

## **BUDGETING EUROPEAN PROJECTS – THE COMPETENCE OF ACCOUNTING AND AUDITING PROFESSIONALS**

*The paper presents a concept of a workshop on European projects participants of which get acquainted with problems of budgeting and controlling of international joint actions. This way, according to the authors, academics may respond to the demand for specialists in question.*

### **1. Importance of European Funds to Regional Development of Member States**

The existing disproportion between particular Member States set a direction of European Union's structural policy, which is based on assurance of harmonious development of regions and growth in economic and social cohesion. *Inequality of professional qualifications* is one of such discrepancies. Solution to that problem lies in realisation of objectives with regard to which structural funds are distributed [see 5, p.16]. Financial assistance to adapt and modernise educational and professional training as well as employment systems is what the European Community is aiming at.

Since the year 2000 many initiatives have been taken with their focus on the following issues:

- fight against unemployment;
- activation of people excluded from a labour market;
- reinforcement of possibilities of employment by educational systems and long-life learning;
- adaptation of labour market participants to economic and social changes;
- equal opportunities for women in access to a labour market and self-employment.

The undertakings mentioned above were supported within the framework of European Social Fund, which considerably contributed to regional development, creation of knowledge-based society and assurance of equal opportunities.

In this area there appear numerous challenges that higher education institutions have to rise to [see 2, pp. 14-26]. Making education more accessible, raising quality of teaching, meeting requirements of a labour market, improving prospects of young people by developing future professionals for modern economy are of the greatest importance, here.

### **2. Hindrances to Raising European Funds by Institutions**

Growing opportunities for rising financial resources have caused that many Polish organisations do not keep up with changes, especially after the access of Poland

to the European Union. It seems that institutions are not ready to benefit fully and effectively from increasing chances yet. Moreover, various barriers restricting activity of institutions in rising money occur [see 1, pp. 1-35].

Difficulties in gaining clear and reliable information concerning requirements from submitted applications are said to be the main problem for professionals carrying out European projects. However, this is not the only obstacle which applicants have to face. There exist also bottlenecks related to human resources. Inability to build strong, equally engaged and motivated team is a visible symptom of such difficulties. Successful realisation of projects burdens employees with additional duties, often not well paid, what is a discouraging factor, especially in the long run.

Initiatives of rising European funds are often abandoned, because of threat of losing financial liquidity during realisation of a project. Disruptions in financial liquidity can emerge already at the beginning of preparation of a project i.e. before the first instalment of a grant is transferred, in particular when a delay appears. As a result, another source of money has to be secured, before European funds arrive. However, financial costs associated with a bank loan – as not eligible – cannot be reimbursed from a grant, later on. A need for multilateral financial engagement or, on the contrary, high contribution of a single situation is another challenge for international consortia.

Poor quality of information concerning possibilities of raising European Community's funds is another problem to be solved. It is noticeable that numerous contradictions between interpretations of applications and contractual documents by particular parties of a project occur. Overbureaucratisation is another drawback, here.

Lack of co-operation between administrative personnel and staff directly carrying out a project is the next obstacle to overcome. Clerks far too often treat beneficiaries as a cause of additional work. Legal departments which are not able to draw up multilateral, international agreements between partners of a project are good examples. All these result from the fact that knowledge of clerks is usually limited to general information, which is freely available on web sites.

Possibility of implementation of innovative undertakings acts as a mental hindrance. Some organisations have become accustomed to traditional way of operating. They prefer, therefore, remaining with their annual revenues on statutory activity to looking for extra financial resources, which they would have to manage efficiently. This happens, because these organisations do not have, at the first moment, the foggiest idea of how to make a proper use of money. A problem lies in hierarchical structures and organisation of work of beneficiary institutions, too. The employees may not accept authority of a project manager and all decisions of the latter have to be approved by existing governing bodies.

### 3. Selection Criteria of European Projects

There are *common* and *detailed criteria* considered during selection procedure of projects financed with European Community's funds. Meeting registration requirements and preparing complete application form constitute *formal criteria* of selection. Provided that deadline and format of submitted proposal are complied with an applicant should meet a long list of *content-related criteria* which include [see 3, p.126]:

- rationale for realisation of a project;
- promising results expected after completion of a project;
- efficiency of project management;
- rationality of a work plan;
- cost-effectiveness of a budget;
- possibilities of dissemination of results of an undertaking;
- clear sources of finance;
- eligibility of expenses;
- credibility and experience of beneficiary.

The above mentioned criteria are often not met. To the most common mistakes made during implementation of European projects belong [see 3, p. 38]:

- not complying with proper application form;
- making an application inconsistent with documentation;
- submitting an application after a deadline;
- not addressing all questions or answering inconsistently with contents of questions;
- preparing an application by unauthorised organisation or placing it to a wrong European institution;
- signing an application by person who is not legally empowered to sign document on behalf of a beneficiary;
- lack of required enclosures.

Consequently, the major reasons for refusals are as follows [see 1, pp.1-35]:

➤ *technical mistakes* i.e. lack of an electronic version of an application, various amounts in paper and electronic versions, falling behind with deadlines or submitting an application to a wrong European institution;

➤ *inconsistency between an application and documentation contained in guidelines for applicants* i.e. taking an action towards unauthorised target audience or exceeding range of actions described in documentation;

➤ *inconsistency of an application with national law* – in case of Poland these are e.g. regulations on public contracts.

The above-mentioned lists of evaluation criteria and common mistakes suggest that a preparation of European projects requires mainly competencies in planning, project management or international and national law. The role of accounting and auditing professionals seems to be limited to that of facilitators of a financial manager when a

budget is being created. Even if these statements were valid for preparatory phase of development of an international undertaking an implementation of a project and its conclusion cannot be conducted without knowledge peculiar to accounting and auditing. These means that specialist in these areas contribute much to a ultimate success of projects financed with European Union's funds.

#### **4. Requirements towards Accounting and Auditing Graduates with Respect to European Projects**

European projects need efficient steering of operations and co-ordination of tasks delegated to partner institutions, for sure. However, successful realisation of such undertakings depends much on capability of members of a project team to make reports and keep records of spending European funds on behalf of a whole, usually international, consortium. Thus the primary task of accounting and auditing professionals would be to prepare the following returns [see 3, p.43]:

- **periodical reports** containing information about a current status of a project and results achieved;
- **annul reports** including information on major action lines and their impact on target audience of a project;
- **final reports** summing up the whole period of realisation of an undertaking.

The above-mentioned tasks related to reporting, as well as these associated with budgeting of an undertaking, are the main causes of anxiety about taking international joined actions, what has been noticed by trainers providing seminars on European projects. Beneficiary institutions may well employ highly qualified chartered accountants, however, only few take advantage of it due to limited financial resources. Another reason for that – in case of Poland, for instance – is a necessity of complying with regulations on public contracting, which make the whole recruitment procedure much more complicated and time-consuming.

Another way of dealing with a shortage of professionals capable of supporting realisation of international projects may be – according to the authors – putting emphasis on this element in curricula of subjects provided by higher education institutions.

#### **5. The Workshop on European Projects**

The following part of the paper presents an idea of a workshop on budgeting and controlling of projects financed with grants from various programmes of the European Union. The objective of such a seminar is to provide its participants with an ability to combine several competencies:

- **creativity**, which is a prerequisite to come up with a general idea of a project, for which an application is prepared;
- acquaintance with **project management techniques**, necessary for 3-dimensional planning i.e. in terms of scope, time and costs of activities to be accomplished;

- understanding of **cost accounting**, in particular activity based costing, what is required to formulate a budget of an undertaking;
- insight into **types of funds** appropriate for particular purposes and **procedures of applying** for co-financing of projects with European funds;
- familiarity with **methodology of controlling**, to guarantee proper co-ordination of activities and monitoring of implementation of a project;
- ability to **work in a team**, what enables to benefit from strengths of particular members of a working group in order to transform an idea into well structured proposal with clearly defined schedule of work and budget.

Due to widespread use of European Union's grants the above-mentioned competencies have become requested in business, governmental and non-governmental sectors and thus graduates may find them useful in their professional career regardless a type of organisation they are to work for. Peculiarity of analysed projects requires acting beyond bounds of primary specialisation of people engaged in their realisation. It is impossible to draw up a budget of an undertaking if regulations on particular funds are not known and complied with. A record of income and outcome must be kept with respect to certain requirements on reporting not necessarily identical with these resulting from national law. Eventually, a manager of an international project must be not only familiar with economic and legal environments of all participating countries but also needs interpersonal, intercultural and lingual skills.

The presented workshop is carried out in a form of teamwork. Each group, consisting of three students, develop own idea of a project financed with EU-funds and formulate it using a standardised application form. The form is divided into six parts:

- introductory information;
- general concept of the project;
- budget;
- description of the project;
- time schedule;
- explanatory information to the budget.

**Ad.1. Introductory information**, like in any application form, draw attention of applicants to formal instructions which should be met while an application is being prepared. This is a prerequisite for further analysis of a proposal, while any departure from formal requirements may result in rejection of an application without content-related evaluation.

It is important, therefore, to address all questions included in a form as well as keeping right order and length of answers. Presentation of required data on budget of a project with requested level of complexity is another matter of primary importance.

For didactic purposes roles and accountability of particular members of a working group are defined. A **co-ordinator** of a project is expected to guarantee coherence

of a proposal, what means that objectives of an undertaking are reflected by budget and time schedule presented in an application. A **financial manager** is responsible for preparation of a budget, which guarantees efficient use of resources. An **internal auditor** watches over preparation of an application, which must stay in compliance with guidelines for applicants.

**Ad.2. General concept of a project** contains information distinguishing an application from any other without looking into a detailed description in *Part IV*. This introduction – in case of the EU-financed projects – is available to the general public via web pages. This way it becomes an important measure of promoting an idea staying behind a project.

The introductory part contains a title of a project and its summary (200 words, as a rule), which consists of a justification of development of an undertaking, its objectives, target audience, major action lines and expected results. Duration of a project, participating institutions and project co-ordinator are brought forward, consequently.

**Ad.3. The budget** of a project comprises all money in- and outflows for a whole period of development of an undertaking. It is important that costs are realistic and sufficient for completion of all activities planned and achieving expected results. In case of overestimation a proposal can be rejected or a budget cut down. Underestimation poses a risk of reducing a scope or quality of a project or freezing its realisation before effects become visible.

Major types of costs, which should be placed in a budget, include:

➤ **staff costs**, broken down into categories (e.g. according to International Standards Classification of Occupations) and institutions participating in a project. The applicant should indicate a number of employees engaged in realisation of particular tasks, duration of activities and fees paid to groups of workers;

➤ **travelling and subsistence** costs, necessary for realisation of a project, calculated in relation to precisely defined destinations and objectives of journeys, means of transportation and costs of accommodation and meals;

➤ expenses on **purchasing or leasing of equipment** and costs of materials. In case of purchase not only a number of items and their prices should be estimated, but also percentage of use of equipment for a project in question as well as a depreciation rate. For example, if equipment is used for half of time for purposes of a project and for half for realisation of other tasks with yearly depreciation rate equal to 20 per cent only one tenth of its price can be placed in a budget for a single year;

➤ **subcontracting** and **consultancy** for realisation of precisely defined tasks, which cannot be carried out by own employees due to their specific character. An applicant should describe these tasks, i.e. their scope and duration, and prove that they cannot be accomplished without external support;

➤ **overheads**, usually related with co-ordination and administration work.

All costs presented in a budget should be split into above-mentioned categories and assigned to particular tasks included in a work plan of a project. The understanding of the concept of activity based costing is of the greatest importance, here.

Estimated costs of a project should be covered by strictly defined sources of financing, which include:

- **grant** requested from particular programme of the European Community;
- **contributions** from regular *budgets of participating institutions*;
- **subsidy** from other European programmes or public funds both on national and local levels, reserved for realisation of a project in question only;
- **support of private sector**, including foundations.

*Ad.4.* The **description of a project** is the most important part of an application. It may seem that a budget and its accuracy decide on acceptance or rejection of a proposal. It must not be forgotten, however, that even if particular items of a budget are calculated with diligence, the whole project may not guarantee effective use of funds, due to limited target audience, incompatibility with European priorities in social policy or lack of innovative features.

The description of a project begins with presentation of *rationales* for taking a certain action. This part may include an analysis of a current situation, identified demand and characteristics of preparatory work.

The next task is to define a *beneficiary* of a proposal and explanation how results of a project would improve a situation of a target audience both in the nearest future and in the long run.

An applicant is supposed to decide upon *methods of evaluating* results of an undertaking, what comprises monitoring of development and implementation of a project as well as assessment of its final effects. The well-thought-out mechanism of adjustments of operations in the face of emerging difficulties can reduce a risk of failure, too.

Another vital issue in realisation of a common project is a definition of *roles of partners* in a consortium and *assignment of tasks* to employees. In the first place competencies of participants have to be checked, and only then attribution of duties may proceed. Centralisation or delegation of responsibility is another dilemma. Key processes should be co-ordinated on a central level, but empowerment to meet decision by those who are the most familiar with particular elements of a project makes management more flexible and less time-consuming. While deciding upon tasks outsourcing to external experts, one must not forget about mechanisms of quality monitoring of work carried out by subcontractors. An ultimate success of a project must not depend on factors beyond control of a co-ordinating institution.

*Ad.5.* The next part of an application form contains **time schedule** and **work plan** of a project. The whole period of realisation of an undertaking must be broken into phases, what makes observation of development of a project much easier. After

completion of each stage, evaluation of outcomes in terms of money, time and results proceeds. Observed divergences between planned and actual amounts, duration or scope of actions need explanation, so that they can be corrected before they influence outcomes of a next stage. It is, therefore, reasonable to define envisaged **outcomes** after completion of each phase, listing **activities** leading to these and assigning **resources** (i.e. money, staff, equipment etc.) necessary for their realisation.

*Ad.6.* The **explanatory information to the budget**, which reflects guidelines for applicants or financial and administrative handbooks for managers of real projects, not only facilitates preparation of a form but, above all, defines confines of an undertaking. It is worth mentioning, that particular European projects, and their editions, put emphasis on various social issues, and hence allow incurring cost strictly related to overcoming those problems. What is more, as they differ in amounts of grants, applicants may find adjustment of their ideas to requirements of particular programmes necessary.

Before an application is prepared, it might be reasonable to know **evaluation criteria** of a project both finance- and content-related. Costs and income should be presented precisely enough to make a budget transparent. Income must be sufficient for completion of all tasks planned, whereas level of costs should demonstrate efficiency of resources use. An applicant must be aware, which **costs** are **eligible** for being placed in a budget and what principles of qualification of costs to those which may be reimbursed from a grant are. It must not be forgotten that, even if all costs are eligible, a **grant** may cover only a certain percentage of a budget approved, and own stake is always required.

The application form used for didactic purposes contains typical regulations with respect to cost eligibility. Costs, which can be included in an application, have to be characterised by several features:

- they must be related directly to realisation of a project in question;
- they have to comply with best practices of financial management, what guarantees efficiency of funds use;
- they should be incurred within a time of realisation of a project indicated in a proposal;
- they have to be put down in a ledger and necessary documentation of transactions must be in possession of participating institutions.

For each category of cost detailed regulations are given:

- **personal costs** have to be calculated on a basis of actual fees paid to particular staff category in a given region and amount of person days necessary to accomplish each task. Social security and health care premiums as well as insurance are eligible, too. No bonuses, allowances or dividends as well as expenses related to ordinary operation of participating institution are allowed, though. The same refers to representation and entertainment expenses;



➤ costs of *travel and subsistence* are eligible only if they are necessary for realisation of an undertaking. Calculation is based on actual fares – no flat rate is allowed. It is important to consider offers of several travel agencies, in order to find the most cost-effective proposal;

➤ in case of *purchasing or leasing of equipment* necessary for development of a project, a decision on form of using particular devices has to be met due to cost-effectiveness criterion and in relation to a project in question only. That means that even if purchase is more effective in the long run, for purposes of a certain project leasing may happen to be more efficient. Travel and subsistence expenses alike at least two providers have to be contacted;

➤ if *subcontracting and consultancy* are taken into consideration, amount of expenses borne by external parties should not exceed 30 per cent of a total budget of an undertaking as a rule. It is important that if employees of participating institutions have expertise in particular areas, subcontracting may be considered as not justified.

**Table 1.** Assessment of a project

<i>Evaluation Criteria</i>	<i>Score</i>		
<i>1</i>	<i>2</i>		
<b>I. IDEA AND COMPLEXITY</b>	<b>0-10</b>		
innovative	8-10		
typical	4-7		
imitative	0-3		
<b>II. CONCEPT</b>	<b>0-20</b>		
title and summary	0-2		
justification of a project	0-3		
target audience	0-2		
expected results	0-5		
control measures	0-5		
allocation of resources	0-3		
	<i>Project Co-ordinator</i>	<i>Financial Manager</i>	<i>Internal Auditor</i>
<b>III. REALISATION</b>	<b>0-20</b>	<b>0-20</b>	<b>0-20</b>
<b>1) Quality</b>	<b>0-5</b>		
transparency	0-3		
clarity of explanation and visualisation	0-2		
<b>2) Coherence</b>	<b>0-15</b>		
results with respect to project's justification	0-5		
time schedule with respect to expected results	0-5		
budget with respect to expected results	0-5		
<b>3) Completeness of a budget and efficiency of resources allocation</b>		<b>0-10</b>	
presentation of all expected costs		0-4	
reliable estimation of income		0-2	
reasonable calculation of prices and fees		0-4	
<b>4) Adjustable budget</b>		<b>0-10</b>	
incomplete flexibility		– (1-2)	
some flexibility		– (3-5)	
no flexibility		– (6-10)	

1	2	
<b>5) Formal requirements</b> completeness of answers proper order and length		<b>0-5</b> 0-3 0-2
<b>6) Content-related requirements</b> minor mistakes major mistakes inconsistency		<b>0-15</b> – (1-3) – (4-8) – (9-15)
<b>IV. TOTAL</b>	<b>0-50</b>	

Source: Own presentation

Applications prepared by students are evaluated in a bit different way than those submitted to European bodies. The evaluation form is presented in the *Table 1*.

The presented system of assessment emphasises the following elements of students' work.

➤ **innovative** elements of proposal (*Part I*), what stimulates creativity and enables to develop own approaches to solutions of existing problems;

➤ **comprehensive planning** and proper **communication** of ideas (*Part II*), what means that logical relations between target audience, needs, scope of a project, resources engaged and expected results are identified and clearly demonstrated;

➤ **feasibility** of a project (*Part III*), which is guaranteed by clarity of tasks distribution, cost-effective allocation of resources, completion of activities in timely-manner, implementation of quality control mechanisms and transparency of proposal. All the previously mentioned elements prove, that the proposal does not end with vision, but can be easily turned into action.

Projects, after being assessed, are presented to all participants of a workshop. This gives students a unique opportunity to evaluate strengths and weaknesses of all proposals as well as exchange their experience and opinions.

## 6. Conclusion

According to the authors, competencies presented at the beginning of the fifth chapter can be gained, while common projects are being developed. The authors believe, that this practise-oriented workshop can be beneficial not only for those, who in their professional life will be engaged in development of project financed with European Community's funds, but also for purpose of preparation of any business plans, regardless area of business and type of organisation.

It is important, that in case of new members of the European Union experience in developing of international projects is still to be gained by professionals in accounting and finance. Therefore it is important that graduates of economic studies, with good command of foreign languages and understanding of problems of business planning can be smoothly introduced into working teams, to fill the existing gap on the labour market.

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