STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: CZ2002/000-282.10.04

1.2 Title: Start up compliance and system audits of SF/CF implementation structures

1.3 Sector: Structural policies, Financial management and control

1.4 Location: Czech Republic

2. Objectives

2.1 Overall objective

Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union. This includes the adoption of the *acquis communautaire* including the legal requirements for management of Structural funds/Cohesion fund assistance

2.2 Project purpose

To ensure that the Paying Authority, Managing Authorities and intermediary bodies are prepared for administering the support from Structural Funds and the Cohesion Fund, and the systems are operational before Accession and thus in compliance with 1260/1999, 438/2001, 448/2001, 1159/2000, 1685/2001, 1164/2004 and any other relevant legislation.

2.3 Accession Partnership and NPAA priority

AP 2001:
- Define the bodies in charge of the implementation of Structural Funds and the Cohesion Fund, in particular the Managing and Paying authorities; establish a clear division of responsibilities and improve the administrative capacity, in particular in terms of recruitment and training; ensure effective inter-ministerial co-ordination.
- Align with the specific financial management and control procedures for future Structural and Cohesion Funds under the relevant EC Regulations.

NPAA:
Preparation of the Czech Republic for EC Structural Funds: short-term priority of National programme of preparation of membership of the EU

2.4 Contribution to National Development Plan

The project contributes towards setting up effective managing and implementing structures to administer the Structural and Cohesion funds.

2.5 Cross Border Impact

n.a.

3. Description

3.1 Background and justification

The adoption of the legal requirements for management of Structural funds/Cohesion fund assistance is a condition for drawing down assistance provided via Structural funds and Cohesion fund.

The National Fund Department of the Ministry of Finance will become the Paying Authority for all Structural Funds and for the Cohesion fund. According to Article 9 of EC/438/2001 the Paying authority is responsible for drawing up the certificates of statements of interim and final expenditure. Before certifying
a given statement of expenditure, the paying authority shall satisfy itself that conditions stipulated in EC/438/2001 are fulfilled.

A compliance audit of the managing structures of Structural and Cohesion funds is therefore required by the National Fund department to provide adequate assurance that systems are prepared for managing the EU assistance. That is the purpose of this project. In addition the project should ensure a comprehensive audit of all important administrative bodies involved in the implementation of the Structural Funds i.e. intermediary bodies and paying units, including the paying agency at the Ministry of Agriculture.

Czech Government Resolution No. 102 of January 23, 2002 on 'Finishing programming documents and on determining the Managing and Paying Authorities for the utilisation of Structural Funds and the Cohesion Fund of the EU' set out the basic institutional issues and responsibilities for future SF/CF management structures.

Further formalised decisions/government resolutions on SF/CF management structures (methodology of the Operational programmes, decisions on intermediary bodies, methodology on financial flows and control etc.) should be approved by the end of 2002 to coincide with the finalisation of the Programme Complements.

By 31 October 2002, sectoral operational programmes, the Joint Regional Operational Programme and Single Programming Documents will be amended to reflect the specification of content of operational programmes and the final version of the National Development Plan. Once the final version of the NDP has been approved, the Government will approve the final versions of the SOPs in the last quarter of 2002 (prior to the start of negotiations with the EC).

The system of financial flows for SF/CF was drafted by the MoF and was approved at the MoF management meeting on 24th May 2002. Afterwards the material (Proposed Methodology of Financial Flows and Financial Control for Structural Funds and for Cohesion Fund) was commented by all the ministries, comments were incorporated ready for submission to the government for approval. Nevertheless, it is envisaged that the system will be fine-tuned on an ongoing basis.

It is supposed that each line ministry (responsible for management of a operational programme) will establish a Paying unit to which some functions of Paying authority will be delegated. The paying units must be fully independent from the functions of the MA. A Paying agency is established at the Ministry of Agriculture for EAGGF – guidance section, accompanying measures and direct payments.

There are two basic criteria applied by the National Fund (as PA) to decide on delegation of tasks:
1. **Internal management and control system including:**
   - written procedures
   - internal audit (not necessary within the organisational structure of the unit)
   - double-signature system
   - double-entry accounting principles
   - separation of functions
   - substitution of functions
   - ITC security
   - written policy of avoiding conflict of interest

2. **Paying units must be fully functionally independent on managing authorities.**

The above defined criteria apply for all institutions involved in SF/CF implementation.

The delegation of tasks to Paying Units is described in the above mentioned material “Proposed Methodology of Financial Flows and Financial Control for Structural Funds and for Cohesion Fund” that is expected to be submitted to the government for approval by the end of July 2002 (actual timetable for

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1 The term "paying agency" is defined by Council regulation EC No 1258/1999 and the scope of activities of "paying agency" is broader than scope of activities of "paying unit". "The paying agency" deals not only with EAGGF guidance section financing but with financing the CAP as a whole (e.g. EAGGF guarantee section including direct payments etc.). "Paying unit" is a term entrenched by the MoF of the Czech Republic. "A paying unit" is a department/unit at a line ministry to which certain tasks of Paying Authority will be delegated. In case of agriculture the paying agency will also fulfil the tasks of paying unit. The subject of audit defined by this PF at paying agency in MoA will be only the activities concerning EAGGF guidance section i.e SF financing.

2 The criteria can be amended on the basis of recommendations given by the auditors.
government approval is subject to the timetable of the establishment of the new government after the general elections which took place in June 2002).

3.2  Linked activities

There are 3 projects within Phare 2002 targeted at preparing the MAs and intermediary bodies to ensure their readiness for implementation of SFs, this project will in fact review the results of these 3 other projects. Whereas the MRD, MIT and MoLSA projects are aimed to finalise the structures and develop them to full capacity, train the staff etc. this project is aimed to check whether all systems were successfully established, and if some shortcomings still exist the project will provide necessary additional recommendations. The system audit of MAs is necessary to fulfill the condition of 438/2001 – Article 9/2(a).

Furthermore the recommendations made by this project should be implemented by the respective bodies, with the assistance of experts working under above mentioned three Phare projects where possible.

Other related projects:

Management & Control of the EC Funds and National Public Sources /Preparation for EDIS (CZ01-09-01) – technical assistance project for MoF carried out through twinning assistance provided by the state administration of the Member states (Ireland and France) and through the private sector inputs.

Projects to prepare for EDIS for ISPA and Phare (stage 1 for Phare and ISPA scheduled to start beginning of 3rd quarter 2002, stage 2 to be completed by the first quarter of 2003, 3rd stage to be completed by 3rd quarter 2003). Input to be provided by private TA and through the twinning project above.

Project No 2001/CZ/16/P/PA/004 Assessment of capacity of the National Fund and ISPA Implementing Agencies to implement ISPA under the EDIS comprised of audits of and subsequent technical assistance for bodies (MoTCC, State Environmental Fund and Centre for Regional Development) that will become managing structures for Cohesion fund.

Project No CZ-00-04-05 Strengthening Regulation and Enforcement of the Public Procurement Acquis – the outcomes of this project shall be used especially for assessing the tendering and contracting procedures.

The National Fund department has also been supported via the SIGMA programme during the process of preparing structures and procedures for SAPARD accreditation and the preliminary preparations for EDIS for ISPA and Phare.

Some Phare implementing agencies (Centre for Regional Development, Czech Industry and National Training Fund) that are envisaged to become intermediary bodies for respective operational programmes have been audited for grant schemes to be implemented under Economic and Social Cohesion component of the Phare Programme 2003. (Project No SSTTA 1999 – ZZ 9909 Assessment and audit of the Phare Implementing Agencies and associated intermediaries’ capacity for the implementation of grant schemes financed from the Phare 2003 programme.)

Relevant reports and other documentation from previous projects (especially the audit reports) can be provided to the auditors as a basis for familiarising themselves with the Czech environment and systems for managing the pre-accession assistance.

3.3  Results

General :
The Paying Authority, paying units, Managing Authorities and intermediary bodies prepared for administering the support from the Structural Funds and the Cohesion Fund;


By participating in the audit procedure as outlined in section 3.1, the Paying Authority and the Control Department of the MoF will be able to carry on verification processes on a permanent basis as required by 438/2001, thus providing added value by transferring the relevant know-how to the responsible Czech authorities.
More specifically the project will result in:

- Verification audit reports (compliance and system audit reports) including clear statement on ability to implement SF/Cf by individual institutions;
- Assessment of the system of payment flows from EC to PA to paying units to final beneficiaries;
- Assessment of the system for forecasting payment requests;
- Audit trails assessed for each programme;
- Delegations of functions between respective institutions (PA and PU, MA and IB) assessed;
- Monitoring system for commitments/expenditure assessed and further requirements defined if appropriate.

3.4 Activities

- Verification of the preparedness of the PA and its intermediaries including detailed recommendations to tackle any gaps in fulfilling the EC requirements for PAs and its intermediaries. Apart from the requirements of respective legislation the audit shall focus on manuals/written procedures, separation of functions and responsibilities, assessment of organisational set up etc. (including the walk-through tests and review of trial run of procedures /pilot testing).

- Action plan prepared for filling any gaps for administration the payments and financial flows.

- Verification of the preparedness of the MAs and its intermediaries including detailed recommendations to tackle any gaps in fulfilling the EC requirements for MAs and its intermediaries. Apart from the requirements of respective legislation the audit shall focus on manuals/written procedures, separation of functions and responsibilities, assessment of organisational set up etc. (including the walk-through tests and review of trial run of procedures /pilot testing).

- Action plan prepared for filling any gaps in managing the CSF and Operational Programmes. If possible, the implementation of the action plans takes place under the other relevant Phare 2002 projects:
  - CZ2002/000-282.10.03 Joint Regional Operational Programme and Community Support Framework – Building Implementation Capacity;
  - CZ2002/000-282.10.02 SOP Industry – Building Implementation Capacity;
  - CZ2002/000-282.10.01 SOP HRD and ESP Structures – Building Implementation Capacity;

  and under the twinning project CZ01-09-01 (for PA).

- The audit shall also result in transfer of know-how to the PA staff (that will be responsible for verification according to Art. 9/2a of 438/2001) and to the Control Dept of the Ministry of Finance. The PA shall be able to provide for certification of expenditure, i.e. PA and Control dept of MoF staff shall have the possibility to participate in the audit examination.

3.5 Lessons learned

The most relevant lesson has been learned during the accreditation of the Sapard Agency. The experience from this process shall be exploited as much as possible.

It is crucial to ensure coordination (including information sharing) of structures for SF/Cf preparation among all parties involved.

4. Institutional Framework

The organisations involved into the project will be:

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3 The Government Resolution No. 102 of January 23, 2002 decided on submitting 6 sectoral operational programmes (SOPs), one joint regional operational programme and two single programming documents under the objective three to the Commission. The Commission commented the decision on having 6 sectoral operational programmes and suggested to reconsider three SOPs: Environment, Transport and Tourism and Spa Industries. (These SOPs can be possibly incorporated into the joint regional operational programme). In the present draft of the project fish the MAs for all 6 SOPs are considered. Nevertheless, the the number of bodies audited can be changed in case of future reduction of number of SOPs.
• Paying authority (National Fund Dept of MoF)
• Paying units at the MRD, MIT, MoTC, MoE, MoLSA
• Managing Authority for Cohesion fund (MRD)
• Intermediary bodies for Cohesion fund (State Environmental Fund, MoTC, Czech Railways, Roads and Motorways Directorate)

And the institutions listed in the following table:\(^4\):

<table>
<thead>
<tr>
<th>Programming document</th>
<th>Managing Authority</th>
<th>Intermediary body/Regional Offices</th>
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<tbody>
<tr>
<td>Community Support Framework</td>
<td>MRD</td>
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<tr>
<td>Joint Regional Operational Programme</td>
<td>MRD</td>
<td>Centre for Regional Development(^5)/Regional Councils</td>
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<tr>
<td>SOP Industry</td>
<td>MIT</td>
<td>Czech Industry</td>
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<tr>
<td>SOP Transport, Telecommunications and Postal Services</td>
<td>MoTC</td>
<td>Road and Motorway Directorate, Czech Railways</td>
</tr>
<tr>
<td>SOP Human Resources Development</td>
<td>MoLSA</td>
<td>Employment Service Administration/Labour Offices</td>
</tr>
<tr>
<td>SOP Environment</td>
<td>MoE</td>
<td>State Environmental Fund</td>
</tr>
<tr>
<td>SOP Rural Development and Multifunctional Agriculture</td>
<td>MoA</td>
<td>Regional SAPARD Offices and MRD Regional Offices</td>
</tr>
<tr>
<td>SOP Tourism and Spa Industry</td>
<td>MRD</td>
<td>Czech Tourist Authority</td>
</tr>
<tr>
<td>SPD Prague Objective 2</td>
<td>MRD</td>
<td>Centre for Regional Development/Prague City Hall</td>
</tr>
<tr>
<td>SPD Prague Objective 3</td>
<td>MoLSA</td>
<td>Employment Service Administration/Labour Offices</td>
</tr>
</tbody>
</table>

Please note that there are different departments at the MRD that were appointed as Managing authorities for respective OPs and CSF.

The project will be fully coordinated by Paying Authority (National Fund at the Ministry of Finance).

5. Detailed Budget (mil.€)

<table>
<thead>
<tr>
<th>Phare Support</th>
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\(^4\) The list of intermediary bodies is not complete (and thus differs slightly from what was envisaged during Chapter 21 negotiations). All tasks to be designated to Intermediary Bodies will be fully described in the Programme Complements and in the Operational Programmes, according to Art. 18(2d) of regulation 1260/99.

\(^5\) Centre for Regional Development is a contributory organisation established by MRD, whose primary mission is to support social and economic development in the regions of the Czech Republic by providing methodological assistance to Regional Development Agencies and other entities in order to prepare and realise development programmes and projects.
<table>
<thead>
<tr>
<th></th>
<th>Investment Support</th>
<th>Institution Building</th>
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6. Implementation Arrangements

6.1 Implementing Agency

The CFCU is responsible for tendering, contracting and accounting. PAO: Mr. Jan Slavíček, Head of CFCU.

The project will be co-ordinated by Mr. Jan Gregor, Director of the National Fund (Paying Authority), Ministry of Finance.

6.2 Twinning
n.a.

6.3 Non-standard aspects
n.a.

6.4 Contracts

(1) Service Contract 1,1 M €

7. Implementation Schedule

7.1 Start of tendering/call for proposals 1Q/2003
7.2 Start of project activity 3Q/2003
7.3 Project Completion 2Q/2004

8. Equal Opportunity

Equal opportunity principles and practises in ensuring equitable gender participation in the project will be guaranteed.

9. Environment
n.a.

10. Rates of Return
n.a.

11. Investment Criteria
n.a.

12. Conditionality and Sequencing

The project is conditional upon satisfactory level of preparation of PA, MAs and intermediaries in order to carry out the gap analysis.

Sequencing:

It is expected that all relevant structures (Managing Authorities, Paying Authority, paying units and other intermediaries) will be ready for the gap assessment by the end 2003. Therefore the contractor shall start working by 3Q 2003 at the earliest.
ANNEXES TO PROJECT FICHE

1. Logical framework matrix
2. Detailed implementation chart
3. Contracting and disbursement schedule
## LOGFRAME PLANNING MATRIX

### Project title: Start up compliance and system audits of SF/CF implementation structures

<table>
<thead>
<tr>
<th>Programme number: CZ2002/000-282.10.04</th>
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<table>
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<tr>
<th>Contracting period expires:</th>
<th>Disbursement period expires:</th>
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### Beneficiary institution: Ministry of Finance

### Overall objective

Third Copenhagen criterion: ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union. This includes the adoption of acquis communitaire including the legal requirements for management of Structural funds/Cohesion fund assistance

### Objectively verifiable indicators

Acknowledgement of the EC

### Sources of Verification

- Accession Treaty
- CSF and OPs, Programme complements

### Project purpose

Paying Authority, Managing Authorities and intermediary bodies fully prepared for administration of the support from Structural Funds and the Cohesion Fund, and system operational before Accession and thus in compliance with 1260/1999, 438/2001, 448/2001, 1159/2000, 1685/2001 and any other relevant legislation.

### Objectively verifiable indicators

- All manuals for MAs, PA, intermediaries drafted and all the institutions ready for SF/CF
- Report on numbers and competences of trained staff
- Action plan(s) for gap filling implemented
- Description of the system of payment flows from EC to PA to final beneficiary
- Description of reporting system on which PA bases its payment claims to EC (monitoring system)
- Description of clear segregation of tasks between MA and PA and distribution of tasks between PA and paying units/agency.

### Sources of Verification

- MAs, PA, IBs checks, interviews, etc
- Audit report(s)
- Successful negotiation of the parts of the CSF, Operational Programmes and Programme Complements that relate to the organizational set-up for SF/CF
- Benchmark indicators of Candidate Country administrative capacity study

### Assumptions

- Other criteria to achieve the third Copenhagen criterion fulfilled.
- CR fulfils all relevant recommendations of the audit report, **including costs** for staff reinforcement and amendments to procedures, etc if applicable
- CSF MA and PA agreement on amendments to procedures where necessary.
- (additional) training of staff in possibly amended procedures financed and undertaken by responsible authorities

### Results

Paying Authority, paying units, Managing Authorities and intermediary bodies prepared for administration of the support from Structural Funds and the Cohesion

### Objectively verifiable indicators

- Timely delivery of the audit report(s) including detailed recommendations
- Project reports
- Any further audit of PA/MAs

### Sources of Verification

- Structures for SF/CF administration in place with procedures set-up and well-trained staff in place.

By participating in the audit procedure, the Paying Authority and the Control Department of MoF will be able to carry out verification processes on permanent basis as required by 438/2001 – Article 9/2(a).

More specifically the project will result in:
- Verification audit reports (compliance and system audit reports) including clear statement on ability to implement SF/CF by individual institutions;
- Assessment of the system of payment flows from EC to PA to paying units to final beneficiaries;
- Assessment of the system for forecasting payment requests;
- Audit trails assessed for each programme;
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- Monitoring system for commitments/expenditure assessed and further requirements defined if appropriate.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
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</table>
| recommendations | • Agreement between paying authority and managing authorities upon the action plan and its implementation, including timing  
• PA acquires and maintains the ability to check MAs according to Art9/2a of 438/2001  
• Phare monitoring and IE reports  
• Prior agreement to testing e.g., project application flows and/or certain procedures through Phare as simulation  
• Benchmark indicators of Candidate Country administrative capacity study  
• Description of responsibilities among PA, MAs and intermediaries according to the regulations 1260/1999, 438/2001, 448/2001, 1159/2000, 1685/2001 and any other relevant acquis available.  
• Recommendations produced by the auditors followed up and checked by some independent body (external auditor/control department of MoF or some other institution)  
• Separate assistance to prepare Managing authorities and intermediary bodies available (see other projects under ESC NP 00, 01, 02)  
• Possible agreement with SIGMA to assist National Fund (MoF) in drafting action plans and preparation of audit checklists. | trained staff in place. |
- Verification of the preparedness of the PA and its intermediaries including detailed recommendations to tackle any gaps in fulfilling the EC requirements for PAs and its intermediaries. Apart from the requirements of respective legislation the audit shall focus on manuals/written procedures, separation of functions and responsibilities, assessment of organisational set up etc. (including the walk-through tests and review of trial run of procedures /pilot testing/).

- Action plan prepared for filling any gaps for administration the payments and financial flows.

- Verification of the preparedness of the MAs and its intermediaries including detailed recommendations to tackle any gaps in fulfilling the EC requirements for MAs and its intermediaries. Apart from the requirements of respective legislation the audit shall focus on manuals/written procedures, separation of functions and responsibilities, assessment of organisational set up etc. (including the walk-through tests and review of trial run of procedures /pilot testing/).

- Action plan prepared for filling any gaps in managing the CSF and Operational Programmes. If possible, the implementation of the action plans takes place under the other relevant Phare 2002 projects.

- The audit shall also result in transfer of know-how to the PA staff (that will be responsible for verification according to Art9/2a of 438/2001) and to the Control Dept of the Ministry of Finance. The PA shall be able to provide for certification of expenditure; i.e. PA and Control dept of MoF staff shall have the possibility to participate in the audit examination.

| One Technical Assistance contract with experienced and well-established external audit company. |
| The audits shall take place by 4th quarter of 2003– at the final stage of preparations for administration of SF/CF. |
| Contract value: 1,100,000 € |

- Significance of project and subsequent need for political commitment to implement future, potential, recommendations ensuing from audit report is acknowledged at relevant levels in Cz. administration
- Availability of staff of PA and MoF Control Dpt to participate in the key steps of audit process.
- Possible assistance from SIGMA to National Fund (MoF) in drafting action plans and preparation of audit checklists

**Preconditions**

The project is conditional upon satisfactory level of preparation of PA, MAs and intermediaries in order to carry out the gap analysis.
# Detailed Implementation Chart

Start up compliance and system audits of SF/CF implementation structures

<table>
<thead>
<tr>
<th>Action</th>
<th>Year</th>
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<th>2003</th>
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<th>2005</th>
<th>2006</th>
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<td>Contract signature</td>
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<td>Start up compliance and system audits of SF/CF implementation structures</td>
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**Cumulative Quarterly Disbursement Schedule (mil.€)**

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<th>Project</th>
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<th>3Q/02</th>
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