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THE GOALS AND RESULTS OF AUDITING INVESTMENT PROJECTS FINANCED BY THE EU

Abstract: New legal regulations connected with increasing the corporate governance in public corporations in Poland as well as European Union law stipulating the conditions of using the funds allocated to infrastructure development indicate the need for greater control of investment projects. An essential part of this control is the project audit conducted by an independent party. The goals, range and results of these audits vary in practice, due to the differences in the guidelines provided by institutions managing the aid programs, different expectations of the project promoter and various levels of competence of the auditing team.

Keywords: audit, project, European Union.

1. Introduction

National and international experiences in carrying out many construction projects (both those financed from EU sources as well as national) indicate the need for conducting project audits by independent parties. The subject of the audit is not only the assessment of invoices and other documents proving incurred expenses. It can also be the assessment of the project management processes, the means of monitoring expenses and deadlines of tasks and comparing these process with the best examples found in the trade. This way the function of the audit is a necessary instrument of ensuring control over the project not only for the institution managing the aid programs but also for the project promoter.

2. The legal basis for project audits

The aim of adjusting the national law to the EU standards of supervising entities of public interest was to increase the security of stockholders and the public. One of the articles of the new law concerning certifying accountants demands that stock issuers form audit committees which would be responsible for, e.g., monitoring the efficiency of internal control systems and monitoring the process of financial reports [4]. The recent changes to accounting law also had a similar aim [5]. Article 4 para 5 of that

act states that not only the managers but also the members of the boards will be responsible for supervising whether the regulations of the accounting law are being respected. They are therefore obliged to ensure that the financial reports and reports of the activities, in accordance with art. 4 para 1, clearly and concisely present the financial situation and results of the entity.

The current changes in the law might have a significant effect on the control of investment projects, because the expenses for new investments as well as renovations or the development of already existing buildings constitute a significant sum of money for the entity. They are usually presented during the course of the investment in the position “capital work in progress” of the balance, and after their completion in the position of “tangible assets”. The income, expenses and financial resources from other sources connected with carrying out the investment project can also be found in the profit loss account, cash flow analysis or in the additional information.

Because of the large costs connected with construction investments, which have their reflection in the financial reports, and the growing awareness of the responsibility unit managers and board members have, it can be expected that the quality of accounting (including financial reports) and safeguarding a satisfactory level of control in that regard will be taken into consideration in agreements concerning construction investments, which will include a clause giving the business owner the right to contract independent audits.

Permission to conduct an audit of a project is one of the frequent conditions for receiving funds from the EU for larger investment projects. This condition can be found in a clause of the agreement to subsidize the project, an agreement which an individual signs with the institutions managing the given aid program. Furthermore, the decree of the Board (WE) nr 1083/2006 requires that every individual receiving funds regularly conduct assessments of the management and control system [3].

The scope of the audit co-funded by the EU can concern the evaluation of given tasks and expenses as well as an assessment of contract adherence, legal regulations and programs. Institutions implementing aid programs often declare when the audit is to be conducted and which documents can be disclosed to the auditors. Such an audit can be conducted during the course of the project and during the period of time upon its finalization.

Furthermore, the scale of construction investments in Poland between 2007 and 2013 is a testimony to be the amount of resources reserved for this goal in the European Regional Development Fund. It therefore appears that audits will more frequently become an integral and inevitable part of investment projects.

3. The goals and scope of the project audit

The project audit carried out for an institution managing the project can have a financial or operational goal, or both. The scope of the audit is determined by the institution managing the project and can concern one construction contract, many

contracts with the same supplier, the whole project or even the investment program. In the case of projects subsidized by the EU, the legal regulations of the European Community require that the member countries create an appropriate system of control, including conducting audits of the projects and programs. However, audits of privately funded projects can result from good internal practices of corporate supervision and are then examples of meeting the obligation to inform stock-holders and interested parties.

The financial audits focus on the assessment of financial reports and other assessments connected with finances. The scope of examining the financial reports includes accounting documentation in order to provide a rational assurance that the statements regarding the information presented in these reports are true.

Information presented in the financial report should, in accordance with accounting law, fulfil the following criteria:

- 1) completeness,
- 2) rights and obligations,
- 3) evaluation and measurements,
- 4) existence or occurrence,
- 5) presentation of report and disclosure [1].

One of the means of meeting the goals of financial audits, besides examining the reliability of the transaction, is an evaluation of accepted procedures of internal control in terms of financial reports and safeguarding assets.

However, operational audits can be conducted on the basis of evaluating the particular functions in the organization in terms of evaluating the effectiveness and savings of the planning process, utilization of the space, choosing the team and implementing procedures. The operational audit for the investment program will most often be a combination of a more thorough assessment of the expenses and whether the project adheres to the legal regulations and with the instructions of the investors. Furthermore, this audit can also refer to the assessment of the program management plan and the effectiveness of achieving its goals.

In this situation the auditor takes on the role of a consultant and the operational audit concludes with agreements, conclusions and recommendations in order for the client of the audit to make appropriate decisions. Some audits with a broader range can include the assessment of products and installed equipment in order to make certain that the details of an agreement have been met and the amounts on the invoices agree with those actually received. Such a task requires of the auditor to make use of the services of other auditors with engineering qualifications and with experience in assessing the adherence to technical specifications.

In accordance with the instructions of institutions managing the aid programs, the project audit is often defined as the scope of work needed to attain proof that would allow the auditor with satisfactory certainty to formulate a definite assessment, if the legal accounting books along with the accounting documents constituting the basis for adding entries to them and applications for payments based on those

accounting books as well as reports from the project development adhere in all significant aspects to the demands of the program and correctly, conscientiously and clearly present the financial situation as of the day the report of the above mentioned documents was issued.

However, investment project audits funded by the EU can, apart from financial matters, concern themselves with operational matters as well. Some of the goals of this audit are assessing:

1) the reliability of financial information provided by the beneficiary in the payment requests, periodical and final reports;

2) the reliability of information provided by the beneficiary in the periodical and final reports concerning the adherence of his actions with the EU policy (in terms of providing for public orders, environment protection, equal opportunities, social help, improving the safety and hygiene level at work, information and promotion);

3) the reliability of information provided by the beneficiary in the periodical and final reports concerning the work effectiveness and fulfilling goals as stipulated in the application and funding agreement;

4) the effectiveness and structure of the control procedures, which ensure adherence to the national and community regulations in the area of choosing contractors and ensuring the attainment of financial and practical goals of the project;

5) the proper use of the resources and effectiveness of actions taken to carry out the project.

The product of this project audit will be a report and opinion based upon the guidelines and for the purposes of the institution managing the given aid program. The uniqueness of these reports results from the fact that the recipient may not be familiar with the policies and procedures characteristic of that organization. As a result this report should be characterized by a more detailed description and recommendations than traditional audit reports.

4. Results of the audit

The results of the audit are observable immediately after the report from the audit is submitted and discussed. The change usually starts in the management or the project manager and the project promoter.

The reaction of the institutions managing aid programs to the conclusions of the audits, which describe the most dangerous and probable risks, is immediate and directed at regaining independent sums of money. In relation to other conclusions, the actions taken should be proportional to the level of risk and needed effort.

For the project promoter the audit should have a quantifiably positive effect on the system. No matter if the system is going to be understood as a project, the relation between management institution and the project promoter, or the values and methods practiced in a given organization. Experiences of foreign companies

have shown that the following results can be noticed after the recommendations had been implemented:

- more insistence that activities be carried out in accordance with existing policies and procedures,
- review of policies and procedures in order to include in them values important for the institution managing the aid program and current practices of managing projects,
- changes in the project management structure,
- more thorough control of activities,
- strengthening the control of projects,
- decreasing errors and incorrect payments,
- better communication between the owner, contractor and project team,
- paying more attention to preventive activities and early risk detection,
- more transparency of changes and trends,
- evolution of institutions managing the aid program, the project promoter and the project team towards a culture of constant development [2, pp. 22, 24].

Though it is often said that the auditor in every organization is the least welcome person, there is a significant change in attitude once the project team notices and accepts the fact that this unwelcome intrusion by the auditor has affected positive changes.

Subsequent audits are usually conducted faster and with less resistance from the project team, because of greater acceptance and the auditor's greater knowledge of the organization. Members of the team who have seen positive changes as a result of the audits are more likely to recommend an audit in other projects.

5. Conclusions

With investment projects there is always a financial risk for both the institution managing the aid program and for the project promoter. Every means of limiting this risk saves money. Although a project audit can contribute to a measurable reduction of costs for the institution managing the aid program by recovering mismanaged money and discovering errors, the financial value of internal control and the control of the project is not easy to calculate, if such calculations are even possible.

The main benefit the project promoter gets from an audit are good solutions in relation to the conclusions of the audit which can then be implemented. Strengthening the control activities and constant development increases the effectiveness and profitability during the course of the project. Therefore, audits are an essential element of control of an investment project, but should not only apply to financial matters but also to increasing the quality of the general internal control of the entity realizing the project.

References

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CELE I REZULTATY AUDYTU PROJEKTÓW INWESTYCYJNYCH FINANSOWANYCH Z UE

Streszczenie: Nowe regulacje prawne dotyczące zwiększenia nadzoru korporacyjnego w spółkach publicznych w Polsce oraz przepisy Unii Europejskiej określające zasady korzystania z funduszy pomocowych wskazują na potrzebę większej kontroli projektów inwestycyjnych. Niezbędnym elementem tej kontroli jest audyt projektu przeprowadzany przez niezależny podmiot. Cele, zakres i rezultaty tych audytów mogą się różnić w praktyce, ze względu na różne wytyczne instytucji zarządzających programami pomocowymi, różne oczekiwania sponsorów projektu i różne poziomy kompetencji zespołu audytu.