The European funds are committed to improving the economic and financial state of the eastern European countries. Therefore they have to be performing spent. The financial audit has an extremely important duty from this point of view. In Romania case there are some particularities which are, at the same time, the possible ways to improve the financial audit activity as well. The vital thing among them is to improve the independence of the financial audit and to take in account the necessary report between internal and external audit. A proposal is made here.

Keywords: financial audit, internal audit, external audit, the Authority of Audit, the European fund, Court of Accounts.

Paper JEL code: M42

The European funds as a lever for the economic growth of the European Union newly entered members

The enlargement process of The European Union needed to be well prepared from many points of view. Among them, those referring to the economic and financial aspects have been considered extremely important. Therefore, The European organisms have decided to give financial support, in order to improve their economic state, to the countries that ask for becoming members of The European Union. It is mainly the case of the eastern European countries that, in a huge majority, inherited a poor economic situation.

Romania, as a country that gained its freedom in 1989, expressed its will to become member of the European Union immediately after nineties. It lasted more than sixteen years and needed both financial support and a long period of exhausting efforts for negotiations. Starting with the January the 1st of 2007 Romania managed to meet the conditions and entered European Union as a fully-rights member. Since than a new European Union policy concerning the financial support has been applied.

There have been two kinds of supporting funds like that: pre-adhesion funds and post-adhesion funds. They actually have had a similar goal, mainly to help the country in restructuring the economic sector and in adopting the European rules concerning the economic and political organization, the rules that are called “the European acquis”. In this way the European funds have been used as a lever to improve the economic infrastructure and to bring a better performance in financial sector. Nevertheless the post-adhesion funds aimed at giving help differently from those of the former period.

The types of the European funds in Romania case and their objectives

The funds that Romania has received from The European Union came differently in type and goal before 2007 from since then. Thus, the former funds referring to the previous period of 2007 consisted in:

- Funds under the SAPARD program (The Special Pre-Adhesion Program for Agriculture and Rural Development) which is a financial support coming from the European Community (the European Counsel decision, number 1268/1999). It was given for the period of 2000 - 2006 in an amount of 153,000 thousand euro annually. The objective of the entire Program consists in:
- to set up a necessary frame for a performing agriculture implementation
- to take over the EU community acquis regarding the agricultural free market

Over the course of all these funds the Romanian government have had to contribute an overage of 25% from the sum of the funds. That is why the accessed funds have been, sometime, much less than that in right. According with the Agency for the Fishing and Rural Development Payment, at the end of 2008, only 84.05 % have been consumed from the entire amount of the allotted 1,521,450 thousand euros over the period of 2000-2006. Romania has not had the financial possibilities to access all of the funds because of its financial state. That means, however, that in this period, a 1,521,450 thousand euros was allotted for the Romanian economic growth despite the fact that only 1,278,740 thousand euros has been really paid.

- ISPA— Instrument for the Pre-Adhesion Structural Politics – a programme that began with January of 2000 as a result of the European Counsel decision, 1267/1999. Whit the allotted 2,783,864 thousand euros till December of 2008 the programme aimed at:
  - improving the internal standards of the environment so as they comply with those of the European Union
  - connecting the internal transportation webs with those of the Europe

- PHARE— Help for the Economic Reconstruction of Poland and Hungary – which brought to Romania, accordingly with the Finance Ministry report, at December of 2008, 1,187,955 thousand euros mainly for the purpose of:
  - developing of the democracy, human rights and minorities respect
  - achieving public administration and justice system reform
  - improving the over- border cooperation

On the other hand, the tools for the financial support delivery have been wealthy diversified and improved after the January of 2007. Thus, essentially one can identify the following instruments which are still working in order to provide European funds for the Romania’s economic, financial and social sectors:

- The European Agricultural Fund for Rural Development which provide money for developing all the agricultural activities and rural infrastructure.
- The European Fund for Agricultural Guaranty that is in charge with the stimulation of the agricultural products export accordingly with the European standards.
- The Structural and Cohesion Funds which are compounded from three accurate-purposed funds such as:
  - The European Fund for Regional Development for giving financial support to those regions that are less developed in fields such as: education and health system infrastructure and local economy
  - The Social European Fund that backs measures to fight against unemployment and for improving the quality of the life
  - The Cohesion Fund as a structural instrument to give money for improving the infrastructure and the environment for those countries that realize a GDP of less than 90% from the European average

All these funds have to be spent in accordance with their specific objectives and within a total compliance of the European Commission rules. Therefore, a requirement that was strongly asked even from the beginning of the adhesion negotiations referred to an effective control on the spending process of the both internal public money and especially for that coming from European Union. It is to watch over the regularity, reality and transparency of the money spending process.

To comply with such a demand Romania set up, since 2005, a new special organism in charge with the external financial audit on the European funds. This is called The Audit Authority and is working within The Romania Court of Accounts. Its organization and competences had to and should have to enable it to meet both the European Commission requirements concerning the
needed reasonable assurance on the legality and the performance of money spending process and, at the same time and not less important, the financial audit international standards.

**The Audit Authority as an independent organism on European funds external financial audit**

In order to audit all the European funds and to give a positive answer to European Commission demands concerning the external audit as a duty of any member of European Union Romania decided to set up The Audit Authority.

This is an independent organism inside The Romania Court of Accounts in charge with so-called external public audit on European funds both pre and post adhesion process. It is thought to work independently from The Court of Accounts and from any other institutions dealing with the European funds management. It is organized both at the central and regional level and actually belongs to The Romania Court of Accounts just administratively. All the professional rules and proceedings are similar with those of The European Court of Accounts and in accordance with the European Commission requirements.

According to its special law, The Audit Authority has a wide range of competences which are to make sure it successfully manages to be a real audit institution. By the law, they quite accurately are:

- to assess the conformity of the control and management systems for the European Programs internal institutions in charged
- verifications upon all the expenses statements of the entities in charge with the European funds management
- reports to European Commission concerning the irregularities found over the course of the money spending process
- control of the reality and legality of that part of money coming from national participation
- issues the so-called audit certificate upon the annual financial statements of those entities that use money
- follow-up regarding the recommendations issued at the end of the audit missions

The law states also that the Audit Authority is entitled to ask for documents and information to any entity which, in a way, may have a connection with the European funds.

It is committed to carrying different types of audit missions, such as:

- audit of conformity aiming at giving a reasonable assurance that the management and control systems work properly at any program level
- audit of system called to identify the strengths and weaknesses of the different systems involved in programmes application
- audit of the transactions having as objective to give reasonable assurances that financial statements which are sent to European Commission are accurately made up
- audit at the end of any programme with the goal of issuing the “closing declaration”

The most important thing defining The Audit Authority activity consists in being an independent audit institution and, as a result, its financial audit activity complies with the demands of international standards. The independence as an ethical principle is a real one and it is secured by the followings:

- it is an external audit and therefore it is alleged to have no material, moral, social or any other kind of connections with those audited. It is really possible to be avoided any interests conflicts as a result of its external statute. All the advantages of the external audit comparative with the internal audit, from this point of view, are possible
- being organized inside The Romania Court of Accounts, beside The Parliament, it is financed by the public money so that there is not possible any negotiation, concerning financial aspects between the auditors and those audited. More than that, it is not at all
possible any agreement, between those two parts, concerning the facts such as: whether or not to be audited, what is the period of time that has to be audited, which is the exact date the audit mission takes place, which is the cost of the audit. If such things do not intervene in the audit activity it surely is more independent, more trustful and more effective.

Taking in account the way of how the independence principle is enforced in both organization of The Audit Authority and in the performing process of audit (its competences) one may conclude that European funds have the right conditions to be audited. How the things are going practically? What might it be done to improve the activity of the entire audit on external funds so as to increase the performance in using them? Being still at its beginning, one could think of some methods, to make it more effective. On this purpose we have to look into The Audit Authority reported results and to compare them with the real expectations.

Conclusions and proposals
As we can see Romania made real progresses as far as the financial audit on the European funds are concerned both in its organization and in an effective exercising. Nevertheless, the European Commission and Romania as well are interested in a more effectiveness and not less important in enforcing all the principles regarding the financial audit so as they are issued and approved by the international professional organisms. In our opinion, toward both directions there are still reserves to be exploited so that the performance of the using process of the European funds to be improved. We refer to the principles of the Ethic Code and to International Standards of Audit.

The International Standards state that there is an important connection between internal and external audit. It is also known how important internal audit for a performing management is, as it is stated by the Corporate Governance Code. Professionally, each of those two forms of financial audit - external and internal audit - has their own functions and therefore, they have to work independently not rejecting of each other. From the management performance point of view, in any field, it is compulsory to organize and perform the internal audit in order to give assurances and advice to the management representatives that their goal will be accomplished. The internal audit is also responsible, in the International Standards vision, with the entire internal control of any entity.

The Authority of Audit is thought to work beside Court of Accounts as an external financial audit. It performs the functions of an external audit and, as we put down, it has a more independence than any other types of audit. As we could see the main goal of an external audit consists in giving assurances that the money are legally or properly spent. In case of the European funds, the purpose of the external audit is mainly to certify that the rules of the European Commission regarding the spending process of money are applied. In this situation the external audit of the European funds appears as a certification organism.

Taking in account the specificity of the internal audit and the connection between it and the external audit it appears that it is also a real need for an internal audit concerning the European funds. The main purpose of any internal audit, accordingly with the international standards, is to give assurances and advice for management so that it accomplishes its goal.

In case of the Romania financial audit on the funds coming from the European Union there is only an external audit exercised by the Authority of Audit. Despite the fact that it is well organized and effectively performed it can not carry out the functions of the internal audit.

There are many governmental agencies which deal with the European funds. In many cases the Government is in charge with the responsibilities of accessing European funds and with their spending. Therefore it is necessary the Government to organize and exercise its own audit which would be an internal audit. Its main goal would be to help governmental agencies management to improve their internal control system so that to be able to prevent the irregularities in spending process of the European funds. As usually the internal audit would give advice to management
system in improving the internal control in order to cover all the risks concerning external funds matter.
As it is obvious enough by studying the last report of the Court of Accounts, referring to the European funds spent during the 2008, there are many and diversified irregularities the external auditors found. It is too late such mistakes to be discovered only after a year or more as it occurs in case of the Authority of Audit. If an internal audit, inside the Government, had been organized it would have been able to contribute to an effective internal control at the agencies level so that many if not all of the irregularities to be previously stopped.
Our proposal from this point of view goes to one of the following variants: either to set up a new financial audit inside the Government having the functions of the internal audit or passing the Authority of Audit from Court of Accounts to the Government changing at the same time its actual functions of the external audit into those of an internal audit. The external financial audit would be exercised, in this last case, by the Court of Accounts itself. It would not be need for any change of the Court of Accounts law because it states such competencies being, from this point of view, in accordance with other such institutions from Europe. It is not less important to notice that in this case a certain superposition of competencies of those two institutions (Court of Accounts and Authority of Audit) concerning the European funds audit would disappear.
The more accuracy the better effectiveness of the financial audit activity.

Bibliography:
1. www.ifac.org
2. www.intosai.org
3. www.rcc.reports.ro
4. www.eca.org