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# PERFORMANCE AUDIT REPORT FOR AN INDIVIDUAL ENTERPRISE FROM THE HORTICULTURAL SECTOR

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## Abstract

*This report describes a performance audit mission, namely an analysis based on the documentation related to the project „ESTABLISHING A RASPBERRY CROP” submitted by applicant X I.I to be funded under Submeasure 6.1- Installation of young farmers in NATIONAL RURAL DEVELOPMENT PROGRAM 2014-2020, - determining the need and opportunity to improve the economy, efficiency and effectiveness of activities. The audit engagement was performed in accordance with the approved internal audit plan. The general objective of the audit mission is to perform an analysis based on the documentation related to the project „ESTABLISHING A RASPBERRY CULTURE” submitted by applicant X I.I to be funded under Submeasure 6.1- Installation of young farmers in NATIONAL RURAL DEVELOPMENT PROGRAM 2014-2020, following the determination the need and opportunity to improve the economy, efficiency and effectiveness of activities.*

**Keywords:** audit report, horticulture

**JEL classification:** M21Business Economics

## Introduction

In the context of the general objective, the following specific objectives were taken into account:

1. Selling the production in a percentage of over 20% the value of the first part of the grant
2. Increasing labor efficiency and productivity
3. Improving the company’s management by conducting a course for specialization in horticulture

The preparation of this audit report involved the examination of cost-effectiveness, efficiency and effectiveness as follows:





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3. Improving the company's management by conducting a course for specialization in horticulture

The additional objectives proposed in the project are clearly specified and correspond to those specified in the funding application.

Purpose: To create a raspberry nursery, which will become the largest distributor of raspberries in the North-East Region - the production and sale of raspberry raspberries

Location: North-East Region, Neamț County, Horia commune, Cotu-Vameș village

Beneficiary: X INDIVIDUAL ENTERPRISE

Execution period: 3 years (2022-2025)

The duration of the execution of the Financing Agreement is a maximum of 36 months. This includes:

- the duration of the implementation of the Business Plan is of maximum 33 months from the signing of the contract and represents the deadline until which the beneficiary can submit the last payment request.

- to the duration of the implementation of the Business Plan is added the term of maximum 90 calendar days for making the last payment, without exceeding the payment term of 31.12.2024 provided in art. 65 of Regulation (EU) no. 1303/2013, with subsequent amendments and completions.

Value: 40,000 Euro, respectively the value SO = 28 071.25 S.O

Sources of financing: NATIONAL RURAL DEVELOPMENT PROGRAM, Priority Axis: Measure 6.: Development of farms and enterprises Sub-measure 6.1- Support for the installation of young farmers

## **2.2 Conducting the audit mission**

A. Legal basis for conducting the audit

- Approved internal audit plan;
- Law no. 672/2002 on public internal audit, republished, with subsequent amendments;
- GD no. 1086/2013 for the approval of the General Norms regarding the exercise of the public internal audit activity;

General objective

The general objective of the audit mission is to perform an analysis based on the documentation related to the project „ESTABLISHING A RASPBERRY CULTURE” submitted by applicant X I.I to be funded under Submeasure 6.1- Installation of young farmers in NATIONAL RURAL DEVELOPMENT PROGRAM 2014-2020, following the determination the need and opportunity to improve the economy, efficiency and effectiveness of activities.

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## **B. Specific objectives**

Verification is performed to ensure the validity, reality and accuracy of document records and compliance with applicable laws and regulations, as well as the effectiveness of internal control through examination (to detect errors and / or irregularities) as a verification technique.

According to the Applicant's Guide, the Business Plan will include at least the following:

- Presentation of the initial situation of the agricultural holding (eg: applicant's data, scope of activity, legal form of the applicant, professional skills, history of the agricultural enterprise, production facilities, endowment of the holding);

- Presentation of the proposed stages and objectives for the development of the agricultural holding (eg general objective, operational and additional objectives - planning their fulfillment, implementation risks, European standards and norms related to labor and environmental protection and sanitary-veterinary norms, in case of farms agricultural products aimed at raising animals, the arrangement plan for the management of manure, according to the environmental norms as well as the forecast of the budget of incomes - expenses;

- Detailed presentation of actions, including those related to environmental sustainability and resource efficiency, necessary for farm development, training or advice (proposed economic improvement of the farm, proposed training and advice plan - to improve the skills of the beneficiaries and the efficiency of the farm, restructuring and diversification of agricultural activities (environmental risk assessment and implementation planning); The precondition for the efficient management of the business plan is represented by the establishment of the beneficiary's domicile in the ATU where the holding is registered, as well as of the job in the same ATU or the neighboring area. Regarding the Business Plan prepared for this project, regarding the accuracy of the information used in the design of the project we found the following:

### **1) Control of the accuracy of the information used in the project**

The information presented in the Financing Application and the Business Plan by the beneficiary X INDIVIDUAL ENTERPRISE is correct, complete and complies with the eligibility criteria provided in measure 6.1 „Support for the installation of young farmers”.

Chapter I - General information on the applicant - clarifies the costs for drawing up the project.

Chapter II- The current situation is presented in detail.

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Chapter III - The selected selection principles are presented in detail.  
Chapter IV - The objectives and actions by which they can be achieved are presented in a complex manner.

Chapter V - Supply and sales market - information on raw material suppliers, but also on potential customers, is presented in detail

In Chapter VI - Type and quantity of production obtained during implementation, the tables prepared for the understanding and synthesis of the business plan are finalized and provide concrete information related to the proposed level of production.

In Chapter IX - the assessment of the main risks regarding the Business Plan, the applicant evaluates the risks by categories.

### **2) Control of project approval, authorization and approval**

The project was approved, authorized and endorsed by the accredited bodies responsible for the implementation and management of measure 6.1 "Support for the installation of young farmers". The project is compliant and eligible.

### **3) Project cost control**

The costs were stated in the Business Plan. It is considered that the costs foreseen in the project are in line with the objectives of the project and

### **4) Control of project results**

The expected results of the project are foreseen and documented in the Business Plan.

The applicant is responsible for producing the results. The applicant is obliged to monitor the objectives, and these must be clearly set as specific as possible.

The main result of the project is the installation of the young farmer X (Administrator) in the commune of Horia. This installation will be carried out following the successful implementation of the project "ESTABLISHING A RASPBERRY CULTURE", which will be possible by fulfilling all the proposed objectives.

### **5) Control of risk management within the project**

Risk management was carried out in a dedicated section of the Business Plan, which specifies the causes, effects and ways to combat them.

The actions that will be taken to improve the implementation of the sub-measure and reduce the risks are:

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- Clearly establish the objectives and actions that lead to their fulfillment within the deadlines established according to the Applicant's Guide.

- Following a qualification course in horticulture by administrator X;
- Start implementing the business plan before the start of the nine-month period to avoid problems that may arise from non-compliance with the business plan.

- Carrying out regular checks on the implementation of the project and the stages of project implementation and compliance with the conditions of residence and work in the vicinity of the managed holding receiving support;

- The risk of replacing the person responsible for the management, benefits and financial risk decisions - does not exist because he is the sole shareholder of the company.

### **2.3 Techniques and methods used to obtain audit evidence**

#### 1) Consultation of project documentation

The applicant's guide has been consulted and the beneficiary meets the eligibility criteria.

Legislation in force governing the field / sector of activity

Regarding the nature, content, manufacture, quality, packaging, labeling, marking, storage and transport of the product "Canned raspberries", which also regulates the field of production and distribution of dragons.

- National Rural Development Program 2014-2020;

- Romania's National Support Program in the Wine Sector with subsequent completions and modifications;

- Law on fruit growing no. 348/2003;

- Rule on testing and registration of varieties of vines, fruit trees and ornamental plants from 13.01.2006 - Ministry of Agriculture, Forests and Rural Development;

- Order no. 149/2004 on the approval of standard forms regarding the authorization of planting and deforestation of fruit plantations - Ministry of Agriculture, Forests, Waters and Environment;

- Law on agricultural cooperation no. 566/2004 - Parliament of Romania.

Database of the main suppliers of the applicant

Neamt drag production institute, Horia commune - planting material.

COMACOM SRL- Neamt, Horia commune - plastic bags for drag packaging.

Database of the applicant's main customers

At the farm gate, local markets Neamt, Horia commune

The project budget and the financial analysis of the project - was presented in the business plan and the 3 E - Efficiency, economy and efficiency are respected.

The project aims at a financing of 40,000 Euros

The revenues forecast in the business plan for the next 3 years are worth 402,000 euros.

The expenses foreseen in the business plan for the next 3 years are in the amount of 48,008 euros.

The gross result forecast in the business plan for the next 3 years is worth 339,165.8 euros.

The financial indicators are presented in detail in the table below.

Indicators	1st year	2nd year	3rd year
<b>Revenues</b>			
Vegetal sector	100000+ 724,6= 100724,6 euro	135000+ 724,6= 135724,6 euro	150000+ 724,6= 150724,6 euro
<b>TOTAL REVENUES</b>	<b>100 724,6</b>	<b>135 724,6</b>	<b>150 724,6</b>
<b>Expenses</b>			
Vegetal sector	7172 (organic fertilizers, minerals, treatments)+260 (fuel)+ 5400(packaging)+ 1052 euro (salaries-2600*2)	7415+ 520+ 7200 +1052	7739+520+ 8100+ 1578
<b>TOTAL EXPENSES</b>	<b>13 884 euro</b>	<b>16 187 euro</b>	<b>17 937 euro</b>
<b>GROSS RESULT</b>	<b>86 840,6 euro</b>	<b>119 537,6 euro</b>	<b>132 787,6</b>

The cadastral documentation, with the situation plan and the classification in the area - was provided by the applicant.

Compliance with environmental standards - complies with national and European recommendations on the amount of chemicals used.

Vulnerabilities / risks:

The risk of not achieving the expected production

The risk of not being able to supply raw materials at the time set in the Gantt chart

The clear inaccuracy of the objectives may lead to the impossibility of analyzing the expected results and to the declaration of ineligibility of the project.

Failure to provide an inadequate response to clarification notifications submitted by the verifier may also lead to a declaration of ineligibility of the project.



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2) Legislation on the eligibility of expenditure (GD no. 759/2007 on the rules for eligibility of expenditure incurred in the context of operations financed by operational programs, with subsequent amendments and completions until 2013);

The legislation regarding the eligibility of expenses is observed - GD no. 759/2007

3) Examination of the Financing Application.

The applicant's funding application is correct and complete.

#### **2.4 Findings and conclusions of the audit mission**

After examining the documentation made available to the auditor by beneficiary X, the following resulted:

A. Regarding the observance of the principle of economy

Applicant X respects the principle of economy in the project submitted for measure 6.1 "Support for the installation of young farmers". There were analyzed 3 price offers within the process of purchasing the raw materials and equipment provided in the business plan and the optimal option was chosen in terms of quality-price-necessity.

Economics consists in minimizing the cost of resources allocated to achieve the estimated results of an activity while maintaining the appropriate quality of those results;

For the evaluation of the economy, it is followed if the business plan and the financing request include adequate and comprehensive specifications regarding the organization and functioning of the activities within the project.

Following the analysis of the submitted documents, the following aspects were verified:

- Is the allocation of funds sufficient and can the proposed activities be carried out in good conditions?

The allocation of funds would be sufficient to support the installation of the young farmer X (Administrator) in Horia commune, Neamt county. The location helps to implement the project and the activities can be carried out in good conditions.

- Does the company purchase at the lowest cost the appropriate resources in terms of their nature, quality and quantity?

This aspect can be determined as there are several offers presented in the business plan - optimal quality-price ratio; the principle of using public money

- Does the company manage its resources to minimize overheads?

Such aspects are elaborated within the business plan - the most efficient and advantageous solutions are used in the implementation of the project.

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- Could the intervention have been designed or implemented in a different way that would have reduced costs?- no

**B. Regarding the observance of the principle of efficiency of the project realization**

Applicant X respects the principle of efficiency of the project implementation for the Business Plan submitted on measure 6.1 “Support for the installation of young farmers”. There were analysed 3 price offers within the process of purchasing the raw materials and equipment provided in the business plan and the optimal option was chosen in terms of quality-price-necessity. It details how the amount from European funds will be used, in relation to the rest of the expenditure involved.

**C. Regarding the observance of the principle of the effectiveness of the project realization**

(the degree of fulfillment of the declared objectives of an activity and the relationship between the desired impact and the achieved impact)

The objectives stated in the business plan have been met, and the applicant has become the largest producer and distributor of dragons in the North-East region.

Effectiveness is the degree of achievement of the objectives programmed for each activity and the ratio between the projected effect and the actual result of the activity.

Effectiveness can be expressed as the ratio between the results obtained for a given activity and the programmed results.

We followed the extent to which the actions taken by the applicant contribute to the achievement of the objectives in a narrow sense, examining only the management and the proposals made in the submitted documents.

Examining the submitted documents, we looked at whether:

- are the proposed objectives achieved with the means used, respectively are the programmed results obtained?

Yes. Following the analysis of the submitted documents, it is proved that the proposed objectives can be achieved with the means used, respectively the programmed results are obtained.

- Are the means used and the results obtained compatible with the objectives of Sub-Measure 6.1?

Yes. Following the analysis of the submitted documents, it is proved that the means used and the results obtained are compatible with the objectives of Sub-measure 6.1.

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• Are the programmed impacts a concrete result of the managerial policy and not one due to other circumstances?

The managerial policy was elaborated concretely within the project, so that assessments can be made around the programmed impact from this point of view - positive impact of the project as a result of the implemented managerial policy.

## 2.5 Regarding the results of the project

Objectives and purpose of the project

General objective: Establishment of a raspberry nursery

Specific objective: The farm was established by acquiring one hectare of land, inheriting 2 hectares and taking over a donation of 2 ha in the NE region, Neamț county. This objective will be achieved by equipping with new and high-performance equipment, necessary in the operation of the nursery and the application of efficient working methods that require a minimum of labor consumption and low operating costs.

The objectives and purpose of the project - previously analyzed in this report, can be achieved in terms of effectiveness.

The direct and indirect results of the project can be achieved by clearly establishing the proposed activities to achieve the proposed objectives.

The project realization plan is composed of the time planning and financial planning of the objectives and the fulfillment of the activities that lead to the achievement of these objectives.

The evaluation of the project performance established following the analysis of the submitted documentation:

Variable	Minimum*	Maximum*	Mean
The principle of economy is respected	1	5	4,8
The principle of efficiency is respected	1	5	4,9
The principle of effectiveness is respected	1	5	4,9

The project implementation plan is based on the expected objectives and its implementation duration. The project implementation plan complies with the eligibility criteria set out in the applicant's guide for measure 6.1 "Support for the installation of young farmers".

The evaluation of the project performance (correct evaluation of the results) was done through the evaluation report and the audit report. The beneficiary complies with the eligibility criteria for measure 6.1 "Support for the installation of young farmers". The applicant undertakes to market its own production in excess of 20% of the value of the first tranche of support.

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### **Regarding risk management**

The risks were anticipated.

- The risk of not fulfilling the criteria related to the start of the implementation of the business plan within six months from the moment of contact;
- The risk of managing the agricultural business in a locality at a distance from the farm, which affects the farmer's ability to manage it properly;
- The risk of not fulfilling the additional objectives proposed by the applicant through the actions established in this business plan;
- The risk of not achieving the expected production
- The risk of not being able to supply raw materials at the time set in the Gantt chart

### **Conclusions**

Following the evaluation report and the audit report, it was found that the applicant X meets the eligibility criteria for receiving the grant. The documents provided by the applicant are correct and complete.

The performance audit engagement report was prepared based on the audit engagement schedule and findings made during the collection and processing of information.

During the audit mission, the activities to be carried out within the project were evaluated, using a grid with 3 levels as follows:

- Critical: pay more attention to the protection of the natural environment
- To be improved: the minimum requirements of the normative framework are met, there are concerns of the farmer for the implementation of the management system through objectives, ensuring an adequate professional training of the applicant, implementation of the project in optimal conditions.
- Functional: there is a strategy in the field of the project that takes into account the general objectives of the entity and the specific objectives of the activities to be carried out. At the same time, the activity can be carried out in compliance with good practices.

The general conclusion of the report after examining the economy, efficiency and effectiveness of the project is that the amounts accessed will be spent on the installation of the young farmer.

By carrying out this report, the general objective of the audit mission was fulfilled, which consists in carrying out an analysis based on the project documentation, determining the need and opportunity to improve the economy, efficiency and effectiveness of activities and the specific objectives of this report. the regulations regarding the eligibility of expenses within

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the project were observed, as they are provided in the national, community legislation and in the applicant's guide related to Submeasure 6.1 - Support for the installation of young farmers and if the principles of economy, efficiency and effectiveness of activities were observed business related to the project submitted for approval.

With well-defined objectives and indicators of success before the start of the project, this approach helps to set a well-defined framework for evaluation.

The project is efficient, no ways are identified to improve its efficiency at the moment.

The effectiveness of the project was demonstrated by the high degree of probability of fulfilling the general objective of the project, namely the installation of a young farmer.

The economy of the project is high.

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