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CONTROL OF DOCUMENTATION RELATED TO THE IMPLEMENTATION OF PROJECTS CO-FUNDED BY THE EUROPEAN UNION

KONTROLA DOKUMENTACJI REALIZACJI PROJEKTÓW WSPÓŁFINANSOWANYCH ZE ŚRODKÓW UNIJNYCH

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Streszczenie. Treść artykułu koncentruje się na jednym z istotnych obszarów zarządzania projektami, jakim jest kontrola realizacji projektu. Obejmuje ona procesy kontroli realizowane zarówno przez podmiot realizujący projekt, jak i instytucje zewnętrzne (kontrolerów zewnętrznych). Z punktu widzenia przedmiotu i zakresu kontroli ważne znaczenie dla finansowania realizacji projektu i jego rozliczenia ma wiarygodna dokumentacja, w tym szczególnie dokumentacja w zakresie wydatków i kosztów. Kontrola dokumentów w tym zakresie w przypadku projektów współfinansowanych ze środków europejskich jest warunkiem uzyskania dofinansowania. Celem artykułu jest przedstawienie zagadnień dotyczących systemów kontroli projektów współfinansowanych ze środków europejskich. Na potrzeby opracowania autorki dokonały przeglądu definicji „kontroli projektu” i omówiły procedury kontroli projektów. W szczególności przedmiotem analizy są procedury kontroli dokumentacji realizacji projektów, w tym kontroli dokumentacji weryfikacji wydatków i kosztów projektów jako elementu zarządzania projektami. Główną metodą stosowaną w artykule jest analiza źródeł literaturowych. W trakcie badań wykorzystano metodę analizy porównawczej oraz metody dedukcji i indukcji.

Key words: control, control of the project, cost documentation, project, project's costs, review expenses and project costs.

Słowa kluczowe: dokumentacja kosztowa, kontrola, kontrola projektu, koszty realizacji projektu, projekt, weryfikacja wydatków i kosztów projektu.

INTRODUCTION

Projects are commonly encountered in all fields of human activity. They are implemented in enterprises and non-commercial entities alike. Projects are also a method for goal realisation by public sector entities. Regardless of the subject, European projects are a specific group of projects and are the most popular form of using European funds. They should be defined as:

- enterprises being at issue in the European financing agreement.
- the smallest separable unit subject to the European aid (Portal on EU Funding.

Glossary <http://www.funduszeuropejskie.gov.pl/Sloownik/Strony/Projekt.aspx>).

Co-financing projects with European funds requires the correct functioning of appropriate systems to manage these funds, including control systems. Thus, control of projects co-financed by the European Union related to activities undertaken by various entities and in

various project implementation phases. Control procedures determine both the level of fund management, and the scope of powers belonging to the entities that are performing the examination to verify proper disbursement of financial resources, as well as solutions adopted in terms of individual operational programs.

One means of control over projects co-financed by the European Union is project documentation control. The beneficiary, when signing a project financing agreement, agrees to have the project's compatibility with the agreement's provisions verified. The subject of control is thus the documentation relating to the project (investment) implementation, especially:

- financial and technical documents,
- the level of achieved indicators of product and result that were assumed in the grant application,
- project's promotion.

The aim of this article is to present issues relating to control systems of projects co-funded by the European Union.

MATERIALS AND METHODS

The article's development was preceded by literature studies relating to the definition and essence of project control. For the needs of this article, the authors have reviewed the definition of "project control" and discussed project control procedures. The analysis especially pertains to procedures of project control implementation documentation, including documentation of verification of project expenditure and costs as an element of project management.

The main method utilised in the article is the analysis of literature sources. Comparative analysis, deduction and induction methods were used in the studies.

PROJECT CONTROL AND MONITORING IMPLEMENTATION OF THE PROJECT

In Polish norms relating to European funds, the terms "control" and "project control", as well as the term "project", are not explicitly defined. Generally, the term "control" should be understood as supervision over someone or something with the aim of ensuring that the controlled person, thing or process functions in accordance with established principles. Such an understanding of control includes a set of activities involving:

- verification of the factual condition of the controlled phenomena or activities/operations,
- comparison of the factual condition with that of the designated condition (required) in the legal, technical, economic and other norms,

- determination of deviations from the required conditions (abnormalities), the reasons for these deviations and persons responsible for their occurrence,
- formulation of conclusions aimed at eliminating abnormalities, enhancing the operation of the controlled unit or its area of activity, achieving better effects.

When considering the presented definition of the term “control” in terms of “project control”, it should be noted that project control requires an action aimed at the achievement of the assumed (expected) result, therefore it is a form of internal control¹. Project internal control is also utilised in the management of projects co-financed by the European Union. It includes activities undertaken by the entity implementing the project during the stages of project preparation and implementation. Control activities then include control of (Trocki et al. 2009):

- terms of project preparation and implementation,
- resource consumption during project preparation and implementation,
- supply and subcontracting,
- project risk,
- project quality,
- project team’s work,
- project results.

In the management of projects, because of the complexity of the controlled object, it is crucial to limit the control scope to only the most important (key) areas of project results and strategic control points (critical points of the project) in which intensive control should be carried out (Stoner et al. 2001). The project’s key elements should include activities/phases whose efficiency and effectiveness determine the project’s success.

Financial control is indicated as a special kind of internal project control. Its subject includes financial phenomena and processes relating to the financial management of the project.

Taking the character of European projects into account, their control should be first and foremost considered as external control of project implementation carried out by the management, intermediary or implementing institution. This control should relate to the process of comprehensive assessment of the overall issues associated with project implementation. The results achieved throughout the project, studied from the perspective of legality and

¹ Things considered as a form of internal control include managerial control, understood as a systematic activity the aim of which is the continuous monitoring of the effectiveness of the unit and the possible undertaking of corrective action in case there are abnormalities. The unit’s manager, while exercising control, undertakes (directly or with the participation of the unit’s employees) such actions as:

- establishing performance standards for the planned action objectives,
- designing informative feedbacks,
- comparing the real results with performance standards and determination of any deviations,
- measurement of deviations’ meaning for goal realisation and
- undertaking action needed to ensure that all of the unit’s resources are used in the most effective and efficient way to achieve its goals.

Mockler 1994, p. 2; Stoner, Freeman, Gilbert 2001, p. 539.

economic prudence of spending the EU funds by the beneficiary, are of particular interest to the controller (Zarządzanie projektem europejskim 2007). Such an understanding of project control aims at the verification of accuracy of the project's implementation according to the agreement or decision on funding for the project as well as the annexed request for funding for the project. It is also checked whether or not information on the project implementation progress and the incurred expenditure that were presented in the payment request are in accordance with the factual state, project implementation schedule, payment schedule and the project budget.

Check verifications can be carried out (Fig. 1):

- 1) in the headquarters of the institution the beneficiary has signed a project funding agreement, in this case the documents supplied by the beneficiary are controlled,
- 2) on site, which is:
 - the headquarters of the controlled entity and (control in the beneficiary's headquarters),
 - any place directly related to the project implementation (monitoring visit).

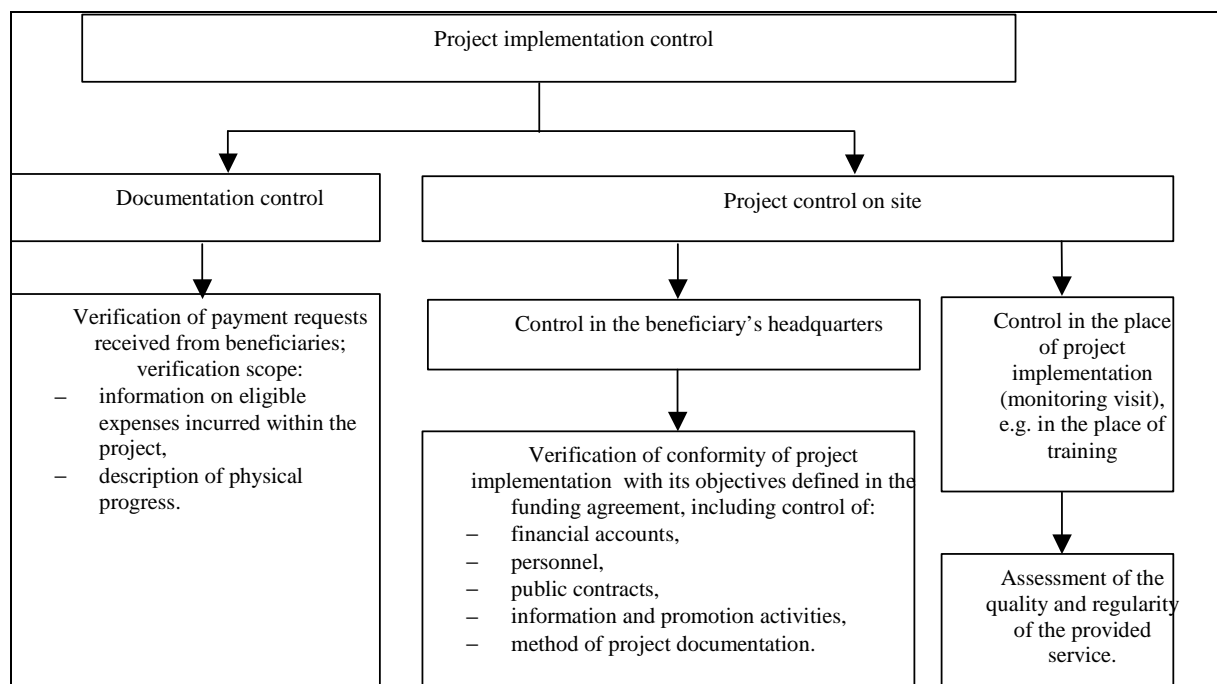


Fig. 1. Project implementation control sharing
Source: Rydzewska-Włodarczyk (2011).

One of the forms of control of projects implemented by external controllers is project financial control. This type of control consists of mechanisms and measures ensuring the proper functioning of the process of gathering and spending of public national and European funds (Portal on EU Funding. Glossary. <http://www.funduszeuropejskie.gov.pl>

/Slownik/Strony/Kontrola_finansowa.aspx)². The aim of these control mechanisms in the scope is, primarily, to ensure that the European funds are utilised in accordance with the objectives and procedures stated in the norms and agreements, including verification of keeping separate documentation for recording and reporting for these funds. Thus, the project control subject might be both the funded object itself and project documentation.

The project documentation control is carried out in the form of verification checks. It can take place both in the headquarters of the controlling institution and on site. In the latter case, the controlling team has the right to access full documentation related to project implementation. In general, however, project documentation control is the verification of information included in the payment request, relating to eligible expenditure and costs incurred within the project. The payment request is verified in the formal, substantive and accounting sense by an employee of the relevant institution, appointed as project supervisor as well as by their superior and the institution's financial department. Moreover, approval of the payment request requires verification of all or, based on the accepted sampling methodology, selected documents certifying the expenditure incurred, meaning invoices, bills, bank statements, etc.

The subject of project control might also be the project accounting system, including reporting. Reports generated as part of the accounting information system for a given system project are important for the needs of implementation and control of project completion. Such reports are drawn up in the form of statements, lists, charts, and other reports generated in different forms and with different information capacities. The information presented in them might come directly from the unit accounting system, and be collected and processed solely for the needs of a given projects' management. Reports for projects co-financed by the European Union, take on the form specified in the regulations for a given program within which the funding is granted.

SCOPE AND PROCEDURES FOR THE CONTROL OF EXPENDITURE AND PROJECT COSTS

Eligibility control of expenditure and costs is of great importance for projects co-financed by the European Union³. Such controls are carried out as part of both substantive, and fi-

² The same source includes financial control, management control and audit in the scope of financial control.

³ European legal provisions and supplementary national guidelines define eligible expenditure/costs as expenditure or costs incurred by the beneficiary in relation to project implementation within the operative program or regional operative program, that are eligible based on the guidelines and procedures specified in financing agreement for a refund from the funds of a given program. This law is regulated by: Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 (UE OJ of 31 July 2006 L 210/25), Council Regulation (EC) No 1341/2008 of 18 December 2008 amending Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund for certain revenue-generating projects (UE OJ L 348, 24.12.2008); National

nancial and accounting control. Within the substantive control, the expenditure and costs should be verified by comparing their level assumed in the funding request with those actually incurred. To this end, a suitable statement of eligible expenditure can be used (Table 1).

Table 1. Comparison of eligible expenditure

No.	Eligible expenditure categories in the funding request	The amount of eligible expenditure according to:				Deviations		
		Funding request	Payment request	Accounting records	Project implementation final report	Funding request/payment request	Payment request/accounting records	Accounting records/final report
1								
2								
...								
Total								

Source: study based on: Hyży (2008).

A detailed control of expenditure and cost eligibility is carried out within the financial and accounting control. The following areas should be included in this scope of study (Majchrzak 2010):

- 1) requested execution adequacy,
- 2) final beneficiary's status from the perspective of eligibility of tax on goods and services (VAT),
- 3) project implementation costs, including especially the prime costs,
- 4) documentation of the expenses incurred.

From the perspective of documentation control, the study of documentation is of particular importance. Within this area, all planned and realized costs of project implementation should be subject to control, especially prime costs. The aim of this study is the determination of whether the planned project costs were actually incurred and if their level corresponds to the eligible costs. Moreover, at this stage it is important to check the correctness of classifying the VAT tax to the eligible costs, i.e. check whether or not the goods and services tax was included in the eligible costs in the situation that unit had the legal authority to reclaim it or if the proper rate was assumed.

Joint or partial expenditure/costs should also be included in documentation control within the project expenditure/costs. In their case, documentation should cover, apart from the basic description, an accounting calculation of the sum directly related to a given project and a description of the accepted allocation key⁴.

guidelines on eligibility of expenditure under the Structural Funds and the Cohesion Fund in the programming period 2007–2013; Guidelines of the Minister of Regional Development of 17 December 2008; Guidelines on selected issues related to the preparation of investment projects, including revenue-generating projects. Guidelines of the Minister of Regional Development of 15 January 2009.

⁴ Allocation keys accepted for the allocation of expenditure/costs have to be values that express the relationship between the expenditure/costs and the basis of their settlement. For example, they can be the costs of

Within the expenditure/costs control, one should also take into consideration documentation relating to expenditure which is not eligible for co-financing. It is due to the fact the beneficiary is required to properly disburse all the funds for a given project, i.e. European funds, their own funds for covering own contribution, including non-eligible expenditure.

Appropriate source documents should be considered as proof of the project implementation costs incurred. Moreover, the eligibility of expenditure, control should be carried out relating to documents attesting their formal and accounting compliance with the accounts.

A detailed scope of expenditure and costs eligibility control are presented in Table 2.

Table 2. Scope of expenditure and costs eligibility control

Control scope	Scope of the study and/or activities to be undertaken by the controller
Eligible expenses	<ol style="list-style-type: none"> 1. Stocktaking of purchased, adopted or modernised fixed assets as part of co-funding of a given project. 2. Verification of whether a fixed asset has not been purchased with public funds within the last eight years. 3. Checking the accuracy of including fixed assets in accounting records. 4. Checking the execution level of lease agreements related to a given project. 5. Checking the accuracy of measurement and pricing of cash contributions brought to the implemented project.
Prime costs	Checking: <ol style="list-style-type: none"> 1) compliance of synthetic records with analytical ones, 2) the eligibility accuracy of prime costs to the correct positions of breakdown of costs by type, 3) compliance of prime costs according to the accounting records with the right positions (section, chapter, paragraph).
Depreciation	Checking: <ol style="list-style-type: none"> 1) accuracy of initial value determination of fixed and intangible assets, 2) whether the depreciation of fixed and intangible assets, written off as one of the costs in a month of putting into use, has been calculated correctly, 3) accuracy of rates and amounts of recorded depreciation of fixed and intangible assets with an initial value above 3 500 PLN.
Energy and material consumption	Checking the accuracy of: <ol style="list-style-type: none"> 1) measurement, evaluation and documentation of material consumption, 2) measurement, evaluation and documentation of energy consumption, 3) material and energy consumption included for the period of their eligibility.
Third party services	Checking: <ol style="list-style-type: none"> 1) accuracy of valuation, documentation and records of third party services, 2) whether the costs of repair services are improving fixed assets, 3) whether the costs of third party services relate to the period of eligibility of expenditure.

material consumption for project implementation, operation time of machines and equipment or the costs of the salaries of employees involved in the project.

Table 2. Scope of expenditure and costs eligibility control (cont.)

Control scope	Scope of the study and/or activities to be undertaken by the controller
Salaries	Checking the accuracy of: 1) calculations, documentation (descriptions of the scope of activities and the attendance of individuals involved in the project), payroll records with breakdown of personal, impersonal and other wages and salaries, 2) salaries included in the period of eligibility of expenditure.
Social security and other benefits for employees	1. Checking the accuracy of the identification and analytical registration of: – Social security contributions, – Labour fund contributions, – Contributions to employee benefit fund, – Other costs included in the employee benefits. 2. Checking whether the costs of security charges include only the amounts related to the period of their edibility.
Taxes and charges	Checking: 1) the correctness of the calculation, records and settlement of taxes, 2) the correctness of identification and recognition of payments in the accounts.
Remaining prime costs	Checking the measurement accuracy of costs relating to: 1) business trips, 2) project promotion.
Documentation of expenses incurred	1. Checking the compliance of documents annexed to the payment request with: – the books of account, – the originals of accounting documents. 2. Checking the accuracy of accounting documents description, i.e. checking whether – the funding agreement number and the project name have been put on them, – the amount of eligible expenditure incurred has been calculated correctly, – they are consistent in the substantive, formal and accounting sense. 3. Checking the payment date of the expenditure incurred. 4. Checking whether the expenditure incurred: – falls within the list of eligible expenditure, – is consistent with the project's material and financial schedule, – was necessary and incurred for project implementation, – contributed to achieving the assumed indicator.

Source: study based on: Kisiel (2005), Audyt wewnętrzny (2009), Hyży (2008).

In order to carry our control in terms of expenditure eligibility, one can use, among other, checklists⁵. An exemplary questionnaire of a checklist for settlement and control of eligible expenditure is presented in Table 3.

Table 3. Questionnaire of a checklist for settlement and control of eligible expenditure

No	Questions	Yes/No	Comments
1.	Temporary payment certificate		
1.1.	Is the information in accordance with the terms of the project co-funding agreement and the actual situation?		
1.2.	Does the invoice sum exceed the minimum value specified in the agreement?		
1.3.	Is the documentation of expenditure incurred complete?		
1.4.	Does all expenditure incurred and included in the co-funding comply with the conditions of eligibility?		

⁵ A checklist is a document allowing for standardisation and unification of information about the studied unit. It prevents skipping important actions in the study and protects against scams and abuse.

Table 3. Questionnaire of a checklist for settlement and control of eligible expenditure (cont.)

No	Questions	Yes/No	Comments
1.5.	Has the correctness of the arithmetical calculations of expenses incurred been checked?		
2.	Invoice (equivalent)		
2.1.	Have the formal and legal requirements related to the correctness of the prepared invoices been met?		
2.2.	Is the data on the invoice consistent with than on the project co-funding agreement?		
2.3.	Is the exchange rate adopted on the invoice consistent with the provisions and the actual state?		
2.4.	Is the accepted VAT rate in accordance with the tax regulations?		
2.5.	Does the invoice include an indication of payment?		
2.6.	Has the invoice been adequately described in terms of document control?		
2.7.	Does the invoice bear the required acknowledgments?		
2.8.	Is the pay return invoice well-documented?		
3.	Bank documentation (payments)		
3.1.	Is the project number stated on the transfer or bank statement?		
3.2.	Has the statement of operations or command follower been included in case of using online banking?		
3.3.	Is there a compliance of bank statements with credit transfers and paid invoices?		
3.4.	Were the invoices paid from the bank account specified in the approved expenditure structure?		
3.5.	Were the bank fees and charges paid from the project funds?		
3.6.	Has the invoice payment been made to the contractor's bank account indicated in the agreement?		
3.7.	Has the invoice been paid within the period expenditure eligibility?		
3.8.	Did the beneficiary spend the project funds in accordance with the final expenditure eligibility?		
4.	Other documents related to the settlement of eligible expenses		
4.1.	Has the necessity report been signed by the project engineer and the contracting party?		
4.2.	In the necessity report justified and consistent with the subject of the project?		
4.3.	Has the determination of rates of additional works been made in accordance with the principles of the project, based on the negotiation protocol?		
4.4.	Are the additional works included in the material scope of the project and are they an eligible expenditure?		

Source: study based on: Brzóška et al. (2005).

Within the control carried out, documentation relating to the expenditure/costs is subjected to detailed examination. Any detection of irregularities in this area, depending on the moment the control is carried out, could cause:

- 1) withholding reimbursement of the expenses incurred until the detected irregularities or deficiencies are removed,
- 2) refusal to fund a given project,
- 3) necessity to refund the received funds in case of gross violation of eligibility rules.

Proper conduct of control should be carried out with checklists. They are included in the report of control activities drawn up after the control.

CONCLUSIONS

Documentation control, in terms of implementation expenditure/costs of projects co-funded by the European Union, is one of the key elements of project management. The results of the control in this scope determine whether a given project is going to be co-funded to the amount stated in the contract or a different amount, most of the time lower. This is caused by the fact that the documents related to the expenditure/costs incurred are subjected to detailed control by a managing, intermediate or implementing authority (external auditor) before settlement. Within the study of expenditure/costs documentation, the following elements are analysed:

- the level of planned and implemented project costs,
- the eligibility of project expenses and costs,
- the correctness of settlement of joint or partial costs related to a given project,
- formal and accounting compliance of documents with the books of account.

Defects or irregularities can be detected by the conducted analysis. For example, these may include:

- incorrect or incomplete description of accounting documents in terms of the costs incurred,
- inclusion of costs unrelated to the implementation of a given project or in the amount different from the one stated in the agreement in eligible costs,
- use of improper allocation keys for the joint and partial costs and exchange rates.

Accounting evidence and other internal documents, like checklists, are the basis for external controls carried out over project implementation expenditure and costs. Document control in this scope, in case of projects co-funded by the European Union, is a condition of receiving funding.

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