

## REFLECTIONS AND ASSERTIONS REGARDING PROJECT ACCOUNTING FUNDED FROM NON-REFUNDABLE FUNDS

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### Abstract

Attracting and effectively utilizing non-reimbursable funds has become more important as a result of the institutional, social, and economic changes occurring at the national and European levels, as well as the focus on sustainable development and the lessening of regional imbalances. A strategic tool for modernizing the public sector and bolstering private and non-governmental initiatives are projects funded by external non-reimbursable sources, such as the European Structural and Investment Funds, EEA (European Economic Area) grants, or Swiss funds. However, the effectiveness of resource management—of which cost control and accounting are crucial—is just as important to the success of these initiatives as the funding source.

**Keywords:** accounting, non-reimbursable funds, projects, accounting treatment, control, audit, financial reporting

**JEL Classification:** M41

### 1. Introduction

The intricate nature of the legal framework governing the accounting of projects with non-reimbursable financing is highlighted, beginning with European regulations (Regulation 2021/1060, Financial Regulation 2018/1046) and continuing with national legislation (Accounting Law no. 82/1991, republished, OMFP 1802/2014 for entities applying accounting regulations in accordance with European directives or OMFP 2844/2016 for entities applying IFRS - International Financial Reporting Standards, OMFP no. 1917/2005 for public institutions).

It also emphasizes the importance of auditing, supporting documentation, and rigorous financial flow management in confirming expenditures and avoiding financial corrections. Accounting, in this environment, becomes more than just a recording tool; it is a critical

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pillar of transparency, compliance, and project success when funded with non-reimbursable funds.

The study focusses on the accounting and financial reporting components of projects in relation to accounting standards and laws that apply to both the public and private sectors. It covers the accounting of funds received, the allocation of expenses by budget line, the recognition of income and costs, and the interaction between financial and management accounting in non-reimbursable projects. In this regard, the study adds to a better understanding of the role of accounting in project success, as well as the accountant/financial manager's participation in decision-making processes.

The chosen topic is relevant to the field of accounting, given its practical implications for the recording, tracking, and control of costs in non-reimbursable funded projects. At the same time, the paper makes a significant contribution to the development of cost management theory and practice in the specific context of temporary projects funded from external sources. Through its integrated approach, solid theoretical foundation, and rigorous empirical analysis, the study contributes not only to the understanding of a complex phenomenon, but also to the development of useful recommendations for decision-makers, project managers, accountants, and contracting authorities involved in the management of non-reimbursable funds.

## **2. Literature review**

Because it guarantees a transparent, accurate, and permanent record of how financial resources are used, accounting is crucial to the management of projects funded by European funding. The fundamental requirements set by European financiers—legality, transparency, and efficiency—are met in accounting (*Laslo & Todea, 2020*) [1]. All accounting papers (e.g. invoices, bank statements, contracts, accounting notes) benefit from well-organized accounting since it allows for accurate and timely financial reporting, simplifies the expense reimbursement process, and avoids delays or administrative blockages etc.) must be accurately documented and maintained so that auditors or control authorities can access it. Furthermore, accounting is critical for evaluating the project's financial performance and making timely decisions. Project managers can successfully address irregularities by analyzing expenses, absorption rates, and potential budget deviations. Accounting is not only a legal requirement in EU-funded initiatives, but also a critical tool for transparency, control, sustainability, and project success (*Lăcătuș, 2013*)[2].

The role of accounting in the management of projects financed from European funds goes beyond the framework of a system for recording financial flows and becomes a mechanism for controlling, reporting, monitoring and preventing risks in the implementation of projects. A well-structured accounting record provides the beneficiary with a clear picture of cash flows, expenditure by category, own contribution and non-reimbursable financing and the degree of absorption of funds in a timely manner(*Popescu, 2017*) [3]. As a result, we believe that accounting is a critical strategic aspect in managing European funds. It lays the groundwork for the efficient and proper use of resources, supports managerial choices, assures compliance with the financier's requirements, and protects the organization from administrative and financial hazards.

A well-organized accounting system provides the traceability of all financial movements, from funds reception to supplier and salary payment, and aids in the early detection of any errors or discrepancies between the approved budget and its actual execution. Accounting also enables for the accurate creation of financial reports and facilitates audits and checks performed by control authorities by distinguishing between eligible and ineligible expenses. The importance of accounting is also demonstrated by the fact that each payment made within the project must be supported by clear supporting documentation (invoices, contracts, payment orders, and bank statements) and recorded in compliance with current accounting legislation. In the absence of well-organized accounting records, expenses may be rejected at settlement or financial adjustments will be applied, even if the funds were used in a legitimate and justified manner. *Accounting is more than just a technical tool; it guarantees the beneficiary's duty and professionalism towards investors.*

At the same time, accounting in the context of European funds is critical to the organization's future sustainability and financial integrity. Failure to comply with accounting regulations may result in sanctions, financial corrections, or even withdrawal of financing, all of which have a detrimental impact on the recipient institution's image and reputation (*Feleagă, 2006*) [4]. As a result, accounting must be considered as more than just a legal responsibility, but also as a strategic aspect that contributes significantly to project success and institutional capacity improvement.

The significance of accounting is also evident in the *financial reporting process*. Funders occasionally require thorough reports on the status of budget execution, and these documents must match the accounting records and follow the structure outlined in the applicant's guidance. Accounting supplies all of the data required for these reports to be completed correctly and helps to eliminate discrepancies between the amounts claimed and those actually spent, which can result in sanctions or refusal of reimbursement (*Enachi, 2021*) [5].

Additionally, accounting is crucial to keeping an eye on the allowed budget. There may be variations from the original projections as the project develops, and accounting records enable the prompt detection of these variations and the implementation of the required corrective actions (budgetary reallocations, funder notifications, and contract amendment requests). As a result, accounting facilitates effective and flexible financial resource management.

The project accounting system needs to fulfil a number of requirements in order to comply with European standards. These include:

- i) full traceability of revenues and expenses;
- ii) distinct recording of operations on each budget line;
- iii) recognizing the source of financing for each expense;
- iv) conformity with the eligibility and proportionality principles;  
and
- v) real-time updating of accounting records (*Dănescu & Cristian, 2012*) [6].

Thus, accounting becomes the project's genuine operational heart, around which all other components revolve: financial management, activity monitoring, funder reporting, and external audit.

### **3. Research methodology**

The exploratory study was designed to establish a comprehensive epistemological framework that recognizes the importance of empirical evidence, logical analysis, and theoretical synthesis in elucidating the implications and benefits of efficient, transparent, and compliant management of financial resources allocated from non-reimbursable funds in accordance with national and European regulations. The research methodology, which corresponded to the objectives and hypotheses established, was built around several key components: preliminary documentation, a bibliographic review, a detailed analysis of the collected data, and the development of structured interpretative frameworks to clarify the conclusions.

The scientific investigation used a mixed approach, incorporating and integrating both qualitative and quantitative research approaches to investigate the research study's assumptions and objectives. The use of a mixed approach allowed for a thorough examination of the complex impact of accurate recording of accounting operations, the delimitation of eligible expenses, the treatment of subsidies and reimbursements, up to the retention of supporting documents and the performance of the audit - all of which are strictly regulated and require a high level of professionalism and rigor. The inquiry revealed that the research recognizes the necessity of adhering to the regulatory framework, using accounting principles correctly, and keeping clear and distinct records for each project.

All of this helps ensure that initiatives are successful and sustainable by avoiding mistakes, financial corrections, or funding loss. *Accounting is therefore a strategic tool for financial management, internal control, and guaranteeing accountability in the use of European public monies in addition to being a legal necessity.*

### **4. The regulatory framework and regulations governing the accounting of non-reimbursable European funds**

Accounting for European funds is a difficult process that demands complying with accounting, financial, and transparency norms. To ensure the administration of financial resources from external non-reimbursable sources, specific standards must be followed for recording operations, reporting, and auditing expenses incurred. Accounting in projects financed by non-reimbursable European funds is subject to a highly complex legal framework, both in Romania and at the European level. This regulatory structure ensures that these funds are used in a transparent, correct, and efficient manner according with European Union regulations.

The general regulatory framework of the European Union is provided by Regulations, Guidelines, and Directives of the European Commission, such as:

- European Union Regulation 2021/1060 laying down common provisions on the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund and establishing financial rules applicable to these funds;
- European Union (EU) Financial Regulation 2018/1046, which establishes the general budget of the European Union, with provisions on financial management, audit, and control of funds;

- European Commission guidelines and guidance, including those on the eligibility of expenditure.

At national level, the accounting of European funds is regulated by a set of normative acts that establish the methods of reporting, recording, and control. The most relevant laws and ordinances are:

- Accounting Law No. 82/1991, republished, which establishes the general principles of accounting in Romania;
- Law No. 500/2002 on public finances in Romania, as amended and supplemented;
- Law No. 273/2006 on local public finances (addressed to local public beneficiaries), as amended and supplemented;
- Government Emergency Ordinance No. 64/2009 on the financial management of structural instruments and their use for the convergence objective, as subsequently amended and supplemented;
- Government Emergency Ordinance No. 34/2015 on the regulation of measures to stimulate the absorption of European funds, as subsequently amended and supplemented;
- Government Decision No. 873/2022 establishing the legal framework for the eligibility of expenditure incurred by beneficiaries in operations financed during the 2021-2027 programming period by the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the Just Transition Fund;
- Government Emergency Ordinance No. 36/2023 establishing the general framework for the closure of operational programs financed during the 2014-2020 programming period.

One of the most significant parts of European funds accounting is the creation of individual accounting records for each project. This entails creating separate analytical accounts within the general chart of accounts so that all income, expenses, and payments associated with a specific project are recorded in a clear, easy-to-follow, and verifiable manner.

Another basic principle as described by *Azzam et al. (2020)* [7], in the accounting of non-reimbursable European funds, is a clear distinction between qualifying expenses that can be repaid from non-reimbursable European funds and ineligible ones that must be covered out of pocket. Eligible expenses are specified in the applicant's guidelines and finance contracts, and to be approved, they must be justified and incurred throughout the project's eligibility period.

In accounting, *Bachtler și Gorzelak (2007)*[8] showed that these expenses must be highlighted separately to allow their verification by the management and control authorities. Expenditures made using non-reimbursable European funding can be accounted for in two ways, depending on the nature of the project. When it comes to investments, such as the purchase of equipment or the construction of a building, the funds received are recorded as deferred income, which is not recognized as income right away but rather gradually as the financed asset depreciates. If the project is operational, the funds are recognized as current income after the eligible expenses have been incurred. All of this falls under MFP Order No. 1802/2014.

All costs incurred in a project receiving non-reimbursable European financing must be accompanied by supporting documentation, such as contracts, invoices, activity reports,

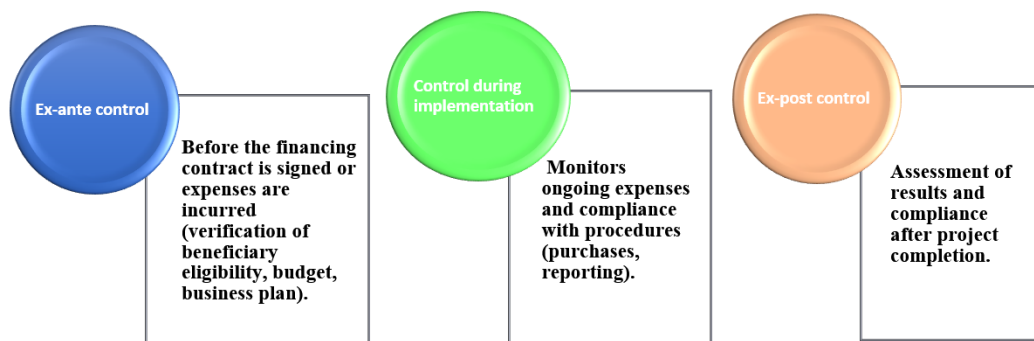
time sheets, and payment orders. Additionally, a precise record of the relationship between the activities performed and the expenses incurred must be maintained. Depending on national laws and funder regulations, all supporting documentation must be retained for a predetermined amount of time, typically five to ten years after the project is finished.

Most European programmes require the use of separate bank accounts for project-related financial transactions. This means that each project has a separate account for receiving funds and making payments, which contributes to clearer records and facilitates audit and subsequent control. Transactions in these accounts must be properly recorded in the accounts, with reference to the project to which they belong(HG 93/2016).

The determination of whether or not value added tax (VAT) is qualified for reimbursement is crucial. The VAT is deemed ineligible within the project and is not paid from European funds if the recipient is registered as a VAT payer and is able to deduct this tax. In contrast, the VAT may be deemed eligible and reimbursed by the financing if it is not deductible. This element needs to be made clear starting with the project submission phase and included in the accounting documentation.

Recipients of European subsidies are required to prepare regular financial reports that detail the project's status and provide justification for the costs spent. These reports must match the accounting data and come with requests for reimbursement or payment. Financial adjustments or even funding loss may result from irregularities or discrepancies between accounting records and financial reporting (OUG 40/2015).

Projects financed by European money may be evaluated using on-the-spot checks, financial audits, or administrative scrutiny. These are conducted by the Romanian Court of Auditors, governing authorities, state intermediary entities, or even the European Commission and European Anti-Fraud Office (OLAF). The beneficiary might have to pay back the money if there are shown to be irregularities in the accounting or unnecessary expenses. Sound financial management and compliance to national and European regulatory frameworks depend on the control, audit, and integrity of non-reimbursable external funds. They aid in avoiding mistakes, fraud, and the misappropriation of public funds. According to Figure 1, there are several types of control of non-reimbursable European funds.



**Figure 1.** Types of control of non-reimbursable European funds

Source: own contribution based on the literature studied

Another important component for ensuring sound financial management and compliance with the European and national regulatory framework is auditing, which can take several forms, as shown in Figure 2.



**Figure 2.** Types of audit of European non-reimbursable funds

Source: own contribution based on the literature studied

The audit of European non-reimbursable funds plays an essential role in ensuring the correct, efficient and transparent management of money from the European Union budget. The audit verifies whether the funds have been used in accordance with national and European legislation, as well as with the objectives set out in the financing contract. The purpose of the audit, as stated by *Baltos et al. (2018)* [9] is to identify any anomalies, mistakes, or fraud and stop them from happening, helping to safeguard the European Union's financial interests.

An impartial and independent evaluation of beneficiaries' project and resource implementation is provided by the audit. The beneficiaries and controlling authorities receive suggestions for enhancing procedures and boosting administrative effectiveness, and the activity encourages accountability and openness in the use of public funds. As a result, the audit serves as both a control tool and an instrument to enhance institutional capacity growth and good governance (*Radu M.2012*) [10].

To ensure accurate financial management, accounting for European money necessitates a high degree of professionalism and rigor. The terms of the financing contract, the standards for the financing program, and accounting laws must all be closely adhered to by the beneficiaries. For any project funded by non-reimbursable European funds to be successful, accounting records must be properly organized, supporting documentation must be preserved, and reports must be prepared on time. Both national and European laws, as well

as the methodological guidelines unique to each funding program, must be acknowledged by beneficiaries.

## **5. Particulars of accounting for projects financed with non-reimbursable money**

For projects funded by non-reimbursable funds, *managing supporting documentation entails gathering*, preserving, and meticulously documenting all supporting documentation for the project's declared expenses and activities in order to provide justification to the financier (the EU, the managing authority, AMPOR, etc.) and auditors.

We can state that the administration providing supporting documents is critical to transparency and eligibility, as funding may be denied without the proper documents. Both components are absolutely necessary, complementary, and must be managed properly in compliance with the applicant's guidelines and accounting legislation. To manage these processes properly, entities receiving European funds must have excellent accounting systems, well-trained staff, and very strong internal procedures. This assures not just compliance with European Union rules, but also effective and transparent administration of public resources, which is critical to the success of European Union-funded initiatives.

*Peters et al. (2015)* [11] discussed the European Union's criteria for acceptable supporting document formats and retention periods. The European Union requires that all papers be kept for at least *five years* after the project's completion to enable for post-implementation audits, and it emphasises the need of businesses having clear policies and precise procedures for document management and archiving.

Managing supporting documentation is just as crucial as carrying out a project. In this sense, a comprehensive, well-organized archive that is linked to accounting and technical records guarantees not only a simple verification process during monitoring/verification visits, but also the avoidance of financial corrections or reimbursements of amounts. Documents are typically arranged in physical files or digital files in PDF format, with descriptions included and the documents numbered and arranged thematically and chronologically. Document loss, incomplete or unclear scans, invoices unrelated to project activities, and non-compliance with eligibility requirements—such as improperly handled VAT or a lack of procurement procedures—are all mistakes that should be avoided.

Organizations handling European funds must put in place high-performance accounting information systems, hire skilled accounting and auditing staff, and create transparent operating procedures that are updated often in response to legislative changes in order to avoid these circumstances. The success and sustainability of projects involving non-reimbursable finance depend on the effective, transparent, and responsible management of public funds, which is ensured by meeting these standards in addition to adhering to EU legislation.

*Specific accounting records* in the case of projects financed by non-reimbursable European funds are accounting notes that are made separately, recorded in the accounting records, and reflect the eligible expenses incurred within a project, the rights to reimbursement of these expenses, the subsidies received from the financing authority, and asset acquisitions (if it is an investment). **Specific accounting records** clearly show the flow of money in



projects, from the beneficiary's expense to the actual collection of monies. The accounting record of European funds allocated to projects consists of numerous stages and types of particular accounting records that are required to maintain transparency, control, and compliance with legal restrictions.

The supporting documents considered essential for the management process within projects are presented in Figure 3.



**Figure 3.** Supporting documents for non-reimbursable financing projects

Source: own contribution based on the literature studied

## 6. Accounting treatment of grants and reimbursements

Azzam *et al.* (2020) [12] define European grants as non-refundable sums that are given to a public institution, non-profit organization, or PFA in order to carry out a project that has an economic, social, educational, or investment goal. The European Union provides these funding through a number of programs, including PEO, PNRR, and others, in accordance with a finance contract that outlines the terms, due dates, and categories of allowable expenses.

European grants work towards a number of strategic goals intended to promote social cohesion and sustainable development across the EU. Supporting employment via fostering social inclusion and the creation of new jobs, especially for vulnerable groups, is one of the

primary objectives. Additionally, these grants support ongoing professional development, which helps individuals adjust their skill set to meet the demands of a dynamic industry.

Additional significant goals include developing public infrastructure, particularly in impoverished areas, as well as promoting innovation and digitization in public administration, education, and the commercial sector. European subsidies are also critical for the transition to a green economy since they support initiatives that promote energy efficiency, the use of renewable energy sources, and environmental protection (Guşul, 2023)[13]. These funds help prevent climate change and support areas affected by economic transformations, such as mining regions or areas dependent on polluting industries. European grants, on the one hand, support rural development and agricultural modernization, ensuring a higher standard of living in rural areas and increasing farmer competition. Depending on the goals of financial programs, European Grants subsidies are given to a wide range of beneficiaries. With the ability to access European money for infrastructure modernization, public service digitization, or the execution of social and environmental policies, local and central public bodies are a crucial target group. Additionally, financial support is available to small and medium-sized businesses, start-ups, and social enterprises for technological development, investment, innovation, and internationalization (Dumitru et al., 2017).[14]

Within the framework of initiatives that support social inclusion, education, and labor market integration, non-governmental organizations and those offering vocational training are specifically targeted. Funding for innovation projects, global partnerships, or the updating of the material basis might be advantageous for educational and research organizations. Last but not least, in some circumstances, people can get help, especially with professional counseling, employment assistance, qualification courses, or starting their own business.

The sums obtained under contracts for non-reimbursable financing projects are made up of subsidies that can be used to pay for two main categories of expenses: investments (like buying buildings, software, equipment, or supplies) and operations expenditures (like hiring staff, buying materials, or hiring services). Romanian accounting regulations (OMFP 1802/2014 for entities applying accounting regulations in accordance with European directives or OMFP 2844/2016 for entities applying IFRS – International Financial Reporting Standards) and the guidelines set forth by the financing contracts must be followed when treating subsidies and reimbursements in the context of projects funded by European funds.

Generally speaking, *each of these sums is handled independently while adhering to the accurate representation and prudence principles*. From an accounting perspective, beneficiaries do not immediately record the pledged amount as income when they sign a financing contract with the controlling authority. The rationale is that revenue is only recognized when it is certain, that is, after the recipient has spent acceptable expenses and they have been accepted for reimbursement, in accordance with *the principle of accounting prudence*.

However, the business must keep an off-account record of the project and manage the associated documentation, including the project budget, a procurement plan, an expected estimate, and qualifying categories. After the beneficiaries have incurred the expenses, they will file a reimbursement request with the funding authorities. If this request is accepted

and the expenses are determined eligible, the beneficiaries have the right to realize the associated income in the accounting.

The recognized value will be equivalent to the amount granted by the authority for reimbursement. At the same time, a claim against the funding authority is entered in a separate account titled *"European non-reimbursable funds"*. Following approval of the reimbursement request, the funding authority transfers the appropriate amount to the beneficiary's bank account.

At that point, the actual receipt of the money is documented in the accounting by deducting *"European non-reimbursable funds"* and raising *"Bank accounts in lei"*.

This stage concludes the operating grant cycle; expenses have been incurred, grants have been approved, and funds have been received.

The accounting method for investment grants is different if the project involves the acquisition of machinery or other material assets. Equipment is listed as a fixed asset at the time of purchase. The amount reimbursed is not immediately recorded as income after the financing authority approves the reimbursement request; rather, it is recorded as an investment grant in the *"Investment grants"* account.

As the equipment depreciates, this sum will stay there and be progressively re-recorded in income. The investment subsidy is recognized as income proportionate to the depreciation of the funded asset rather than as income in a single installment in order to adhere to the matching expenses to income principle. As a result, the corporation will re-record a portion of the investment subsidy in income each month or year as it depreciates the equipment—that is, as it uses it and recognizes its accounting wear and tear.

The organization carrying out a project using European funding must maintain distinct accounting and extra-accounting records for every project. Clear information about the acceptable expenses incurred, their type, the amounts requested and authorized for reimbursement, and the status of the cash collected must all be included in these etc.

The relationship between the income and the expenses financed by subsidies is documented both at the end of each month when the subsidies corresponding to the expenses incurred are recorded as income and in the monthly profit and loss account, where the expenses are highlighted based on their nature. If the costs associated with subsidies have already been incurred, the receivable from subsidies is recorded in the balance sheet in line with the revenues from subsidies; if not, it is recorded on account of deferred revenues.

Additionally, subsidies are recorded on the balance sheet, and the amounts recorded as receivable from subsidies are regularized on a regular basis along with the request for reimbursement of the equivalent of the expenses incurred or based on other documents establishing and approving the amounts due (Figure 4).

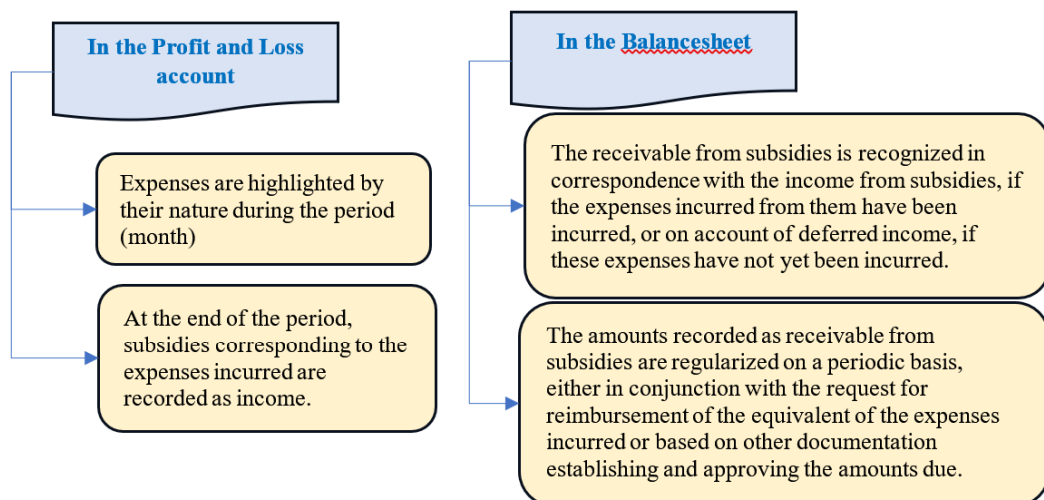


Figure 4. Presentation of grants from non-repayable external funds in the financial statements

An entity runs the danger of claiming uncertain income and making unjustified tax payments if it registers subsidies too soon, before approval. Additionally, there may be major accounting mistakes and even project financial revisions if operational and investment subsidies are not kept separate. Furthermore, in the event of an audit, unclear project records may give rise to allegations of fraud or non-compliance.

Repayment of a subsidy from European funds may take place if the recipient violates the terms of the financing agreement or utilizes the money in an inappropriate or ineligible way. This procedure, referred to as *financial rectification*, is an attempt to recoup sums that were deemed to have been spent excessively.

In actuality, amounts are corrected when irregularities are discovered after a control (executed by the managing authority, intermediate body, Court of Auditors, OLAF, or other control institutions). These irregularities may include: conflicting interests, non-compliant public procurement, expenditures without supporting documentation, disregard for the sustainability of the investment, or unapproved project modifications. A percentage adjustment (e.g., 5%, 10%, 25%, or even 100% of the value of the impacted expenditure) or a full refund of the amount issued may be requested, depending on how serious the irregularity is.

After being formally informed and given the chance to voice their opinions, the beneficiary receives a refund or compensation if the irregularity is verified. To prevent these circumstances, it is crucial that beneficiaries adhere closely to the regulations set forth in the funding guidelines and the contract, preserve all supporting documentation, and guarantee openness in the implementation process.

We can conclude that the concepts of transparency, separating eligible and ineligible expenses, and allocating subsidies *based on their usage form the foundation of the*

*accounting treatment of subsidies and reimbursements within projects funded by non-reimbursable European funds.*

To make future audits and verifications easier, it is crucial that all records be accurately maintained and that supporting documentation be kept on file. Sound accounting principles underpin the accounting treatment of subsidies and reimbursements for projects funded by non-reimbursable European funds. These principles **include matching subsidies with expenses and depreciation, reporting operating and investment subsidies separately, and recognizing income when certain.** Beneficiaries of these funds must work with qualified accounting professionals and adhere closely to accounting laws and funding regulations.

## **7. Financial reporting: rules and procedures related to projects financed from non-reimbursable funds**

To guarantee the proper and effective use of public funds, *financial reporting* for projects funded by non-reimbursable European funds is a demanding and highly regulated process. This crucial field, which is governed by specific regulations meant to maximize efficacy and reduce the danger of fraud, guarantees transparency and accountability in the use of public resources.

Regular internal and external audits are also mandated by financial reporting standards; this practice not only guarantees regulatory compliance but also boosts stakeholder confidence in the appropriate handling of finances. (Magán-Maganto, et al., 2017) [15] highlighted the important role of audits in early detection of any deviations from standard reporting practices and in implementing appropriate corrective measures. In addition, compliance with reporting standards is often verified through inspections by national and European authorities, an essential aspect for ensuring the long-term financial sustainability of projects. The necessity for ongoing education and training for those involved in fund management and reporting goes hand in hand with transparency in financial reporting.

(Milward, 2009) [16] demonstrates the value of training courses that improve the particular abilities required to comprehend and implement complex financial reporting regulations. These initiatives reduce human error and improve the efficacy of the reporting process. A key component of financial management for projects funded by European funds is financial reporting, which is necessary to maintain transparency and to satisfy the EU's audit and compliance regulations. In this way, financial reporting practices are made to guarantee effective tracking of resource allocation and utilization, which promotes improved risk management and fund allocation optimization. The accomplishment of set goals and the effectiveness of project implementation are greatly influenced by accurate and timely reporting.

An essential aspect consists in the necessity of adapting reporting procedures to the details of each project, taking into account the wide range of disciplines and the various criteria of different funding programs. This requires an in-depth comprehension of financial regulations, as well as the capacity to effectively interpret and apply them. Pita et al. (2010) [17] have demonstrated that reporting systems need to be adaptable enough to enable quick modifications in the event that funding priorities or rules change.

Internal and external audit is very important for verifying compliance with financial reporting procedures. Different specialists have examined the significance of regular audits, which offer suggestions for improving reporting procedures in addition to spotting possible anomalies or deviations from financial standards. Therefore, auditors play a crucial role in guaranteeing the accuracy and legitimacy of financial data that is disclosed.

Furthermore, technology is crucial to updating and simplifying financial reporting procedures. The significance of integrated information systems that enable real-time data collecting and promote communication between management authorities and beneficiaries has been highlighted by several writers. Utilizing cutting-edge software solutions improves the accuracy of the financial data supplied by minimizing human error and expediting the reporting process.

The EU Regulations, which regulate the use of European Structural and Investment Funds, the Managing Authority's (MA) orders, which outline the specific rules applicable to each type of project or operational program, the Financing Contracts, which are signed between the fund beneficiaries and the MA and clearly outline the conditions for implementation and financial reporting, and the Guidelines for the applicant and the beneficiary, which offer more details on the eligibility requirements and the steps to be taken, provide the primary legal framework for financial reporting. The MA, the Intermediate Bodies (IBs), which may be in charge of carrying out particular programs, and national or European audit authorities, like the Court of Auditors or the DLAF (Department for the fight against fraud, DLAF is the contact institution of the European Anti-Fraud Office within the European Commission and the Anti-Fraud Coordination Service in Romania), are among the organizations involved in the management of European funds in this context.

Throughout a project's execution, a beneficiary is required to provide a variety of financial reports. These financial reports—such as intermediate and final financial reports and requests for reimbursement or payment—are crucial to ensuring that European funds are used appropriately. **MySMIS**, the online platform used by recipients of European funding to submit financial reports and reimbursement requests, is one of several online tools and platforms that make managing and submitting documents easier in the financial reporting processes. In Romania, this is used for most of operational programs. As resources that make document management and submission easier, we think of the Managing Authority's Guides and Manuals, which outline the required and necessary steps for financial reporting and offer crucial details on the kinds of expenses that qualify, the documents that are needed, and the protocols that must be followed within a project's execution. The proper implementation of projects and the ability of beneficiaries to reimburse qualified expenses are ensured by following the regulations and protocols set forth by national and European authorities.

It is critical that all expenditures are supported by explicit supporting papers, that contractual terms and public procurement procedures are followed, and that recipients are transparent and in compliance with EU and national regulations. Common errors, such as document discrepancies or invalid expenditure, can result in sanctions or even financial loss, thus each stage of the reporting process must be properly reviewed and followed.

## **8. Conclusions**

The accounting of European non-reimbursable funds is a critical component in ensuring effective, transparent, and compliant administration of allowed financial resources in compliance with national and European legislation. The entire process, from documenting accounting operations to limiting eligible expenses, processing subsidies and reimbursements, maintaining supporting papers, and conducting audits, is rigorously controlled and requires a high level of professionalism and precision.

Compliance with the regulatory framework, proper application of accounting principles, and keeping of clear and distinct records for each project, all contribute significantly to its success and sustainability by preventing errors, financial adjustments, or financial losses. As a result, accounting is more than just a legal necessity; it is also a strategic tool for financial management, internal control, and responsibility in the use of European public funds.

The intricate nature of the legal framework governing the accounting of projects with non-reimbursable financing is highlighted, beginning with European regulations (Regulation 2021/1060, Financial Regulation 2018/1046) and continuing with national legislation (Accounting Law no. 82/1991, republished, OMFP 1802/2014 for entities applying accounting regulations in accordance with European directives or OMFP 2844/2016 for entities applying IFRS - International Financial Reporting Standards, OMFP no. 1917/2005 for public institutions).

It also emphasizes the importance of auditing, supporting documentation, and rigorous financial flow management in confirming expenditures and avoiding financial corrections. Accounting, in this environment, becomes more than just a recording tool; it is a critical pillar of transparency, compliance, and project success when funded with non-reimbursable funds.

The role of accounting in the management of projects financed from European funds goes beyond the framework of a system for recording financial flows and becomes a mechanism for controlling, reporting, monitoring and preventing risks in the implementation of projects. A well-structured accounting record provides the beneficiary with a clear picture of cash flows, expenditure by category, own contribution and non-reimbursable financing and the degree of absorption of funds in a timely manner.

Cost management is an essential component of project management, recognized as one of the most critical dimensions for achieving the proposed objectives. Both the specialized literature and management practices indicate that accurate accounting and rigorous cost control not only maximize the efficient use of financial resources but also reinforce the sustainability of the projects implemented. In the case of non-reimbursable projects, the additional complexity generated by compliance with eligibility, reporting, and audit requirements necessitates increased attention to the way costs are planned, monitored, and controlled. The temporary nature and specific objectives of non-reimbursable projects require adapted accounting and a management capacity focused on quantifiable results.

In the context of growing global economic and geopolitical uncertainties, as well as the 2021–2027 financial programming at European Union level, which emphasizes greater responsibility of beneficiaries in managing funds, the adoption of appropriate cost management practices becomes essential to reduce the risks of non-compliance, loss of funding, or failure to achieve the proposed results.

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