaken by management authorities in the implementation of operational programmes.

The main operational programmes which provide most of the number of audit contracts and revenues for financial auditors involved in auditing European projects are the regional operational programmes, the human resources development programmes and the programmes regarding the economic competitiveness of enterprises.

This market segment is highly concentrated to a very small number of local audit firms and local auditors who enter the market and win the audit contracts awarded through the public acquisitions legislation procedures. Most of the auditors acting in this market are small companies having very small numbers of employees and they are established throughout Romania's counties. They tend to concentrate either on winning many small-value contracts or winning fewer big-value contracts, which may be related to the limited resources that can be employed by small audit firms. For most of them, the revenues obtained in this market represent an important portion of their total annual turnover obtained from rendering audit and other services. This also supports the view of the existence of a great degree of specialisation in this market segment.

The limitations of our research refer to the fact that the database of audit contracts used in our analysis represent only a part of the financial audits performed upon EU-funded projects. The database that we found available only contains the audit contracts awarded through public procurement procedures, referring to big value contracts and contracts awarded by public institutions in Romania. Many contracts of smaller value were awarded by direct negotiation between parties (the financial auditor and the project owner) and are not included in the database that we used in our research. However, we consider the SEAP database to be representative for the description of the market because it covers a significant portion of the market from the point of view of the total financial value that it provided for the remuneration of the financial audit services performed upon European projects implemented in Romania.

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