

Antifraud Controls in European Projects

Ioana JELER (POPA)

Faculty of Science, "1 Decembrie 1918" University, Alba Iulia, E-mail: ioanapopa2010@yahoo.com

Abstract *The objective of this article is to highlight the importance of internal control and anti-fraud control in institutions that implements and manages European funds. Internal control has a determining role within organizations and in particular in the framework of the European project as an effective internal control exercise leads to the prevention of irregularities and fraud. The complexity of the activities of European organisations and projects necessary to exercise internal control which has beneficial effects including the national economy from the perspective of reducing or even eliminating tax evasion.*

Key words Internal control, fraud, irregularity, European projects

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1. Introduction

The activities of internal control and anti-fraud controls have seen lately an appreciation and recognition increasingly higher, and even if these are getting highly publicized, experience has shown that not all those who are involved in the work of management and control know the true meaning of these.

This expansion lead to the need to increase the number of specialists of this kind, the knowledge by them very well to the legislation in force. Complex economic environment facing managers in the management of key entities determines the indispensable character of an internal control service/fraud.

As custom domain studied, we approached the internal control/antifraud and how are these implements in the institutions which managing European funds.

Eliminating gaps studied by ignorance domain managers through the necessary clarifications in the conceptual approach and practical application of the work reviewed was another reason for choosing this research theme. The current complex issues and internal control/fraud in EU funded projects need to be investigated for a useful extension and deepening, in the context of EU requirements, deepening scientific literature and in practice successful implementation of these funds so useful to our country.

This approach will materialize in presenting scientific literature, the legislation in force in internal control/anti-fraud through new conceptual approaches, in terms of structural elements and patterns of development and implementation of internal control, risk management, responses to risk control strategies etc.

2. Literature review

We took into consideration the fact that a sufficiently comprehensive definition of the notion of "irregularity" was given by Council Regulation (EC) No. 1083/2006, and taken into national legislation within OG 79/2003: "any deviation from the legality, regularity and conformity with the national and/or community laws, and the provisions of contracts or other legal commitments entered into under those provisions detrimental to the general budget of the European Community and/or budgets managed by it, or in her nameas well as the budgets for co-financing budgets coming through undue expense."

Irregularities can be classified into irregularities intentional (fraud) or unintentional.

International Auditing Standards define fraud: "Fraud is an intentional action undertaken by one or more persons from among the senior management of an organization, those charged with governance, employees or third parties, which involve the use of cheating in order to obtain an unfair advantage or unlawful".

Fraud, according to GO 79/2003 is defined as "any intentional act or omission in connection with the acquisition, use or management of Community funds from the general budget of the European Communities or budgets managed by them or on their behalf, and / or co-financing budgets, criminalized by the Penal Code Law. 78/2000 for preventing, discovering and sanctioning corruption, as amended and supplemented, or other special laws. "

Fraud of non-reimbursable funds shall mean an offense against the financial interests of the European Union, and the manner of proving this fact are often difficult. In this respect, has been set up in the year 2007 a specific structure to detect and research into this type of infringement, Department for Fighting Fraud in direct coordination of the Prime Minister.

The Association Experts authorised in investigating frauds (ACFE) denoting types of fraud may face an organization as follows:

- „1. Intentional manipulation of financial statements (for example, incorrect reporting of revenue)
2. Any type of diversion of goods tangible or intangible (for example, refunds fraudulent expenditure)
3. Corruption (for example, bribery, handling procedures for invitation to tender , misreporting conflicts of interests, embezzlement of funds) ." (Risk of fraud in the business - Practical guide, The Institute Internal Auditors, US Institute of Authorized public Accountants and the Association Experts Authorised in Investigating Frauds), 2008.

At the national level, the Department for Fighting Fraud - DLAF is the institution of contact with European Anti-fraud Office, OLAF of the European Commission and is coordinating the fight against fraud.

Systems of internal control deficiencies can generate an opportunity to commit fraud (presumed probability that the fraud will not be detected is an essential consideration for the author of fraud).

In the vision IFAC (International Federation of Accountants), internal control is defined as follows: "The process designed and put in place by those charged with a governance, management and other employees in order to provide a reasonable assurance of achieving the objectives entity ..." (CAFR, 2006, p. 379)

INTOSAI defines internal control as: "a management tool used to provide a reasonable assurance that the objectives of management are fulfilled" (Order no. 946.2005, www.intosai.org, 02.06.2014).

In the paper "Financial Audit" (Jinga, 2009), internal control is defined as "methodology to achieve auditing procedures", and all the terms of the audit, another paper, "The Audit Process: Principles, Practice and Cases "(Gray and Mason, 2008) defines the notion of internal control as" the process implemented by management to ensure that objectives are achieved". So, we believe that a system of internal control that works, leads to the objectives and planned results and expected by management of the entity.

In order to harmonize with EU directives, national legislation deals with internal control as a necessary element in the proper functioning of an entity that aims to provide some accounting information, financial and management information to accurately reflect the activity and situation (Order no. 3055, 2009).

Internal control includes: internal administrative control, control each other, self-control, financial control-preventive arrest, internal accounting control, commissions for the enumeration and other committees, internal audit etc. (Oprean, 2002). In a different approach, it is shown that the system of internal control includes several controls, namely: self-control; control hierarchically; mutual control; control partenerial; quality control (CTC); preventive financial control; patrimony inventory; accounting control; financial control; inspections (Morariu *et al.*, 2008).

In particular, within the institutions which manages European funds, in addition to all other forms of internal control (internal control, the preventive control, identification and risk management, as well as the exercise of the activity of internal audit) shall be noted and the existence antifraud control organized as team/department/service antifraud control..

Main objectives in the control of Community funds are: ensuring the correctness, legality and regularity of expenditure carried out and declared in the operations financed from public funds Community and national, as well as the application of correction, and appropriate corrective action, in the situations detection of errors or irregularities in the management of public funds, in order to ensure protection of the financial interests of public international donor and of the Member State (Development Strategy Internal Public Financial Control in Romania for the period 2014-2016, 2004,MFP, January 2014).

Finding work and establishing claims irregularities budget/financial corrections made by competent authorities in the management of EU funds, the structures/teams organized under their control.

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3. Methodology of research

This article combines qualitative with quantitative research. As chosen approach to an approach from general to specific, from a theoretical presentation of the current state of knowledge and finishing with a case study based on the analysis and interpretation of data. As a main research technique used method of literature review, documentation in the relevant literature, the study of works of art, various books, articles, legislation.

In order to capture the interactions between the various elements and to obtain information on the topic being resorted to using the case study, analysis and interpretation of data. So in the first phase was done to identify the 150 beneficiaries of projects financed from European funds. In order to identify these were found websites containing lists of beneficiaries and the projects that www.fonduri-structurale.ro, www.fseromania.ro. Their selection was made adjustable used two criteria: the value of projects managed and the experience in implementation of the projects. In order to determine the experience of these 150 beneficiaries were consulted websites of organizations (NGO), beneficiaries of the projects. Afterwards we proceeded to transmit the questionnaire to 150 beneficiaries of which responded only 85 beneficiaries. After analyzing responses to questionnaires sent to the group, proceeded to group beneficiaries in two categories: beneficiaries registered irregularities/frauds and beneficiaries not registered irregularities/fraud. In the next stage occurred analysis and interpretation of each question included in the questionnaire and formulated a series of recommendations and conclusions.

Research hypotheses which we intend to check consist in:

H1: in institutions where there are internal control and there is exercised is less irregularity/fraud;

H2: in institutions where there aren't internal control and there is no exercise internal control are many irregularities/frauds.

4. Particularities on the effects of internal control over the appearance of irregularities/fraud

4.1. Internal control in the institutions that manage European funds

Institutions managing funds are organized in such a way that they have organizational structure of the internal control (internal control, preventive control, identification and risk management, and internal audit of the activity) and anti-fraud controls organized within them form teams/department/service antifraud control.

Internal control should be organized in such a way as to ensure that they are complied with certain rules have to be followed:

-adequate organization of each entities, for this purpose it is necessary to have a organization charts and procedures to define clearly their responsibilities, tasks, the method of transmission of information between the different persons within the institution;

-internal control procedures should be clear, but shall also be capable of being secured adaptation to internal and external changes which have occurred;

-internal control procedures shall include procedures for self-checking designed to discover irregularities/fraud;

-information obtained as a result of the application of internal control procedures must meet two qualities: to be verifiable and to be useful;

-internal control procedures should be applied at all times, to address all personnel;

-internal control must be carried out by qualified personnel.

Personnel involved in internal control have recruited on the basis of professional competence, continuing his training is recommended. Persons performing internal control must be motivated by remuneration and professional goals fixation.

4.2. Internal control within the institutions that implement European funds

The beneficiary of a project financed by EU funds must ensure that project management and implementation are in accordance with the provisions of the contract, the Community and national legislation and with maximum professionalism, efficiency, and in accordance with the best practices in the field.

Community Regulations provide for general principles of good practice in setting up a system of internal control, to ensure the prevention and detection irregularities:

-The system must be defined by rules and procedures formalized that establish clear tasks and responsibilities for employees;

- Principles of segregation of functions must be respected;

- The Internal control should include: internal audit, the accounting system and financial reporting organized in accordance with standards in the field, the four eyes principle (making an activity and its correctness is taken by two separate people);

- The project team must be composed of appropriate staff structure, experience and training;

- Procurement procedures must comply with national and European legal requirements;

- An archive of documents, adequate space for easy archiving of documents etc.

Control activities are the policies and procedures established to address risks to achieve the objectives of the institution.

Internal Control, no matter how it is conceived and functions have certain inherent limitations. This is due to internal and external factors which have not been and could not be taken into consideration when designing internal control, such as: human errors (negligence, inattention, misinterpretation, errors of judgment), independence limited in the exercise of their duties in service, the control procedures developed are not adapted, or are not properly applied, abuse of authority expressed by some people in charge of leading, coordination or supervision.

In accordance with development strategy internal public financial control in Romania, for the period 2010-2013, drawn up by the Ministry of Public Finance, the types of internal public financial control are the following:

-Internal public audit, activity coordinated by the Ministry of Public Finance. Structures are required independent internal audits organized in every public institution.

-Preventive financial checks, which was coordinated by the Ministry of Public Finance, organized in the form their own preventive financial control (CFPP) and preventive financial control delegate (CFPD).

-Systems of financial management and control (SMFC), which provides entity management tools for the monitoring and control on the performance to provide an adequate framework for the duties of each employee in his own institution.

-Internal control of basic public entities, contains the sum of all internal control breakdown into that can operate within an organization.

Evaluation of the activities of internal control and internal audit shall be carried out in investigations by external auditors of the Court of Accounts, which shall identify the deficiencies of internal control systems of public institutions and to make recommendations to improve it.

4.3. Case study

In view of that analysis of the internal control affect the appearance and frequency irregularities/fraud, we have made a questionnaire which includes four specific questions. Questions included in the questionnaire as well as answers are centralized in table no. 1.

The questionnaire was directed to 150 persons with decision-making positions in the projects implemented within the framework of a region on an operational program, legal representative/manager of project. Of the 150 potential respondents among the 150 projects, 85 people were receptive to the questionnaire, i.e. approximately 56% of the total of 100 %. This results in the final sample is composed of

85 respondents coming from the 85 projects in implementation, which represents 56% of the total 150 projects surveyed at regional level. In the agreements, 35 projects have been irregularities/fraud in the implementation project.

Table no. 1. Centralization questionnaire responses

Questions	Answers			
	Beneficiaries who have recorded irregularities/fraud in project		Beneficiaries who have not recorded irregularities/fraud in project	
	Yes	No	Yes	No
1. Considered useful existing internal control system within your institution?	25	10	43	7
2. Within your institution's procedures are formalized?	20	15	48	2
3. Staffing is adequate to structure, experience and training?	34	1	49	1
4. Under the project implemented by your, procurement procedures are tailored to the requirements for national and European laws?	15	20	47	3

Source: the projection of the author

4.4. Interpretation of the results obtained

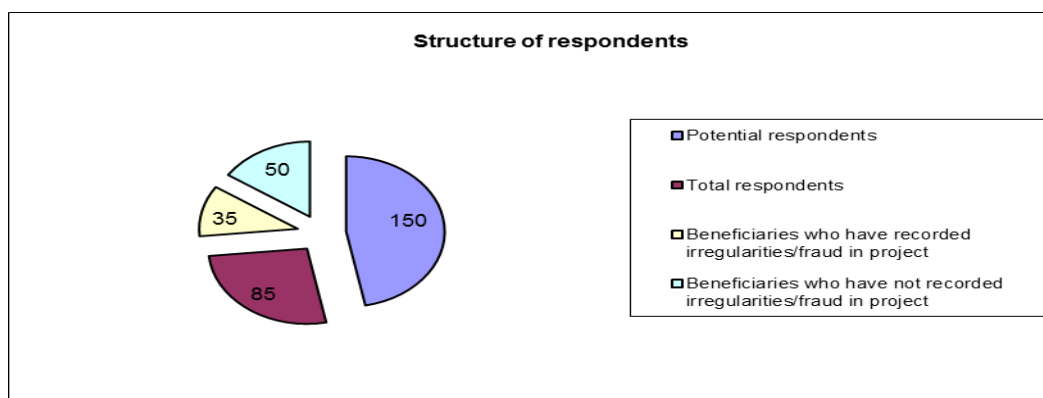
Projects analyzed (those in which they have received an answer) have been placed into two categories, namely:

- projects which have recorded irregularities/fraud in the implementation project;
- projects which have not recorded irregularities/fraud in the implementation project.

Of the total of 85 people with decision-making positions within the framework of projects that have provided answers, 35 have recorded irregularities/fraud in the implementation of project and 50 have not recorded irregularities/fraud in the implementation project.

This situation is highlighted in the chart no. 1. There is a low concern for beneficiaries in providing answers on identifying deficiencies that led to the recording of irregularities/fraud.

Chart no. 1. Structure of respondents

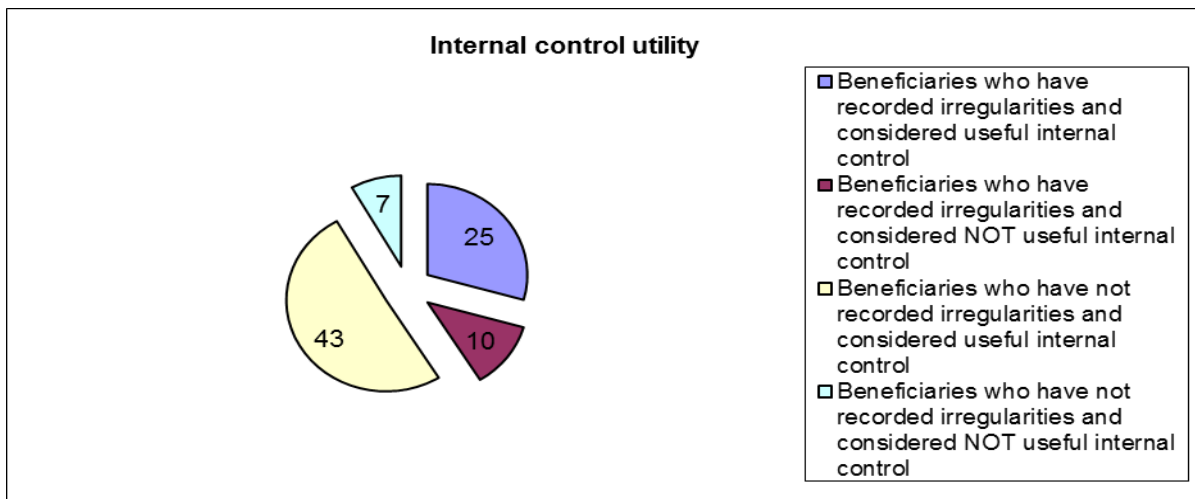


Source: the projection of the author

With respect to the answers given to the first question, it appears that most of the respondents felt that the useful existence of internal control within the institution they represent. This situation is evidenced both in terms of the 35 respondents who have recorded irregularities/frauds, 25 of them considered important internal control within the institution, that is 71% of the total, while 10 respondents or 29% of the total not share that opinion. The same notice are within the 50 respondents who had not registered

cases of irregularity/fraud - 43 of them considered important internal control within the institution, that is 86% of the total, while seven respondents and 14% of the total do not share such opinion. The share in the course of 85 respondents of those who considered useful internal control within the institution is distributed as follows: 51% of the people who have recorded irregularities/fraud, and 25% of the people who do not have recorded irregularities/fraud, and those who do not consider it useful internal control 12% of the people who have recorded irregularities/fraud, and 8% of the people who do not have recorded irregularities/fraud. This situation is highlighted in the chart no. 2.

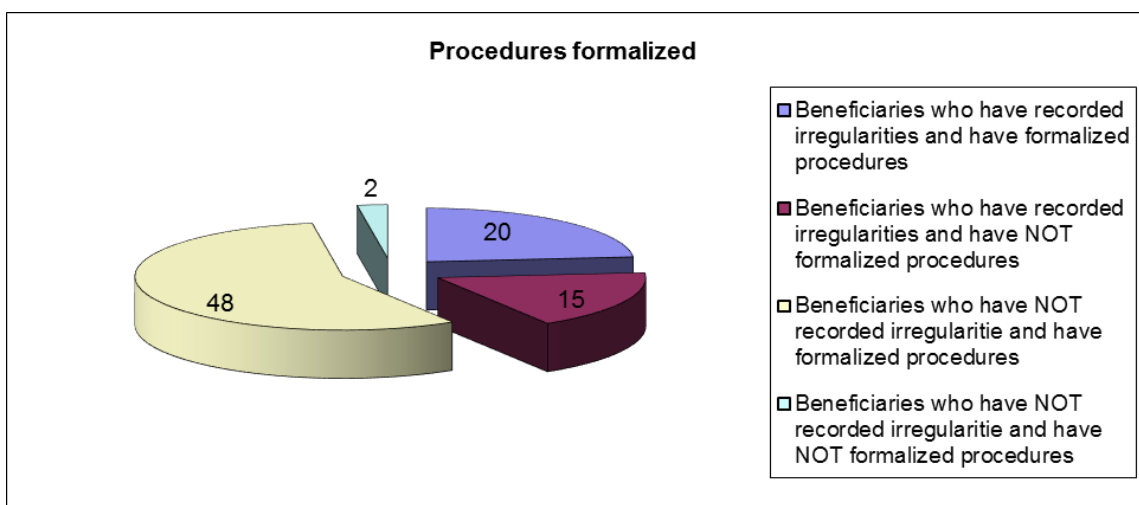
Chart no. 2. Internal control utility



Source: the projection of the author

Regarding the answers provided to the second question, 80% of respondents have formalized procedures in the project implemented, while 20% do not have these procedures. These responses are detailed in chart 3. It is found that there is a relationship of interdependence between existing formalized procedures and irregularities/frauds identified in the project. So 48 of the beneficiaries (96%) who did not have irregularities have formalized procedures, while in the registered beneficiaries who have recorded irregularities/fraud only 57% have formalized procedures.

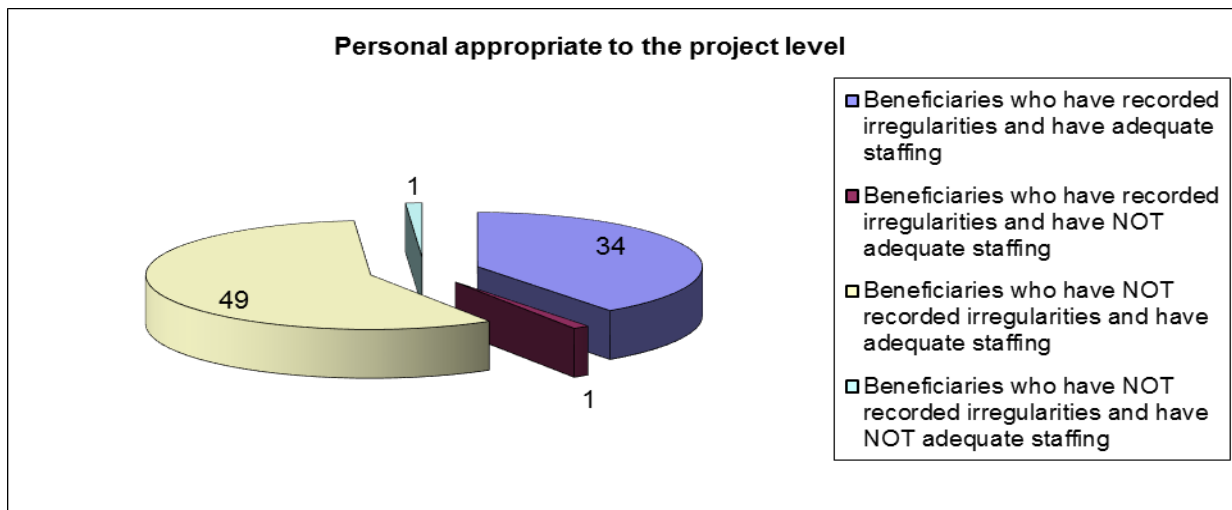
Chart no. 3. Procedures formalized



Source: the projection of the author

The answers to the third question can be summarized as follows: 98% of the beneficiaries have adequate staffing structure, experience and training, and 2% do not meet this requirement. This situation is shown in the chart no. 4. Although most of the beneficiaries were qualified (including internal control responsibilities, auditing outsourced)) which should normally lead to minimize the occurrence of irregularities and fraud phenomenon still occurs as part significant (41%) of the 85 projects contain irregularities. This emphasizes the fact that the existence of qualified personnel is not a sufficient condition to prevent irregularities and fraud, that goal should be read in conjunction with the existence and application of procedures formalized which comply with the national and european legal requirements.

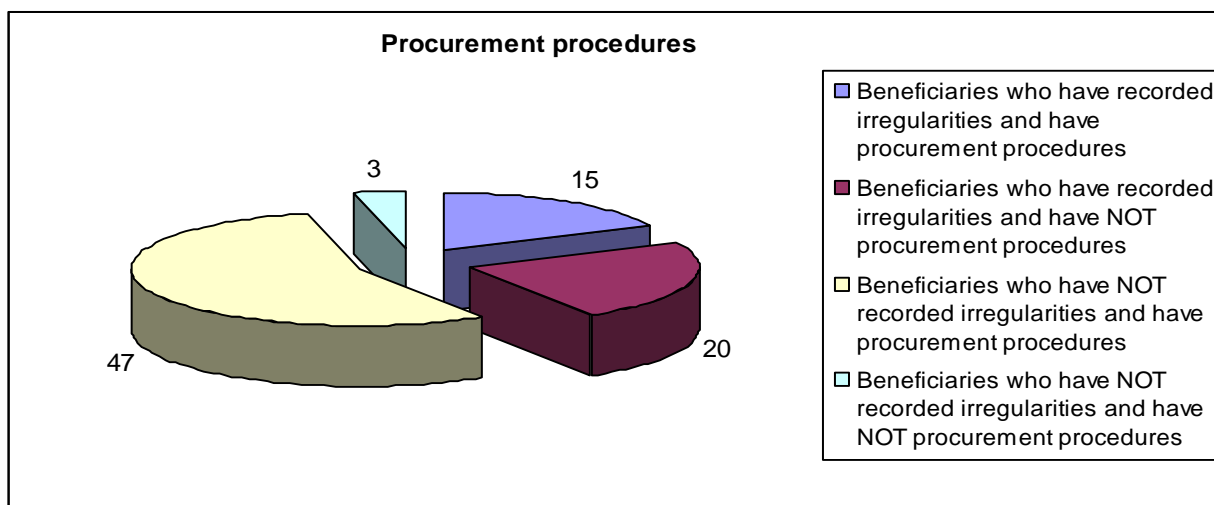
Chart no. 4. Personal appropriate to the project level



Source: the projection of the author

Regarding responses to the fourth question, the following conclusions: 79% of them have procurement procedures tailored to the requirements for national and European laws, and 21% of them don't procurement procedures tailored to the requirements for national and European laws. This situation is shown in the chart. no. 5. It is noted that the number of beneficiaries who have procurement procedures is more significant in the projects may not have irregularities, while in projects which have recorded irregularities the situation is opposite.

Chart no 5. Procurement procedures



Source: the projection of the author

5. Conclusions

Studying the responses received from the 85 respondents, we can draw the following conclusions: the existence of the internal control system implemented in the project, the existing internal procedures, appropriate staff structure, experience and training as required by the job description, purchasing procedures adapted to national legal and European requirements, properly applied, lead to reduction the number of frauds/irregularities in the projects implemented. Their existence and functioning within the organization must be followed by management entity to avoid any irregularities/fraud.

Based on the information/studies/analysis presented above proves to be true research hypothesis no. 1 in accordance with the institutions that exist and exercise internal control there are fewer irregularities/fraud. To avoid irregularities and even fraud is necessary that at the level of each organization, project to act cumulatively a set of essential factors, some of them being highlight by a study.

We appreciate that it is important to focus not only for the existence of the control systems but also to prevent irregularities and fraud by implementing a set of measures aimed at: implementation of the control system, the existence of a qualified personnel, the existence and deployment of standardized procedures in accordance with national and european regulations, compliance with procurement procedures. An important role to play in failure to comply with the strict rules of law for the prevention and fight against fraud has ever-changing legislation, ambiguous and very wide. In general the phenomenon of corruption is a serious concern, which must be eradicated, no matter whether it is about the corruption high or low. This plague affects life of every citizen, the institutions, the companies involved, as the economy in general.

In the case of the EU funds for Romania's development, the need for access and, in particular, of their absorption, a particular emphasis is put on by the European Union, on the side of irregularity, fraud, conflicts of interests and incompatibilities in the context of projects financed by European funds. These aspects are of interest for local and central public authorities receiving European funds, for control bodies, auditors and competent authorities who manage these funds. Procurement made in EU funded projects remain a constant sore spot, both through their particular importance in the implementation of projects and as a result of numerous legislative changes in the field. A knowledge and application of legal norms in the field can help to avoid major financial corrections applied in the European project because procurement error. All those involved in the implementation and management of EU funds must be good knowledge of analysis and interpretation of legal norms, situations covered by this phenomenon, or require the person authorized in this field consultants, should take optimum measures to prevent and against irregularities/ fraud.

In our opinion prevent irregularities is the basis from which should turn on in the fight against fraud. By knowing the legislative provisions in this area by all all the factors involved - beneficiaries of European funds, auditors and financial institutions that monitors their implementation - can be prevented irregularities and fraud. This would lead to a reduction of the financial corrections by making good quality tender documentation and thus increase the absorption of EU funds. In terms of future research, we consider important to note that this research is the starting point in achieving a major research nationally and in several EU Operational Programmes. So it is intended to achieve a comparative study with reference at macro-economic level with reference to interplay between internal control and fraud prevention within European projects. If the study is conducted within an operational program, the future study wants to achieve in all existing operational programs in Romania and maybe a comparison between program period 2007-2013 and program period 2014-2020.

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