

# THE ACCOUNTANT'S ROLE IN PROJECTS ACCESSED FROM EUROPEAN FUNDS

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**Abstract:** *Financing from European funds is done to reduce the economic disparities between member states and different regions within them. Beneficiaries of funding funds for various projects are obliged to comply with requirements and rules imposed by funding guides and other official documents. The work presents the context and motivation of European funds for Romania, the mechanism for obtaining financing by European funds and the accountant's role in these projects.*

**Keywords:** *project, European funds, mechanism for obtaining financing, accountant role*

**JEL Classification:** *M49*

## 1. Introduction

Following the agreement of the European Parliament on 16 December 2020, the Council of the EU adopted on 17 December 2020 the regulation on the new Multiannual Financial Framework (MFF) 2021-2027 and the economic recovery package Next Generation EU (NGEU) (<https://www.fonduri-structurale.ro/2021-2027>).

Cohesion policy continues investments in all regions, based on 3 categories (less developed, in transition, more developed). The method of allocating funds is still largely based on GDP per capita (Europa.eu (2022)). New criteria are introduced (youth unemployment, low level of education, climate change and the reception and integration of migrants)

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to better reflect the reality on the ground. The outermost regions will continue to benefit from special support from the EU. Cohesion policy continues to support locally-led development strategies and to empower the management of funds by local authorities.

For a programmed sum of 1074.3 billion euros, in the period 2021-2027, the policy objectives of the EU include (Europa.eu, 2022):

- Smarter Europe, through innovation, digitalisation, economic transformation and supporting small and medium-sized enterprises
- Greener, carbon-free Europe, implementation of the Paris Agreement and investment in the energy transition, renewable energy and combating climate change
- Connected Europe with strategic transport and digital networks
- A more social Europe, for achieving the European pillar of social rights and supporting the quality of jobs, education, skills, social inclusion and equal access to the health system
- Europe closer to its citizens by supporting locally-led development strategies and sustainable urban development in the EU.

EU12 presents cumulative participation in the research framework programs far below Western Europe; the productivity of EU12 research staff, measured by the ability to attract European funds, has increased significantly, but there are large gaps between the countries analysed; Romania has seen an improvement in the participation in the two European programs, but remains on the last place in terms of EU contribution per inhabitant (Dudian et al., 2020).

There are features for planning and managing costs and resources, both human and non-human (Schwartz, 2022a).

The accounting of projects financed with European funds is a necessity, all operations performed must be reflected in the accounting record of both the beneficiary and its partners, being supported by supporting documents.

In this field, maximum transparency is needed to avoid fraud. Each application is verified by the financier, even after implementation,

including by the Audit Authority and the European Commission, in order to verify the eligibility of the expenses.

All operations carried out for the implementation financed with European funds must be reflected in the accounting record of the beneficiary, but also of its partners, and be supported by supporting documents.

In the case of non-reimbursable financing, both the supporting documents and the accounting records of the projects financed from European funds must be kept for a period of five years from the official closure of the non-reimbursable financing program (contabuc.ro).

Project accounting works by creating a detailed plan of project costs and managing them throughout project execution to ensure you stick to budget. This is done by monitoring project costs and tracking the variance between planned and actual costs. Documentation is required to record project costs that are incurred during the project. To create value, a firm must invest in projects that provide a return greater than the cost of capital (Doval, 2018). Tracking the project's actual expenses and revenues helps to compare the realized costs with the planned and approved ones.

Project accounting includes documenting the date legal agreements are signed with a client, tracking revenue from sales contracts, and identifying the costs associated with each stage of the project. In short, project accounting tracks money from project plan to execution, with detailed documentation and adjustments to help you stick to your budget. (Schwartz, 2022b).

## **2. The context and motivation of European funds for Romania**

In the period 2021-2027, Romania has five investment priorities:

- A smarter Europe, through innovation, digitalisation, economic transformation and supporting small and medium-sized enterprises;
- A greener, carbon-free Europe, implementing the Paris Agreement and investing in the energy transition, renewable energy and combating climate change;

- A connected Europe, with strategic transport and digital networks;
- A more social Europe, to achieve the European pillar of social rights and support the quality of jobs, education, skills, social inclusion and equal access to the health system;
- A more Europe close to its citizens by supporting locally-led development strategies and sustainable urban development in the EU.

In this sense, companies and entrepreneurs (called beneficiaries of financial funds) can choose according to their needs among the available operational programs. Within them, there are priority axes and specific objectives, which, in turn, include programs, priorities, actions and appeals (Filip, 2023).

The institutional framework includes: Ministry of Investments and European Projects (MIPE); Management Authority (MA); Intermediate Bodies (OI); Certification Authority (AC); Audit Authority (AA). From a legal point of view, applicable European legal norms and applicable national legal norms are made available, as well as General Guidelines, the Beneficiary's Manual and specific Guidelines.

The mechanism for obtaining financing consists succinctly of a series of stages: Substantiation; Evaluation and selection and, Implementation (fig. 1).

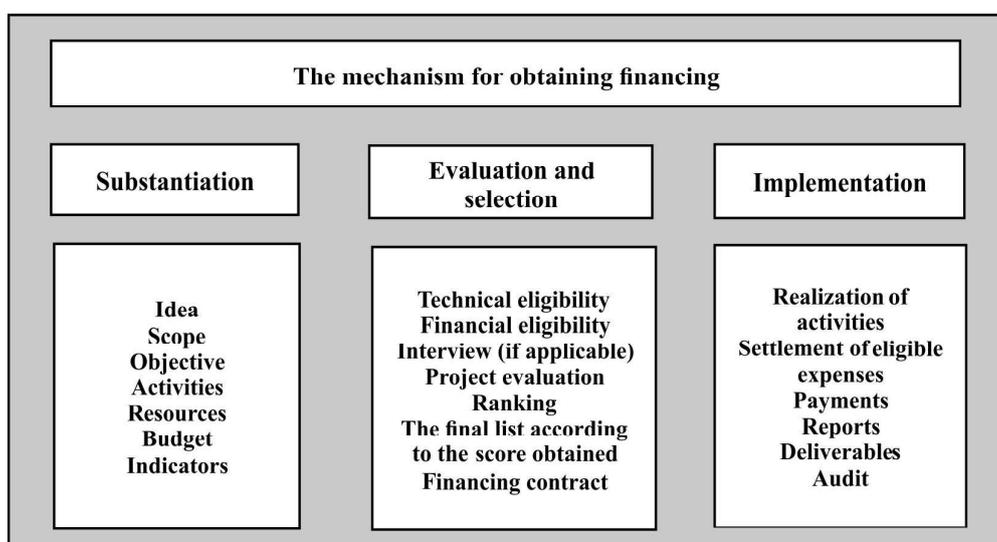


Figure 1. The mechanism for obtaining financing

Source: inspired from Filip, 2023

### 3. Substantiation

Projects are perceived as goal-oriented activities with planned and controlled scope, timing, resources and cost. The process starts with the idea, continues with the purpose of the project and the definition of objectives, activities and the need for financial resources.

- The first step is the clarification of the project concept, i.e. the emergence of the idea, the purpose of the project, the materialization of the need that generated the emergence of the project.
- Ideas come from various sources: market research, noticing a problem that may have a solution, or simply looking at old things and noticing something new that is worth the effort of a project to improve. Projects usually start from the need to produce change.
- Objectives must follow a few rules: be simple, be easy to understand by others, be concise.
- The purpose of the project must delineate what happens in this project, how the objectives are achieved. The purpose must be clear, so that it is understood what activities will take place in the project.
- The activities are clearly described and staged. For this purpose, the activity chart. Gantt chart for example, is very useful and most of the time, even required.
- The identification of the resources necessary to carry out each activity based on the costs of each resource is embodied in a project budget. Among the expenses generated within the project can be: salaries of human resources, consumables and equipment, transport services, rents, advertising, etc.
- Outcome indicators: Each project must have established indicators that must ensure the convergence of the project implementation effort. Indicators show both the quality and the direction of the project, i.e. whether and to what extent the project responds to a need or problem. The degree to which the indicators are met is the degree of success of the project. It largely depends on how all the stages and activities of the project are planned and how they are implemented.

The different categories of indicators corresponding to a project have different weights in the calculation of the overall degree of fulfilment at the project level.

#### **4. Evaluation and selection**

In this stage, the projects are evaluated for the purpose of the financing decision (Filip, 2013).

The first step in this stage is the technical eligibility of the project, in the sense that the future beneficiary fulfils the conditions for participating in the project competition.

The next step refers to financial eligibility. It is checked how the activities proposed in the project are correlated with the budget and the Gantt chart developed, as well as with the deliverables proposed to be achieved.

In some situations, an interview is requested in which the future beneficiary supports his project with arguments.

After the evaluation, each project gets a score and the products are ranked according to the score obtained. If the evaluated project has obtained a sufficient score to be in agreement with the amount intended for all the projects within the axis, it will go on to contract the requested amount.

#### **5. Implementation**

The implementation of the project consists in carrying out the tasks assumed by the project and the concluded financing contract. The most important aspects in the implementation of the projects are the eligibility of the incurred expenses and ensuring the reasonableness of the costs (Filip, 2023).

##### ***A. Eligibility of incurred expenses***

To be eligible, an expense must cumulatively meet the following general conditions:

- to comply with the legal provisions;
- to be accompanied by invoices issued in accordance with the provisions of the Fiscal Code;
- to be accompanied by supporting documents regarding the payment and the reality of the expenses incurred, on the basis of which the expenses can be verified/controlled/audited;
- to be in accordance with the provisions of the program;
- to be in accordance with the provisions of the contract/financing decision;
- be reasonable and necessary to carry out the operation;
- to comply with the provisions of the European Union legislation and applicable national legislation;
- to be registered in the beneficiary's accounting.

In addition to the general conditions, an expense is eligible if it was made:

- for operations established as eligible, according to the announced conditions;
- for operations implemented in the area targeted by the Program (in the eligible regions);
- for an eligible target group.

The method of settlement of the expenses incurred within the framework of some financed projects can take the form of real costs or simplified options in terms of costs.

Settlement on the basis of real costs is carried out *on the basis of real costs*, in which case a justification must be presented for these expenses in the financing application, and when reporting, in support of the eligibility of the expenses incurred for the implementation of the project, the beneficiaries will submit supporting supporting documents (state of payment, invoices, etc.).

*Simplified cost options.* For some project calls, the use of one or more simplified options regarding costs may be established, options

mentioned in the EU Regulation. Types of simplified options used are: unit costs, flat rate financing or non-cost financing.

The expenses can be direct and indirect. Expenses that can be attributed to a certain individual activity within the project and for which the direct link with the activity in question is demonstrated are direct eligible expenses. The expenses incurred for the overall operation of the project and cannot be directly attributed to a specific activity are indirect expenses.

Types of expenses that fall into the category of *direct expenses* (without being limited to these) are:

- Personnel expenses (including project management: project manager, financial manager, public procurement manager, assistant manager, if applicable);
- Travel expenses;
- Expenses for the development of project activities (eg: consumables, supplies, inventory items, licenses, etc.);
- Expenses for the purchase of equipment;
- Rental and leasing expenses;
- Subsidies granted to the target group;
- Other expenses necessary for the implementation of the project defined in the Applicant's Guidelines;

The erroneous classification (reporting) of direct expenses leads to the non-authorization of the respective expenses.

Types of expenses that fall into the category of *indirect expenses* (without being limited to these) are:

- General administration expenses (eg: utilities, security, cleaning, etc.);
- Telephony and courier;
- Support expenses for project management (eg: legal advisor, auxiliary and administrative staff, consumables and supplies, etc.);
- Financial expenses (taxes, bank commissions);

- Other expenses necessary for the running of the project from an administrative-financial point of view: expenses for accounting expertise, expenses for information and publicity related to the project.

Indirect costs are calculated as a flat rate of a maximum of 15% of eligible direct staff costs, per project. The settlement of indirect expenses based on this mechanism will be carried out by applying, within each reimbursement request, the flat rate applied to the direct personnel costs validated as eligible in the respective request. The amount collected based on the flat rate will be adjusted proportionally if the value of the cost category to which it was applied has changed.

Another important aspect is that the settlement of personnel expenses should be done taking into account the following general rules:

- The settlement of salary expenses will be determined based on the equivalent hourly remuneration, taking as a reference point the 8-hour working day and an average of 21 working days per month
- The maximum time limit that can be settled per expert must fall within the maximum limit of 12 hours/day, 60 hours/week, representing hours worked both in projects financed from structural funds, as well as the basic norm or other employment contracts outside the projects, established by the concluded employment contracts
- Maximum levels of staff remuneration depend on the position occupied in the project (experts, manager/coordinator partner, indirect staff, administrative staff) and on the specific professional experience (< 5 years, 5-10 years, > 10 years). The maximum settlement ceilings represent the net salary (without employee and employer contributions). Employee and employer taxes and contributions are eligible expenses, but are not included in the maximum reference ceilings.

Aspects that must be respected in order to ensure the eligibility of personnel expenses are the following:

- Establishing the specific professional experience according to the CV and supporting documents.
- The correct preparation of personnel documents (contracts, job description, etc.) and their correlation with the financing request (including budget annexes). Examples: the job description must contain the expert's duties that were mentioned in the funding request; when drawing up the job descriptions, the avoidance of the overlapping of duties must be taken into account; employment contracts must show either the number of working hours per day (equal number of working hours per day) or the number of working hours per month (uneven number of working hours per day).
- Correlation of professional experience with the ceilings applicable to personnel expenses;
- Notification of new members in the implementation team (if they are not mentioned in the funding request).

### ***B. Ensuring reasonable costs***

Funding applicants are obliged to ensure, and evaluators are obliged to verify, from the project submission phase, the justification of the prices and costs entered in the budget, in relation to the market price, with the exception of equipment and services for which maximum ceilings of settlement, in the Applicant's Guide - General Conditions.

The obligation to justify with a minimum of 2 offers the prices and costs entered in the budget does not apply to the equipment and services for which ceilings are established in the Applicant's Guide - General Conditions.

For the equipment and services for which ceilings are not established in the Applicant's Guide - General Conditions, to justify the reasonableness of their prices, price requests, catalogs, any database available on the Internet, recorded in a market study or other centralized document that can ensure the proper justification of the prices and costs used in the project.

During the implementation of the project, the expenses considered ineligible, but necessary for the development of the project, will be borne by the beneficiary.

The following categories of expenses are not eligible:

- subcontracts (outsourcing) that cause an increase in the cost of executing the operation; - subcontracts (outsourcing) under which the payment is defined as a percentage of the total cost of the project;
- recoverable value added tax;
- the interest payable, except for those related to grants granted in the form of a subsidy for interest or for guarantee commissions;
- contribution in kind;
- purchase of second-hand equipment;
- fines, penalties and court costs;
- the costs for operating the investment objectives;
- expenses related to the manufacture, processing and marketing of tobacco and tobacco products;
- the purchase of infrastructures, land and real estate for a contribution from the European Social Fund, except in some cases.

Any expenses that exceed the ceilings established by the specific guidelines or by special instructions aimed at establishing ceilings specific to certain categories of expenses.

During the implementation of the project, expenses deemed ineligible upon verification of a reimbursement request/payment request/pre-financing request will be borne by the Applicant, as the case may be.

Beneficiaries are granted, in instalments, a pre-financing that represents the equivalent of some expenses (salaries, those related to subsidies, scholarships, prizes, fees for independent activities carried out in accordance with the legislation in force and travel expenses) calculated for a maximum period of three months, at their request. A schedule for submitting pre-financing applications is being drawn up.

In order to justify the previous tranche of pre-financing through Reimbursement Requests, the partnership leader and/or partners must consider the following:

1. Project co-financing does NOT justify pre-financing.
2. Unauthorized expenses on the reimbursement request are NOT justification for pre-financing.
3. The indirect expenses requested and validated on the reimbursement application/requests represent pre-financing justification.
4. The expenses necessary for the implementation of the project activities (including indirect expenses) made from their own financial resources by the members of the partnership up to the date of receiving the pre-financing and included in the reimbursement requests submitted to the responsible OIR are justification for the pre-financing.

Amounts received as pre-financing may NOT be used for a purpose other than the one for which they were received.

The transfer of the amounts necessary for the payment of eligible, reimbursable expenses, according to the concluded contracts, based on the supporting documents, is done after submitting the payment request. After performing the checks and collecting the due amount, the reimbursement request is submitted. Any cash payment made by the Beneficiary without prior consent will be considered ineligible.

The deliverables provided in the project are also submitted.

#### **4. The role of the accountant in European projects**

The accounting of European projects involves the analysis of the allocation of amounts and the legal framework in order to classify an expenditure as eligible in the project, in terms of obtaining non-reimbursable European funds, the number of applications from Romania increases considerably every year.

The accountant's role in the development of projects financed by European funds is absolutely necessary in the first and third stages of the financing process. All the costs in the substantiation stage of the project are analysed and correlated with the foreseen activities, and then, in the implementation stage, the costs are checked to fit the contractual provisions and the requirements in the general guide and in the specific guides on axes and types of projects.

Most entrepreneurs believe that through this method they can successfully develop a business, but in order to achieve this goal it is necessary to resist the bureaucratic complex specific to the Romanian system.

The involvement of the accountant since accessing the European funds in the project management process and solving the taxation issues are attributes that lead to a successful implementation of the projects.

In European projects, the financial manager or accountant is the one who knows all the relevant aspects for writing and implementing projects with non-reimbursable external financing.

General principles that must be respected are (Filip, 2023):

- The accounting of projects financed from community funds must be organized separately (on the basis of distinct analytical accounts), in the general accounting of both the Beneficiary and the partners, and the accounting operations must demonstrate total transparency in terms of transactions, providing all the necessary information;
- Accounting entries are made chronologically, respecting the sequence of documents according to the date of their preparation or entry at the entity level, and systematically in synthetic and analytical accounts.
- Regardless of the method of settlement of expenses, the members of the partnership must ensure that they have requested for reimbursement only amounts that they have properly recorded in the analytical accounting related to the project.

When we talk about accounting services for European funds, we are talking about the verification of all purchases and expenses carried out

within the project. Thus, the accountant will do the following (Contabuc, 2022):

- Monitoring the procurement procedures and the subsequent development of the contracts signed with the selected suppliers;
- Analysis of the eligibility of expenses from the reimbursement request by verifying the legality and existence of these expenses;
- Ensuring the procedures necessary to implement the project, making financial reports, making payments on time;
- Certification of the fact that those expenses proposed in the project budget are respected, and their amount is not exceeded;
- Verification of compliance with the requirements requested by the Project Management Authority
- Coordination and monitoring of the preparation of reimbursement requests to the financier, assisted by the contractor who will provide project implementation management services;
- Ensuring the management of bank accounts opened for the operation of financial transactions related to the implementation of the project;
- Proposing corrective solutions in the event of reporting any malfunctions in the running of the project from a financial point of view;
- Monitoring the progress of payments related to procurement contracts according to the contractual clauses, in accordance with the project budget.

One of the essential activities in project management is project risk management.

Different risks may arise at each stage of a project. They must be identified, defined, registered, and reported (Doval, 2018a). The risks are defined already from the substantiation phase of the project, but the accountant must prevent the risk of exceeding the approved costs in the project implementation stage.

## Conclusions

An important role of accounting is to provide accurate and transparent financial reports that enable managers to make profitable decisions for the company. In addition, accounting also has the role of facilitating investment decisions when this option is in line with project objectives. Accounting plays an important role in the budgeting of internal and external and strategic investments (Contabuc, 2022). Decisions are made using accountant and financial data.

Superior management correlates the financial data obtained with the strategic objectives of the organization (specialization, diversification, investments) and decides on the provision of resources (financial, material and human) in order to carry out planned activities based on specific processes (Doval, 2019b).

The use of project accounting is essential in managing a project budget. If project managers use it to keep track of direct costs, overhead costs, and project revenues, track financial transactions to ensure they stay within budget, and make the necessary adjustments to avoid overspending, the accountant a project accounting plan.

The plan lays out all the costs and schedules how these costs will be monitored and tracked during the execution of the project, including the money spent on resources such as the project team, equipment and others (Abtax, 2022).

In projects with funding from European funds, the role of the accountant is amplified, as all the requirements contained in the funding guide must be respected, in order to avoid ineligible expenses, erroneous registrations or mistakes in the interpretation of the requirements.

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