



Audit Report from the audit

13/04

Funds earmarked for the funding of projects implemented within the *Operational Programme Cross-Border Cooperation the Czech Republic - Poland 2007 – 2013*

The audit was included in the 2013 Audit Plan of the Supreme Audit Office (hereinafter referred to as the "NKU") under No 13/04. The audit was managed and the audit conclusion drawn-up by a member of the NKU, Ing. Rudolf Kufa.

The aim of the audit was to review whether the funds earmarked for the *Operational Programme Cross-Border Cooperation Czech Republic - Poland 2007–2013 had been granted and used in line with the legal regulations and the conditions specified.*

The audit was part of a coordinated audit completed by the Czech NKU and the Polish NIK based on a cooperation agreement concluded on 27 February 2013 between the two supreme audit offices.

The audit was conducted between February and August 2013. The period under review was 2007 to 2012, and, where justified by factual connections, the periods preceding and following the above time period.

Audited entities:

Ministry of Regional Development (hereinafter referred to as the 'MoRD');

Centre for Regional Development of the Czech Republic, Prague (hereinafter also referred to as the 'CRD')

and selected grant beneficiaries:

Hradec Králové Region;

Pardubice Region;

Olomouc Region;

Liberec Regional Roads Administration, allowance organisation, Liberec;

Town of Hrádek nad Nisou;

Town of Meziměstí;

Town of Bohumín;

Town of Český Těšín;

Společnost Vincenze Priessnitze, o. s., Jeseník;

Railway Infrastructure Administration, state organisation, Prague (hereinafter referred to as the 'SŽDC').

The objections received with regard to the present Audit Report and applied by the MoRD, CRD, Town of Český Těšín and SŽDC were settled by the heads of the respective groups in charge of administering such appeals. The appeals lodged against the objection decisions by the Town of Český Těšín and the SŽDC were settled by resolution of the NKU Board.

At its 18th session held on 4 November 2013, **the NKU Board approved**, by Resolution No 7/XVIII/2013, the following **Audit Report**:

I. Introduction

The Operational Programme 'Cross-Border Cooperation Czech Republic - Poland 2007–2013 (hereinafter referred to as the 'OP CBC CZ-PL') is one of the Operational Programmes implemented in the Czech Republic, in the field of cross-border cooperation. The aim of cross-border cooperation is to promote economic and social integration of cross-border regions (by removing the existing barriers) and to strengthen their development potential. These Operational Programmes built on the INTERREG Programmes implemented within the EU during the previous programming period.

The OP CBC CZ-PL covering the programming period 2007–2013 was approved by Government of the Czech Republic Resolution No 1461 of 20 December 2006. It was further approved by the European Commission (hereinafter also referred to as the 'EC') on 11 December 2007.

The OP CBC CZ-PL aims to promote improved transport accessibility and environmental protection, enhance economic cooperation and foster development of the cross-border infrastructure and tourism, support educational, cultural and social activities and promote cooperation between territorial self-administrations and other entities on both sides of the Czech-Polish border.¹

The OP CBC CZ-PL is implemented via four Priority Axes, which are further subdivided to specific areas of intervention. Priority Axis 1 aims to strengthen accessibility, environmental protection and risk prevention; the purpose of Priority Axis 2 is to improve the conditions fostering evolution of the entrepreneurial environment and tourism; Priority Axis 3 aims to encourage cooperation between local communities; and Priority Axis 4 concentrates on technical assistance.

The purpose of the OP CBC CZ-PL is to promote Czech and Polish cross-border regions, namely 5 regions on the Czech side of the border (Liberec, Hradec Králové, Pardubice, Olomouc, Moravia and Silesia), and 8 subregions on the Polish side of the border (Jelenia Góra, Walbrzych, Nysa, Opole, Rybnik, Bialsko Biala, and parts of Tychy and Wroclaw subregions).

N.B. The legal and other regulations invoked by the present audit report apply as amended during the period under review.

Funding of the Operational Programme

The projects implemented under the OP CBC CZ-PL are co-financed by the *European Regional Development Fund* (hereinafter also referred to as the 'ERDF'), with additional funding from the national budgets of the Czech Republic and Poland. The overall public funds allocation earmarked for the funding of the Operational Programme consists of an ERDF allocation equivalent to 85% and national public funds allocation equivalent to 15 %. The total public funds allocation amounting to € 258,187,467 for the entire OP CBC CZ-PL consists, in part of ERDF funds amounting to € 219,459,344 and, in part, of national public

¹ Detailed information is available in the OP CBC CZ-PL presentation at the following website: www.cz-pl.eu.

funds amounting to €38,728,123. The allocation includes funds provided from national public funds of both countries (CZ and PL).

Trends in financial parameters displayed by the OP CBC CZ-PL based on aggregate data on the projects implemented towards the end of 2012 are given in the following table.

Table – Allocation and drawdown of funds under the OP CBC CZ-PL broken down by specific Priority Axes (allocations from the ERDF and CZ and PL national budgets) as of 31 December 2012

Priority axis	Allocation	Paid to beneficiaries	Allocation	Paid to beneficiaries	Paid to beneficiaries
	€	€	CZK thousand	CZK thousand	% of the allocation
Axis 1	96,031,753	72,711,387	2,410,397	1,825,056	75.7
Axis 2	81,888,666	53,498,574	2,055,406	1,342,814	65.3
Axis 3	64,775,800	32,677,020	1,625,873	820,193	50.4
Axis 4	15,491,248	3,850,023	388,830	96,636	24.9
Total as of 31 December 2012	258,187,467	162,737,004	6,480,506	4,084,699	63.0

Source: 2012 Annual OP CBC CZ-PL Implementation Report.

N.B. European Central Bank exchange rate, December 2012: CZK 25.10/€.

OP CBC CZ-PL projects

The projects that received grants under the OP CBC CZ-PL are invariably designed and implemented as joint projects of the Czech and Polish project partners, applying the principle of a leading partner who defines and contractually stipulates the project partnership structure. The structure is always created by the leading partner from either country (CZ or PL) and another partner or partners from the other country, or from both countries. The grants are received based on joint application by the leading partner for the entire joint project.

II. Information obtained from the audit completed at the grant beneficiaries

Definition of the audit at grant beneficiaries

The audit sample included 19 projects implemented by 10 grant beneficiaries under the OP CBC CZ-PL, selected among regions and towns, state and allowance financed organisations and civic associations. The audit completed by the NKU applied exclusively to entities established in the Czech Republic. The projects chosen for the audit sample fall within area of intervention

1.1 – *Strengthening transport accessibility* (Priority Axis 1) and area of intervention 2.2 – *Support to tourism development* (Priority Axis 2).

The projects from the two abovementioned areas of intervention represent over 60 % of the funds paid to the beneficiaries before the end of 2012 from the ERDF for all projects implemented under the entire OP CBC CZ-PL. The certified expenditure during the period under review amounted to the total of CZK 679,931,649 for the audit sample.

The selected sample consisted of six projects where the Polish Supreme Audit Office (Najwyższa Izba Kontroli, hereinafter also referred to as the 'NIK') completed an audit for the Polish project partners using auditing procedures coordinated with the NKU.

The audit aimed to monitor project implementation in terms of scope and time, attainment of the aims and purpose of the project, mandatory monitoring indicators, change management under the projects, administration of project revenues, fulfilment of the obligation to keep separate accounts for specific project transactions, fulfilment of the prohibition on funding of the projects via other EU funds, adoption of the project partnership approach, implementation of the mandatory publicity measures, eligibility of expenditure, public procurement and verification of deliverables based on the public contracts awarded.

The audit did not reveal any major deficiencies as regards the attainment of the objectives and purpose of specific projects or their mandatory monitoring indicators, which could have a negative impact on the objectives of the Operational Programme. This is in line with the results of the public opinion poll², which was applied to a proportion of the audited projects. The poll results imply that the public positively received both the benefits and impacts of the projects.

Findings qualified as ineligible expenditure

- The Town of Český Těšín, as the beneficiary for the project entitled **Revitalpark 2010**³, included an amount of CZK 2,083,113 spent on construction works and supplies for the Multi-Purpose Building Avion site as illegible expenditure despite the fact that in reality, the works were completed in an adjacent building owned by a private operator. The construction works consisted in interconnecting the two buildings and creating catering facilities. As a result, the Town of Český Těšín was found not to have acted in accordance with the conditions and terms laid down under the *Guide for Applicants*, as it claimed reimbursement of the costs of construction works completed within a property not owned by any of the project partners. **By doing so, the Town infringed budgetary discipline as it illegitimately utilised funds at the overall amount of CZK 1,874,802 (national and EU budget contributions), of which, in respect of an amount of CZK 1,770,646 (EU funds contribution), it further induced an irregularity as defined under relevant EU regulations.** The Town of Český Těšín had leased the catering facilities located in the adjacent building under a lease contract for a definite term until 31 December 2016. The grant beneficiary was found to have accrued the costs of the construction works completed in the adjacent building within the book value of the newly built Multi-Purpose Building Avion, although in reality the investment upgraded separate leased property. The estimated service life of the construction works completed in the adjacent building expressed by their depreciation period exceeds that, for which the lease contract had been concluded in respect of the renovated premises. The grant beneficiary is therefore open to the risk of loss in the event that they will not be able to use the premises in the adjacent building following the end of the term of the existing lease contract.
- SŽDC, as a beneficiary under the project entitled **Renovation of the Szklarska Poreba – Harrachov line**⁴ paid the entire amount invoiced for the complete work in 2009, following the handover/takeover of the work although the contractor only completed some of the works during the following year. According to site diary entries, the works consisted in rail welding, measurements conducted using a measuring carriage (with means of proof provided in the form of a certificate dated May 2010) and geodetic survey and layout (with means of proof provided in the format of a certificate dated June 2010). These

² The poll was conducted by the NIK in 2013 in collaboration with Nysa Higher Vocational School.

³ Project Ref. CZ.3.22/2.2.00/08.00040.

⁴ Project Ref. PL.3.22/1.1.00/08.00654.

outstanding works were invoiced by the contractor in 2009 and paid by the beneficiary at the total amount of CZK 232,000. The SŽDC, as a beneficiary, included the amount in the financial statements covering their part of the project, namely among eligible expenditure, although the amount did not correspond to the services actually supplied, rendering the related financial statement inconclusive. The SŽDC, as a beneficiary, accounted for the entire amount among the 2009 expenditure, although a part of the services were clearly not provided before 2010. In violation of the terms applicable to the grant provided, the beneficiary thus failed to keep conclusive accounts for their part of the project. **As a result, the beneficiary was found guilty of infringement of budgetary discipline having illegitimately used funds at an amount of CZK 208,800 (national budget and EU funds contributions) to reimburse ineligible expenditures, of which, with respect to an amount of CZK 197,200 (contribution from EU funds), the beneficiary further induced an irregularity as provided for under the relevant EU regulations.**

- Comparing the as-built documentation for the project entitled ***Connection of the náměstí Svobody Square to the border crossing*** with the invoiced and reimbursed amounts, it was found out that the Town of Bohumín⁵, as a beneficiary, had paid an overall amount of CZK 16,056 to a contractor, for the laying of a pipeline and a self-supporting cable, which, however had not been built in. The Town of Bohumín included the above amount among eligible expenditure in violation of the principle of effectiveness, i.e. existence of a direct link to the projects and the necessity of the project. **The illegitimate use of funds at an amount of CZK 14,451 (national budget and EU budget funds) resulted in infringement of budgetary discipline. Of that amount, specifically with respect to an amount of CZK 13,648 (contribution from the EU funds), the beneficiary's action further resulted in an irregularity as provided for under the relevant EU regulations.**

III. Set-up and effectiveness of a management and control system

A. Audit performed at the Ministry of Regional Development

Definition of the audit at the MoRD

The MoRD executes the office of the Managing Authority (hereafter also referred to as the 'MA'), which is responsible for the overall management and implementation of the OP CBC CZ-PL in both partner states. In Poland, the Polish Ministry of Regional Development (hereinafter also referred to as the 'NO PR'), as the national authority, provides the required cooperation in implementing the activities and complying with the obligations of the MA. Under the implementation of the Operational Programme, the scope of responsibility of the NO PR is subject to an agreement concluded between the MA and the NO PR. The MoRD and the NO PR entered into an agreement (Memorandum of Understanding) on 24 July 2009, i.e. 19 months after the approval of the OP CBC CZ-PL. Before the date of the Memorandum of Understanding, the NO PR was not liable to the obligation to ensure proper implementation of the Operational Programme or to provide full cooperation. This binding agreement laid down the rights and obligations of the two Member States and implementing bodies under the programme, setting out the financial liability in the event of irregularities, interruption and suspension of payments.

For the MoRD, the audit completed by the NKU concentrated on the activities performed in the context of providing and performing the function of the MA for the OP CBC CZ-PL, and specifically on the setting of programme objectives and monitoring of the progress achieved, evaluation activity and annual reports, assessment, evaluation, selection and approval of projects, mobilising of programme funds and complying with the obligation to publish true, full

⁵ Project Ref. CZ.3.22/1.1.00/08.00652.

and up-to-date information on grants, on the auditing activity of the Management Authority, setting of the effectiveness of the activities and audit outcomes on the part of the authorised auditing entity as well as on the irregularity monitoring and reporting system and its implementation.

Major shortcomings were identified in the field of publishing correct, complete and updated information on the grants provided, in the field of evaluation and approval of projects, in the setting of monitoring indicators and of the irregularity reporting system introduced.

Incorrect project data in the CEDR III grant information system

For eight⁶ out of the 10 sampled projects under review, differences were found between the grant amount actually provided and the indication of the grant amount given in the CEDR III information system. The overall amount of the incorrectly reported public funds was CZK 17,405,866.44 for the projects under review.

In violation of the obligation specified for grant providers under the relevant legal regulations, the MoRD did not report in the central registry, the accurate data on grant beneficiaries and/or amounts of grants provided from national budgets earmarked for project co-financing.

Risk of a lack of transparency and discrimination in the project approval process by the monitoring committee

The Monitoring Committee (hereinafter also referred to as the 'MC') is a common body without legal personality established by the two Member States; it is primarily responsible for the selection of projects and monitoring of the progress achieved while attaining the objectives set out under the Operational Programme. The background documents used during sessions of the MC are prepared by the Joint Technical Secretariat (hereinafter also referred to as the 'JTS'⁷), which is responsible, among other things, for the monitoring and evaluation of the projects. While selecting projects based on the background documents prepared, the MC has the option to recommend projects for financing, recommend them subject to a condition, not to recommend them or recommend them as replacement projects.

- The MC Rules of Procedure⁸ do not specify the manner of voting on the projects in detail. The audit revealed that during its sessions, the MC had employed two methods of voting on project selection, where the voting would have either concerned specific projects, or entire project packages in one go. **The method of voting as applied by the MC for project packages represents a risk of a lack of transparency and discrimination under the project approval process.**
- For ten project applications⁹, the Monitoring Committee did not justify in the minutes from the session, why the projects concerned were recommended for funding despite the fact that they had not been recommended for funding by the JTS. The very fact constituted a risk of a lack of transparency under the project evaluation and selection process. Of these project applications, for nine of them¹⁰, the MA did not proceed in accordance with the applicable wording of the MC Rules of Procedure, which set out the obligation to include such a rationale in the minutes from the session.

⁶ Projects Ref. CZ.3.22/1.1.00/08.00664, CZ.3.22/1.1.00/08.00696, PL.3.22/1.1.00/08.00020, CZ.3.22/2.2.00/08.00035, CZ.3.22/2.2.00/08.00037, PL.3.22/2.2.00/09.01509, CZ.3.22/2.2.00/09.01564, CZ.3.22/2.2.00/09.01559.

⁷ From the English 'Joint Technical Secretariat'.

⁸ MC Rules of Procedure, Article 4 and Annex 4.

⁹ Out of the total 235 project applications reviewed in areas of intervention 1.1 and 2.2 as of 25 July 2013.

¹⁰ Projects Ref. PL.3.22/2.2.00/09.01512, CZ.3.22/2.2.00/09.01559, PL.3.22/2.2.00/09.01498, CZ.3.22/2.2.00/09.01607, CZ.3.22/2.2.00/09.01583, PL.3.22/2.2.00/09.01510, CZ.3.22/2.2.00/09.01535, CZ.3.22/2.2.00/09.01544, PL.3.22/2.2.00/09.01575. (The projects scored 70 points and over under the evaluation.)

- The MC Rules of Procedure stipulate that the MC should discuss those project applications only that scored 70 points and more while reviewed by the JTS. At the same time, they contain a provision according to which the MC may approve the funding of a project application, which scored **over** 70 points, and, at the same time, was recommended for funding by the JTS. There was a project application¹¹, which was recommended for funding by the Monitoring Committee as a replacement project despite the fact that it scored exactly 70 points and at the same time was not recommended for funding by the JTS. **Therefore, the MC recommended the said project application for funding in violation of the above provision of the MC Rules of Procedure.**

Insufficiently detailed criteria concerning the assessment of innovativeness and added value of the projects

The *Methodological Guidelines applicable to the evaluation and monitoring of projects* elaborated by the MoRD is not sufficiently detailed in its part, which concerns the projects' quality evaluation in terms of their being sufficiently innovative and providing an adequate added value. The Guidelines are not adequately instructive with respect to the evaluation of innovativeness by not providing sufficient sub-criteria. **Ultimately, the above Guidelines do not provide for an appropriate level of objectivity in evaluating the degree of innovativeness and added value displayed by the projects on the part of the individual evaluators.**

Certain specific objectives not adequately covered by the monitoring indicators

The monitoring indicators represent a generic tool in evaluating the actual progress achieved and attainment of the predefined objectives across all programme levels. This is why specific objectives and indicators need to be mutually coherent.

In the programming document applicable to the OP CBC CZ-PL, the Ministry of Regional Development, in violation of the relevant EU legal regulations¹², failed to quantify the three specific objectives¹³ under the Priority Axes through the corresponding outcome indicators, which could allow the attainment of each of the objectives to be assessed.

Incorrect classification of certain indicators

The MoRD wrongly included certain indicators within the system of indicators for the Operational Programme under review (e.g. "*length of new/renovated roads in km*", "*number of newly created cross-border transport links*", "*number of products/services in tourism*") among result indicators although, by their nature, they constitute output indicators. **The inclusion into the set of outcome indicators is not in line with the methodology issued by the EC¹⁴, or the document entitled *Principles applicable to the compilation of monitoring and evaluation indicators* developed on the basis of the methodology by the MoRD – Community Support Framework Department.**

System for reporting irregularities identified before reimbursement of expenditure

¹¹ Project Ref. PL.3.22/2.2.00/09.01575.

¹² Art. 12(4) of Regulation (EC) No 1080/2006 of the European Parliament and Council on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999.

¹³ Specific objective under Priority Axis 1: "*to improve the state and quality of the environment in the Czech-Polish cross-border region*" and two specific objectives under Priority Axis 2: "*to enhance the competitiveness of enterprises in the Czech-Polish cross-border region*" and "*extend the tourism offer in the Czech-Polish cross-border region*".

¹⁴ *Indicative Guidelines on Evaluation Methods: Monitoring and Evaluation Indicators*, Working Document No. 2. European Commission 2006.

Under the governing documentation applicable to the OP CBC CZ-PL, the MoRD did not regulate the system and rules for reporting and registering irregularities identified by the CRD while administratively reviewing payment requests, i.e. while performing the checks, based on which amounts affected by the irregularities are deducted from the requested payments. By doing so, the MoRD did not proceed in accordance with the *Guidelines on cash flow and monitoring of programmes co-financed from the Structural Funds, the Coherence Fund and the European Fisheries Fund for the programming period 2007–2013* (hereinafter referred to as the 'Cash Flow Guidance'), which lays down the obligation to report all irregularities on an internal level. As a result, the MA does not have at its disposal a list of required information on the irregularities identified prior to effecting the respective payments to the beneficiary's account.

Delayed introduction of the procedures applicable to reporting irregularities identified on the Polish side to the payment and certification body

According to the Cash Flow Guidelines, one of the instruments in reviewing the proper operation of the management and control system and monitoring of compliance with Czech and EU regulations involves the "*obligation on the part of the MA to report any irregularities identified to the payment and certification authority (PCA)*"¹⁵, it being understood that with regard to the OP CBC CZ-PL the said obligation equally applies to irregularities identified on the Polish side. **The MoRD only integrated the procedures applicable to reporting irregularities identified on the Polish side into the *Common Audit Methodology* in 2011. Until then, the MoRD did not report the irregularities identified on the Polish side and thus failed to meet its obligation to report all irregularities identified under the OP CBC CZ-PL to the payment and certification authority.**

2012 Annual Report

In the 2012 Annual Report, the MoRD did not specify the corrective action taken to prevent double funding of projects under the OP CBC CZ-PL and rural development programmes in the Czech Republic and Poland although the European Commission requested such information under the approval process for the previous Annual Report¹⁶.

¹⁵ PCA – payment and certification authority (in the Czech Republic, the role of the PCA is performed by the Ministry of Finance).

¹⁶ The obligatory content of the Annual Report is further specified in Annex XVIII to Commission Regulation (EC) No 1828/2006.

B. Audit performed at the Centre for Regional Development of the Czech Republic

Definition of the audit performed at the CRD

The CRD covers the set-up and operation of the Joint Technical Secretariat based in Olomouc as well as the controller office pursuant to Article 16 of Regulation (EC) No 1080/2006 of the European Parliament and of the Council, via its regional offices. The JTS assists the Management Authority, NO PR, Monitoring Committee and the audit body under the OP CBC CZ-PL in performing their functions, especially at the stage of reviewing and evaluating project applications. The controllers (entities established in the Czech Republic and Poland to perform this function) carry out the validations required to establish the soundness of expenditures and their compliance with the national and EU rules under the supported projects. The controllers carry out the functions under legally binding acts concluded with the MA¹⁷ (for the Czech Republic) or the NO PR (for Poland).

For the CRD, the audit aimed to review the set key elements of the control system and the CRD activity in the area of risk analysis and planning 'on-site inspection' audits. A sample of 11 projects¹⁸ was used to validate the control activity carried out by the CRD under the authority of the JTS with regard to formal checks and eligibility checks for project applications. Moreover, the audit reviewed the evaluation of project application conducted by independent evaluators, whose expertise is organised and coordinated by the JTS. For the CRD in the authority of a controller, the audit looked into the manner of conducting administrative and on-site checks completed prior to the date of the Act on the Grant Provision, during the project implementation stage and during the sustainability period.

Deficiencies identified while reviewing eligibility of a project application

While reviewing a project application for a specific project³, the CRD, in violation of the valid version of the *Guidelines for applicants*, did not request a mandatory appendix proving the applicant's ownership title to the property where construction works associated with the supported project were to be performed. Contrary to what the case was, the CRD stated in the project application eligibility report, that the applicant had submitted all appendices required and that the same had been up-to-date. During its on-the-spot audit at the grant beneficiary, the NKU identified the expenditure relating to the said construction works as ineligible (see Chapter II).

Disproportionate scoring of project applications by independent evaluators

For two project applications, disproportionately positive project quality evaluations were identified in relation to the project parameters given under the project applications:

- For one of the projects⁴, the maximum score awarded for the specific quality criteria in the Czech part of the project cannot be considered as proportional since:
 - it was impossible to objectively evaluate the effectiveness of expenditure¹⁹ under the project using the information given in the project application (budgets of the project partners and length of the renovated line on the Czech and Polish sides of the border),
 - for the evaluation of clarity, feasibility and transparency of the project budget, the evaluators did not have at their disposal a detailed itemised budget of the construction works, based on which they could assess the adequacy of the budgeted expenditure,

¹⁷ Minister for Regional Development Decision No 190/2007.

¹⁸ Projects Ref. CZ.3.22/1.1.00/08.00002, CZ.3.22/1.1.00/08.00004, PL.3.22/1.1.00/08.00020, CZ.3.22/1.1.00/08.00051, PL.3.22/1.1.00/08.00654, CZ.3.22/2.2.00/08.00035, CZ.3.22/2.2.00/08.00037, CZ.3.22/2.2.00/08.00040, CZ.3.22/2.2.00/08.00056, CZ.3.22/2.2.00/09.01081, CZ.3.22/2.2.00/09.01559

¹⁹ The review involved the relation between the proposed expenditure and project outputs.

- For the evaluation of compliance of the project with the regional strategies and policies, the project application did not include any specific references to the strategy or policy the project's compliance could be compared to.
- For another project²⁰, the information under quality evaluation of the project application as a whole was not aligned with the content of the project application as the evaluation did not contain any information on the scheduled addition of more lanes to the road, while in reality the project application only envisaged road widening by one metre in the Polish part of the road and road renovation without widening in its Czech part.

Deficiencies in control at the project partner level

For one project⁴, the CRD conducted monitoring at the project partner level and issued a certificate of eligibility for the expenditure. The on-the-spot audit completed by the NKU at the grant beneficiary, however, revealed, for this particular part of the expenditure, that the expenditures were ineligible (see Chapter II).

Deficiencies in the monitoring of the awarding procedures prior to the issue of the Grant Provision Act²¹ and during project implementation and monitoring at the project partner level

In violation of the obligation laid down in the governing documents applicable to the OP CBC CZ-PL, the CRD did not provide evidence that it has carried out monitoring of the procurement procedure for small-sized public contracts²² in respect of three specific projects, namely with regard to additional construction works beyond the original public contract²³.

IV Summary and evaluation

The overall financial amount corresponding to the findings qualified as expenditure ineligible for EU and national budget funding amounted to CZK 2,098,000.

While determining the significance of the ineligible expenditures identified, the materiality threshold was set to 2 %, maximum, of the overall certified expenditure of the projects reviewed by the NKU for beneficiaries of grants under the OP CBC CZ-PL during the period under consideration. Out of the total certified expenditures for the sample of 19 projects reviewed amounting to CZK 679,932,000, the significance level was set to CZK 13,600,000. **The total ineligible expenditures revealed by the audit did not exceed the set materiality threshold for the project sample under review.**

Of the deficiencies identified:

- a) findings equivalent to CZK 2,098,000 were qualified as infringements of budgetary discipline in the sense of Section 44(1)(b) Act No 218/2000 Coll., laying down budgetary rules and amending certain related laws (budgetary rules);
- b) of which findings equivalent to CZK 1,981,000 (allocation from the EU funds) were at the same time qualified as anomalies in the sense of Art. 2(7) Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999.

²⁰ Project Ref. CZ.3.22/1.1.00/08.00002.

²¹ The Grant Provision Act is a decision on the grant award or a project agreement.

²² Project Ref. CZ.3.22/1.1.00/08.00051.

²³ Projects Ref. CZ.3.22/1.1.00/08.00002 and CZ.3.22/1.1.00/08.00004.

The NKU identified major deficiencies in the CEDR III information system, in the area of reporting true, complete and up-to-date information on the grants provided.

Partial shortcomings were identified in the monitoring of project eligibility, monitoring at the project partner level and monitoring of procurement procedures.

Based on review of the management and control system under the OP CBC CZ-PL, the NKU identified the system as partially effective.

With respect to the implementation of the Cross-Border Cooperation Programme Czech Republic-Poland during the upcoming programming period 2014–2020, it is essential that the relation between the MA and the NO PR be established well in advance by defining the rights, obligations and responsibilities by means of a binding legal act between the two entities within the implementation structure on the Czech and Polish sides; that unequivocal rules be laid down for the method of voting on the projects during MC sessions; that adequate quantifiable indicators be consistently determined for all specific objectives under the Operational Programme's Priority Axes; and that an effective mechanism be put in place to report correct grant information to the central registration information system on grants.