



Audit Conclusion from audit

13/37

Funds earmarked for the implementation of the Swiss-Czech Cooperation Programme to reduce economic and social disparities within the enlarged European Union

The audit was included in the 2013 Audit Plan of the Supreme Audit Office (hereinafter "NKU") under number 13/37. RNDr. Petr Neuvirt, member of NKU, directed the audit work and prepared the conclusions of the audit.

The aim of the audit was to review whether the funds earmarked for the implementation of the *Programme of Swiss-Czech cooperation to reduce economic and social disparities within the enlarged European Union* had been granted and used in line with the legal regulations and the conditions specified.

The audit was conducted between November 2013 and May 2014. The period under review was 2009 to 2013, and, where justified by factual connections, also the preceding periods.

Audited entities:

Ministry of Finance (hereinafter the "MF"),
Ministry of the Interior (hereinafter the "MI"),
Ministry of Health (hereinafter the "MH"),
Ministry of the Environment (hereinafter "ME"),
Centre for International Cooperation,
Czech Environmental Partnership Foundation – CEPF, Brno, (hereinafter the "Partnership Foundation")

and selected beneficiaries:

ČSOP SALAMANDR, Rožnov pod Radhoštěm; DOMINO cz, o. s., Zlín; ELIM – křesťanská společnost pro evangelizaci a diakonii, Hranice; Severomoravské regionální sdružení ČSOP, Valašské Meziříčí; Statutory City of Olomouc.

Objections submitted against the audit protocol by the MF were addressed by the head of the audit group by a decision on objections. The appeal of the MF against the decisions on objections was settled in a resolution of the Board of the NKU.

At its 14th session held on 8 September 2014, the **NKU Board approved**, by Resolution No. 10/XIV/2014, the following **Audit Report**:

I. Introduction

The Programme of Swiss-Czech cooperation to reduce economic and social disparities within the enlarged European Union (hereinafter the “Swiss-Czech Cooperation Programme” or “Cooperation Programme”) is one of the sources of funds provided to the Czech Republic (hereinafter the “CR”) from abroad which do not originate from the general budget of the European Union (hereinafter the “EU”).

In the Memorandum of Understanding concluded between the EU and the Swiss Federal Council on 27 February 2006, both parties agreed that the Swiss Federation will support, in the form of a non-refundable financial support in the amount of one billion CHF, ten new EU member states which also included the Czech Republic.¹

Framework agreement between the CR and Switzerland signed on 20 December 2007 (hereinafter the “Framework Agreement”) stipulated the financial support in the amount of CHF 109.78 million (including 5% administrative costs on the Swiss side, i.e. CHF 5.5 million). The final date for concluding commitments for this assistance was 14 June 2012. The Framework Agreement allows for reimbursement of expenses until 14 June 2017. The Framework Agreement includes three annexes which contain particularly a conceptual framework of cooperation and the rules and procedures for the individual forms of support within the Swiss-Czech Cooperation Programme.

The Framework Agreement defined a general objective of the Cooperation Programme and priority areas and it also stipulated the expected financial allocation. The aim of the Swiss-Czech Cooperation Programme is to contribute to reducing economic and social disparities:

- between the Czech Republic and more developed countries of the enlarged European Union,
- between dynamic city centres and regions affected by structural changes in the framework of the Czech Republic.

The following table includes a summary of priority areas of the Cooperation Programme including the expected allocation of funds.

Table No. 1 – Priority areas of the Swiss-Czech Cooperation Programme

Priority area	Financial allocation (in CHF)
1. Safety, stability, support for reforms	26,000,000
2. Environment and infrastructure	30,000,000
3. Private sector support	12,000,000
4. Human resources development and social development	11,000,000
5. Special allocation*	15,100,000
6. Reserve**	15,680,000
Total	109,780,000

Source: Framework Agreement, Annex No. 1, 1st Revision.

* Special allocation includes funds earmarked for block grant, Project Preparation Fund, Swiss management of the Cooperation Programme and for Czech technical assistance.

** Reserve consisted of non-allocated funds that were divided between the priority areas of the Cooperation Programme.

The support from the Swiss-Czech Cooperation Programme was to be concentrated into defined priority areas, as well as regionally (at least 40% of the support will be used in the Moravia-Silesia, Olomouc or Zlín Regions).

¹ After the involvement of states which became members of the EU after 2007, the support for the CR is the fourth largest after Poland (CHF 489 million), Romania (CHF 161 million) and Hungary (CHF 130 million).

The Framework Agreement allows for several types of support, namely support for: **individual project**², **programmes**³, **funds**⁴ and **block grant**⁵. The responsibility for implementation of the programmes, funds and block grant is delegated to the appointed intermediaries.

The institutional framework of the Cooperation Framework is based on the Framework Agreement and is elaborated in detail in written governing documents issued on a national level.

On the Swiss side, the Cooperation Programme is administered by the State Secretariat for Economic Affairs (priority areas 2 and 3) and the Swiss Agency for Development and Cooperation (priority areas 1 and 4). In relation to the Czech Republic, the communication is ensured by the Swiss Embassy in Prague – Swiss Contribution Office.

On the national level, the responsibility for the Cooperation Programme is borne primarily by the National Coordination Unit (hereinafter the “NCU”); on the basis of Resolution of the Government of the CR on 7 November 2007, No. 1272, the Ministry of Finance of the Czech Republic, more specifically three units of Department 58 – International Relations, was designated to fulfil the duties of the National Coordination Unit. The MF also authorised Department 55 – National Fund as the paying authority and Department 17 – Control Department as the national audit authority to perform the activities according to the Framework Agreement.

The organisational structure of the Cooperation Programme includes **intermediate bodies** to which part of the NCU tasks⁶ has been transferred by agreements on delegation of powers and responsibilities. The intermediate bodies include the Ministry of Justice, the Ministry of Labour and Social Affairs (hereinafter the “MLSA”), the Ministry of Health, the Ministry of the Interior, the Ministry of the Environment and the Ministry of Industry and Trade.

Intermediaries represent another element of the organisational structure. These are entities authorised to manage a particular programme, block grant or fund. They are responsible for selection of sub-projects and overall supervision over their implementation. The following table shows the summary of intermediaries and instruments administered by them in the framework of the Swiss-Czech Cooperation Programme.

Table No. 2 – Summary of Intermediaries

Intermediary	Name of fund, programme, block grant
Ministry of Finance – NCU	<i>Project Preparation Fund</i> <i>Partnership Fund</i> <i>Technical Assistance Fund</i>
Ministry of the Environment	<i>Environmental Expertise Fund</i>
Ministry of Health	<i>Health Programme</i>
Rectors' Conference – CRUS*	<i>Scholarship Fund – SciexNMS^{ch}</i>

² This is an individual project in the given priority area.

³ The Cooperation Programme consists of individual projects interconnected by common subject or objectives.

⁴ Fund provides grants to specific areas based on its focus. It is basically similar form of assistance as the programmes.

⁵ These are resources accumulated to support larger number of small projects (CHF 10 thousand to CHF 250 thousand).

⁶ The main tasks of the intermediate bodies include cooperation with the NCU in publishing open calls, collecting and evaluating project outlines and final project proposals, issuing legal acts on provision of support, checking substantive and formal accuracy of the reports on the projects and of individual applications for payment and submitting these reports to the NCU. They also include pre-funding of projects from their own budget, control and management of the project implementation according to the set conditions including supervision in the area of tender procedures, providing for inspections, audits, as well as ensuring acceptance, reporting and investigation of irregularities.

Partnership Foundation	Block grant <i>Fund for Non-Governmental Non-Profit Organizations</i>
Ministry of Industry and Trade	<i>Inostart</i> Programme

Source: MF.

* These are intermediaries on the Swiss side; for the CR, part of the responsibilities is shared by the National Agency for European Programmes which is part of the Centre for International Cooperation.

Executing agency⁷ is the lowest level of the organisational structure. This is any entity (public or private) that directly implements an individual project.

In accordance with the Framework Agreement, the NCU established Monitoring Committee of the Swiss-Czech Cooperation Programme in the Czech Republic which is responsible for monitoring the preparation, implementation, efficient management and coordination of utilization of funds from the Swiss-Czech Cooperation Programme. Its major tasks also include discussions of the project outlines and their recommendation/non-recommendation for approval to the Swiss side, proposals for programme modifications and approvals of annual reports.

The Framework Agreement also requires establishing an **audit entity**, in case of the CR a private company, which will provide, on the basis of an agreement concluded with NCU, for auditing the projects in accordance with international audit standards.

According to the Framework Agreement, the amount of support from the Cooperation Programme will not exceed 60% of the total eligible costs of the project, except for projects funded from public budgets (support up to 85%). Projects aimed at building institutions, technical assistance projects, projects implemented by non-governmental organisations, as well as financial support for the benefit of the private sector can be funded in the maximum amount of 100% of the total eligible costs. The specific amount of support has been determined on an individual basis based on a project agreement concluded between the Swiss Federation and the Czech Republic.

As of the decisive date 14 June 2012, the Swiss side approved a support amounting to the entire amount of net allocation which, after the deduction of administrative costs of the Swiss side, equals CHF 104.28 million. By the end of 2012, all project agreements had been concluded between the Czech and Swiss sides. Consequently, the NCU issued the relevant legal acts through which it provided support on a national level.

The following were approved for implementation:

- 30 individual projects,
- 5 funds (*Partnership Fund, Environmental Expertise Fund, Scholarship Fund, Project Preparation Fund, Technical Assistance Fund*),
- 2 programmes (*Health Programme, Inostart Programme*),
- block grant *Fund for Non-Governmental Non-Profit Organizations* (hereinafter the “block grant”).

As of 31 March 2014, CHF 14,747,520 was drawn down from the Swiss-Czech Cooperation Programme⁸ (i.e. approx. 15% of net allocation, without the *Scholarship Fund* funds).

At the MF, activities related to performing the function of the national coordination unit, paying authority and national audit authority have been audited. They specifically included

⁷ However, in practice, this is commonly referred to as the final beneficiary or beneficiary.

⁸ The amount does not include utilisation of the *Scholarship Fund* whose intermediary is a Swiss organisation CRUS and whose financial flows do not pass through the National Fund. The Amount for block grant *Fund for Non-Governmental Non-Profit Organizations* is converted from CZK to CHF at the exchange rate of 18.10 CZK/CHF.

the organisational provision for the Cooperation Programme, process of evaluation of the project outlines and final project proposals, monitoring, control and reimbursement of applications for payment, preparation of annual reports, system of reporting and investigating irregularities and methodical coordination and execution of audits. The audit also focused on administration of three funds in which the MF performs the intermediary function – *Partnership Fund, Project Preparation Fund and Technical Assistance Fund*.

At the MI, ME and MH, the audit was focused on their involvement as intermediate bodies, particularly in the evaluation and selection of projects and, subsequently, in their implementation. In case of the ME and MH, the audit was also focused on their activity as intermediaries of the fund and/or particular programme. The activity of intermediary was verified also in case of the Partnership Foundation. In case of the Centre for International Cooperation,⁹ the audit by the NKU verified the performance of obligations following from the agreement on the *Scholarship Fund* for the Czech Republic and subsequently concluded Memorandum of Understanding, particularly promotion, control of formal requisites, evaluation of projects and sending reports on implementation.

Nine projects were audited directly at the beneficiaries, namely three individual projects of the MI, individual project of the Statutory City of Olomouc, sub-project financed from the *Project Preparation Fund* at the same beneficiary and four sub-projects¹⁰ financed from the block grant.

The audit by NKU verified the system of administration of funds in the total value of CHF 8,099,342 (approx. CZK 170,912,323¹¹).

In case of final beneficiaries, expenditures in the total amount of CZK 91,621,546 were verified. More detailed information is given in the audit conclusions annex.

Note: The legal regulations cited in these audit conclusions are employed in the wording valid for the audited period.

II. Facts ascertained during the audit

A. MF as the national coordination unit, paying authority and national audit authority

Organisational structure of the Cooperation Programme

On the basis of the performed audit, the NKU states that multi-level organisational structure (see Part I of the audit conclusions) which makes use of the involvement of intermediate bodies does not contribute to efficient and trouble-free administration of the Cooperation Programme. The existence of intermediate bodies requires mutual communication between them and the MF both in the period of preparation of projects and in the period of their implementation which increases the time required for implementation of the Cooperation Programme.

⁹ The Centre for International Cooperation is a contributory organisation established by the Ministry of Education, Youth and Sports.

¹⁰ Beneficiaries: DOMINO cz, o.p.s., Zlín; ELIM – křesťanská společnost pro evangelizaci a diakonii Hranice; ČSOP SALAMANDR, Rožnov pod Radhoštěm; Severomoravské regionální sdružení ČSOP, Valašské Meziříčí.

¹¹ Converted at the exchange rate of 21.102 CZK/CHF – average exchange rate in 2013. For more detailed information, see Annex.

The MF provides support, based on a legal act, to the intermediate body and the intermediate body provides it further to the final beneficiary¹². Together with the agreement concluded for each individual support by the Swiss side and the Czech Republic represented by the MF, there are three mutually interconnected legal acts. Any amendment to the agreement may also require amendment to both related legal acts which increases administrative demands and may result in time delays.

The existence of intermediate bodies within the implementation system places higher demands on administration because it requires creation of own organisational structure for the individual intermediate bodies, including creation and updating of written procedures as well as their verification¹³. Simultaneously, intermediate bodies administer relatively small volumes of funds¹⁴ and establishment of these bodies was not mandatory in terms of the Framework Agreement.

Assessment and evaluation of projects

Applications have been administered in a two-round system – the subsidy applicants first draw up a brief project outline which was, after the approval by the Swiss side, elaborated and submitted for approval as a final project proposal. Also in this phase, the Swiss side had a decisive word. The Czech side recommended outlines for submission and draw up opinions on the projects.¹⁵

The audit of the sample of selected individual projects revealed that the time from submission of the project outline until execution of the project agreement was long. In case of projects within the open call by the MLSA and ME it equalled approx. two and a quarter years and in case of projects within the direct call by the MI it equalled approx. one to three years.¹⁶ Additionally, the time required for issuing two related legal acts on a national level must also be added to that period. The relevant legal acts were issued by the MF within 1.5 months for the MLSA, three months for the ME and from five to seven months for the MI. In the subsequent period, the intermediate bodies issued legal acts for the final beneficiaries. The duration of approving project outlines and final project proposals was affected primarily by the selected evaluation procedure¹⁷, organisational structure of the Cooperation Programme in the Czech Republic and complexity of communication with the Swiss side due to necessity of translating the outlines and final project proposals into English.

Verification of public contracts

In the Cooperation Programme, special attention is given to public procurement. The Swiss side requires submission of assurance of compliance with the relevant legal regulations and rules of the Cooperation Programme. In case of an above-the-threshold public service contract the submission includes translation of documentation of a public contract and in

¹² The MF issues to the intermediate bodies the so-called grant award notification. The subsidy is granted to the beneficiaries either through a decision to award subsidies pursuant to Act No. 218/2000 Coll., or in the form of determination of expenditures for funding a project of the organisational body of the State.

¹³ Until the completion of the audit by the NKU, the MF alone performed 16 public administration controls at the intermediate bodies focused on the setting of the management and control system.

¹⁴ E.g. the MI administers funds in the amount of approx. CZK 280 million in the framework of the Cooperation Programme. In contrast, it administers approx. CZK 6.9 billion in the framework of the *Integrated Operational Programme* and approx. CZK 3.6 billion in the *Operational Program for Human Resources and Employment*.

¹⁵ Except for the *Project Preparation Fund*, this procedure does not apply to individual projects (sub-projects) in the framework of programmes, funds and block grant where no project outlines are being drawn up and where the intermediary alone makes a decision on granting the subsidy.

¹⁶ The principle of open call consists in publishing the information and engaging pre-unlimited number of applicants. Direct call means addressing pre-selected entities.

¹⁷ Two-round approval procedure was required by the Swiss side.

case of contracts exceeding CHF 500 thousand the Swiss side may require, in advance, tender dossier in the English language. The MF approves all tender dossiers for public contracts with value exceeding CHF 10 thousand. Also intermediate bodies and intermediaries enter, to various degrees, into the approval process. Because of necessity of communication between several stakeholders (beneficiary, intermediate body, MF and/or the Swiss side), the preparation of public contracts is very complex from the administrative and temporal viewpoint. This strain further increases if there is a duty to prepare translations and duty to have the documentation approved by the Swiss side. The length of administration is affected by the scope and number of commentary procedures which are factors directly dependent on the quality of the basic documents prepared by the beneficiaries.

A number of suppliers are selected in the Cooperation Programme through small scale public contracts. In relation to these public contracts, the Public Procurement Act explicitly requires only observance of the principles of transparency, equal treatment and prohibition of discrimination. It is up to the individual support providers to determine specific procedures leading not only to observance of the mentioned principles but also to effective utilisation of public funds. Support providers (intermediaries and intermediate bodies) from the Swiss-Czech Cooperation Programme drew up their own procedures for procurement of these contracts. These procedures mutually differ, to various degrees, and procurement of the same type of small scale public contract (including the same estimated value of the contract) must be made by the beneficiary according to rules which are not uniform. Beneficiaries implementing several projects financed by various providers (e.g. Partnership Foundation and the MLSA and/or Partnership Foundation and the ME) are obliged to adhere to different rules which increases their administrative burden as well as risk of errors. The MF as the NCU did not take the opportunity to methodically unify the rules for procurement of small scale public contracts which would lead to simplification and clarification of implementation of the Cooperation Programme.

National audit authority

The organisational body of the MF fulfilling the role of national audit authority performed, until the audit by the NKU, no public administration control at the block grant intermediary, i.e. the Partnership Foundation. Simultaneously, this private organisation administers approx. twice as much funds as the Ministry of Justice which was audited three times by the national audit authority in the period under review.

The national audit authority did not require submission of documents on audits at the intermediate bodies and thus did not proceed in accordance with the internal regulation¹⁸ which specifies the requirements of the Framework Agreement.

B. Intermediate bodies, intermediaries and beneficiaries

In addition to the MF as the national coordination unit, the NKU audited also several intermediate bodies and intermediaries. Also a sample of final beneficiaries had been audited. The Centre for International Cooperation which ensures some tasks for the Swiss intermediary of the *Scholarship Fund* was also subject to audit. The audit at the Centre for International Cooperation revealed no shortcomings.

1. Ministry of the Interior

The Ministry of the Interior is an intermediate body for the Priority support area 1. *Safety, Stability and Support for Reforms*, in respect of focus areas 1.2 *Disaster Prevention and*

¹⁸ *Methodology of financial flows and audit for the Swiss-Czech Cooperation Programme.*

Management and 1.4 Strengthening Institutions and Capacities in the Fight against Corruption and Organised Crime. The MI participated in the selection of individual projects through direct call¹⁹. The following facts have been ascertained during audit at the MI:

- The duties of the MI as an intermediate body include acceptance and subsequent assessment of the project outlines. The NKU ascertained that the MI failed to perform these duties and the outlines had been submitted and assessed directly by the NCU.
- In all 11 individual projects, the MI as the administrator of a chapter of the State budget failed to determine the project indicators in the legal acts on provision of the support, at variance with the requirement of the budgetary rules and implementing Decree²⁰, in nine cases the project objective and in ten cases the project parameters. The failure to transfer the indicators specified in the project agreement to the legal acts on provision of the support creates the risk that the MI will not be able to verify whether and how the required conditions have been met in the relevant projects.
- At variance with the methodology²¹ of the Swiss-Czech Cooperation Programme, the MI failed to provide for sufficient audit track when it failed to keep some of the documents related to project evaluation. Furthermore, in three projects selected into the audited sample the MI failed to meet the deadlines for issuance of legal acts required by the methodology.
- The MI approved the internal documentation for the Cooperation Programme only at the end of September 2010 despite that the delegation agreement was signed in August 2009.
- On the basis of audit results, the relevant departments of the MI were repeatedly requested²² to modify the internal documentation, but, until the audit by the NKU, failed to make such an update. The MI failed to adopt adequate remedial measures without undue delay and thus failed to proceed in accordance with the Act on Financial Control²³.
- In three individual projects, the NKU performed on-the-spot verifications. Shortcomings have been found in one of the verified projects where the performance of preliminary management control pursuant to the Act on Financial Control could not be verified²⁴. In all three project selected for audit by the NKU, the final beneficiary requested extension of the period of implementation. Two projects were extended by 12 months and the third project by 13 months.

2. Ministry of the Environment

The Ministry of the Environment provides for the activity of an intermediate body for the Priority support area 2. *Environment and Infrastructure*, focus areas 2.1 *Renewal and Modernisation of Basic Infrastructure and Improvement of the Environment* and 2.2 *Improvement of the Environment*. An open call took place in the focus area 2.1 which

¹⁹ The direct call related to the departments of the Police Presidium of the Czech Republic or departments of the Police of the Czech Republic with a statewide jurisdiction that are part of the organizational unit of the State - Ministry of the Interior.

²⁰ Section 12 (3) of Act No. 218/2000 Coll., on budgetary rules and on amendment to some related laws (budgetary rules) and Section 5 (1) (b) of Decree No. 560/2006 Coll., on the involvement of the State budget in financing the renewal of estate.

²¹ *Methodology of financial flows and audit for the Swiss-Czech Cooperation Programme*, Part 6 and 3.3.

²² Inspections by the MF in 2009, 2011 and 2012 and internal audit of the MI in 2012 and 2013.

²³ Section 18 (1) of Act No. 320/2001 Coll., on financial control in the public administration and amending some related laws (the Act on Financial Control).

²⁴ Sections 10 and 13 (1) of Act No. 416/2004 Coll. implementing Act No. 320/2001 Coll., on financial control in the public administration and amending some related laws (the Act on Financial Control) (hereinafter the "implementing Decree No. 416/2004 Coll."). The errors relate to three expenditures. Verification could not be made due to the absence of basic information in the audit records – date and signatures. In one case, the audit records have not been submitted at all.

resulted in implementation of total six individual projects. *Environmental Expertise Fund* has been established for focus area 2.2²⁵ whose intermediary is the ME.

The audit of the NKU ascertained:

- non-compliance with the deadlines for making advance payments to the *Environmental Expertise Fund* stipulated by internal regulation.

The NKU found no shortcomings, based on on-the-spot audit, in the individual project of the Statutory City of Olomouc (intermediate body for this project is the ME²⁶).

3. Ministry of Health

The function of intermediate body for the support area 4. *Human Resources Development and Social Development*, focus area 4.2 *Health*, was delegated to the MH. Simultaneously, the Ministry of Health is the intermediary of the *Health* programme through which support in the area 4.2 is provided. The audit of the NKU was focused primarily on execution of the call No. 1 in the *Health* programme and found the following facts:

- When submitting interim reports and annual report on the *Health* programme, the MH did not proceed in accordance with the internal regulation for the Swiss-Czech Cooperation Programme. The shortcomings related to submitting reports between the intermediate body and intermediary in the framework of the Ministry of Health and the NCU where the deadlines for their submission to the intermediate body have not been met. The audit also revealed several other errors such as specifying incorrect details in the annual report.
- The functions of intermediate body and intermediary in implementing the *Health* programme virtually merge because their execution was entrusted with same department of the MH.

4. Ministry of Finance

Three funds from the priority areas 1 and 5 where the MF fulfils the role of intermediary have been audited.

Partnership Fund

- The MF did not stipulate mandatory indicators on the level of sub-projects through which it could assess the degree of contribution of the individual sub-projects in relation to their financial requirements and to the defined objectives of the *Partnership Fund*. There is a risk that the most advantageous projects have not been selected and that the requirements of the Act on Financial Control have not been met²⁷. The governing documentation did not sufficiently define the procedure of the evaluators when awarding points to the evaluated projects. Consequently, it could not be verified whether the points have been awarded correctly nor it could be verified whether the evaluators recommended a high-quality project. It also increases the risk that not all applicants have been treated equally.

²⁵ This fund is focused on supporting the planning capacity in the public administration, exchange of experiences, on cooperation between the Czech and Swiss entities, on utilisation of new procedures in promoting environmental protection and on sustainable development support.

²⁶ The *Nové Sady Tram Line* project. In the framework of this project, 1,394 km of double-track tram line was created. Max. subsidy amount CZK 154,815,816.79 (85%), the total price according to the contract for work including amendments equaled CZK 271,394,193.97.

²⁷ Section 25(1)(a) of Act No. 320/2001 Coll. concerning the duties stipulated for economic, effective and efficient execution of public administration.

- In the second and seventh cycle for submitting applications, the MF permitted different²⁸ composition of the evaluation committee than required by the agreement in respect of the *Partnership Fund*. The composition of these committees neither respected the character of the evaluated applications despite the fact that the manual of the fund so required²⁹. These deviations were not contested by the Swiss side.
- The audit of the NKU found shortcomings in performing preliminary public administration control before creation of obligation according to the Act on Financial Control³⁰. For part of the projects, the MF performed the audit demonstrably not before but only after the issuance of the decision on provision of the subsidy. The records on preliminary controls did not contain identification of the specific projects and the approved amounts represented anticipated expenditures of the entire fund for the relevant period and not the projects' planned expenditures.
- The MF does not require submission of the relevant documentation to public contracts of the projects and cannot thus verify compliance of the procedure with the set conditions and, subsequently, neither justification of the expenditures. This procedure is not in line with the requirements of the Act on Financial Control on preliminary control after the creation of the obligation³¹ and creates the risk of reimbursement of ineligible expenditures.
- During the audit, the NKU ascertained cases where the MF failed to commence investigation of irregularities³², despite the violation of conditions which the MF itself specified in the decision on provision of subsidy. The violation related to e.g. failure to meet the deadlines for submission of monitoring reports by the beneficiary or failure to report changes in the project. The MF proceeded at variance with the set conditions also in case of ineligible expenditure paid from the provided subsidy where the MF itself made the respective correction without referring it to other authorities.
- The audit also found shortcomings in the area of methodical setting of financing from the *Partnership Fund*. The MF, for example, did not have available all documents to evaluate justification of expenditures for travel allowances. The decisions on provision of subsidy failed to unambiguously define the binding effect of some manuals and guidebooks for beneficiaries and the MF has no instrument with which it could enforce the observance thereof.

During the audit of documentation of a sample of five sub-projects³³, the NKU found in four of them failed control by the MF before payment³⁴ and subsequent reimbursement of ineligible expenditures in total amount of CZK 523,621³⁵. This violation constitutes an irregularity in the

²⁸ The committee should have been composed of representatives of the Swiss side, the relevant ministries, representatives of territorial self-governing units, social partners and representatives of non-governmental non-profit organisations. No representative of the social partners and non-governmental non-profit organisations (Cycle II) and/or representative of the association of cities and towns (Cycle VII) were present at the meeting.

²⁹ For example, in the second cycle, there were no representatives of the social partners and non-governmental non-profit organisations in the committee. Simultaneously, the entities lodging the applications included mostly non-governmental non-profit organisations.

³⁰ Section 11 (1) of Act No. 320/2001 Coll. and Section 13 (2),(4) and (7) of Decree No. 416/2004 Coll.

³¹ Section 11 (3) of Act No. 320/2001 Coll.

³² According to the *Methodology of financial flows and audit for the Swiss-Czech Cooperation Programme*, irregularity means "any act or omission aimed at ineligible draw-down and/or utilisation of the subsidy funds, particularly fraud, embezzlement, providing misleading information, breach of duties following from the Project Agreement, breach of proper utilisation of the subsidy, violation of purpose or conditions under which the funds have been incorporated into the State budget or transferred through a budgetary measure and released at variance with the stipulated purpose or conditions."

³³ Sub-projects PF-007, PF-018, PF-073, PF-076, PF-096. Subsidy amount paid as of the date of control: CZK 3,580,427.60.

³⁴ Section 11 (2) and (3) of Act No. 320/2001 Coll.

³⁵ The amount includes both contribution from the Cooperation Programme and national co-financing and takes account of the created duplicities in a project which is entirely ineligible.

sense of the *Methodology of financial flows and audit for the Swiss-Czech Cooperation Programme*. These were the following cases:

- The MF paid a subsidy in the amount of CZK 90,240 for participation in a professional conference in Switzerland, including visits to medical facilities. The audit ascertained that the representatives of the beneficiary attended only a part of the conference, did not watch contributions of the Swiss lecturers nor visited medical facilities³⁶. The conference was not primarily focused on transfer of information from the Swiss environment. This activity resulted in proceedings containing annotations in an extent of approx. 6 lines to the individual presentations and references to presentations in English publicly accessible at the website of the conference organiser. Given the course of the activity and its outputs, the expenditures were not expended in accordance with the principle of efficiency and, consequently, were neither justified.
- In the same project, the MF reimbursed an expenditure for experts in the amount of CZK 104,159 although such expenditure was not justified according to the instruction of the NCU. Indeed, it was not a service provided by the project partner but by a contractor on a commercial basis which was not allowed by the rules. Given the fact that participation of the project partner was minimal also in the framework of other project activities, the basic condition of justification of the support from the *Partnership Fund*, i.e. the support for partnership and cooperation between Swiss and Czech institutions aimed at mutual cooperation, transfer of information and know-how, has not been fulfilled. The whole project never should have been financed from the *Partnership Fund*. The MF did not ascertain the shortcomings and paid out CZK 397,896 for the implementation of the project.
- During the inspection of the application for payment, the MF did not ascertain exceeding the limits of expenditures for publicity and reimbursed the ineligible expenditure in the amount of CZK 9,142. Furthermore, the MF reimbursed CZK 5,953 for refreshments and fares. These expenditures were not directly linked to the project activities. Catering of the participants took place at the time when there was no on-going project activity and the fare related to a related project and activities not included in the project.
- In its application for payment, the beneficiary demanded, at variance with the conditions, reimbursement of expenditure for labour costs of its own employee in the amount of CZK 67,787. The same beneficiary claimed expenses for project partner in the amount of CZK 25,318 although it failed to document them by the required supplier invoices. The MF paid out both amounts to it.
- The MF approved reimbursement of an amount of CZK 26,665 for acquisition of a positioning bed for the purposes of demonstration of compensation aid options in the framework of a one-day conference. This purchase was not a justified expenditure because it was not approved in the project and does not respect the principles of efficiency, economy and effectiveness.

Project Preparation Fund

- The audit ascertained a case of non-standard procedure in administering an application for support. Although the Ministry of the Interior, in the capacity of the applicant, did not apply for support from the *Project Preparation Fund* already in the outline of its individual project³⁷ as stipulated by the rules in the governing documentation, the MF administered the application and the Swiss side approved the sub-project. This procedure constitutes a

³⁶ They could not attend the morning programme because they arrived to the place of the conference only in the afternoon. Two of the five participants travelled from the place of the conference on the last day morning and, consequently, could not attend the last day of the conference. The remaining participants left in the evening so none of the representatives of the beneficiary could attend visits to medical facilities which took place on the next day.

³⁷ *Project Preparation Fund* was used to finance expenditures associated with preparation of the final project proposal such as preparation of documentation for the construction permit.

risk of non-compliance with the requirements for transparency and equal treatment of applicants.³⁸

- The NKU found shortcomings of similar character as in the case of the *Partnership Fund*. These were shortcomings in the area of setting the system of evaluation criteria³⁹, binding effect of the manuals, execution of preliminary public administration control before creation of obligation⁴⁰ and public contract audit.

In case of the Statutory City of Olomouc as the beneficiary, the NKU verified one of the sub-projects of the *Project Preparation Fund*. No inadequacies have been found.

The audit by NKU found no shortcomings in the sample of expenditures of the *Technical Assistance Fund* in an amount exceeding CZK 11.7 million.

5. Partnership Foundation

The Partnership Foundation is an intermediary of the block grant. The intermediary was selected by the MF through a public contract and the financial flows take place on the basis of a decision on provision of subsidy. The audit ascertained particularly the following inadequacies:

- The audit by NKU found conflicting definitions of deadlines for the possibility of supplementation and correction of interim reports and number of their corrections in the block grant manual. One of the provisions of the manual stipulates the possibility of two supplementations/corrections while another provision in some other part allows only one correction. In case of an unsuccessful correction in the former case the manual provides that such situation will be considered as a failure to attain the outputs of the sub-project including imposition of penalties. In the latter case in the same situation the manual provides the possibility to re-apply for the payment after the expiry of six months. In practice, however, the Partnership Foundation allowed the final beneficiaries making more than one or two corrections of these reports.
- The Partnership Foundation proceeded similarly in administering sub-projects in which the condition for accepting a grant consisting in sending a signed agreement within 15 calendar days has not been met.
- In 61 sub-projects of calls 1-3, 39 advance payments were provided after the expiry of the deadline stipulated in the governing documentation. Such delays ranged between one and 117 days.
- The NKU also performed on-the-spot verification at the final beneficiaries implementing four sub-projects. Only minor inadequacies have been found during this control.

³⁸ In the sense of Annex 1, Chapter 2 of the Framework Agreement.

³⁹ Absence of setting of the method for objective measurable evaluation of criteria for adequacy of the amount of support and budget items which creates the risk of lack of economy in evaluating the need for and amount of the subsidy.

⁴⁰ The audit ascertained that the MF performed the preliminary control before creation of the obligation only after the issuance of decision on the provision of the subsidy and, consequently, failed to proceed in accordance with Act No. 320/2001 Coll. and in accordance with Decree No. 416/2004 Coll.

III. Summary and Evaluation

The audit was concerned with the funds earmarked for the implementation of the Swiss-Czech Cooperation Programme. As of the decisive date 14 June 2012, the Swiss side approved a support amounting to the entire amount of net⁴¹ contribution in the amount of CHF 104.28 million (approx. CZK 2.2 billion⁴²).

The amount of funds utilised as of 31 March 2014 equalled CHF 14,747,520⁴³ which represents approx. 15% of the allocated funds. The period of reimbursement of expenditures lasts until 14 June 2017.

The audit by the NKU verified the system of administration of funds in the total value of CHF 8,099,342 (approx. CZK 170,912,323⁴³). In case of final beneficiaries, the NKU verified expenditures in the total amount of CZK 91,621,546 (see annex to the audit conclusions).

Despite complex organisational structure and time-consuming manner of project approval, the Czech Republic managed in time to conclude the obligations for the entire allocation of the Cooperation Programme. Given the relatively small progress in utilisation of the funds and the number of completed projects, the NKU could not evaluate the fulfilment of general objectives of the Swiss-Czech Cooperation Programme, i.e. to contribute to reducing the economic and social disparities between the Czech Republic and more developed countries of the enlarged European Union and, in the framework of the Czech Republic, to contribute to reducing the disparities between dynamic city centres and regions affected by structural changes. The accomplishment of the cited objectives should be achieved through implementation of the projects approved by the Swiss side which include projects such as *Nové Sady Tram Line* in Olomouc, *Public Transport for All – City of Beroun*, *Provision for New Technological Centre of the Police of the Czech Republic*, *Modernisation and Extension of the Home for Seniors* in Bílovec or *Home for Seniors* in Rožnov pod Radhoštěm.

The audit ascertained particularly the following system inadequacies:

- 1) Complex multi-level organisational structure of the Cooperation Programme on a national level involving the intermediate bodies increases the time and personnel required.
- 2) Some intermediate bodies did not perform in practice the delegated activities to the full extent (the Ministry of the Interior) or their activity actually merges with some other duties (intermediate body and intermediary in case of the Ministry of Health).
- 3) The rules for procurement of small scale public contracts are non-uniform throughout the Cooperation Programme which may cause the beneficiaries problems in implementing the projects.
- 4) The MF and the MI failed to comply with the Act on Financial Control in the area of performance of the public administration control.

System inadequacies have also been found in two funds, namely the *Partnership Fund* and the *Project Preparation Fund*. The evaluation of project applications of the *Partnership Fund* failed to adequately define the procedure of the evaluators in awarding points and failed to set mandatory indicators through which it would be possible to assess the degree of contribution of the projects. The *Project Preparation Fund* had no set objective measurable

⁴¹ After deduction of the amount of CHF 5.5 million (5% of the contribution) intended for administrative costs of the Swiss side.

⁴² Converted at the exchange rate of 21.102 CZK/CHF – average exchange rate in 2013.

⁴³ The amount does not include utilisation of the *Scholarship Fund* whose intermediary is a Swiss organisation CRUS and whose financial flows do not pass through the National Fund. The Amount for block grant *Fund for Non-Governmental Non-Profit Organizations* is converted from CZK to CHF at the exchange rate of 18.10 CZK/CHF.

manner of evaluation of the need and adequacy of the subsidy amount and budget items of the project. The MF did not have complete basic documents to control public contracts in the framework of these funds and, therefore, could not verify compliance with the set conditions. On a sample of projects, we have found individual failures of controls before payment on the part of the MF and subsequent reimbursement of ineligible expenditures in the amount of CZK 523 621 in the *Partnership Fund* projects. The MF should review these cases in accordance with methodical procedures for the area of irregularities.

The NKU points out to long period of project approval which is substantially affected by the two-round method of project evaluation, necessity of translations of document to and from the English language, as well as multi-level organisational structure on a national level. The administrative and time burden is also increased by the employed method of control of public contracts before their announcement.

On the basis of facts ascertained during this audit, the NKU recommends the following for the remaining period of implementation of the Swiss-Czech Cooperation Programme and/or for future foreign assistance of similar character:

- to simplify the organisational structure on a national level, particularly not to create intermediate levels in the form of intermediate bodies;
- to unify the procedures for procurement of small scale public contracts;
- to promote lower number of different types of assistance, e.g. programmes and projects instead of the programmes, funds, block grant, individual projects and sub-projects, in order to attain higher transparency for the applicants and the public;
- to pay adequate attention to the implementation phase of the Cooperation Programme so as to minimise the risk of non-compliance with limit deadline of 14 June 2017 for reimbursement of expenditures.

The audit was substantively and temporally coordinated with the Swiss Federal Audit Office which performed an audit of the Cooperation Programme in the Czech Republic in the first half of 2013. No detailed outputs from this audit have been published by the Swiss side by August 2014. The cooperation of both audit institutions will result in a joint report to be drawn up, according to the mutually agreed schedule, until November 2014.

Similar audits take place also in other states supported by the Swiss Federation on the basis of a memorandum with the EU (see Chapter I of these audit conclusions). Their outputs will be used not only in the individual supported countries but can also serve on the Swiss side as a basis for decision-making about the future of this non-refundable financial support.

Audit of a system of administration performed by the NKU

Priority area	Number	Type of assistance	Intermediate body / Intermediate	Name	Audited entity	Approved amount of support	Reimbursed applications for payment
4.1	CH-001	Fund	CRUS ¹	Scholarship Fund Sciex-NMS ^{ch}	Centre for International Cooperation	CHF 7,000,000.00	X ²
5	CH-002	Fund	MF	Technical Assistance Fund	MF	CHF 2,600,000.00	CHF 480,965.61
1.1	CH-003	Fund	MF	Partnership Fund	MF	CHF 5,050,000.00	CHF 1,636,571.36
5	CH-004	Fund	MF	Project Preparation Fund	MF	CHF 186,464.71 ³	CHF 186,464.71
5	CH-006	Block grant	Partnership Foundation	Block grant Fund for Non-Governmental Non-Profit Organizations	Partnership Foundation	CHF 6,585,564.00	CHF 5,519,230.47
2.2	CH-009	Fund	ME	Environmental Expertise Fund	ME	CHF 1,000,000.00	CHF 260,333.67
4.2	CH-010	Programme	MH	Health Programme	MH	CHF 11,180,000.00	CHF 15,776.56
Total						CHF 33,602,028.71	CHF 8,099,342.38

Source: documents submitted to the NKU for audit.

¹ Rectors' Conference of the Swiss Universities.

² Financial flows of the fund are provided for directly by the Swiss intermediary.

³ Originally approved amount of support CHF 2 million, unused funds have been transferred to other parts of the Cooperation Programme.

Summary of projects/sub-projects audited by the NKU at the beneficiaries

Priority area	Number	Project type	Intermediate body / Intermediate	Project name	Audited entity	Approved amount of support	Reimbursed applications for payment
5	67-BG-007	sub-project	Partnership Foundation	Sustainable Management of Natural Heritage in Beskydy	SALAMANDR CUNC (Czech Union for Nature Conservation)	CZK 2,982,392.00	CZK 1,803,377.33
5	67-BG-086	sub-project	Partnership Foundation	Anthill	DOMINO cz, o. s.	CZK 2,475,316.00	CZK 2,227,784.00
5	70-BG-066	sub-project	Partnership Foundation	Wallachian Ecocentre – Reconstruction	CUNC Northern Moravian Regional Association	CZK 4,153,540.00	CZK 1,772,610.06
5	70-BG-076	sub-project	Partnership Foundation	ELIM House	ELIM – křesťanská společnost pro evangelizaci a diakonii Hranice	CZK 4,162,500.00	CZK 1,971,309.54
5	FPP-1/MŽP/38	sub-project	MF	Nové sady Tram Line – final project proposal preparation including translation	Statutory City of Olomouc	CZK 449,963.00	CZK 385,758.90
2.1	CH-027	Individual project	ME	Nové sady Olomouc Tram Line	Statutory City of Olomouc	CZK 154,815,816.79	CZK 83,460,706.17
1.2	CH-028	Individual project	MI	DVI team of the Police of the Czech Republic – Theoretical and Practical Preparation and Technical Background	MI	CZK 25,300,000.00	0
1.2	CH-029	Individual project	MI	Provision for Data Centre of the Police of the Czech Republic	MI	CZK 21,620,000.00	0
1.4	CH-030	Individual project	MI	Development of Global Analysis and Design of Integrated Information System for Criminal Proceedings and for Related Procedures and/or Development of Consolidated IT Infrastructure of the Police of the Czech Republic	MI	CZK 33,698,400.00	0
Total						CZK 249,657,927.79	CZK 91,621,546.00

Source: documents submitted to the NKU for audit.