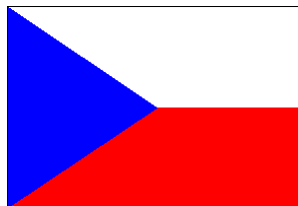




Methodology of Financial Flows, Control and Certification of Programmes Financed by the European Economic Area and Norwegian Financial Mechanisms in the 2009-2014 Programme Period

with effect from July 4, 2012



CONTENTS:

CONTENTS:	1
INTRODUCTION	3
DEFINITION OF TERMS	3
PART I: COMMON PROVISIONS	6
1 SELECTED LEGISLATION AND DOCUMENTS	6
1.1 INTERNATIONAL TREATIES	6
1.2 KEY DOCUMENTS THAT DEFINE THE FRAMEWORK AND RULES FOR IMPLEMENTATION	6
1.3 PUBLIC PROCUREMENT	6
1.4 STATE AID	6
1.5 CZECH LEGAL REGULATIONS AND CZECH GOVERNMENT DECREES	7
2 MANAGEMENT STRUCTURE	8
2.1 EEA FINANCIAL MECHANISM COMMITTEE	9
2.2 NORWEGIAN MINISTRY OF FOREIGN AFFAIRS	9
2.3 FINANCIAL MECHANISM OFFICE.....	9
2.4 NATIONAL MANAGEMENT STRUCTURE	10
2.4.1 <i>National Focal Point</i>	10
2.4.2 <i>Monitoring Committee</i>	11
2.4.3 <i>Certifying Authority</i>	11
2.4.4 <i>Audit Authority</i>	13
2.4.5 <i>Program Operator</i>	14
2.5 PROGRAMS AND THE RESPECTIVE PROGRAM OPERATORS.....	15
PART II: FINANCIAL MANAGEMENT	17
3 FMO PAYMENTS TO THE CA	17
3.1 GENERAL PRINCIPLES	17
3.2 ADVANCE PAYMENTS	17
3.3 INTERIM PAYMENTS.....	18
3.4 PAYMENTS OF THE FINAL BALANCE	19
3.5 FORECAST OF LIKELY PAYMENT APPLICATIONS	20
4 BOOKKEEPING	20
4.1 ACCOUNTING AT THE LEVEL OF THE CA	20
4.2 ACCOUNTING AT THE PO AND PP LEVEL.....	22
5 BANK ACCOUNTS	24
6 ADMINISTRATION OF INTEREST ACCRUED	25
7 PUBLIC PROCUREMENT	25
8 IRREGULARITIES	26
8.1 INVESTIGATION OF IRREGULARITIES	26
8.2 REPORTING IRREGULARITIES	28
8.2.1 <i>Immediate Reporting of Irregularities to the FMO</i>	29
8.2.2 <i>Regular Reports on New Irregularities to the FMO</i>	30
8.2.3 <i>Reporting on the Solution Procedure for Irregularities Already Reported to the FMO</i>	30
8.2.4 <i>Reporting of Irregularities upon a Request by the FMO</i>	30
8.3 MECHANISM FOR COMPLAINTS.....	30
9 SUSPENSION OF PAYMENTS, FINANCIAL CORRECTIONS AND RECOVERY OF THE AMOUNTS	31
9.1 SUSPENSION OF PAYMENTS.....	31
9.2 FINANCIAL CORRECTIONS.....	32
9.2.1 <i>Criteria for Financial Corrections</i>	32
9.2.2 <i>Procedure of Granting Corrections</i>	33

*Methodology of Financial Flows, Control and Certification of Programmes Financed
by the EEA and Norwegian Financial Mechanisms in the 2009-2014 Programme Period*

9.3	THE RECOVERY OF THE AMOUNTS	33
9.4	TOTAL SUSPENSION OF PAYMENTS TO THE CZECH REPUBLIC	34
10	LEGAL ACTS ON ALLOCATION OF RESOURCES	35
10.1	DECISION TO GRANT A SUBSIDY FOR PROGRAMMES AND PROJECTS	35
10.2	LEGAL ACT ISSUED ACCORDING TO INTERNAL RULES OF THE OUS	36
10.3	AGREEMENT ON ALLOCATION BY THE PO FOR THE CZ03 AND CZ12 IN FAVOUR OF THE PP	37
10.4	ACTS OF ALLOCATIONS UNDER THE FUND FOR BILATERAL COOPERATION AT THE NATIONAL LEVEL	37
10.4.1	<i>Decision to Grant a Subsidy / Legal Act Issued According to the Internal Rules of OUS.</i>	37
10.4.2	<i>Agreement on Allocation of Funds Abroad in the Framework of the Fund for Bilateral Cooperation at the National Level.</i>	37
10.5	CHANGE OF DECISION TO GRANT A SUBSIDY	37
11	FINANCIAL FLOWS	38
11.1	FINANCIAL FLOWS BETWEEN THE FMO AND THE CR.....	38
11.2	FINANCIAL FLOWS BETWEEN THE CA AND THE PO	38
11.2.1	<i>Programme Operator OUS - MoEYS, Ministry of Finance, or SO OUS - CIS/NAEP</i>	38
11.2.2	<i>The Programme Operator MoF / PO for CZ03 and CZ12.</i>	40
11.3	SPECIFICITY OF FINANCIAL FLOWS IN THE CASE OF PROJECT PROMOTERS OUS AND SO OUS	42
11.4	FUNDING FOR TECHNICAL ASSISTANCE AND THE FUND FOR BILATERAL RELATIONS AT THE NATIONAL LEVEL.....	43
11.4.1	<i>Financial Flows for Technical Assistance of Project Promoters NFP, CA and AA</i>	43
11.4.2	<i>Financial Flows - Fund for Bilateral Relations at the National Level before the IS set up</i> <i>44</i>	
11.4.3	<i>Financial flows - Fund for Bilateral Relations at the National Level after the IS set up</i> ..	46
12	EXCHANGE RATE DIFFERENCES	46
12.1	ROUNDING	47
13	FUND TO SUPPORT RESEARCH.....	47
13.1	ADVANCE PAYMENT	47
13.2	INTERIM PAYMENT AND PROOF OF ACTUAL EXPENDITURE.....	47
13.3	STATEMENT OF EXPENDITURE ACTUALLY INCURRED	48
13.4	FINAL PAYMENT OF THE CLOSING BALANCE.....	48
	PART III: SYSTEM OF FINANCIAL INSPECTION AND CERTIFICATION	49
14	SYSTEM OF FINANCIAL INSPECTION.....	49
14.1	SYSTEM OF INTERNAL CHECKS	49
14.1.1	<i>Checks by Management</i>	49
14.1.2	<i>Internal Audit</i>	50
14.1.3	<i>Internal Audit Activities</i>	50
14.2	SETTING UP OF MANAGEMENT AND CONTROL SYSTEMS IN THE FM 2	51
14.3	CHECKS FOR WHICH THE PO IS RESPONSIBLE	52
14.4	AUDIT UNDER THE RESPONSIBILITY OF THE AA	53
14.5	EXTERNAL AUDITS AND INSPECTIONS	53
14.5.1	<i>EFTA Audit</i>	53
14.5.2	<i>On-the-spot verification and Inspections by the FMO</i>	54
14.5.3	<i>Checks by the Supreme Audit Office</i>	54
14.6	TRANSPARENCY, AVAILABILITY OF DOCUMENTS AND ARCHIVING.....	54
15	CERTIFICATION.....	54
15.1	PROCESS OF CERTIFICATION	55
15.2	CERTIFICATION ACTIVITIES OF THE CA	56
15.3	DOCUMENTS COLLECTED FOR THE PURPOSE OF CERTIFICATION	57
15.3.1	<i>System of Forms</i>	59
	LIST OF ABBREVIATIONS.....	60
	OVERVIEW OF UPDATES	61

INTRODUCTION

The Methodology of Financial Flows, Control and Certification of Programmes Financed by the EEA / Norwegian Financial Mechanisms in the 2009-2014 Programme Period (hereinafter referred to as the “Methodology”) lays down a basic framework approach to financial management, control and certification of the funds from the financial mechanisms.

The Methodology is divided into 3 parts :

Part I: Common Provisions;

Part II: Financial Management;

Part III: System of Financial Control and Certification

The Methodology is based on existing documents and deals with basic procedures. As such, it may not be exhaustive. If other documents are approved during the implementation of financial mechanisms, the Methodology will be supplemented and updated based on the new facts.

As the Methodology cannot take into account all the procedures, when a procedure is not reflected in the Methodology, decisions on the procedure shall be adopted by the relevant Deputy Minister of Finance.

DEFINITION OF TERMS¹

Audit Authority (hereinafter referred to as “AA”) - a national public entity designated by the Beneficiary State that is functionally independent of the National Focal Point, the Certifying Authority and the Programmes Operator; designated by the Beneficiary State and responsible for verifying the effective functioning of the management and control systems;

Audit Trail - the traceability of all documents to the procedures applied in the implementation of the EEA/Norwegian Financial Mechanisms 2009 - 2014 to establish the sequence of activities implemented according to set procedures.

Certifying Authority (hereinafter referred to as “CA”) - a national public entity functionally independent of the National Focal Points, the Audit Authority and the Programme Operator, designated by the Beneficiary State to certify financial information;

Programme Agreement - an agreement between the EEA Financial Mechanism Committee / Norwegian Ministry of Foreign Affairs and the National Focal Point that sets up the implementation of each programme;

DoRIS / Documentation, Reporting and Information System - online IT system to support the implementation of the EEA/Norwegian Financial Mechanisms 2009-2014, used for instance for the submission of applications, reporting, archiving of documents;

Financial Mechanism Office (hereinafter referred to as the “FMO”) - the office assisting the EEA Financial Mechanism Committee and the Norwegian Ministry of Foreign Affairs in managing the EEA/Norwegian Financial Mechanisms 2009-2014. Administratively it is a part of the European Free Trade Association and is responsible for the day-to-day implementation of the EEA/Norwegian Financial Mechanisms 2009-2014 on behalf of the EEA Financial Mechanism Committee / Norwegian Ministry of Foreign Affairs and serves as a contact point;

¹ These are definitions for the purposes of this Methodology.

Project Promoter (hereinafter referred to as “PP”) - a public or private, commercial or non-commercial entity, as well as Non-Governmental Organizations, having the responsibility for initiating, preparing and implementing a project. Each appointed Programme Partner who asks the Programme Operator for funds for activities associated with implementation of the given programme also is in the position of the Project Promoter in terms of financial flows;

Management costs - allocations of the total programme allocation for its management;

Viola management and accounting system (hereinafter referred to as “VIOLA IS”) - an information system used for financial management and accounting of funds from the EEA/Norwegian Financial Mechanism 2009-2014;

Memoranda of Understanding on the Implementation of the EEA / Norwegian Financial Mechanism 2009-2014 (hereinafter referred to as “MoU”) - agreements between donor states and the Czech Republic establishing the basic conditions of implementation of the EEA Financial Mechanism and Norwegian Financial Mechanism in the Czech Republic and defining mutually agreed-upon programme areas, the focus thereof and the level of support;

Norwegian Ministry of Foreign Affairs (hereinafter referred to as "NMoFA") - the institution that manages the Norwegian Financial Mechanism in the period 2009-2014 and makes decisions regarding the allocation of financial assistance in accordance with the Regulation on the Implementation of Norwegian Financial Mechanism 2009-2014;

Monitoring Committee (hereinafter referred to as "MC") - a committee established by the National Focal Point to review progress in the implementation of the EEA/Norwegian Financial Mechanisms 2009-2014 towards reaching its expected outcomes and objectives;

National Focal Point (hereinafter referred to as “NFP”) - a national public entity designated by the Beneficiary State as a body responsible for achieving the objectives of the EEA/Norwegian Financial Mechanisms 2009-2014 and implementation of Memoranda of Understanding;

Regulation on the Implementation of the EEA / Norwegian Financial Mechanisms 2009-2014 (hereinafter referred to as the “Regulation”) - the general rules of the EEA/Norwegian Financial Mechanisms 2009-2014;

Non-Governmental Organization - an organization established as a legal entity that has not been established or founded for the purpose of doing business and is independent of local, regional and central government, public bodies, political parties and commercial organizations.² Religious institutions and political parties are not considered to be Non-Governmental Organizations;

Programme Partner - a public or private entity, commercial or non-commercial, as well as Non-Governmental Organization that is actively involved in, and effectively contributing to, the implementation of a programme;

Project Partner - a public or private entity, commercial or non-commercial, as well as a Non-Governmental Organizations actively involved in, and effectively contributing to, the implementation of a project;

Programme - a structure setting out a development strategy with a coherent set of measures to be carried out through projects with the support of the EEA/Norwegian

² Non-Governmental Organizations in the Czech Republic may be (provided the state has no participation in them and they are not dependent on the state) for instance civil associations under Act 83/1990 Coll., public benefit corporations pursuant to Act No. 248/1995 Coll., foundation or endowment fund pursuant to Act No. 277/1997 Coll.

*Methodology of Financial Flows, Control and Certification of Programmes Financed
by the EEA and Norwegian Financial Mechanisms in the 2009-2014 Programme Period*

Financial Mechanisms 2009-2014 and aimed at achieving agreed objectives and outcomes. Each programme consists of one or more programme areas;³

Project - an economically indivisible series of works fulfilling a precise technical function and with clearly identifiable aims related to the programme under which it falls. A project may include multiple sub-projects;

Regranting - financial resources directly related to the financing of individual projects within the programmes. This does not concern finances for management of programmes;

Implementation Agreement - a contract between the National Focal Point and the Programme Operator that lays down the implementation of the programme at the PO level (for CZ03 and CZ12 programmes);

EEA Financial Mechanism Committee (hereinafter referred to as “FMC”) - the committee established by the Standing Committee of the EFTA States to manage the EEA Financial Mechanism 2009-2014;

Programme Operator (hereinafter referred to as “PO”) - public or private, commercial or non-commercial entity, as well as Non-Governmental Organization whose responsibility is to prepare and implement the programme;

Eligible Expenditures - expenditures incurred for the intended purpose and within the period specified in the legal acts on the allocation of resources that are in accordance with the Regulation and other conditions required by the FMC, the NMoFA, the FMO, the NFP or the PO for the programme.

³ For an explanation of the concept of a programme area, please see Article 1.5 (p) of the Regulation.

PART I: COMMON PROVISIONS

1 SELECTED LEGISLATION AND DOCUMENTS

The listed legal regulations and documents should always be used as effective and amended. The individual amendments thereto are not listed.

The use of the EEA/Norwegian Financial Mechanisms 2009-2014 (hereinafter referred to as “FM 2”) in the Czech Republic is based on the following documents:

1.1 International Treaties

1. Protocol 38B to the EEA Agreement on the EEA Financial Mechanism 2009-2014;
2. Agreement between the European Union, Iceland, the Principality of Liechtenstein and the Kingdom of Norway on an EEA Financial Mechanism for the Period 2009-2014 dated July 28, 2010;
3. Agreement between the European Union and the Kingdom of Norway, pertaining to the Norwegian Financial Mechanism for the period 2009-2014, dated July 28, 2010;
4. Memorandum of Understanding on the Implementation of the Norwegian Financial Mechanism 2009-2014 between the Kingdom of Norway and the Czech Republic (signed June 16, 2011);
5. Memorandum of Understanding on the Implementation of the EEA Financial Mechanism 2009-2014 between the Republic of Iceland, the Principality of Liechtenstein, the Kingdom of Norway and the Czech Republic (signed June 17, 2011);

1.2 Key Documents that Define the Framework and Rules for Implementation

6. Regulation on the Implementation of the EEA/Norwegian Financial Mechanisms 2009-2014 (hereinafter referred to as “Regulation”) and other documents issued by the FMC, the NMoFA and the FMO (www.eeagrants.org);

1.3 Public Procurement

7. Directive 2004/18/EC of the European Parliament and of the Council, of 31 March 2004, on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts;
8. Commission Implementing Regulation (EU) No 842/2011 of 19 August 2011 establishing standard forms for the publication of notices in the field of public procurement and repealing Regulation (EC) No 1564/2005;

1.4 State Aid

9. Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation) (currently, Articles 107 and 108 of the TFEU);

10. Commission Regulation (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid;
11. Community Framework for State Aid for Research and Development and Innovations No 2006/C 323/01, regulating the field of research, development and innovations;

1.5 Czech Legal Regulations and Czech Government Decrees

12. Act No. 137/2006 Coll., on Public Procurement;
13. Government Regulation No. 77/2008 Coll., on the determination of financial limits for the purposes of the Public Procurement Act, on the definition of goods procured by the Czech Republic - Ministry of Defence to which a specific financial limit applies and on the conversion of the amounts specified in the Act on Public Procurement in euro into the Czech currency;
14. Act No. 500/2004 Coll., the Administrative Code;
15. Act No. 215/2004 Coll., on the Organization of Some Relations in the Field of State Aid and Amending the Act on Research and Development;
16. Act No. 130/2002 Coll., on the Promotion of Research, Experimental Development and Innovation Using Public Funds and Amending Certain Related Acts of the Parliament (Act on Promotion of Research, Experimental Development and Innovation);
17. Act No. 235/2004 Coll., on Value Added Tax;
18. Act No. 420/2004 Coll., on Reviewing the Management of Local Governments and Voluntary Associations of Municipalities;
19. Act No. 499/2004 Coll., on Archives and Records Service and Amending Certain Acts of the Parliament;
20. Act No. 47/2002 Coll., on the Support of Small and Medium-Sized Enterprises and Amending Act No. 2/1969 Coll., on the Establishment of Ministries and Other Central State Administration Bodies of the Czech Republic;
21. Act No. 320/2001 Coll., on Financial Control in Public Administration and on the Amendment to some Acts (Act on Financial Control);
22. Decree No. 416/2004 Coll., implementing Act No. 320/2001 Coll., on Financial Control in Public Administration and Amending Certain Acts of the Parliament (Act on Financial Control);
23. Decree No. 323/2002 Coll., on Budget Structure;
24. Decree No. 415/2008 Coll., establishing the Scope and Structure of Underlying Materials for the Development of Medium-Term Outlook for the State Budget
25. Act No. 219/2000 Coll., on the Assets of the Czech Republic and Representation of the State in Legal Relationships;
26. Decree No. 62/2001 Coll., on Management of State Assets by Government Departments and Government Agencies;
27. Act No. 218/2000 Coll., on Budgetary Rules and Amending Certain Related Acts of the Parliament (Budgetary Rules Act);
28. Decree No. 449/2009 Coll., on the Format, Deadlines and Scope of Data Submitted for Evaluation of Management of the State Budget, Budgets of State

- Funds, Local Government Budgets, Budgets of Voluntary Associations of Municipalities and Budgets of Regional Councils of Coherence Regions;
29. Decree No. 165/2008 Coll. Establishing the Scope and Structure of Data for the Elaboration of State Budget Bill and Deadlines for Submission;
 30. Decree No. 419/2001 Coll. on the Scope, Structure and Deadlines for Data Submitted for Drafting the Final State Account and the Extent and Timing of Preparation of Final Accounts Proposals of the Individual Chapters of the State Budget;
 31. Decree No. 560/2006 Coll., on State Budget Participation in Financing of Asset Replacement Programmes;
 32. Decree No. 52/2008 Coll., laying down the Principles and Deadlines of Financial Settlement of Relationships with the State Budget, State Financial Assets or the National Fund;
 33. Decree No. 286/2007 Coll., on the Central Register of Grants;
 34. Act No. 166/1993 Coll., on the Supreme Audit Office;
 35. Act No. 586/1992 Coll., on Income Taxes;
 36. Act No. 280/2009 Coll., the Tax Procedure Code;
 37. Act No. 563/1991 Coll., on Accounting;
 38. Decree No. 410/2009 Coll., implementing Certain Provisions of Act No. 563/1991 Coll., on Accounting, as amended, for Certain Selected Entities;
 39. Decree No. 504/2002 Coll., implementing Certain Provisions of Act No. 563/1991 Coll., on Accounting for Entities the main Activity of which are not Business Activities;
 40. Decree No. 501/2002 Coll., implementing Certain Provisions of Act No. 563/1991 Coll., on Accounting for Entities that are Banks and Other Financial Institutions;
 41. Decree No. 500/2002 Coll., implementing Certain Provisions of Act No. 563/1991 Coll., on Accounting for Entities that are Businesses Maintaining Double-Entry Bookkeeping;
 42. Act No. 552/1991 Coll., on State Control;
 43. Act No. 531/1990 Coll., on the Territorial Financial Authorities;
 44. Act No. 2/1969 Coll., on the Establishment of Ministries and Other Central State Administration Bodies of the Czech Republic;
 45. Act No. 141/1961 Coll., on Criminal Procedure (Criminal Procedure Code);
 46. Act No. 125/2008 Coll., on Transformations of Commercial Companies and Cooperatives.

2 MANAGEMENT STRUCTURE

For the effective and transparent management of the implementation of FM 2, implementing bodies with clearly defined responsibilities are established in accordance with relevant international documents at national and transnational level, for each activity of the implementation cycle.

2.1 EEA Financial Mechanism Committee

The FMC has been established by the states of the European Free Trade Association (hereinafter referred to as the “EFTA”) as the body responsible for the efficiency and correctness of management and utilization of funds provided from the EEA Financial Mechanism 2009-2014.

The FMC approves:

1. The rules and procedures for the EEA Financial Mechanism 2009-2014;
2. Proposals of individual programmes submitted by the National Focal Points of all the Beneficiary States;
3. Criteria for the selection of programmes;
4. System of the monitoring and evaluation of programmes as a whole;
5. Annual and final programme reports (Article 5.11 and 5.12 of the Regulation) and strategic reports (Article 2.2 of the Regulation).

2.2 Norwegian Ministry of Foreign Affairs

The NMoFA (as a representative of the donor states) is responsible for the efficiency and correctness of management and disbursement of funds from the Norwegian Financial Mechanism 2009-2014.

The NMoFA approves:

1. Rules and procedures for the Norwegian Financial Mechanism 2009-2014;
2. Proposals of individual programmes submitted by the National Focal Points of all the Beneficiary States;
3. Criteria for the selection of programmes;
4. System of the monitoring and evaluation of programmes as a whole;
5. Annual and final programme reports (Article 5.11 and 5.12 of the Regulation) and strategic reports (Article 2.2 of the Regulation).

2.3 Financial Mechanism Office

The FMO provides administrative support to the FMC and NMoFA regarding operational activities within the implementation of FM 2. At the same time, it functions as the main point of contact between Beneficiary States and the donor states. The FMO is established as a separate unit of the FMC and NMoFA.

The FMO is especially responsible for:

1. Preparation of the basic contractual documents with the Beneficiary States for assistance from FM 2 (MoU);
2. Preparation of standardized forms and procedures for the implementation of FM 2 and ensuring their amendments to reflect the national specifics of the Beneficiary States;
3. Acceptance and assessment of programme proposals submitted by the Beneficiary States;
4. Services of a secretariat for the FMC and NMoFA when deciding on the programmes;

5. Preparations for Programme Agreements;
6. Inspections of interim and final programme reports submitted by the CA for individual programmes;
7. External monitoring of programmes/projects within FM 2;
8. Receipt and approval of annual and final programme reports on the programme from Beneficiary States;
9. Preparation of annual reports on the implementation of the FM 2 and the submission thereof to the FMC and the NMoFA;
10. Ensuring public awareness of FM 2;
11. Final evaluation of the assistance from FM 2.

2.4 National Management Structure

2.4.1 National Focal Point

According to the MoU, the Ministry of Finance - Department of International Relations shall act as the National Focal Point in the Czech Republic.

The NFP is responsible for the overall achievement of the objectives and implementation of FM 2 in the Beneficiary State, acts as a focal point, represents the Beneficiary State in its relations with the FMO and is responsible for the implementation of the MoU.

In addition, the NFP carries out the following activities:

1. Submitting the documents from PO, necessary to monitor the implementation of specific programmes in terms of the expected final results and objectives for each session of the MC;
2. Providing information on the existence, goals (including cooperation with entities in donor states), implementation and overall impact of FM 2 in the Czech Republic, in accordance with the requirements for ensuring transparency in the disbursement of FM 2 funds, provision of information and publicity, in particular through:
 - a) A communication strategy for FM 2;
 - b) At least three major information activities a year on the implementation of FM 2, such as seminars and conferences with stakeholders, press conferences or meetings with the press, including the opening and closing ceremony of FM 2;
 - c) A dedicated website on FM 2 (both the aid instruments - EEA Financial Mechanism and Norwegian Financial Mechanism) in Czech and English, with information on all programmes, bilateral relations with donor states relating to FM 2, an overview of calls for proposals, contact information and relevant documents;
3. Surveillance over providing information and publicity by programme operators in accordance with the Regulation / Manual for Publicity;
4. Supervision of the implementation of programmes in accordance with the Regulation, whereas the monitoring process shall focus on the quality of the

implementation thereof. The NFP may adopt measures, if deemed necessary, including the verification of the quality and content of any documents provided to the FMO through the NFP, and require the necessary modifications to such documents;

5. Monitoring programmes in terms of their progress in achieving the final results and the programme objectives according to the agreed indicators and financial requirements set for each programme. The results of monitoring are presented in the Strategic Report (Article 2.2 of the Regulation);
6. Submission of a detailed description of the management and control systems, in favour of the FMO and in accordance with Chapter 14.2 *Setting the Management and Control Systems within FM 2*, at both the level of horizontal bodies of implementation structure and intermediaries in each programme;
7. Processing the general methodology and guidelines for the implementation of FM 2, in collaboration with other institutions.

2.4.2 Monitoring Committee

Within six months from the date of the last signature of the MoU, the NFP shall appoint the members to MC for FM 2. The MC is chaired by the NFP representative and the committee is composed of representatives of relevant ministries, government organizations, social partners, NGOs, regional and local governments and other organizations, or even of representatives of private sector entities. MC meetings may be attended by the representatives of NMoFA and FMC, having the status of an observer.

The MC is responsible for the following tasks:

1. On the basis of documents submitted by the NFP and PO, MC periodically reviews progress made towards achieving the specific objectives of FM 2;
2. MC assesses the results of implementation, particularly the achievement of outputs and progress towards the expected end results and objectives set for individual programmes;
3. MC reviews the Strategic Report (Article 2.2 of the Regulation) and issues an opinion on it;
4. MC provides NFP with suggestions regarding the need for revisions or reviews of the implementation framework set out in Annex B to the MoU which could contribute to the achievement of the goals under FM 2, or improve the management thereof, including financial management.

2.4.3 Certifying Authority

According to the MoU, the Ministry of Finance - National Fund Department, Unit 557 EEA/Norwegian FM 2009 – 2014 Certification Unit shall act as the Certifying Authority in the Czech Republic.

The Certifying Authority is especially responsible for:

1. Submission of a certified interim financial report (hereinafter referred to as “IFR”) and the final programme report (hereinafter referred to as “FPR”) to the FMO in which the following is checked:

- a) That the aggregate eligible expenditures submitted by the Programme Operator are fully in line with supporting documents, see Chapter 15.3 *Documents Collected for the Purpose of Certification*;
 - b) That the supporting documents were reviewed and found to be authentic, correct and accurate;
 - c) That the summary of eligible expenditures is based on verifiable accounting records which are in accordance with generally accepted accounting principles and methods;
 - d) That the summary eligible expenditures are qualified in accordance with the Regulation and national practice;
 - e) That the summary of the eligible expenditures incurred as part of the programme implementation is in accordance with the Programme Agreement;
 - f) That there is an adequate audit trail for funds spent (in accordance with Chapter 14.6 *Transparency, Availability of Documents and Archiving*);
 - g) That funds to co-finance projects under the programme are paid (verified through the table entitled “Overview of the Programme Budget based on Projects” that will be submitted to the Certifying Authority together with IFR/FPR);
2. Submission of an estimate of the planned payment applications in accordance with the Regulation to the FMO;
 3. Informing the FMO on interests generated by FM 2 funds at the bank accounts opened in the Czech Republic and for the payment of such interests to the bank account of the FMO in accordance with Chapter 6 *Administration of Interests Accrued*;
 4. Reflecting the results of all audits carried out by or under the authorization of the Audit Authority for the purpose of certification;
 5. Maintaining accounting records of expenditure declared to the FMO in an electronic form;
 6. Providing the transfer of payments to programme operators and Project Promoters in accordance with the Regulation and Chapter 11 *Financial Flows*;
 7. Ensuring that the amounts incorrectly paid or paid in breach of the eligibility of expenditure or withdrawn due to cancelling all or part of a programme or project are returned to the FMO before the programme is closed;
 8. Capping of irregularities in the Czech Republic, regular reporting to the FMO on new irregularities and the progress achieved in investigating and remedying already reported irregularities.

The CA ensures the establishment and maintenance of a separate interest bearing bank account dedicated to FM 2.

The Employees of the CA are entitled to carry out on-the-spot inspections at the level of PO or PP.

2.4.4 Audit Authority

According to the MoU, the Ministry of Finance - Department of Audit Authority Central Harmonisation Unit, Department 524 Audits of Migration Funds and FM 2 acts as the Audit Authority in the Czech Republic.

The Audit Authority is especially responsible for:

1. Securing the auditing of the entities of the implementing structure of FM 2 to verify the effective functioning of the management and control system at the national level of the Czech Republic;
2. Ensuring the implementation of at least one audit for each programme to verify the effective functioning of the management and control system;
3. Ensuring the auditing of an appropriate sample of projects to verify the declared expenditures;
4. Submitting of audit strategy to the FMO within nine months of programme approval, the methods to be used for the selection of projects to audit and indicative planning of audits to ensure that audits are spread evenly throughout the programming period;
5. Within the deadline of 31 December, each year from 2012 to 2017:
 - a) In accordance with the audit strategy of the programme, the FMO shall submit annual audit report setting out the results of audits conducted during the previous twelve months ending on 30 June of that year, including the deficiencies identified in the programme management and control systems. The first report to be submitted by 31 December 2012 shall cover the period until 30 June 2012. The information concerning the audits carried out after 1 July 2017 will be included in the final audit report, which is the basis for the Programme Closure Declaration referred to in point 6 of this chapter;
 - b) On the basis of controls and audits for the implementation of which it is responsible, it issues an opinion on whether the management and control system functions effectively, and confirms that the statements of actual expenditure incurred submitted to the FMO are correct and, therefore, that the underlying transactions are legal and regular;
6. Submitting to the FMO at the latest by 31 December 2017 a Programme Closure Declaration assessing the validity of the application for payment of the final balance claimed in the FPR;
7. Where the Audit Authority chooses not to carry out audits according to paragraphs 1 - 3, it shall appoint an independent and certified auditor to perform these tasks. However, this shall not relieve AA from the responsibility for the due execution of the audits according to this chapter;
8. The AA shall ensure that audits are carried out in accordance with internationally accepted auditing standards;
9. The FMO shall comment on the audit strategy presented under point No. 4 within three months of the receipt thereof. In the absence of comments within this period it shall be considered to have been accepted.

10. In accordance with Chapter 14.2 *Setting up Management and Control Systems within the FM 2*, the AA draws up a report and expert opinion confirming that the setting of the management and control system in the Czech Republic is in accordance with the Regulation and generally accepted accounting standards.

2.4.5 Programme Operator

1. The PO is responsible for preparing and implementing the programme in accordance with the principles of efficiency, effectiveness and economy, namely:
 - a) Ensuring that projects contribute to the overall objectives of FM 2 and the specific programme outcome(s) and objective(s), and that they comply with this Regulation, the Programme Agreement as well as applicable Czech Republic and European Union law in all implementation phases;
 - b) Collecting applications, selecting projects to be funded and signing contracts on the allocation of resources in accordance with Chapter 6.7 of the Regulation and Chapter 10 *Legal Acts on the Allocation of Resources*;
 - c) Verifying the project outputs and that the expenditure declared by the Project Promoters has actually been incurred and complies with this Regulation, the Programme Agreement as well as applicable Czech Republic and EU law;
 - d) Ensuring that payments to Project Promoters are made in a timely manner;
 - e) Ensuring the quality of the implementation of the programme and verifying the projects' progress towards expected outcomes, inter alia through reviews and/or on-the-spot verification of projects carried out on a sample basis;
 - f) Conducting annual monitoring of a sample of projects selected based on risk assessment and including random samples;
 - g) Ensuring that the financial contributions under FM 2 are used exclusively for the purpose of the programme and its projects and according to the Programme Agreement and that all assets forming part of the programme are used only for such purposes as provided for in the Programme Agreement;
 - h) Ensuring that there is a system for recording and storing in computerised form accounting records for each project under the programme and that the data on implementation necessary for financial management, reporting, monitoring, verifications, audits and evaluation are collected;
 - i) Establishing an organisational structure of the institution responsible for the programme that ensures independence and functional separation of the division responsible for verification of payment claims from other divisions responsible for the implementation of the programme;
 - j) Establishing and keeping a separate interest bearing bank account with a deposit of funds for "regranting", i.e. FM 2 funds provided by the FMO for the financing of individual projects, and a separate interest bearing bank account with a deposit of funds for "other payments" (in accordance with Chapter 5 *Bank Accounts*);

- k) Ensuring that Project Promoters maintain either a separate accounting system or an adequate accounting code for all transactions relating to the project without prejudice to national accounting rules;
 - l) Ensuring transparency and availability of documents in accordance with the requirements of Chapter 14.6 *Transparency, Availability of Documents and Archiving*;
 - m) Ensuring that the CA receives all the necessary information on procedures and verifications carried out in relation to expenditures of the programme and its projects for the purposes of certification (see Chapter 15.3 *Documents Collected for the Purpose of Certification*);
 - n) Drawing up and submitting the IFR, FPR to the Certifying Authority (in accordance with Chapter 3 *Payments by the FMO in Favour of the CA*) and reports on interest accrued (in accordance with Chapter 6 *Administration of Interest Accrued*), then prepares and submits to the NFP and the FMO the annual report on the programme;
 - o) Submitting to the CA a forecast of likely payment applications necessary for the CA to fulfil its obligations in accordance with Chapter 3.5 *Forecast of likely payment applications*;
 - p) Ensuring entry of project-specific statistical data to maintain the reporting database in accordance with the Programme Operator's Manual (Annex 9 to the Regulation);
 - q) Ensuring that the FMO and the NFP are upon request, and within reasonable time, provided with all documents and information relating to the implementation of the programme and its projects;
 - r) Ensuring that the Project Promoters are fully committed and able to implement their projects on the basis of the signed legal act on the allocation of resources;
 - s) Ensuring that all necessary and appropriate measures are taken to prevent, detect and nullify any cases of suspected or actual irregularities, that they are investigated promptly and efficiently and properly reported and remedied, including making any financial corrections that may be appropriate;
 - t) Ensuring that all relevant local, national and European Union legislation (including, but not limited to, legislation on the environment, public procurement and state aid) are complied with; and
 - u) Complying with any other obligations stipulated in the Programme Agreement.
2. The PO must ensure compliance with the requirements of the FMO for the submission of the required information in an electronic form.

2.5 Programmes and the Respective Programme Operators

For the 2009-2014 period the following programmes and Programme Operators were approved in the Czech Republic. Various settings of financial flows depend on the nature of the Programme Operator (see Chapter 11.2 *Financial Flows Between the CA and PO*).

Methodology of Financial Flows, Control and Certification of Programmes Financed by the EEA and Norwegian Financial Mechanisms in the 2009-2014 Programme Period

No.	Programme Title	Programme Operator
CZ01	Technical Assistance and the Fund for Bilateral Relations at National Level	MoF
CZ02	Biodiversity and Ecosystem Services / Environmental monitoring and integrated planning control / adaptation to climate change	MoF
CZ03	Funds for Non-Governmental Organizations	<i>Subject to tender</i>
CZ04	Children and Youth at Risk	MoF
CZ05	National, Regional, Local Initiatives to Reduce National Inequalities between Groups and to Promote Social Inclusion	MoF
CZ06	Cultural Heritage and Contemporary Art	MoF
CZ07	EEA Scholarships Programme / Bilateral Scholarship Programme	MoEYS / CIS NAEP
CZ08	Pilot Studies and Surveys on Capture and Store Carbon Dioxide (CCS) Technologies	MoF
CZ09	Research Support Fund	MoEYS
CZ10	Capacity Building and Institutional Cooperation between Beneficiary State and Norwegian Public Institutions, Local and Regional Authorities	MoF
CZ11	Public Health Initiatives	MoF
CZ12	Mainstreaming Gender Equality and promoting work-life Balance / Domestic and Gender-Based Violence	<i>Subject to tender</i>
CZ13	Domestic and Gender-Based Violence / Mainstreaming Gender Equality and Promoting Work-Life Balance	MoF
CZ14	Schengen Cooperation and Combating Cross-Border and Organized Crime, including Trafficking and Itinerant Criminal Groups	MoF
CZ15	Judicial Capacity-Building Cooperation / Correctional Services Including Non-Custodial Sanctions	MoF

PART II: FINANCIAL MANAGEMENT

3 FMO PAYMENTS TO THE CA

3.1 General Principles

The funds for individual programmes may only be released if all the relevant conditions and prerequisites specified in the Programme Agreement and the Regulations are met.

The resources allocated to programmes within the FM 2 are provided by the FMO in favour of the Czech Republic to the source account of the CA, in the form of the following payments:

1. Advance payments;
2. Interim payments (based on IFR);
3. Payments of the final balance.

In accordance with the Regulation, the FMO presumes to retain up to 10% of the “management costs” from each advance payment and interim payment under individual programmes. These funds will not be reimbursed under the programme until the FPR is approved by the FMO. The retained amount is transferred to the CA’s account together with the payment of the final balance (see Chapter 3.4 *Final Balance Payments*).

Co-financing is not required at the level of individual programmes, however, each Project Promoter is obliged to provide financing itself⁴. The level of co-financing of expenditure on individual programmes equals about 15% of the total eligible expenditures which is in compliance with the Annex B of the Memoranda. The Project Promoter in this context demonstrates to the PO that expenditures for their projects include within each individual expenditure the level of co-financing as provided for in the legal act on the allocation of resources. The co-financing and the share provided by FM 2 equal the total allocation for the project.

Please see Chapter 11 *Financial Flows* for specific procedures and options for the provision of funds within the implementation structure of FM 2 in the Czech Republic.

3.2 Advance Payments

An advance payment may cover the share of estimated eligible expenditures per programme scheduled from the first day of eligibility of expenditure of the programme for up to 2 full reporting periods specified in Chapter 3.3 *Interim Payments*.

The maximum amount of advance payments together with the conditions for payment and settlement thereof are set out in the Programme Agreement. Each request for advance payment shall be incorporated into the programme proposal. Advance payments are made to CA in line with the agreed conditions and procedures set out in this Methodology; CA releases the payments in compliance with the procedures set out in Chapter 11 *Financial Flows*. The funds of the advance payments actually used up shall be reported to the FMO in the first IFR. The unused advance payment funds are further treated in the same way as

⁴ This obligation does not apply to programme CZ09 – Research Support Fund

unused funds provided within standard interim payments provided on the basis of individual IFR.

3.3 Interim Payments

Interim payments by the FMO in favour of the Czech Republic to the source account of the CA shall be made subject to compliance with all requirements specified in the Programme Agreement and the Regulation. Providing interim payments from the CA level to lower levels is described in Chapter 11 *Financial Flows*. IFR shall serve as the basis for providing interim payments from the FMO. The IFR format is specified in Annex 11 of the Regulation.

Each calendar year consists of the 3 reporting periods stated below⁵. After the end of each period the steps leading to the development of the IFR are made.

- 1 January – 30 April;
- 1 May – 31 August;
- 1 September – 31 December.

The IFR including the mandatory attachments may be submitted by the PO to the Certifying Authority in electronic form at the start of certification process already, see Chapter 15 *Certification*. After verification and approval of the electronic version at the level of the CA, the IFR is presented by the PO in paper form within the following deadlines:

- 1 January - 30 April - IFR submitted to the CA no later than 1 July;
- 1 May - 31 August - IFR submitted to the CA no later than 1 November;
- 1 September - 31 December - IFR submitted to the CA no later than 1 March.

After verifying the facts in accordance with the procedures of Chapter 15 *Certification* and within the deadlines laid down by the Regulation, the CA submits the IFR to the FMO:

- 1 January - 30 April - IFR submitted to the FMO no later than 15 July;
- 1 May - 31 August - IFR submitted to the FMO no later than 15 November;
- 1 September - 31 December - IFR submitted to the FMO no later than 15 March.

After the receipt of IFR, the FMO has a deadline of 1 month (if the IFR is correct) to check the facts contained therein (verify the correctness of the forms and compliance with the payment conditions) and transfer the requested funds to the CA source account:

- IFR submitted to the FMO no later than 15 July - the FMO transfers the requested funds to the source account of the CA by 15 August;
- IFR submitted to the FMO no later than 15 November - the FMO transfers the requested funds to the source account of the CA by 15 December;
- IFR submitted to the FMO no later than 15 March - the FMO transfers the requested funds to the source account of the CA by 15 of April.

⁵ This does not apply to programme CZ09 - Research Support Fund, see Chapter 13 *Research Support Fund*.

Should a payment date land on a weekend or an EFTA public holiday, the payment shall be made on the next EFTA working day.

In the first IFR, the PO is allowed to claim reimbursement of costs incurred in connection with the preparation of the programme.

Interim payments are based on the proposed expenditures of the PO for the next period, taking into account any balances on bank accounts opened for the purpose of FM 2.

Payments on the basis of the interim financial reports received by the FMO after the due date but on, or before, the following due date (see the due dates above) shall be due on the latter of the two due dates. If the FMO does not receive the IFR within eight months from the end of the reporting period in which the Programme Operator incurred the expenditure, the initially proposed expenditure for this period will be declared ineligible and cancelled. This time limit only applies to the Programme Operator's expenditures that were incurred in full compliance with the eligibility rules. In case of doubt regarding the eligibility of expenditures (e.g. due to suspicion of irregularity), the PO has an obligation to remove these expenses from the IFR submitted to the CA. When subsequently demonstrated that the expenditure is fully consistent with the eligibility of expenditures, it will be re-included under the next IFR submitted to the CA. In this regard, it is also necessary to follow the time eligibility of expenditure of the programmes, so that the expenditure is reported within the time limits set by the Regulation.

In case of delay in the control and transfer of the IFR by the CA, the situation will be discussed in Budget Section 06 of the MoF and the final decision shall be adopted by the Deputy Minister.

The FMO may modify the amount of interim payment if the proposed expenditure is deemed ineligible. In this case, the FMO shall provide the NFP, the CA and PO with a justification of such a modification.

If the result of verifying the accuracy of the IFR form by the FMO is negative, the FMO, the CA and PO shall work together to remove the deficiencies, also with the help of the NFP if necessary. The FMO may temporarily suspend interim payments until the moment when the deficiencies are remedied. After the FMO receives all the necessary information and positively verifies the IFR, it shall release the requested payment as of the next due date according to the dates referred to in this Chapter above or as of the date which it considers adequate - based on this verification - in case it decides to use remedial means (suspension of payments, financial corrections or reimbursements).

3.4 Payments of the Final Balance

The Final Balance is:

1. the total reported eligible expenditure of the programme (including the amount held on a temporary basis), taking into account any previous reimbursements;
2. less the following amounts:
 - a) the total advance and interim payments to the programme from the FMO;
 - b) any programme co-financing from sources other than FM 2;
 - c) the total interest earned until the date of the preparation of the FPR but not reimbursed to the FMO;

- d) any funds reimbursed by the Project Promoters to the PO and not paid by the PO to other projects or reimbursed to the FMO.

The final balance is calculated and reported in the financial annex to the FPR in the format provided by the FMO. The FPR financial annex will also contain a statement of actual expenditure incurred for the last reporting period.

The final balance payable in favour of the PO on the basis of the financial annex shall be transferred to the CA's account by the FMO no later than 1 month after the FMO approves the FPR. The CA shall transfer these funds in favour of the PO within 15 working days of receipt.

The final balance payable under the financial annex to the FMO will be returned to the FMO no later than within one month after the FMO approves the FPR. Interest arising in the period between the date of preparation of the FPR and the date of recovery will be included in the amount of returned funds, or into the final balance.

3.5 Forecast of likely payment applications

During each year, the CA sends to the FMO justified forecast of likely payment applications for the remainder of the current financial year and subsequent financial years in the format provided by the FMO (see Annex 7 to the Regulation), not later than within the following dates:

- 20 February;
- 20 May;
- 20 September;
- 10 December.

The CA shall draw up a forecast based on the data received from various POs. Each PO is required to send to the CA their forecasts of likely payment applications at the latest 10 days before the above stated dates.

4 BOOKKEEPING

4.1 Accounting at the level of the CA

The CA shall keep records of expenditures reported to the FMO in an electronic form.

The CA shall keep records within a separate accounting entity within the MoF on all accounting transactions related to budget funding of FM 2 on their bank accounts regarding transactions which occur during the implementation of programmes financed from FM 2.

The CA keeps accounting especially on the following facts:

1. Claim payable by the FMO in connection with the advance payment;
2. Claim payable by the FMO in connection with the submission of the application for an interim payment and the payment of the final balance;
3. Settlement of a claim payable by the FMO - receipt of funds from the FMO;
4. Amount payable to the SB in connection with the approval and validation of IFR submitted by the PO;

5. Amount payable to the PO in connection with the approval and validation of IFR submitted by the PO;
6. Settlement of the amount payable to the SB - transfer of funds from the source account of the CA to the revenue account of the SB administrator from which the funds for the pre-financing of resources from the FM 2 budget were provided;
7. Settlement of the amount payable to the PO - transfer of funds from the source account of the CA to the account of the PO;
8. Amount payable to the FMO based on a request for the refund of unused funds from the FM 2 budget;
9. Settlement of the amount payable to the FMO based on a request for the refund of unused funds from the FM 2 budget from the source account of the CA to the FMO;
10. Interest accrued on the accounts of the CA;
11. Amount payable to the FMO based on a request for an annual payment of interests generated on bank accounts of the CA and the PO;
12. Settlement of exchange rate differences at the level of the CA,

in accordance with applicable laws and regulations including the provisions of Act 563/1991 Coll. on Accounting and Decree No. 410/2009 Coll., implementing Certain Provisions of Act No. 563/1991 Coll. on Accounting, as amended, for Certain Selected Entities.

Accounting at the CA level is kept and maintained in the VIOLA IS. The accounting records are protected in an adequate and standard manner to prevent any risk of misuse. This provision applies both to a secure computer programme as well as to the physical protection of written records and documents.

4.2 Accounting at the PO and PP Level

Costs incurred by the PO, programme partners, PP and project partners must be demonstrated by receipted copies of accounting documents⁶ (invoices, bank statements and other accounting documents of equivalent probative value).

If the activities are implemented on the basis of a public procurement procedure, payments by the PO, programme partners, PP and project partners must be supported by receipted copies of accounting documents issued on the basis of a signed contract.

⁶ In cases where the value of the accounting document exceeds CZK 10 000 (including VAT on the specifications listed below) the payment application must be accompanied by submitted certified copies of individual bills. Certified (signed and stamped) copy of the document submitter declares its compliance with the original. Accounting documents must meet the requirements of Art. 11 of Act No. 563/1991 Coll., on Accounting, as amended. In order to simplify the administration process of payment applications the PO has a responsibility to allow the Project Promoters the use of the list of accounting documents, instead of submitting certified copies of invoices, accounting documents (invoices, bank statements), meeting the requirements according to Art. 11 of Act No. 563/1991 Coll., on Accounting as amended, other accounting documents or documents of equivalent probative value as attachments to the payment application, in such a way that the Project Promoter would not have to carry any additional administrative burden. Using the list of accounting documents submitted with the payment application it is the PO's duty to specify the required data, which must be listed. The maximum limit for inclusion in the list of accounting documents is CZK 10 000 for one accounting document. For non-payers of VAT, the amount of CZK 10 000 includes VAT, while VAT is not included for VAT payers with a right to

Indirect costs are all eligible costs which the PP or partner of the project cannot directly identify as the cost of the project but which can be identified and justified in their accounting system as costs incurred in direct connection with the eligible direct expenditures of the project. It does not include any eligible direct expenditures. Indirect project costs are a reasonable proportion of indirect costs of any PP or project partner. The amount thereof can be determined using one of the following methods:

1. direct evidence of indirect costs:
 - based on actual indirect costs of the PP and project partners who have an analytical accounting system that identifies their indirect costs as described above;
2. reporting a lump sum fee:
 - a) For projects carried out within the framework of Bilateral Research Cooperation or within the research component of any programme, the PP and project partners who are non-profit public bodies, secondary and higher education establishments, research organizations, small and medium-sized enterprises and do not have such analytical accounting system that would enable them to accurately identify the real indirect costs of the project, may select in accordance with the Methodology of indirect costs of the PO a flat rate of up to 60% of their total direct eligible costs. From these total direct costs, direct eligible costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the PP are excluded. If these PPs or project partners stop meeting the above conditions during the project and thus change their position in the project, this flat rate is applicable until the moment of the loss of their status.
 - b) In other cases outside the previous paragraph, the PP and project partners can - in the absence of analytical accounting system - choose a fixed rate of up to 20% of their total direct eligible costs. From these total direct costs, direct eligible costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the PP are excluded.

deduct the amount of VAT. The PO shall ensure the existence of such a system for checks of the list of accounting documents that ensures the validity and justifiability of the expenditure for which requests for payment are sent, based on a list of accounting documents. The minimum requirement is to check the originals of accounting documents on a sample during the physical inspection of the project implementation. The selected sample must cover at least 15% of the cost on the lists accounting documents for the project as submitted by the Programme Operator the day before the commencement of the inspection of implementation. The number of checked items and the distribution thereof within each list of accounting documents is determined by the PO so to cover the risks arising from the specific structure of expenditures for the given programme. In the case of indirect project costs, i.e. fixed costs, it is not necessary to prove indirect costs by accounting documents. Detailed information on the indirect costs of the project is included in Article 7.4 and 7.13 of the Regulation and section 4.2 *Accounting at the PO and PP Level*. Form of certification of such expenditure (e.g. a declaration by the responsible manager, accounting for the original, etc.) is left to the determination of the PO.

For the aforementioned indirect costs in the form of a lump-sum fee, the PP or project partner does not have to submit accounting documents. However, in this case, the PO has the obligation in the preparation of the programme to propose a methodology of determining the amount of indirect costs which would represent a fair share of indirect costs of the PP or project partner.

Reporting of expenses within the Bilateral Research Cooperation and projects carried out in the 6th or 7th Framework Programme of the European Commission (hereinafter referred to as "ECom") is further specified in the Regulation and its annexes (Article 7.4 and Annex 12).

The PO is obliged to ensure there is a system for recording and keeping of accounting records in electronic form for each project within the programme. Further, it collects information on implementation which is necessary for financial management, reporting, monitoring, verification, audits and evaluation of the FM 2.

The PPs shall keep accounting records or tax records in compliance with Czech laws. Recipients who keep their accounting books in accordance with Act No. 563/1991 Coll., on Accounting, shall maintain either a separate accounting system or specify a unique code for all transactions relating to the project.

In case of receipt of funds from the FM 2 budget, recipients who do not keep accounts pursuant to the Act No. 563/1991 Coll., on Accounting, shall maintain tax records pursuant to the Act No. 586/1992 Coll., on Income Taxes, extended by the following requirements that will be mentioned in the legal act on the allocation of funds, namely that:

1. the relevant document shall meet the prerequisites for accounting documents in accordance with Art. 11 of Act No. 563/1991 Coll., on Accounting (with the exception of item f) for entities which do not keep accounting but just tax records);
2. the documents in question must be correct, complete, conclusive, comprehensive and continually kept in chronological manner that guarantees their sustainability;
3. within an inspection, the PP will provide the control authority on demand their tax records in its entirety;
4. the revenue and expenses incurred are kept with a clear link to the appropriate project to which they are connected.

5 BANK ACCOUNTS

In accordance with the Regulation, the CA establishes and maintains a separate interest bearing bank deposit account earmarked for funds for FM 2. The funds available to the Czech Republic from the FM 2 are stored in the current account of the MoF - NF to receive and administer funds from the FM 2; the account is opened with the CNB (hereinafter referred to as the "*the source account of the CA*")⁷. The source account of the CA is kept in euros.

Each PO also has a duty under the Regulation to establish and maintain a separate interest bearing bank account with a deposit of funds for "regranting" and a separate interest bearing bank account with a deposit for "other payments" for the remaining structures of the programme budget (= "management costs"⁸, "complementary action"⁹, "preparatory

⁷ In accordance with Act No. 218/2000 Coll., on Budgetary Rules.

costs"¹⁰ and "bilateral fund – programme level"¹¹). Interest on funds in the account for "regranting" are recorded once a year and transferred in favour of the FMO (see Chapter 6 *Administration of Interest Accrued*), interest on funds on the account for "other payments" are part of the income of the PO.

In accordance with Chapter 11 *Financial Flows*, all POs involved in the implementation of the FM 2 establish and maintain their bank accounts in CZK. In cases where the Czech national legislation restricts the establishment of an independent interest-bearing bank account, the funds remain until their payment to the PO/PP against the actual expenditure incurred on the CA's source account. Transfer of funds from the CA's source account to the PO / PP is carried out in accordance with Chapter 11 *Financial Flows*.

For settlement of exchange rate differences and income of recoveries, the CA keeps a current bank account in CZK with the CNB (so-called "*Universal Account*"). If necessary, the universal account is subsidized from the General Treasury Administration chapter (MoF), where the necessary resources are earmarked by the budget.

The usage rights for the source bank account and the Universal Account are with the staff determined by the Deputy Minister of Finance (for Section 06). The principle of double signature applies to handling the CA bank accounts.

Funds in the CA bank accounts are not considered to be SB resources. The balances on these accounts are automatically transferred to the next year at the end of the calendar year.

6 ADMINISTRATION OF INTEREST ACCRUED

Any interest accrued on these bank accounts is a source of funds for the FMO:

1. a bank account in the Czech Republic to which funds from the FMO are deposited until they are transferred to the PO/PP (the source account of the CA);
2. a separate bank account which a PO sets up in order to manage the "regranting" funds.

Once a year, not later than on 1 March, the PO shall notify any interest credited to the separate bank account designated for PO for the "regranting" resources. The accrued interest is then remitted to the CA within 20 working days of notification. The interest earned on PO's accounts maintained in CZK is converted to euro using the daily exchange rate at which the interest is credited to the euro source account of the CA. The amount of interest in EUR is subsequently (see below) reported by the CA to the FMO. The CA always verifies the accuracy of the interest granted.

Annually by 31 March, the CA notifies the FMO of all the interest earned on the accounts of the Czech Republic (stated above) on the form provided by the FMO, see Schedule 8 of the Regulation. Accrued interest is then reimbursed to the FMO within 15 working days from dispatch of notice of the amount to the FMO.

The interest credited to the CA's source account in the course of the year in which the final strategic report is submitted, is declared by the Certifying Authority in favour of the

⁸ In accordance with Article 7.10 of the Regulation.

⁹ In accordance with Article 7.11 of the Regulation.

¹⁰ In accordance with Article 7.9 of the Regulation.

¹¹ In accordance with Article 3.6 and 7.7 of the Regulation.

FMO within the period of 1 month of the submission of the report. The interest earned is then reimbursed to the account of the FMO within 15 working days of having been declared.

The interest credited to the PO bank account designated for the "regranting" resources during the year in which the FPR is submitted shall be included in this report and included in the calculation of payment of the final balance.

The Czech Republic also has the obligation to report and pay the default interest arising from any delay in reimbursement of funds to the FMO in accordance with Chapter 9.3 *The Recovery of the Amounts*. Payment of default interest in favour of the FMO is not dependent on reimbursements from the PO and PP and is carried out by the CA in accordance with the procedures described above in this chapter.

7 PUBLIC PROCUREMENT

Each PP shall act in public procurement in accordance with Act No. 137/2006 Coll., on Public Procurement, and general principles of the Treaty on the Functioning of the EU. These principles include in particular the free movement of goods, free movement of services, right of establishment, non-discrimination, equal treatment, transparency, proportionality and mutual recognition of certificates.

The PP must always act in accordance with the guidelines for procurement of small-scale tenders.

Each PP which receives 50% or more of the eligible project expenditure as a grant from the FM 2 shall comply with the procedure for procurement under the project in accordance with the provisions of Act No. 137/2006 Coll., on Public Procurement applicable to a public authority (except the part of the Act on protection against improper contracting procedures). This obligation also applies to the project partners.

8 IRREGULARITIES

An irregularity means any infringement of the legal documents governing the FM 2, European Union law and national legislation, if such a breach could affect or threaten any stage in the implementation of the FM 2 in the CR, especially the implementation and/or budget of any programme, project or other activities funded from the FM 2.

The process of dealing with irregularities includes record-keeping, investigation and reporting of suspected irregularities and confirmed irregularities, further monitoring thereof and (where applicable) also enforcement/recovery of resources affected by irregularities. The POs are responsible for dealing with irregularities in the individual programmes¹².

Any suspected cases of irregularity must be finally decided upon by the competent authority, see Chapter 8.1 *Investigation of Irregularities* (points 1 - 5). In case of suspected breach of budgetary rules¹³ it is a confirmed irregularity only after a period of 1

¹² In the case of the Fund for Bilateral Relations at the National Level, the role of the PO is performed by the NFP.

¹³ In cases of suspected breach of budgetary rules by law. No. 218/2000 Coll., on Budgetary Rules, TFA decide objectively whether there was a breach of budgetary rules or not. This decision of the TFA can then be followed up of judicial and supervisory measures in accordance with Act No. 280/2009 Coll., Tax Code,

year elapses from the date when the decision of the TFA gains the power of *res iudicata*. If, during this period of one year, an application for a waiver or partial waiver of payment for breach of budgetary rules in accordance with Art. 44a, Sec. 10 of Act No. 218/2000 Coll., on Budgetary Rules, is submitted, the irregularity becomes a confirmed irregularity as of the date of legal decision on waivers, where depending on the time of termination of the proceeding on waivers, the decision on confirming irregularities may be adopted before the end of this one-year period, or later.

8.1 Investigation of Irregularities

The entities involved in the implementation of the FM 2 are bound to notify the appropriate PO of any suspected irregularity immediately.

If the PO does not reject the suspicion of irregularity for it being apparently ill-founded, the PO shall initiate or ask the appropriate regulatory body to initiate proceedings pursuant to the Act No. 320/2001 Coll., on Financial Control, without any undue delay¹⁴.

In the case of suspicions of irregularity on the basis of the checks completed by the AA or other supervisory bodies or departments of internal audit, the PO shall not review the merits of the suspicion (i.e. it is always a case of justified suspicion of irregularity), which does not exclude the possibility to further investigate these cases. In these cases, the PO is not obliged to initiate proceedings or to have proceedings initiated in accordance with Act No. 320/2001 Coll., on Financial Control.

If based on completed inspections (by the PO or by other relevant authorities), the PO concludes that:

1. there is no irregularity, closes the case;
2. there is a suspicion of irregularity involving the suspected breach of budgetary rules in accordance with Act No. 218/2000 Coll., on Budgetary Rules; the case shall be forwarded to the relevant TFA for further proceedings to investigate the suspected breach of budgetary rules. The PO shall have these facts recorded in the report on irregularities in accordance with Chapter 8.2 *Reporting on Irregularities* and shall inform the CA, AA or any other provider of grants under the programme and the entity in which the suspected irregularity occurred.

Within the handover of the suspected breach of the budgetary rules, the PO as a provider of the grant under Act No. 218/2000 Coll., on Budgetary Rules, has the right to ask the relevant TFA to subsequently inform it on the proceedings in front of the TFA. The provider of grants has the right to be informed by e-query services to the information system of grants from the Central Registry of State Budget Grants on the proceedings in front of the TFA in accordance with Act No. 218/2000 Coll., on Budgetary Rules. The content of the information and the entity which is entitled to be provided the information is laid down by Act No. 280/2009 Coll. the Tax Procedure Code, or Act No. 218/2000 Coll., on Budgetary Rules;

including the use of waiver in accordance with Act 218/2000 Coll., on Budgetary Rules, where the above irregularities, which will be reported as confirmed, will reflect these results of subsequent proceedings. The fact that the irregularity is reported as confirmed, does not preclude subsequent adjustment of the irregularities in accordance with the remedies foreseen by the law of the Czech Republic.

¹⁴ Whether in a particular case a public control or administration initiated an internal audit in accordance with Act No. 320/2001 Coll., on Financial Control, depends on the nature of the entity in which the suspected irregularity occurred.

3. there is a suspicion of irregularity involving the suspicion of a criminal offense, the PO shall refer the case in accordance with Art. 8 of Act No. 141/1961 Coll., the Criminal Procedure Code, to a prosecutor or police authority. The PO shall state these facts into the report on irregularities in accordance with Chapter 8.2 *Reporting Irregularities* and shall inform the AA, the CA or any other providers of grants under the programme and the entity in which the suspected irregularity occurred;
4. there is a suspicion of irregularity involving the suspected violation of Act No. 137/2006 Coll. on Public Procurement, and this violation of the law might have affected or influenced the selection of the best offer; the PO shall transmit the case to further investigation by the Office for Protection of Competition. The PO proceeds in a similar way if they suspect any unauthorized division of the procurement into smaller parts or wrongly stated estimated value of the contract. The PO shall state these facts in the report on irregularities in accordance with Chapter 8.2 *Reporting Irregularities* and shall inform the AA, CA any other provider of grants under the programme and the entity in which the suspected irregularity occurred;
5. there is a suspicion of irregularity, but it is not a suspected breach of budgetary rules¹⁵, nor a suspicion of a criminal offense nor a suspected breach of the Act No. 137/2006 Coll. on Public Procurement; the PO is responsible for the proper quantification of the amount covered by the suspicion of irregularity. The PO shall continue to deal with the irregularities. The PO shall state these facts in the report on irregularities in accordance with Chapter 8.2 *Reporting Irregularities* and inform the AA, CA any other provider of grants under the programme and the entity in which the suspected irregularity occurred.

The PO is responsible for taking the appropriate measures to remedy the situation and prevent further occurrence of irregularities at the PO/PP level.

If the CA, PO or NFP finds a suspected irregularity of a systemic nature at its level, it shall refer the case to the AA to investigate. In this case, the AA is responsible for confirmation of the irregularity and for proper quantification of the amount to which the irregularity relates. The AA shall promptly notify the parties affected by the irregularities and the parties shall take adequate corrective measures. The CA NFP, PO and AA shall inform each other on the adoption of appropriate corrective and preventive measures for systemic irregularities.

If there is a suspicion of irregularity in a situation where the AA or NFP are in the position of the Project Promoter, the CA is responsible for the confirmation of the irregularity and for proper quantification of the amount to which the irregularity relates. In case of any irregularity in a situation where the CA is in the position of the Project Promoter, the NFP is responsible for the confirmation of the irregularity and for proper quantification of the amount to which the irregularity relates. The CA, NFP and AA shall inform each other on the adoption of appropriate corrective and preventive measures for systemic irregularities.

8.2 Reporting on Irregularities

¹⁵ This is particularly the case for misuse of funds provided by an entity that provides these resources outside of Act No. 218/2000 Coll., on Budgetary Rules (e.g. foundations).

The system of reporting suspected irregularity or confirmed irregularities (hereinafter referred to as "irregularities") includes both the reporting of irregularities between the entities involved in the implementation of programmes at the national level in accordance with Chapter 8.1 *Investigation of Irregularities* – i.e. the level of internal reporting of irregularities, as well as reporting irregularities towards the FMO - i.e. the level of external reporting of irregularities.

The PO is responsible for proper reporting of irregularities at the inner level. If following completion of the inspection in accordance with chap. 8.1 *Investigation of Irregularities*, an irregularity arises in accordance with Chapter 8.2.1 *Immediate Reporting on Irregularities to the FMO* the Programme Operator shall promptly send a report on the irregularity to the CA and the AA. In other cases, the individual POs shall submit to the CA reports of new irregularities which are the subject of initial administrative or judicial proceedings¹⁶, and the solution procedure for already reported irregularities within one month from the end of each quarter. When no new irregularities arise or no new measures are taken regarding already reported irregularities in a given quarter, the PO shall inform the CA of this fact within one month from the end of the quarter. The PO shall work with the CA to ensure timely, correct and complete reporting of irregularities to the FMO. The report on irregularities and the solution procedure for already reported irregularities shall be submitted by the PO in a format that is based on Annex 5 of the Regulation.

The CA is responsible for the preparation of reports of irregularities and their reporting on the external level to the FMO; the CA shall prepare reports to the FMO on irregularities and on any measures taken by the competent national authorities for the prevention, detection, investigation or remedy of these irregularities, in the format provided by the FMO (see Annex 5 to the Regulation).

For the purpose of reporting irregularities to the FMO in euro, the monthly reporting rate CZK/EUR of the European Commission valid for the day when the expenditure was recognized by the programme operator shall be used. In the event of irregularities referred to in paragraphs 3-5 of Chapter 8.1 *Investigation on Irregularities* whose expense has not been recorded in accounting of the PO, a fixed rate 24.80 CZK/EUR applies.

8.2.1 *Immediate Reporting on Irregularities to the FMO*

The CA shall immediately inform the FMO of any irregularities, provided that:

1. there is a suspicion of a criminal offense under the legislation of the Czech Republic, such as fraud, bribery or embezzlement; or
2. they indicate a serious case of inefficient management which affects the use of financial contributions from the FM 2; or
3. given the fraction of the amount due to irregularities in the total project budget, there are potential threats to successful project implementation (the amount of irregularity is equal to or greater than 30% of the allocation to the project).

After receiving information on the origin of this irregularity, the CA shall immediately send a report on irregularities to the FMO (with a copy to the AA, the PO and the NFP).

¹⁶ "Primary administrative or judicial proceeding" means a first written assessment by a competent administrative or judicial authority which based on specific facts concludes that the violation of rules leads to an irregularity, without prejudice to the possibility that this conclusion may be subsequently revised or withdrawn during administrative or judicial proceedings.

Mandatory requirements for immediate reports on irregularities are similar to those for regular reporting.

8.2.2 Regular Reports on New Irregularities to the FMO

For other irregularities than those listed in Chapter 8.2.1 *Immediate Reporting on Irregularities to the FMO* or Chapter 8.2.4 *Reporting on Irregularities upon a Request by the FMO*, the CA shall send a report to the FMO (with a copy to the AA, the PO and the NFP) describing all newly diagnosed cases of irregularities in the given quarter within two months from the end of each quarter.

If there are no irregularities during the quarter, the CA shall inform the FMO on this within the above two-month period.

8.2.3 Reporting on the Solution Procedure for Irregularities Already Reported to the FMO

Within 2 months after the end of each calendar quarter, the CA shall report to the FMO on the progress achieved in investigating and remedying reported irregularities together with each new report on irregularities (see previous chapter).

If no new measures have been taken during the quarter regarding irregularities already reported, the CA shall inform the FMO on the same within the above two-month period.

8.2.4 Reporting on Irregularities upon a Request by the FMO

In these cases, it is not necessary to send reports of irregularities to the FMO if not required by the FMO:

1. cases where the irregularity lies in the partial or complete failure to implement the project due to bankruptcy of the project promoter; or
2. cases in which the PP voluntarily informed the PO, NFP or CA before the bodies found out themselves; or
3. cases when the PO, NFP or CA founded out and corrected the irregularity before payment of FM 2 funds to the Project Promoter and before inclusion of the expenditure into the IFR or the FPR.

Point 1 does not apply to the irregularities to be reported immediately in accordance with Chapter 8.2.1 *Immediate Reporting on Irregularities to the FMO* or irregularities that occurred before the bankruptcy.

The CA at the request of the FMO will provide information on these cases of irregularities within one month of the request by the FMO. This information shall also be sent in copy to the AA, the PO and NFP.

The CA keeps a list of irregularities which do not have to be reported to the FMO.

8.3 Complaint Mechanism

Submission of complaints regarding suspected breach of the principles of good governance within the implementation of the FM 2 is governed by the national legislation of the Czech Republic¹⁷. The NFP has an obligation to publish on their website the FM 2 complaints procedure.

The CA shall promptly report to the FMO any complaints regarding suspected irregularities according to Chapter 8.2.1 *Immediate Reporting on Irregularities to the FMO*. Complaints regarding suspected irregularities of other kind shall be reported by the CA to the FMO in accordance with Chapters 8.2.2 *Regular Reports on New Irregularities to the FMO* and 8.2.3 *Reporting on the Solution Procedure for Irregularities Already Reported to the FMO*.

9 SUSPENSION OF PAYMENTS, FINANCIAL CORRECTIONS AND RECOVERY OF THE AMOUNTS

9.1 Suspension of Payments

The FMO may decide to suspend payments to programmes if one or more of the following facts occur:

1. payment terms have not been complied with in accordance with Part II *Financial Management*;
2. there is credible information indicating that progress in the implementation of the programme is not in accordance with the Programme Agreement;
3. reports referred to in the Regulation (annual programme report and of the report on irregularities) or any other required information was not provided, or contains incomplete information;
4. employee access for external bodies carrying out monitoring and auditing required by the Regulation and the Programme Agreement is limited;
5. financial management of the programme is not in conformity with generally accepted accounting principles;
6. the FMO receives information on cases of suspected and confirmed irregularity or irregularities and such cases were not adequately reported, investigated and remedied;
7. within the implementation of the programme, there is a breach of national legislation or EU legislation;
8. there is a substantial change in circumstances/situation and the circumstances/situations have a significant impact on the financial contribution from the FM 2 provided for the programme;
9. the FMO receives information on distortion of the facts in the information provided by the NFP, the CA or PO or on behalf of them which directly or indirectly affect the implementation of the Programme Agreement;
10. interest earned on bank accounts referred to in Chapter 5 *Bank Accounts* was not properly settled or refunded in accordance with Chapter 6 *Administration of Interest Accrued*;
11. proceedings have been instituted in accordance with Chapter 9.2.2 *Procedure of Granting Corrections*;
12. the NFP, the CA or the PO have not fulfilled an obligation under the Programme Agreement or under the Regulation.

¹⁷ According to Art. 175 of Act No. 500/2004 Coll., the Administrative Code.

The FMO may also, by analogy, decide to suspend payments to a particular programme if any of the conditions set out in paragraphs 2, 4, 5, 6 or 7 is met in the case of any project under this programme when the PO did not adopt appropriate and necessary measures to investigate and, where appropriate, correct such deficiencies or prevent the loss of financial resources. The period of suspension of payments due to deficiencies in the projects shall be reasonable compared to the extent of non-compliance.

The NFP and PO have, except in urgent cases, the right to present their views before the FMO decides to suspend payments. The PO shall notify its opinion through the NFP within the deadlines defined by the NFP. The NFP will ensure uniform and coordinated position for the FMO. The decision to suspend payment by the FMO must be justified and is immediately effective. The NFP and PO are informed within seven working days from the date of the decision.

The NFP and/or PO may at any time submit documents or other relevant evidence and require the FMO to review its decision to suspend payments.

If the FMO finds out that the conditions for suspension of payments no longer last, it shall decide to continue the provision of payments.

9.2 Financial Corrections

In addition to financial corrections made at the national level, the FMO may make financial corrections on the basis of the criteria listed in this chapter below, resulting in the cancellation of all or part of the financial contribution from the FM 2 to the programme or for the whole CR.

The cancelled financial contributions to the project can be reused within the same programme to fund other projects than those that have been subject to corrections. In the case of re-using resources, it is necessary for the PO to proceed in accordance with Article 6.9 of the Regulation which regulates the conditions of reallocation of resources.

If financial corrections are made for a systemic irregularity or irregularities in the management or control of the programme, the financial contribution may not be regranted within the same programme. The financial contribution may be used in this case provided there are changes in the programme in accordance with Article 5.9 of the Regulation which regulates programme modifications.

Financial contributions that are not reused in due time¹⁸ shall be reimbursed in favour of the FMO by 31 October 2015.

9.2.1 Criteria for Financial Corrections

The FMO may make financial corrections in case of occurrence of one or more of the following facts:

1. there is a serious deficiency in the management and control systems established for FM 2 in the CR which threatens the financial contributions from the FM 2;
2. there was a serious violation of the Programme Agreement;
3. there is a serious deficiency in the management and control system which threatens the financial contributions from the FM 2;

¹⁸ It is a period of time when money is still available for projects under the programme .

4. expenditure shown in the certified IFR or the FPR are incorrect and were not corrected by the CA PO or NFP before sending a notification on a possible correction of the FMO contribution (see below);
5. NFP and/or PO have not fulfilled their obligations to investigate or remove the irregularities before sending a notification on a possible correction of the FMO contribution.

The FMO bases its financial corrections on individual nature of the irregularities found by taking into account the systemic nature of the irregularity to subsequently determine whether a flat-rate or extrapolated correction should be applied, or whether the correction amount can be based on the actual amount detected as an irregularity. When deciding on the amount of correction, the FMO also takes into account the nature and seriousness of the irregularity, extent and financial implications of the identified deficiencies.

9.2.2 Procedure of Granting Corrections

Before making the decision to grant financial corrections, the FMO announces its intention to make such a decision to the PO and NFP. The notice shall state the reason for the decision and the relevant amount of the correction. The NFP and PO can provide the FMO any documents relevant for reversing the decision until two months after sending the notice of intention to issue correction.

If the FMO proposes financial corrections on extrapolation or a flat-rate, the PO and the NFP have the opportunity to demonstrate, through an examination of the documentation, that the actual extent of the amount to be affected by the financial adjustment is smaller than in the assessment of the FMO. The NFP may, with the consent of the FMO, limit the scope of this examination to an appropriate proportion or sample of the documentation. Except in duly justified cases, the time limit allowed for the examination shall not be more than two months after the expiry of the deadline for submitting documents referred to in the preceding paragraph.

The FMO has to take into account any supporting documentation provided by the PO or the NFP in due time (within the time-limit). At any time before a decision on granting financial correction, the NFP, the PO and FMO can start a dialogue in order to gain assurance that the decision will be based on accurate and correct facts.

The NFP and PO will receive notification of the decision granting corrections within seven working days from the date of the decision of the FMO. The notification shall state the reasons for the decision of the FMO.

9.3 The Recovery of the Amounts

The CR through the CA has an obligation to pay back to the FMO the required amount within three months of the decision in accordance with Chapter 9.2 *Financial Corrections*.

The FMO waives claims for reimbursements from CR - CA if these were the subject of irregularities in the project as long as the NFP established that the loss and the circumstances connected with it were not due to negligent performance or failure by the NFP, CA AA and PO and at the same time the NFP and PO took all reasonable steps to recover these funds.

Repayments by the CR - CA in favour of the FMO are not dependent on reimbursements from the PO or PP. The funds are transferred from the source bank account to the FMO bank account.

If the PO is a private entity and the NFP demonstrates that it has taken and takes appropriate action to recover funds from the PO, the FMO may decide that the Czech Republic - CA will allow a period of up to one year to return the required resources. In this case, the FMO may also decide to cover up to 50% of legal fees related to recoveries of funds from the PO. For the purposes of this paragraph, a PO shall be deemed a private entity if the governing body at meetings of that body only has minority of votes held by public bodies, i.e. public authorities, public agencies or entities wholly owned by these authorities or agencies.

Any delay in repayment shall give FMO the right to default interest from the due date until the date of actual payment. The rate of such interest shall be one and a half percentage points above the rate applied by the European Central Bank in its main refinancing operations on the first working day of the month in which the due date falls. For details, see Chapter 6 *Administration of Interest Accrued*.

9.4 Total Suspension of Payments to the Czech Republic

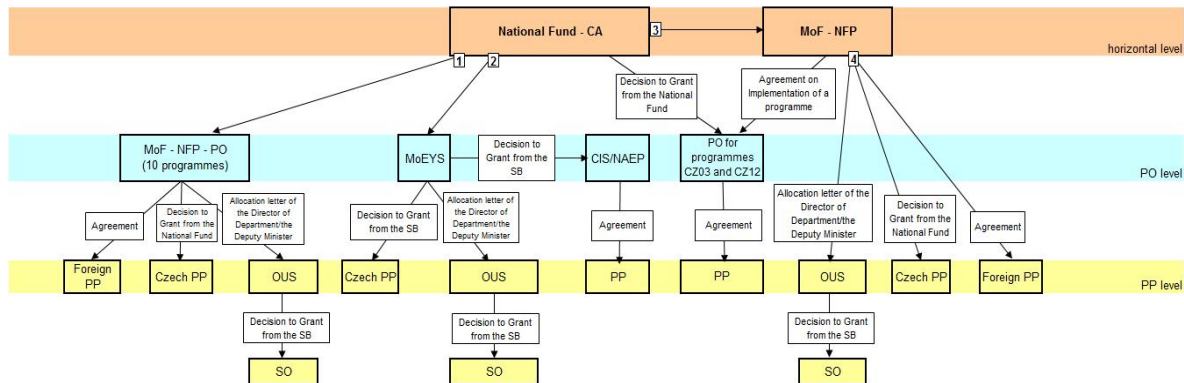
The FMO may, after consultation with the NFP, suspend all payments to the Czech Republic if:

1. information or documents received by the FMO or submitted to the FMO indicate the presence of systemic weaknesses in the management of large financial contribution from the FM 2 in the CR; or
2. the CR did not meet the requirement for reimbursement of any type of assistance funded by the FM 2.

The procedures referred to in the 1st, 3rd and 4th Sec. of Chapter 9.2.2 *Procedure of Granting Corrections* are applied to the total suspension of payments to the CR.

10 LEGAL ACTS ON ALLOCATION OF RESOURCES

Scheme No. 1: Legal Acts Throughout the Implementation Structure of FM 2



1 - 3 Financial relationships between these entities and the CA are dealt with the *Methodology of Financial Flows, Control and Certification of Programmes Financed by the European Economic Area and Norwegian Financial Mechanisms in the 2009-2014 Programme Period* as a document approved by the government.
4 That is the Fund for Bilateral Relations at National Level.

10.1 Decision to Grant a Subsidy for Programmes and Projects

Grants from the SB provided for pre-financing to be covered by funds from the FM 2, the subsidy provided from the SB for co-financing and grants from the National Fund (hereinafter referred to as "NF") in favour of the PO for CZ03 and CZ12 selected on the basis of public procurement and Project Promoters outside the public sector in case of the Fund for Bilateral Relations at the National Level in accordance with the provisions of Act No. 218/2000 Coll., on Budgetary Rules, are granted pursuant to a Decision to grant a subsidy (hereinafter referred to as the "Decision")¹⁹ which contains the mandatory requirements set out in Art. 14 of Act No. 218/2000 Coll., on Budgetary Rules.

Decision is issued by the body referred to in Art. 14 Sec. 2 of Act No. 218/2000 Coll., on Budgetary Rules, that has jurisdiction over the programme/project. These entities consult template texts of Decisions with the CA.

The Decision to grant a subsidy shall include the mandatory requirements set out in Art. 14 Sec. 3 of Act No. 218/2000 Coll., on Budgetary Rules, and also the following facts, if relevant to the Programme Operator/Project Promoter:

1. terms of use of the grant to maintain the ability to fund eligible expenses (e.g. pre-financing, care for the asset);
2. delegation of PO's responsibility for the implementation of the programme (e.g. in case of a predefined project) to the Project Promoter;
3. description of eligible expenditures;
4. payment conditions (payment method from the FM 2, bank accounts, the amount of advance payments);
5. obligation of the PO/PP to avoid duplication of funding of the programme/project activities from the FM 2 and other resources;
6. obligation of the PO/PP to deduct from the amount mentioned in the payment application the income generated from the programme/project;

¹⁹ Decision to Grant from the National Fund shall be issued in accordance with Art. 37, Act. No. 218/2000 Coll., on Budgetary Rules.

7. conditions for suspension of payments;
8. obligation of the PO/PP to settle the grant financially after the programme/project ends in accordance with Decree No. 52/2008 Coll., Laying down the Principles and Terms of Financial Settlement from the State Budget, State Financial Assets or by the National Fund;
9. laying down the obligation of the PO/PP to keep accounting in accordance with national legislation in order to prove accounting transactions related to various programmes/projects or imposing obligations on the PO/PP to keep tax records extended by additional requirements;
10. obligation of the PO/PP to submit to checks by the NFP, CA, AA, TFA, SAO, or their designated representatives and other enforcement bodies and obligation of providing them with all documentation related to the programme/project;
11. obligation of the PO/PP to submit to checks by the FMO, the EFTA Board of Auditors, the Office of the Norwegian Auditor General of the FMC and NMoFA and obligation of providing them with all documentation related to the programme/project;
12. obligation of the PO/PP to establish an internal control system;
13. method of monitoring;
14. provisions relating to the Act on Public Procurement;
15. obligation of the PO/PP to keep the documentation for a period specified in the provisions that apply to the FM 2 and under the Czech laws, but at least for 10 years from 1 January following the year when the FPR is approved by the FMO²⁰;
16. obligation of the PO/PP to inform the NFP on the facts affecting the implementation of the programme/project;
17. obligation of the PO/PP to accept the use of data in information systems for purposes of administration of the FM 2;
18. obligation of the PO/PP to inform the CA of irregularities in project implementation;
19. conditions that must be maintained for a specified period from the grant (e.g. preserving the outcomes of the project).

10.2 Legal Act Issued According to Internal Rules of the OUS

The financial relations and conditions of implementation of the programme/project if it is a relationship between two OUSs are regulated by specific documents, such as a letter of allocation, due to the fact that this relationship cannot be modified by a Decision; the specific documents must include similar particulars as set out in Chapter 10.1 *Decision to Grant a Subsidy for Programmes and Projects* to ensure proper use of the funds and achieving the purpose for which these funds were provided.

10.3 Agreement on Allocation by the PO for the CZ03 and CZ12 in Favour of the PP

²⁰ In accordance with Section 44a of Act No. 218/2000 Coll., on Budgetary Rules.

The PO for CZ03 and CZ12 is obliged to set up within its contract with the PP similar requirements as outlined in Chapter 10.1 *Decision to Grant a Subsidy for Programmes and Projects* to ensure proper use of funds allocated and achieve the purpose for which these funds allocated.

Furthermore, it has the obligation to incorporate into the Agreement the provisions under which it will be able to carry out financial control/checks in a similar extent as other providers of public aid (according to Art. 8 of Act No. 320/2001 Coll., on Financial Control).

10.4 Acts of Allocations under the Fund for Bilateral Relations at the National Level²¹

10.4.1 Decision to Grant a Subsidy / Legal Act Issued According to the Internal Rules of OUS

After the Project Promoters have an approved project financing from the Fund for Bilateral Relations at the National Level, the NFP issues in favour of the Project Promoter a Decision to grant a subsidy from the SB/NF, or Legal Act Issued According to the Internal Rules of OUS, which contain the aspects mentioned in Chapter 10.1 *Decision to Grant a Subsidy for Programmes and Projects*.

10.4.2 Agreement on Allocation of Funds Abroad in the Framework of the Fund for Bilateral Relations at the National Level

Within the Fund for Bilateral Relations at the National Level (Article 3.5 of the Regulation), it is also possible to conclude contracts with foreign PPs. This fund is used to establish cooperation between the PO and programme or project partners from donor countries who may be located outside the territory of the Czech Republic.

Funds from the FM 2 budget are provided to the foreign PP on the basis of bilateral legal instrument (contract with an international element) concluded between the NFP and the PP after the Project Promoter obtains approval of the project financing by the Fund for Bilateral Relations at the National Level. The contract shall include similar requirements as outlined in Chapter 10.1 *Decision to Grant a Subsidy for Programmes and Projects* to ensure proper use of funds allocated and achieve the purpose for which they were allocated.

The contract is concluded in Czech and English.

10.5 Change of Decision to Grant a Subsidy

The change in Decision can be made only upon request of the recipient of the grant and in such a way that the change is not to the detriment of the recipient. The Decision cannot be changed by changing the elements listed in Art. 14 Sec. 3 point. a), b) and d) of Act No. 218/2000 Coll., on Budgetary Rules, i.e. the recipient and grant provider and the purpose for which subsidy is provided. When the Decision (both from the NF and the SB) is changed, the original Decision remains in force and the grant provider shall issue a decision amending the initial Decision to Grant the Subsidy (necessary to give a precise specification of the original decision) which lays down what requirements of the original

²¹ These can be similarly applied in the case of the Fund for Bilateral Relations at the programme level.

Decisions are changed or replaced. Any Decisions to change must be numbered. The grant provider must ensure that the changes to the Decision are linked to the original Decision, including any conditions to ensure transparency of all changes for the follow-up checks.

In case of violation of the conditions of the Decision, proceedings are initiated in accordance with Act No. 218/2000 Coll., on Budgetary Rules, i.e. it is a breach of budgetary rules in accordance with Act No. 218/2000 Coll., on Budgetary Rules and results in a recovery for breach of budgetary rules under the said Act.

11 FINANCIAL FLOWS

11.1 Financial Flows between the FMO and the CR

Financial flows between the FMO and CR (or the CA) are performed based on advance payments, interim payments and final payment of final balances in accordance with Chapter 3 *FMO Payments to the CA*.

Funding is provided by the FMO in euro. Funds at the source account of the CA are also managed in this currency until they are paid in favour of the PO/PP.

11.2 Financial Flows Between the CA and the PO

Reimbursement of funds from the CA in favour of the PO/PP are different depending on the nature of the Programme Operator.

The MoU list the following entities as programme operators:

1. Ministry of Finance - NFP - 10 programmes;
2. Ministry of Finance - NFP - coordination of Technical assistance (hereinafter referred to as "TA") and Fund for Bilateral Relations at the National Level;
3. Ministry of Education, Youth and Sports and the CIS / NAEP - 2 programmes;
4. PO for CZ03 and CZ12 selected on the basis of the procurement procedure - 2 programmes.

11.2.1 Programme Operator OUS - MoEYS, Ministry of Finance, or SO OUS - CIS/NAEP

This situation arises in the case of the POs listed in the 2nd and 3rd point of Chapter 11.2 *Financial Flows Between the CA and the PO*. The MoF is affected by this procedure only when the funds are budgeted in MoF's Chapter.

The system of financial flows from the budget of the FM 2 is based on the principle of pre-funding from the relevant budget chapter of the SB and subsequent transfer (refund) of funds to the revenue account of the chapter administrator's account from the CA's source account. Funding from the CA's source account is transferred to a lower level of implementation of the FM 2 in CZK. After the signing of the Programme Agreement, the FMO releases an advance payment which is then left by the CA at their source account until submission of the first IFR.

During the reporting period, the PP shall send to the Programme Operator either an ex-post request for payment regarding the requirements for subsequent reimbursement of already incurred and documented funds or an ex-ante request for payment (not applicable

to the case when the PO = MoF) requiring the provision of funds to the Project Promoter before the costs arise. The PP shall process the request for payment in CZK. For each application, the PO shall perform checks to verify the factual finding and the eligibility of expenditure reporting. On the basis of checks carried out, it subsequently releases the required money to the Project Promoter.

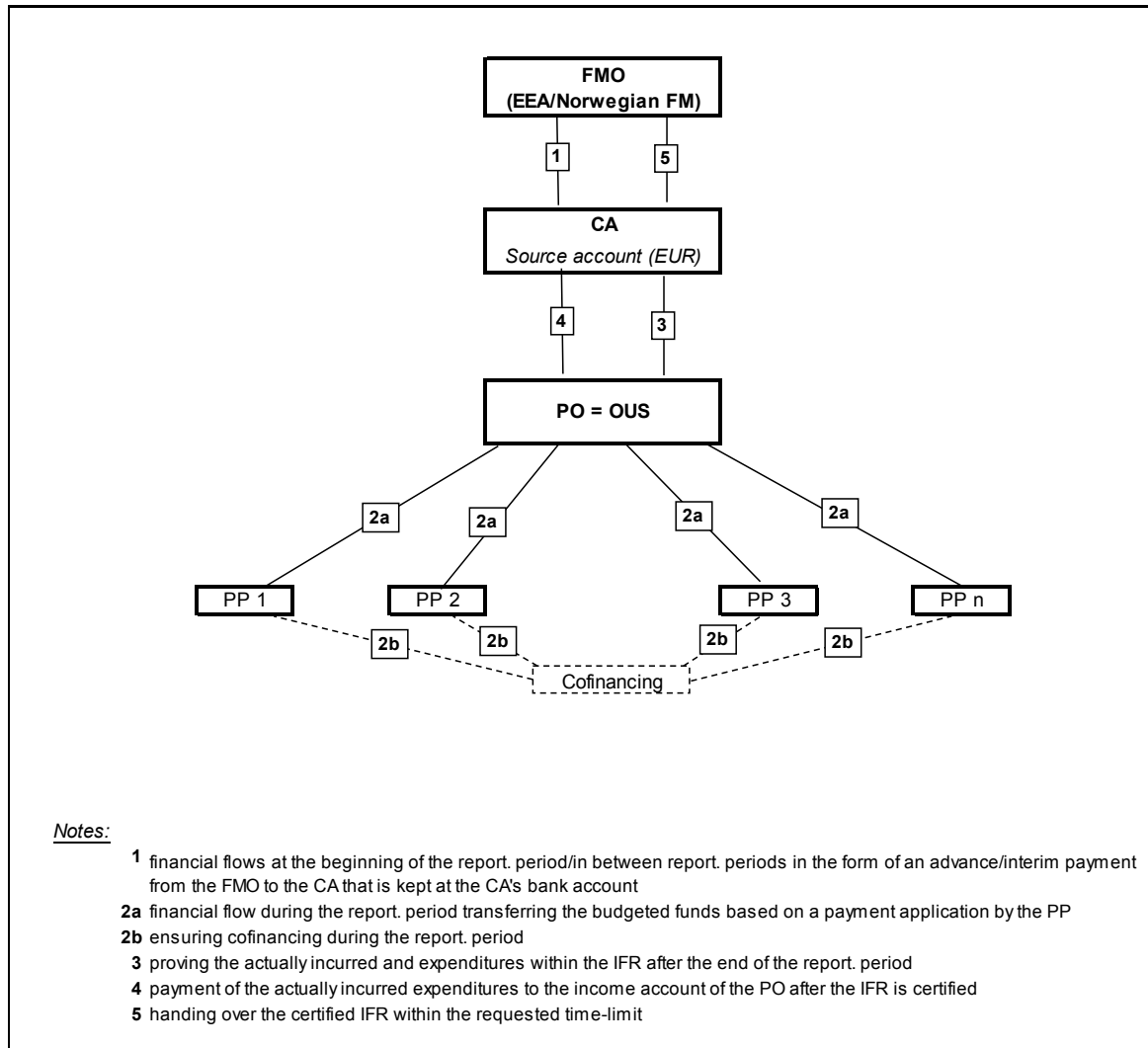
If the OUS is also a PP, it shall provide pre-financing of its budgeted resources in accordance with Chapter 11.3 *Specificity of Financial Flows in the Case of the Project Promoters OUS and SO OUS*. The expenditure declared by the PP is subsequently just included in the IFR by the PO after the checks are carried out. These are not reimbursed by the PO.

After the end of the reporting period in accordance with Chapter 3.3 *Interim Payments*, the PO shall prepare and submit for the certification by the CA an interim financial report stating the actual expenditure incurred by the Programme Operator and Project Promoters (OUS) for the given period of time and forecasted expenditure for the next reporting period. After verification by the CA the amounts of the actual expenditure incurred during the last reporting period shall be paid from the source account of the CA to the revenue account of the SB within 15 working days from receipt of the approved IFR version in paper form. The certified IFR is then forwarded to the FMO to verify the information contained in it. After the approval of the IFR, the interim payment to the CA is transferred according to the dates specified in Chapter 3.3 *Interim Payments*.

Exchange rate differences arise at the level of the CA at the moment when the transfer of the advance / interim / final payment is carried out to the revenue account of the state budget. The funds are transferred in the amount of expenses actually incurred by the PO and PP (OUS) during the last reporting period.

In this case, the exchange rate difference equals the difference between the rate at which an actually incurred expenditure of PO or PP (OUS) in the IFR (payment at the current exchange rate CNB-buy) is refunded from the CA's source account in favour of the PO's revenue account, and the monthly accounting exchange rate of the ECom during which the expenditure was registered in the accounts of the Programme Operator.

Scheme No. 2:



11.2.2 The Programme Operator MoF / PO for CZ03 and CZ12

This situation arises in the case of the PO mentioned in the 1st and 4th point of Chapter 11.2 *Financial Flows Between the CA and PO*.

In this case, the system of financial flows from the budget of the FM 2 is based on the principle of transfer to the account of a Programme Operator of advance / interim / final payments which are kept by the CA at the source account after these funds are received from the FMO. Payments are provided in accordance with the Regulation by the MoF / PO for CZ03 and CZ12 within 15 working days from the date when they are credited to the CA's account. The funds shall be transferred from the CA's account in favour of the PO in CZK.

During the accounting period, the PP shall send to the Programme Operators either an ex-post request for payment regarding the requirements for subsequent reimbursement of already incurred and documented expenses or an ex-ante request for payment requesting transfer of funds to the Project Promoter before they incur their own expenses. The PP shall process the request for payment in CZK. The PO performs checks of each

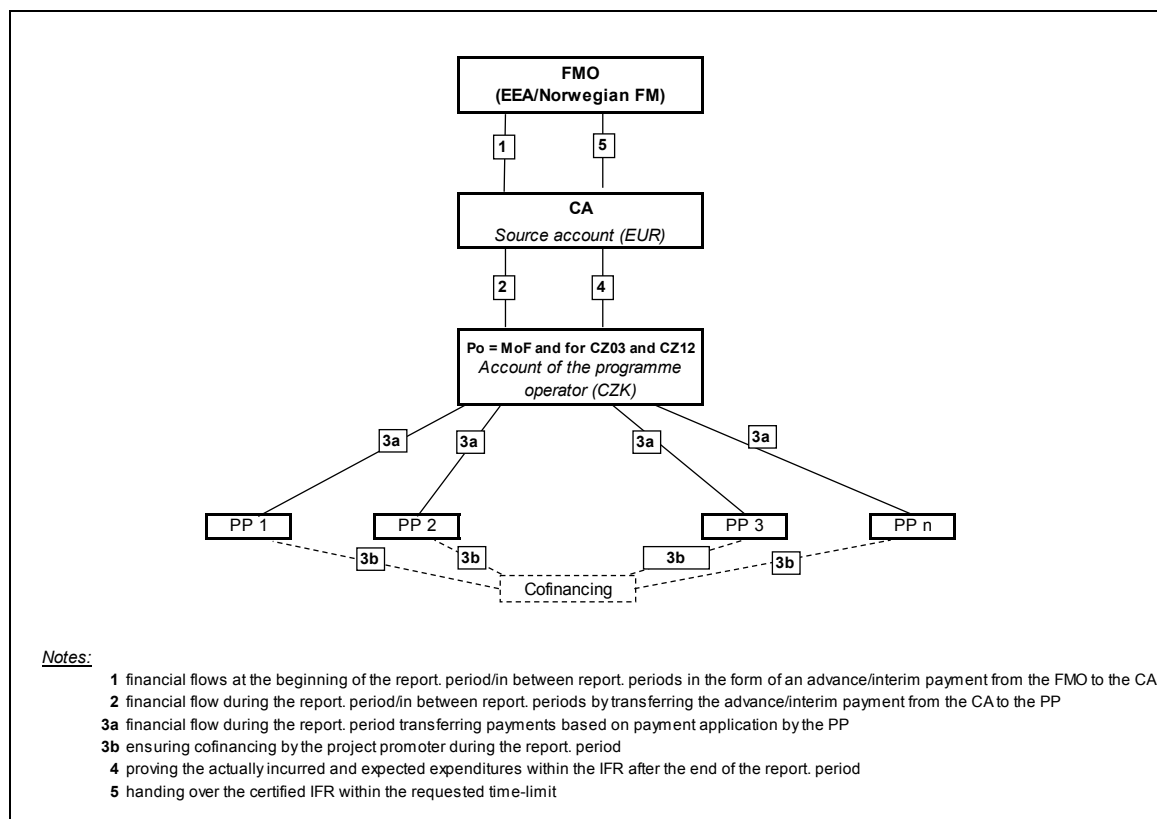
application to verify the factual finding and check the eligibility of expenditure reporting. Based on the inspections required, it then releases the funds to the beneficiary in CZK.

After the end of the reporting period in accordance with Chapter 3.3 *Interim Payments*, the PO shall prepare and submit for certification by the CA the interim financial report which lists the actual costs incurred by the PO in the given period and forecasted expenditure for the next reporting period. The certified IFR is forwarded to the FMO to verify the information in it. After the approval of the IFR, interim payments are paid to the CA according to the dates specified in Chapter 3.3 *Interim Payments*.

Exchange rate differences arise at the level of the CA at the moment when the transfer of the advance / interim / final payment is carried out to the bank account of the PO. The funds are transferred in the amount of expenditures expected in the next accounting period.

Exchange rate difference in this case equals the difference between the rate at which the transfer of requested funds is done (exchange rate of the CNB-buy) and the rate set by the NFP for the conversion of funds allocated for the programme within the Programme Proposal in euro to CZK. This rate was set to 24.80 CZK/EUR and remains constant throughout the period of the FM 2. This approach is based on the fact that the Project Promoters in the Czech Republic are guaranteed an allocation in CZK when the programme is approved and at the same time, it is necessary to state the amount of allocation in EUR in the Programme Agreement when it is approved.

Scheme No. 3



11.3 Specificity of Financial Flows in the Case of Project Promoters OUS and SO OUS

If the PP is an OUS, they must budget for both the revenue and expenses for their projects within the relevant budget chapter during the preparation of the state budget. In accordance with Art. 45, Sec. 1 of Act No. 218/2000 Coll., on Budgetary Rules, the budget of an OUS includes only revenue and expenses related to its activities, i.e. activities specified in the founding document of the OUS or laid down by the Act of the Parliament which established it. Any transfers of funds between the OUSs can be done only through budgetary measures as long as the existing legislation does not allow otherwise. Funds budgeted in the range of mandatory indicators of expenditure breakdown of OUS can be exceeded only based on the facts laid down in Art. 25, Sec. 1b) of Act No. 218/2000 Coll., on Budgetary Rules.

If the PP is a semi-budgetary organization (hereinafter referred to as “SO”) which is founded by an OUS, the founder of the organization provides budgeting of funds for the SO within its budget chapter.²² Also in this case, it is necessary to comply with the provisions of Art. 45, Sec. 1 of Act No. 218/2000 Coll., on Budgetary Rules, and therefore any transfer of funds between the OUS can be carried out only through budgetary measures, provided the existing legislation does not allow otherwise. Funds budgeted in the range of mandatory indicators of expenditure breakdown of the OUS (founder of the SO) may be exceeded only in cases laid down in Art. 25, Sec. 1b) of Act No. 218/2000 Coll., on Budgetary Rules.

During the reporting period after making the expenditures within the project, the relevant PP sends to the PO a payment application regarding the requirements for subsequent reimbursement of already incurred and documented funds.

Another alternative approach is based on the nature of the PO:

1. if the PO is an OUS - MoEYS, Ministry of Finance (Fund for Bilateral Relations at the National Level), the procedure applied shall be in accordance with Chapter 11.2.1 *OUS Programme Operator - MoEYS, Ministry of Finance, or SO OUS - CIS / NAEP* or Chapters 11.4.2 and 11.4.3 *Financial Flows - the Fund for Bilateral Relations at the National Level before/after the IS set up*. Actual expenditures of the PP is then included in the IFR only after a verification by the PO. These are, therefore, not reimbursed by the PO to the PP. After the end of the reporting period and after verification by the CA, the amount of actually incurred expenses included in the IFR shall be transferred to the revenue account of PP (PP = OUS) or to the revenue account of the founder of the PP (PP = SO OUS) within 15 working days.
2. If the PO is the MoF, the procedure applied shall be in accordance with Chapter 11.2.2 *The Programme Operator MoF / PO for CZ03 and CZ12*. After the examinations by the PO, the amount of expenditures actually incurred is then transferred by the PO to the revenue account of the PP (PP = OUS) or to the revenue account of the founder of the PP (PP = SO OUS).

²² This relationship also applies to the CIS / NAEP Programme Operator - contributory organization established by the MoEYS .

11.4 Funding for Technical Assistance and the Fund for Bilateral Relations at the National Level

Funds earmarked for expenditure under the TA and Fund for Bilateral Relations at the National Level are administered on a uniform basis. The funds are budgeted / managed by the CA but the substantive content of the purpose for which they are incurred are provided for by each Project Promoter itself. The group of Project Promoters is identical for both the TA and the Fund for Bilateral Relations at the National Level and includes the CA AA and NFP. The group of Project Promoters is extended only in the case of the Fund for Bilateral Relations at the National Level when it includes all the possible entities that actively participate in strengthening the partnership within the programmes/projects.

In case of the TA and the Fund for Bilateral Relations at the National Level, the CA AA and NFP are in the role of the Project Promoters besides their roles under the Regulation (as entities within the implementation structure). In this respect, it is necessary to provide for specific and clear separation of functions between the staff so that these two levels of activities are strictly separated.

The TA funds are used to cover expenditures incurred in connection with the implementation of the FM 2 by subjects at the horizontal and national level. These expenses in particular include expenditure on FM 2 information systems, expenditure on the organisation of monitoring committees and other annual meetings, expenditure on meetings and conferences organized by the NFP and the CA, expenditure on promotion and information activities, expenditure associated with audit activities, spending associated with on-the-spot verifications of projects and expenditures to ensure administrative capacity.

The Fund for Bilateral Relations aims to strengthen cooperation and partnership within programmes and projects between donor countries and the recipient country. Funds earmarked to promote bilateral cooperation are divided into two levels.

The national level - the minimum value that must be created by the fund is 0.5% of the total allocation for the country. These are funds to strengthen the partnership in the preparation and implementation of programmes. The resources in this fund are managed and administered by the CA together with the resources of the TA;

Programme level - the minimum value that must be created by the fund is 1.5% of the total funds for the programme. These are funds intended to find partners for specific projects, preparation of partnership projects, strengthening cooperation between the project promoters and entities in donor states. The rules for the allocation of these funds and the criteria for assistance from this fund are contained in the Programme Agreement.

11.4.1 Financial Flows for Technical Assistance of Project Promoters NFP, CA and AA

The system of financial flows from the budget of the FM 2 is based on a pre-financing from the budget chapter of the SB - Ministry of Finance and the subsequent transfer of funds of the FM 2 to the revenue account of the Ministry of Finance chapter administrator from the CA's source account. The Project Promoters in the case of Technical assistance include the NFP, the CA and AA, i.e. entities operating under the chapter of the MoF. For these entities, the Ministry of Finance always ensures that funds are allocated for pre-

financing of the FM 2 when preparing the budget of the CA for the following year in the appropriation chapters.

The reimbursement of expenses that are covered at 100% from the FM 2 budget is carried out after the implementation of expenditures budgeted in advance in the MoF chapter of the SB.

After the signature and approval of the Agreement on Technical Assistance and by the Fund for Bilateral Relations (at the beginning of the first reporting period), the FMO shall provide to the CA's source account an advance payment for the purpose of financing expenditure of the first and second reporting period.

During the reporting period, the Project Promoter asks the individual administrators of the budget appropriation chapters to release budgeted funds of the SR for pre-financing of costs the 100% of which should be covered by the FM 2. The request to the appropriate administrator must be specified to the extent so that it is clear what the purpose of the expenditure is, what the amount of expenses is, to whom and by whom the expenditure is to be paid and a confirmation shall be included to the effect that these expenses are TA expenses. The use of funds for the given expenditure shall be approved by the relevant senior employee in the position of the person carrying out the transfer on behalf of each PP.

After the end of the reporting period in accordance with Chapter 3.3 *Interim Payments*, the financial part of the IFR is filled in by the CA as the TA budget manager and the factual part of the IFR is filled in by the NFP. The finalized IFR which lists the actual costs (incurred by the Project Promoters within the pre-financing from the MoF chapter of the SB) for the given period of time and the anticipated expenditure for the next reporting period is subsequently certified by the CA. After verification by the CA the amount of the actual expenditure incurred in the last reporting period are transferred from the source account of the CA to the revenue account of the Ministry of Finance within 15 working days from receipt of the approved IFR in hardcopy. The certified IFR is then forwarded to the FMO to verify the information in it. If approved, the interim payment is then paid to the CA on the dates specified in Chapter 3.3 *Interim Payments*.

Management of the exchange rate differences shall be in accordance with Chapter 11.2.1 *Programme Operator OUS - MoEYS, Ministry of Finance or SO OUS - CIS / NAEP*.

11.4.2 Financial Flows - Fund for Bilateral Relations at the National Level before the IS set up

Given the fact that VIOLA IS will be set up by the end of 2012, it is necessary to define the cash flow to the Fund for Bilateral Relations at the National Level for the period before the IS will be set up. Management of the Fund for Bilateral Relations at the National Level is coordinated by the NFP. Expenditure by the individual Project Promoters are claimed for reimbursement from funds budgeted by the CA for the period before setting up VIOLA IS, all the resources of the Fund for Bilateral Relations are budgeted by the CA in the MoF chapter of the SB. The funds can be provided to other chapters of the state budget through budgetary measures. 100% of the expenditures related to the Fund for Bilateral Relations at the National Level is covered by the FM 2 budget.

1. With regard to bilateral cooperation expenditure incurred by the Project Promoters in the form of OUS and SO OUS, the system of financial flows is based on the cash flow principle as defined in Chapter 11.2.1 *Programme Operator OUS - MoEYS, Ministry of Finance, or SO OUS - CIS/NAEP* or Chapter 11.3 *The Specificity of Financial Flows in the Case of Project Promoters OUS and SO OUS*. These funds are pre-financed from the budget chapter of the Project Promoter and submitted for review and verification to the NFP via payment application (ex-post) no later than 1 month after the expenditure of the PP is incurred. The NFP checks the application in terms of factual aspects and eligibility of expenditure. In this case, the NFP only registers the request for payment but does not forward it to the CA to be paid. Financial resources under all payment applications will be paid to the Project Promoter only based on a prepared IFR.

The following steps assume functional VIOLA IS:

After the end of the reporting period in accordance with Chapter 3.3 *Interim Payments*, the NFP shall prepare and submit for certification to the CA the interim financial report which lists the actual expenditures incurred (spent by the Project Promoters within pre-financing from the individual chapters of the state budget) for the given period and forecasted expenditure for the next reporting period. After verification by the CA within 15 working days from receipt of the approved IFR in hardcopy, the amount of the actual expenditure incurred in the last reporting period is paid from the source account of the CA to the revenue account the relevant budget chapter. The certified IFR is then forwarded to the FMO to verify the information in it. If approved, interim payments shall be paid to the CA on the dates specified in Chapter 3.3 *Interim Payments*.

2. As regards the expenditure incurred on bilateral cooperation to any entity whose management and financing is not tied to the state budget, its expenses shall be reimbursed by that entity and then requested from the CA through the NFP in one month after they are spent. The NFP checks the application in terms of the factual aspects thereof and eligibility of expenditure and then it forwards it to the CA. After the necessary checks, the CA transfers funds from the relevant MoF chapter of the SB directly to the account of the Project Promoter within 15 working days from receipt of the payment application from the NFP. The funds of the FM 2 at the source account of the CA cannot be used because the IS is not yet configured for the Fund for Bilateral Relations²³. The costs of the Project Promoters may be paid using the funds budgeted in the MoF chapter of the SB of these expenditures, but only provided that these subjects are established in the Czech Republic (as per Act No. 218/2000 Coll., on Budgetary Rules, the budgeted funds in the state budget cannot be provided to foreign entities).

The following steps assume functional VIOLA IS:

After the end of the reporting period in accordance with Chapter 3.3 *Interim Payments*, the NFP shall prepare and submit for certification by the CA the interim financial report which lists the actual expenditure for the given period of time and the anticipated expenditures for the next reporting period. After verification by the CA, the amount of the actual expenditure incurred in the last reporting period shall

²³ There are a plan to run the VIOLA IS after the end of the reporting period on 31 Aug 2012. On this basis, it will be possible to insert into the IFR expenditure actually incurred during the previous reporting period.

be paid from the source account of the CA to the revenue account of the Ministry of Finance within 15 working days from receipt of the approved IFR in hardcopy. The certified IFR is then forwarded to the FMO to verify the information in it. If approved, the interim payment shall be paid to the CA on the dates specified in Chapter 3.3 *Interim Payments*.

11.4.3 Financial flows - Fund for Bilateral Relations at the National Level after the IS set up

1. With regard to bilateral cooperation expenditure incurred by the Project Promoters in the form of OUS and SO OUS, the system of financial flows is identical to the system described in the 1st Section of Chapter 11.4.2 *Financial Flows - Fund for Bilateral Relations at the National Level before the IS set up*.
2. As regards expenditure incurred on bilateral cooperation by any entity whose management and financing is not tied to the state budget, the cash flow from the FM 2 budget is based on the principle of providing payments to Project Promoters through the NFP directly from the source account of the CA. In this case, it is also possible to pay the expenses on bilateral cooperation incurred by foreign entities. The funds that the CA receives from the FMO are released to the Project Promoters based on their payment applications submitted to the NFP. Payment applications of FM 2 funds are submitted to the NFP for registration and verification no later than 1 month after the PP incurs the costs. The NFP checks the application in terms of factual aspects thereof and eligibility of expenditure and then it forwards the application to the CA. After the necessary checks, the CA transfers the extra-budgetary funds from its source account directly to the bank account of the Project Promoter within 15 working days from receipt of payment from the NFP.

After the end of the reporting period in accordance with Chapter 3.3 *Interim Payments*, the NFP shall prepare and submit for certification by the CA the interim financial report which lists the actual costs incurred by the NFP for the given period of time and the anticipated expenditure for the next reporting period. After the certification of the IFR, no finances are transferred and the certified IFR is forwarded to the FMO to verify the information in it. After the approval of the IFR, interim payments shall be paid to the CA on the dates specified in Chapter 3.3 *Interim Payments*.

12 EXCHANGE RATE DIFFERENCES

All resulting exchange rate differences are recorded and managed through the VIOLA IS by the CA. Any exchange rate losses at the source account of the CA are covered by the financial resources at a universal account kept in CZK. If the source account of the CA generates foreign exchange earnings, these shall be transferred back to the universal account.

More information on exchange rate differences for specific cases of financial flows is described in separate chapters devoted to financial flows (Chapter 11.2.1 *Programme Operator OUS - MoEYS, Ministry of Finance, or SO OUS - CIS/NAEP* and 11.2.2 *Programme Operator MoF / PO for CZ03 and CZ12*).

12.1 Rounding

Aggregate amounts stated in euro in the Programme Agreements, IFR, annual report on the programme and the FPR are mathematically rounded to whole euro. If documents list partial amounts in euros and in Czech crowns, mathematical rounding to two decimal places shall be used.

13 RESEARCH SUPPORT FUND

The Research Support Fund is governed by specific rules set out in Appendix 12 to the Regulation. Payments for the Research Support Fund are advance payments, interim payments and final balance.

13.1 Advance Payment

Advance payment is provided to cover the estimated costs to be incurred in the period from the beginning of the programme defined in the Programme Agreement until the beginning of the first reporting period that will be covered by the interim payment. No separate reporting is provided regarding an advance payment which is approved in the Programme Agreement.

13.2 Interim Payment and Proof of Actual Expenditure

The reporting period runs from 1 January until 31 December of each calendar year. Interim payments are paid out according to the IFR submitted by the Programme Operator in the format as per Annex No. 12 to the Regulation. Interim report is submitted by the PO directly to the FMO. The report does not have to be certified by the CA but a copy of it is also sent to the CA by the PO to provide the necessary information. In order that the FMO reimburses the funds on the date laid down by the Regulation, i.e. by 15 December, the FMO shall receive the report by 15 November each year. If it receives the report after 15 November, payment cannot be made within the time-limit laid down in the Regulation.

The interim financial report includes:

1. statement of expenditure actually incurred arising during the reporting period until 31 October;
2. statement of expected expenditure for the reporting period following the payment day of FMO (i.e. after 15 December).

Interim payments shall in principle consist of proposed expenditures for the next reporting period minus the difference between the proposed expenditures for the current reporting period and the actual expenses incurred in the reporting period until 31 October (inclusive). The amount of interim payments may also be increased by unplanned expenses that occurred in the reporting period in which the IFR is presented.

After receiving the report, the FMO verifies the accuracy of the form of the report and checks that the conditions necessary for payment have been met. If the report meets all the requirements, the FMO sends an interim payment to the bank account of the CA by 15 December. When the payment date falls on a weekend day or an EFTA public holiday, the payment is carried out on the next EFTA business day.

Payments of FM 2 funds to the Project Promoters within this programme is in accordance with the Chapter 11 *Financial Flows*. As the Programme Operator is the Ministry of Education, Youth and Sports, the system of financial flows is governed by the principles defined in Chapter 11.2.1 *Programme Operator OUS - MoEYS, Ministry of Finance, or SO OUS - CIS/NAEP*.

The specificity of this programme lies in the separation of the preparation and administration of the IFR from the moment of certification of actual expenditure incurred (see Chapter 13.3 *Statement of Expenditure Actually Incurred*). These two moments are separated in the case of the Research Support Fund and the related financial flows are different in this respect. The CA reimburses the advance/interim/final payments into the revenue account of the MoEYS on the basis of actual expenditure incurred, i.e. after receiving a statement of actual expenditure incurred. Administration of the IFR which is almost entirely a matter of the PO does not mean reimbursement of actual expenditure by the CA, it is only a request to send additional funds from an account of the FMO in favour of the source account of the CA.

13.3 Statement of Expenditure Actually Incurred

After the end of the reporting period, the PO shall prepare a statement of actual expenditure incurred in previous reporting period, see Annex 12 to the Regulation. The statement must be submitted to the FMO for approval by 15 March subsequent to the end of reporting period. Before forwarding the statement to the FMO, the statement is checked by the CA in accordance with the Regulation and procedures in Chapter 11.2.1 *Programme Operator OUS - MoEYS, Ministry of Finance, or SO OUS - CIS/NAEP*. In order that the CA can provide the certified statement of expenditure actually incurred to the FMO by 15 March, it is necessary to obtain the prepared and agreed-upon statement from the PO in hardcopy no later than by 1 March following the end of reporting period.

13.4 Final Payment of the Closing Balance

It is paid in accordance with Chapter 3.4 *Payments of the Final Balance*.

PART III: SYSTEM OF FINANCIAL INSPECTION AND CERTIFICATION

14 SYSTEM OF FINANCIAL INSPECTION

The Ministry of Finance as the central administrative authority for financial control in accordance with the provisions of Act No. 2/1969 Coll., on the Establishment of Ministries and Other Central State Administration Bodies of the Czech Republic, methodically manages, coordinates and is responsible for exercising financial control within the FM 2. The valid legal regulations of the Czech Republic and the EU are the basis for issuing partial guidelines of the MoF discussed with the competent authorities of the ECom.

The main objectives of the financial control include, auditing adherence to legal regulations and measures that protect the public against risks, shortages or other irregularities, whether there is no wasteful, ineffective and inefficient use of public funds and whether each transaction is clearly recorded in accounting.

The control system must be clearly separate into the control systems of the responsibility of the management (control mechanisms of the PO), control mechanisms of the CA, internal audit and audit responsibilities of the AA.

14.1 System of Internal Checks

All authorities involved in the implementation of the programmes have set up the necessary management and control system that complies with legal directives and regulations of EU and the laws of the Czech Republic and is able to identify administrative faults, system faults or intentional errors and create conditions for preventing errors.

14.1.1 Checks by Management

Checks by management are carried out by responsible managers and forms part of the internal management of all entities involved in the implementation of FM 2, in particular during the preparation of programmes prior to their approval, i.e. both in the assessment phase and approval phase of applications as well as in contracting, during ongoing monitoring of the underlying transactions until the final settlement thereof and in the subsequent verification of selected operations within the evaluation of results and correct management.

Management and control system during the programme implementation (with regard to the principles of efficiency, effectiveness and economy) shall ensure that:

1. all entities involved in the management and control of the programme have clearly defined specific functions, both in the system-wide implementation and within each subject separately;
2. the principle of separation of certification, payment, management and audit functions among different bodies involved in the implementation of individual programmes and the entities themselves is complied with;

3. clear procedures are set out for ensuring the correctness and eligibility of expenditure declared under the programmes;
4. reliable accounting systems, monitoring and financial reporting systems in computerized form are introduced;
5. a system of reporting on the implementation of individual programmes and projects and system for monitoring programmes is set up;
6. measures are implemented for audits of the setting and implementation of the management and control system;
7. systems and procedures are introduced and established to ensure that documents are available for audit (audit trail);
8. procedures are defined for reporting and monitoring irregularities and recovery of improperly paid amounts;
9. a dual system of independent checks is maintained and double signature is required for approval of documents and carrying out payments;
10. information systems can be used safely;
11. potential conflict of interest is avoided;
12. substitutability of employees in all positions is ensured.

Each entity involved in the implementation of the programme shall have a manual of operating procedures that include procedures for the implementation of management control that must ensure compliance with the requirements referred to in the preceding paragraph.

If the persons providing ongoing and follow-up checks find out about uneconomic, inefficient or ineffective spending from the budget of the FM 2 contrary to European rules and regulations of the Czech Republic, they will notify their findings in writing to the head of the given institution, the PO/AA. The head of the institution is obliged to adopt measures to remedy shortcomings and measures to ensure proper performance of this control function.

14.1.2 Internal Audit

The internal audit department is functionally independent, organisationally separate from the management and executive structures and is subordinate to the relevant head of the public administration body.

Internal audit is introduced at each level of implementation in accordance with Act No. 320/2001 Coll., on Financial Control and Decree No. 416/2004 Coll. implementing Act No. 320/2001 Coll.

14.1.3 Internal Audit Activities

Internal audit evaluates risk management, system of internal checks, management and administration of the public authority and contributes to its improvement according to the International Framework of Professional Practice of Internal Audit. Internal audit departments check the internal control system at regular intervals.

The activities of internal audit departments includes examining, among other things:

1. the existence of manuals at all levels of management, which manuals include detailed written work procedures used in implementing the various activities. Manuals are processed and updated through "controlled documentation";
2. compliance of the system of independent double-checking and double signature when approving individual documents and carrying out payments;
3. maintaining proper, comprehensive, conclusive, understandable and clear bookkeeping relating to projects financed by funds from the FM 2 budget, in accordance with Act No. 563/1991 Coll., on Accounting;
4. clarity of definitions of functions, strict separation of the approval, payment and accounting function (situations where the same person approves payment, performs payment and records it shall be avoided);
5. substitutionability of employees in all positions;
6. safe use of information systems;
7. preventing a possible conflict of interest.

Where internal audit department finds out that the appropriate corrective action has not been taken, it shall immediately report this fact in writing to the head of the public authority. The goal of the internal audit department is not only a review and evaluation of operations and internal control system, but an important part of their role is also the presenting of recommendations to improve the quality of the internal control system, to prevent or reduce risks, to adopt measures to remedy the identified deficiencies, and consulting. Outcomes of internal audits as long as they affect corporate governance programme regularly conducted at various levels of the PO shall be submitted to the relevant head of the government body and made available to the AA, CA NFP and the Internal Audit at PO.

14.2 Setting up of Management and Control Systems in the FM 2

Prior to approval of the first programme by the FMO or within twelve months from the date of the last signature of the MoU, the NFP has the obligation to submit a detailed description of the management and control systems to the FMO, covering in particular the procedures:

1. NFP, CA and any other national bodies involved in the implementation of FM 2, in accordance with the MoU;
2. AA and any other bodies carrying out audits under its responsibility.

During the six months since the first IFR, the NFP has to submit a detailed description of the management and control system covering PO to the FMO, in particular:

1. system of verification of applications for payment;
2. monitoring and audit system;
3. system for the prevention, reduction, detection, reporting and removal of irregularities;
4. a set system of record-keeping for the audit trail of all supported activities.

The above detailed descriptions of management and control systems are the subject of a report and an opinion stating that the system of implementation for both the level of horizontal bodies of implementation structure and for each Programme Provider is in compliance with the Regulation and generally accepted accounting principles. The report

shall take into account the adequacy of the management and control system requirements with regard to the effectiveness of achieving the programme objectives. The report and opinion must be processed by the AA. If the AA chooses not to perform an audit, it shall authorize an independent and certified auditor to provide for such activities, but that does not, however, relieve the AA from the responsibility for fulfilling the obligations pursuant to Chapter 14.4 *Audit under Responsibility of AA*.

Before the first payment reimbursement for any programme, the FMO shall decide whether the Czech Republic satisfies the requirements mentioned in the chapter above.

14.3 Checks for which the PO is Responsible

The PO is responsible for managing and implementing the relevant FM 2 programme in accordance with sound financial management and therefore the PO ensures that operations are selected for funding under the criteria for the given programme and that they are in line with the relevant EU legislation and the legal regulations of the Czech Republic throughout the implementation period.

The PO is responsible for monitoring the actual implementation in accordance with the Regulation and related procedures and manuals by verifying that the supply of goods financed and actual expenditure for the implementation of the operations declared by Project Promoters and their compliance with EU legislation and the legal regulations of the Czech Republic. The PO carries out public administration checks of controlled persons at all levels of usage of funds from the budget of the FM 2 and proceeds in accordance with Art. 8, Sec. 2 of Act No. 320/2001 Coll., on Financial Control. The PO for CZ03 and CZ12 is obliged to incorporate in the contract with PPs provisions based on which it will be able to carry out financial control/checks in a similar extent as available to the other providers (according to Art. 8 of Act No. 320/2001 Coll.).

For this purpose, the PO performs to Project Promoter:

1. preliminary public administrative control;
2. ongoing public administration checks over the implementation of operations (administrative control and on-the-spot verification) by a combination of operating and inspection procedures on a sample of operations until the end of the operations and recording them in accounting books;
3. followed by public administration on-the-spot verification on a sample of selected operations using revision procedures.

These verifications verify if:

1. operations carried out and public expenditure made within the implementation period were in accordance with the programme (or the goal of the programme), EU legislation and the legal regulations of the Czech Republic, approved budgets, issued decisions or relevant contracts and whether they meet the criteria of economy, efficiency and effectiveness;
2. measures taken to avoid or mitigate operational, financial, legal and other risks in conducting operations were effective enough and whether adaptation to any new risks was taken into account, in particular in cases of changes in economic, legal, operational and other conditions;

3. records of the underlying transactions and record keeping associated with each operation is complete, truly reflect the resources, status and transfers of public funds.

The PO ensures the existence of a system for recording and storing accounting records in computerized form for each operation and data collection necessary for audits. The role of the PO is also to ensure that all procedures and documents relating to funding and programme audits are available to the FMO and the EFTA Council of Auditors for at least 10 years starting on the 1st of January following the year when the FPR is approved by the FMO²⁴. The PO may delegate part of its supervisory powers by a public-law contract or another act in accordance with the legal regulations of the Czech Republic to other authorized agencies; this does not, however, relieve the PO the responsibility for fulfilling the obligations of the PO under this chapter.

14.4 Audit under the Responsibility of the AA

The AA is responsible for performing FM 2 audits in accordance with the Regulation, without prejudice to the scope of powers of the internal audit department. Its responsibilities are, but not limited to:

1. auditing the system for independent and objective verification of the effective functioning of the management and control system (audits of systems);
2. audits of operations on an appropriate sample to verify expenditure declared (audits of operations).

At the same time, the AA must ensure that:

1. the audit takes into account the international auditing standards;
2. there is a single access to the reports of the audits of systems and audits of operations at the relevant levels of implementation; the audit findings of the AA are the basis for risk management at the level of the PO and CA.

Audits of systems at the CA level is provided by the AA (in accordance with Article 4.6 of the Regulation), without prejudice to the scope of powers of the internal audit department.

14.5 External Audits and Inspections

14.5.1 EFTA Audit

EFTA Board of Auditors may carry out audits of all programmes and projects financed from the FM 2 as well as check the management system configured to control the FM 2 in the CR. Representatives of the Czech Republic shall, on request, accompany the auditors and provide any necessary assistance.

With the exception of urgent cases, the EFTA Board of Auditors should provide an advance notice to the FMO and the National Focal Point of the audit two weeks prior to the implementation thereof.

²⁴ In accordance with Section 44a of Act No. 218/2000 Coll., on Budgetary Rules.

14.5.2 On-the-spot verification and Inspections by the FMO

Regardless of the audits conducted by the AA, the FMO can perform on-the-spot verifications and checks of programmes and projects and verify the effective functioning of management and control systems in the CR. Representatives of the NFP based on a request shall accompany an authorized representative of the FMO and provide any necessary assistance.

Except in emergencies, the FMO has a duty to provide a prior notice to the NFP and the PO of an audit or on-the-spot verification two weeks prior to the date.

The NFP and the PO shall receive the audit report for comments before its final completion.

14.5.3 Checks by the Supreme Audit Office

The Supreme Audit Office (hereinafter referred to as "SAO") is authorized to carry out independent inspections in accordance with the provisions of Act No. 166/1993 Coll., on the Supreme Audit Office.

14.6 Transparency, Availability of Documents and Archiving

The Czech Republic has an obligation to ensure such audit trail for financial contributions from the FM 2 which allows to:

1. reconcile expenditure certified by the Certifying Authority in the IFR and FPR with original documents that are stored at different administrative levels (AA, PP, etc.); and
2. verify the correctness of the allocation and transfer of the funds from the FM 2 and co-financing within the Czech Republic.

The Czech Republic is responsible for ensuring that all documents regarding expenditure (including records of allocation and performance of public procurement) and the related audits were kept in the originals or certified copies on commonly accepted media.

The documents must be backed up to the needs of entities allowed to carry out checks (employees or representatives of the MoF, SAO, TFA, FMO, the EFTA Board of Auditors and others) for at least 10 years from 1 January following the year when the FPR is approved by the FMO ²⁵.

15 CERTIFICATION

The CA is responsible for the certification. Certification of expenditure is a specific activity laid down by the Regulation which aims at gaining assurance of proper spending of funds under each programme. Certification of expenditure means certified statements of expenditure in the IFR (both actually incurred and proposed expenditure). In case of actual expenditure incurred, it is primarily to verify that the set up system provides for the proper assurances that the expenditure included in the statement of expenditure actually incurred are incurred in accordance with the EU rules, the Regulation and national legal regulations, thus creating sufficient prerequisites for proper certification of expenditure. In addition to the actual expenditure incurred, the certification process includes

²⁵ In accordance with Section 44a of Act No. 218/2000 Coll., on Budgetary Rules.

verification of the proposed expenditure as to whether the estimated amount is in accordance with the implementation of the programme and its financial plan.

The certification process begins the day following the end of the reporting period for which certification is to be implemented. The CA informs the programme operators on the planned launch of certification by a letter asking them to send documents for certification contained in Chapter 15.3 *Documents Collected for the Purpose of Certification*. The information on the start of the certification shall be forwarded to the AA with a request to submit relevant documents. Letters to programme operators shall be sent by the CA no later than 5 working days before the end of the reporting period. The content of the letter is to define the period for which certification is carried out and specifications of documents to be submitted by the PO. The documents required by the CA for the certification shall be delivered by the programme operator to the CA in hardcopy already approved by the deadline specified in Chapter 3.3 *Interim Payments* or 13.3 *Statement of Expenditure Actually Incurred*. No later than one month before that deadline, the PO must submit the relevant documents to the Certifying Authority in electronic form for verification. Documents in hardcopy can only be submitted if previously approved by the CA.

In severe cases (e.g. suspicion of systemic irregularity), the CA may decide not to initiate certification.

The result of certification is to verify and submit a request for interim (within the IFR) or final payment (within the FPR) to the FMO in the format specified in the Regulation. An independent certification is carried out for each programme.

15.1 Process of Certification

Certification of expenditure includes verification of the statement of expenditure (actual/proposed), verification of compliance with national legislation, the Regulation and legislation of the EU and the proper functioning of the management and control system at all levels of implementation.

The proper functioning of the management and control system and compliance with national legislation, the Regulation and legislation of the EU is continuously verified by the CA. The certification is to be carried out by the CA among other things upon obtaining assurances from the PO that the following basic conditions were complied with during the said period:

1. Respect for law and the area of management and control system
 - a) POs gave assurances that EU rules, Regulation and national legislation have been complied with in the implementation;
 - b) POs gave assurances that they applied principles of sound financial management;
 - c) POs gave assurances that the implementation of projects is properly verified in accordance with the Regulation and relevant Manuals;
 - d) POs gave assurances that the implementation included any necessary measures for prevention or early detection and treatment of irregularities;
 - e) recommendations issued by the FMO, the CA and the AA in accordance with the Regulation on the programme were reflected in the implementation by the PO;

- f) the FMO has not decided on any suspension of payment period or suspension of payments in accordance with Chapter 9.1 *Suspension of Payments*;
2. Area of expenditure incurred:
- g) the statement of expenditure actually incurred under the IFR shall cover the eligible expenditures incurred and defined in accordance with Chapter No. 7 of the Regulation (*Eligibility of Expenditure*) and national procedures;
 - h) the statement of expenditure actually incurred shall include expenditures related to operations that were selected by transparent procedures described in manuals and other relevant documents of the PO and that complied with the EU rules, Regulation and national legislation throughout the implementation;
 - i) expenditures incurred by the beneficiaries are supported by receipted copies of accounting documents²⁶(invoices, bank statements and other accounting documents of equivalent probative value);
 - j) when submitting the IFR to the CA eligible expenditures actually incurred (supported through the Overview of the project funding within programmes²⁷) and the proposed expenditure mentioned in the IFR are accounted for by summary application by the CA in the VIOLA IS;
 - k) the PO shall provide assurance that the relevant state aid operation rules have been applied.

So that the certification of expenditure could be performed, the CA verifies the set²⁸ co-financing and other information on programmes/projects assigned or transferred to IS DoRIS. For this reason, the PO shall check the accuracy of the data in IS DoRIS before sending the documents for certification to the CA. The fact that the written data on the documents submitted for certification do not coincide with the data in information systems, is considered an obstacle to certification of expenditure.

15.2 Certification Activities of the CA

The CA employees shall regularly analyze and evaluate the documents referred to in Chapter 15.3 *Documents Collected for the Purpose of Certification*. In case of detection of irregularities or other system deficiencies that were not the subject of previous reports on irregularities from the PO, it is the responsibility of the CA employees to report suspected irregularities promptly to the competent PO in accordance with Chapter 8.1 *Investigation of Irregularities*.

The CA employees shall participate in the Monitoring Committee that discusses progress in the implementation of the FM 2 or of individual programmes.

²⁶ See footnote No. 6.

²⁷ List of all actually incurred expenditure from the FM 2 for each PO in the reporting period. Information on included projects is listed in the Overview of the project funding within programmes (in particular the identification of the project, the amount and date of disbursement of funds and FM 2 funding ratios).

²⁸ In case of a project in a legal act on allocation of resources, in case of a programme in the Programme Agreement.

The CA employees are entitled to carry out on-the-spot checks at the level of PO or PP. The controlled entity shall provide sufficient cooperation and requested documentation to the CA employees. It is one of the ways for the CA to make sure that the PO or PP complies with the established written procedures prescribed for its activities and that the management and control systems ensuring a sound financial management are working properly in practice. On-the-spot checks are carried out under the Regulation and Act No. 320/2001 Coll., on Financial Control. The controlled entity shall be informed, usually 5 working days in advance, of the date and content of the scheduled on-the-spot check. In the event of an extraordinary on-the-spot check due to suspected irregularities, this period may be shortened.

The list of entities for which the on-the-spot check is to be performed can be found in the control plan, which is mainly based on risk analysis. In exceptional cases, the on-the-spot check can be performed without being based on risk analysis by an entity with an identified suspicion of irregularity. If a suspicion of systemic irregularity is identified for an entity, the CA decides to carry out on-the-spot checks by other subjects that might be impacted by the revealed systemic irregularity.

If the CA finds any deficiencies in the documents submitted by the PO or PP, it shall inform the relevant entities and interrupts the certification until the deficiency identified is resolved in cooperation with the PO. In severe cases (e.g. suspicion of systemic irregularity), the CA may decide to suspend the certification. The CA informs the PO and the NFP of the suspension of the certification. If the verification of documents submitted by the PO (or other entities) is done without finding deficiencies, the CA shall proceed to complete the tasks related to IFR certification. Notification of a completed certification will be made subsequently by informing the relevant PO, AA and NFP. The PO will also be informed about the transfer of funds to the CA account.

Failure to comply with the terms set by the CA can bring about a delay in certification and payment of the required funds in the next period. If there is a delay, the procedure will depend on communication with the FMO. In this case, the CA does not provide funds from its own resources.

15.3 Documents Collected for the Purpose of Certification

To ensure proper carrying out of the certification and to obtain assurances on the eligibility of the expenditure incurred, the CA collects and analyzes in particular the following documents and information:

1. Summary application including mandatory attachments:
 - a. IFR or the FPR;
 - b. Overview of the project funding within programmes;
2. forms:
 - a. A (the PO submits it by the end of the calendar year for the following year);
 - b. B (the PO submits it for each certification);
3. documents and information related to financial control:
 - a. AA audit plan and overview of its implementation;

- b. reports on results of audits under Article 4.6.1 (a) and 4.6.1 (c) of the Regulation along with the information on the planned method of dealing with deficiencies identified during audits;
 - c. information on the elimination of deficiencies identified during audits;
 - d. results of internal audits, where relevant for the proper administration and management of the programme (to be made available by the competent department of internal audit);
 - e. protocols/reports on the results of inspections/audits performed by external bodies by the PO and on the planned method of dealing with deficiencies identified during audits (to be submitted by the PO within 10 days of the receipt thereof); information on the planned method of dealing with deficiencies identified during audits to be submitted by the PO in the shortest possible time; comprehensively the PO submits current status of dealing with deficiencies identified during inspections/audits performed by external bodies for each certification of the programme;
 - f. annual audit report under Article 4.6.1 (e) of the Regulation submitted by the AA annually in the years 2012 to 2017 within 10 working days from sending the report to the FMO;
 - g. information on the verifying of the implementation of projects under Article 4.7 (1f) of the Regulation including information on sample size and method of its selection and an overview of controls carried out in a given period (submitted by the PO; information on the method of verifying the implementation of projects and the sampling method for a given calendar year to be submitted by 31 January of the following year; an overview of controls shall be submitted at each certification);
 - h. the source, amount and nature of the funds returned from the PP or PO to the universal account of the CA. The PO is obliged to ensure that this information will be sent to the CA together with the amount sent to the universal account of the CA;
4. programme documents and methodical documentation of the PO (the PO submits upon the approval and every update thereof);
 5. information on the evaluation and selection of projects (submitted by the PO at each certification);
 6. valid templates of legal acts on allocation of resources - draft templates must be submitted to the CA at least 30 days before the release thereof for any comments made by the CA to be taken into account);
 7. other (minutes, reports of irregularities, etc.).

The PO is obliged to provide for the preparation of all relevant documents for the given reporting period so that it is able to submit them to the CA within the required deadline:

- a. in electronic form submitted after the end of the period for which certification is carried out, at least one month before the deadline for submission of documents in hardcopy (see point b);
- b. in hardcopy submitted within the deadlines in accordance with Chapter 3.3 *Interim Payments*.

The PO keeps documentation (such as checklists) within their set of procedures; the documentation is the basis for confirmation of the controls when filling in the documents required by the CA. This documentation will be available for prospective on-the-spot checks carried out by the CA and other competent authorities.

15.3.1 System of Forms

Form A represents the PO's general statement that its employees involved in the implementation of the programme are familiar with the relevant legislation and other relevant documents and that they will be bound by the provisions thereof. This form must be signed annually by the Director of the department performing the function of the PO. Form A is submitted to the CA before the end of the calendar year and its validity always refers to the following calendar year. In the event that the documents contained in Form A are impacted by significant changes during the year, the CA asks the PO for an extra confirmation of this form. For the purposes of the first certification, Form A will be submitted to the CA by the Programme Operator together with the other documents. In the following years, the PO will have to proceed according to the above given rules.

Through form B, the Programme Operator provides the CA with assurance of compliance with the conditions set out in Chapter 15.1 *Process of Certification* required for the certification. Form B is filled in for each period for which certification is carried out.

LIST OF ABBREVIATIONS

AA	Audit Authority
CA	Certifying Authority
CIS NAEP	Centre for International Services, National Agency for European Educational Programmes
CNB	Czech National Bank
CR	Czech Republic
CZK	Czech crown
DoRIS	Online IT system to support the implementation of the EEA/Norwegian Financial Mechanisms 2009-2014 (<i>DOcumentation, Reporting and Information System</i>)
EC	European Communities
ECom	European Commission
EEA	European Economic Area
EFTA	European Free Trade Association
EU	European Union
EUR	Euro
FM 2	EEA/Norwegian Financial Mechanisms 2009-2014
FMC	EEA Financial Mechanism Committee
FMO	Financial Mechanism Office
FPR	Final Programme Report
IFR	Interim Financial Report
MC	Monitoring Committee
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance
MoU	Memorandums of Understanding
NF	National Fund
NFP	National Focal Point
NMoFA	Norwegian Ministry of Foreign Affairs
OUS	Organizational Unit of the State
PO	Programme Operator
PP	Project Promoter
SAO	Supreme Audit Office
SB	State Budget
SO	Semi-budgetary Organization
TA	Technical Assistance
TFA	Territorial Financial Authority

OVERVIEW OF UPDATES

Methodology of Financial Flows, Control and Certification of Programmes Financed by the EEA and Norwegian Financial Mechanisms in the 2009-2014 Programme Period, **with effect from July 4, 2012**