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Bachelor thesis

Methodology of Internal Audit of Structural Funds

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(Bachelor Thesis Assignment Form)

Declaration

I declare that I have worked on my diploma thesis titled “Methodology of Internal Audit of Structural Funds” by myself and I have used only the sources mentioned at the end of the thesis.

In Prague 28 March, 2011

Alice Amblerová

Acknowledgement

I would like to thank my mother not only for providing me with useful and important information, but also for her support and guidance during my work on this Thesis.

Metodika interného auditu strukturálných fondů

Methodology of Internal Audit of Structural Funds

Souhrn

Tato bakalářská práce se zabývá aktuálním tématem interního auditu strukturálních fondů Evropské unie. Její podstatou je vysvětlení fungování auditního systému na území České republiky a jeho začlenění do auditní struktury Evropského společenství v programovém období 2007 - 2013. Vzhledem k velkému množství informací potřebných k přesnějšímu pochopení systému auditu je v práci představeno současně několik tematických okruhů vztahujících se k dané problematice. Mezi ně patří vymezení pojmu interního auditu v auditorské profesi jako takové a představení standardů, které tvoří její základ. Dále nastínění problematiky strukturálních fondů spolu s vysvětlením hierarchie subjektů podílejících se na implementačním procesu. Práce se také zabývá finanční stránkou věci, tedy alokačním procesem prostředků fondů EU a v neposlední řadě se zabývá jednáním v případě výskytu nesrovnalostí v jakékoli fázi implementace. Informace z těchto částí práce jsou použity v kapitole Methodology of Internal Audit of Structural Funds. Ta seznamuje čtenáře s průběhem dvou typů auditů v rámci auditního systému, tedy s auditu systémů a auditu operací. Jejich vzájemná provázanost je taktéž v této kapitole obsažena. Po přečtení této práce získá čtenář ucelený přehled o problematice auditu strukturálních fondů v České republice, jakožto v členském státu Evropské unie.

Klíčová slova: audit operací, audit systémů, strukturální fondy, operační program, auditní orgán, finanční prostředky, nesrovnalosti, Evropská unie

Summary

This bachelor thesis deals with an up-to-date topic: the internal audit of Structural Funds of the European Union. Its goal is to explain the functioning of audit system within the Czech Republic and its integration in the audit structure of the European Communities in the programming period 2007 - 2013. For an enormous amount of information necessary for more precise understanding of audit system, several thematic areas related to the main topic are introduced in the thesis. Among those is definition of internal audit within the audit profession as such and introduction of standards forming its framework. Moreover the problematics of Structural Funds is outlined along with explanation of the hierarchy of entities involved in the implementation process. The thesis also analyses the topic from the financial point of view, hence the allocation process of financial resources of the EU Funds. It also describes the proceeding in case any irregularities are detected in any implementation phase. Information from these parts of the thesis are used in the chapter Methodology of Internal Audit of Structural Funds. It introduces to the readers the process of two types of audits carried out within the audit system: the systems audits and the audits of operations. Their mutual relationship is also included. After finishing this thesis, a reader should gain a comprehensive overview of the audit of Structural Funds in the Czech Republic, as a Member State of the European Union.

Key words: audit of operations, systems audits, Structural Funds, operational programme, audit authority, financial resources, irregularities, European Union

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1 Introduction

As the title suggests, this bachelor thesis focuses on the Internal Audit of Structural Funds of the European Union (EU). Through media, we can more and more often come across phrases like “financial aid”, “projects in your region”, “business support” etc. All these expressions have one phenomenon in common and that is the Structural Funds of the EU.

As the Czech Republic became a Member State of the European Union in 2004, it is also involved in fulfilling aims of an economic and social cohesion according to the Treaty Establishing the European Community. As the Treaty states, “*the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.*”¹ Further more, it imposes that the Structural Funds, the European Investment Bank and other existing Financial Instruments should help to achieve the above mentioned aims.

This thesis looks at the Structural Funds from the point of view of an authority which plays a significant role in testing and assessment of the whole system. By that an Audit Authority – the Central Harmonisation Unit of the Ministry of Finance of the Czech Republic is meant. Its function is an integral part of the whole implementation process in the programming period 2007 - 2013 for it is responsible for providing an independent verification of the management and control systems of the operational programmes.

Individual chapters deal with various concepts. It starts with introduction of terms such as internal audit (IA) and Structural Funds. The allocation process of financial resources along with its amount available from the Structural Funds follows and the last minor chapter is focused on the general principles of IA by introducing the International

¹ Consolidated versions of the Treaty on European Union and of the Treaty Establishing the European Community, Article 158

Professional Practices Framework and the Standards. The main part focuses on the procedures and methodology applied to the internal audits of systems and operations as they occur in terms of the Structural Funds. The last two chapters are devoted to the outcome of internal audit activities represented by the audit report, its findings, opinions and recommendations. Attention is also paid to irregularities, which might occur in any part of the implementation process.

2 Objectives of Thesis and Methodology

2.1 Objectives

A goal of this thesis is to provide a complex, structured and up-to-date overview of issues involved in practice of internal audit of EU's Structural Funds. This topic is to be put into context of connected issues for a better understanding of its principle. All the terms and concepts that are used in the thesis need to be in accordance with present pieces of legislation and other documents amending the subject matter. The main objective is to describe the work and processes running through the audits of management and control systems of the Structural Funds as well as to give account of the audits of operations.

2.2 Methodology

To satisfy the set up objectives, several methods for work with relevant materials and documents are used. Author of this thesis has several types of documents available, e.g. pieces of European legislation such as acts, regulations and COCOF guidelines, and on the other hand pieces of Czech legislation for example acts and government resolutions. Also supporting and guiding documents e.g. methodologies, working documents and pieces of information provided on web pages of relevant institutions serve as a basis of this thesis.

In the beginning, the analysis of the documents is necessary to seize the problem. However, while reading through the resources, author often came across other documents that also seemed to be relevant. So the amount of the materials increased almost with every new document. It is important to orientate oneself in the plenty of documents, keep the range of materials used reasonably short and still not omit any important piece of information.

Another issue is appearance of the same or very similar information in more documents. The individual topics fade into one another and sometimes it is also hard to find a

current version of a document. That is because most of the methodologies and manuals are available only electronic form and very often the web pages are not up-to-date. As long as the issue of Structural Funds is relatively new, the regulatory framework is not unified and demands overall understanding. So the task is to compare the materials, differentiate which ones are to be used and which ones are not the key or supreme documents.

The elaboration of this thesis also demanded author's familiarization with many new professional terms used within the manuals and other documents. This led to work with explanatory and special dictionaries.

Also an illustration of theoretical issues with the practical examples is used. For example to describe the process of financial resources allocation, a specific call for proposal of applications is present.

3 Literature review

3.1 Concept of Internal Audit

This part of the thesis was placed at the very beginning to acquaint the readers with a concept of internal audit which is essential for the whole work. For purposes of this thesis, terms such as internal audit, external audit and control are introduced in mutual relations with regard to public sector and private sector. Even though the public sector is crucial to this thesis, the private sector is also introduced and both concepts are compared for a better idea.

3.1.1 Audit according to the Auditor's Act

One of possible views of audit as such is described in the Act No. 93/2009 Coll., on Auditors (hereinafter the “Auditor’s Act“). This legal document defines the audit activity as *“the performance of statutory audits, reviews of economic management, verification of accounting records and verification of other economic information in keeping with auditors standards.”*²

However, as the Auditor’s Act further specifies, by the statutory audit is meant *“verification of annual and extraordinary annual accounts or consolidated annual accounts ... and/or interim annual accounts”*.³ And this applies *“if such verification is required by another piece of legislation”*.⁴ By that is meant the Act No. 563/1991 Coll., on Accounting, as amended. These audits can be performed by the statutory auditors or audit firms having the licence issued by the Chamber of Auditors of the Czech Republic.

This fact implies the external relation of the auditor to the accounting entity. The accounting unit of a company orders an audit service which is delivered by the auditor firm or the statutory auditor. The client might naturally use the services of the same

² Act No. 93/2009 Coll., on Auditors, and amending certain other legislation

³ dtto, Section 2 (a)

⁴ dtto

audit supplier whenever necessary (e.g. audits according to the Act on Accounting, Due Diligence audits, Quality audits), however the relationships still work on the client-supplier principle. But to stick to the point, describing the audit in terms of the internal relations and public sector is necessary.

3.1.2 *Audit according to the Act on Financial Control*

Section 3 of the Act No. 320/2001 Coll., on Financial Control (hereinafter the “Act on Financial Control“) divides the whole financial control system into three subsections. The third part pursuant to subsection 1c) is important for purposes of this thesis: an internal control system in public administration bodies. That includes two different concepts: managing control and internal audit, as analysed below. The complex requirements on internal control system are stated in Part Four, Sections 25 – 31 of Act on Financial Control.

The managing control is described in the Act on Financial Control as “*financial control ensured by responsible managers as a part of an internal management of a public administration body*“.⁵ The essence of work of control managers runs “*during preparation of operations prior to their approval, during the continuous following of the operations exercised until their final settlement and calculation and the ensuring check of the chosen operations within the evaluation of the results achieved and the correctness of management*“.⁶

On the other hand internal audit is described as “*an examination separated in an organizational manner and functionally independent*“. Work of an internal auditor then lies in “*the assessment of the adequacy and efficiency of the managing control, including the examination of the correctness of chosen operations*“.⁷

⁵ Act No. 320/2001, on Financial Control in Public Administration and on the Amendment to some Acts, Section 3 (4) (a)

⁶ dtto

⁷ Act No. 320/2001, on Financial Control in Public Administration and on the Amendment to some Acts, Section 3 (4) (b)

We can see that managing control is one of the managerial functions necessary in the whole public administration body. Managers are the only ones responsible for the flow of all the operations and systems. The internal audit unit is independent of this executive function and its task is to evaluate the work of managing control. Internal auditor might also recommend improvements, but the responsibility for the follow-up actions bears the management.

A situation might also turn up, when both types of the audit professions co-operate. During the audit work of EU Funds, auditors of an external supplier are also invited to the audit team on an outsourcing principle. This happens mainly when the planned capacity of auditors is insufficient or when it is necessary to provide specialized audits, e.g. when the IT system audits are performed.

3.2 Concept and Issue of EU's Structural Funds

The concept of the Structural Funds brought with it new terms, functions and work positions. Moreover it demands a new network of public administration authorities to be established and it gives incentives to various range of applicants to take advantage of new financial resources available. This part of thesis in short describes the complex implementation process as it is nowadays set up in the Czech Republic.

3.2.1 Legal Regulations and Definitions

As long as the Structural Funds operate on the EU level, the EU authorities are responsible for publishing legislation setting up the rules and criteria. One of the key documents is Council Regulation (EC) No 1083/2006 also called "General Regulation". In support of the General Regulation, another piece of legislation was published. It is the Commission Regulation (EC) No 1828/2006 shortly named the „Implementing Regulation“. The General Regulation *“lays down the principles and rules on partnership, programming, evaluation, management, including financial management, monitoring and control on the basis of responsibilities shared between the Member*

States and the Commission“.⁸ So far many new terms come out that need to be explained prior to next parts of this work.

Structural Fund is a “*main realization tool for the European policy of economic and social cohesion.*“ It provides “*distribution of finances mitigating the differences between Member States and their regions.*“⁹

European Regional Development Fund (ERDF) contributes „*by redressing the main regional imbalances through support for the development and structural adjustment of regional economies, including the conversion of declining industrial regions and regions lagging behind, and support for cross-border, transnational and interregional cooperation.*“¹⁰ The finances from the ERDF are assigned to investment (infrastructure) projects. Such projects are focused for example on „*construction of roads and railways, reconstruction of cultural monuments, and modernization of the crisis management system.*“¹¹

European Social Fund (ESF) contributes “*by improving employment and job opportunities, encouraging a high level of employment and more and better jobs. It shall do so by supporting Member States‘ policies aiming to achieve full employment and quality and productivity at work, promote social inclusion, including the access of disadvantaged people to employment and reduce national, regional and local employment disparities.*“¹²

⁸ Council Regulation (EC) No 1083/2006, Article 1

⁹ *Fondy Evropské Unie* [on-line]. [2011-03-01]. Fondy Evropské Unie: 26,7 miliard € pro Českou republiku. Available from: <<http://www.strukturalni-fondy.cz/Informace-o-fondech-EU>>

¹⁰ Regulation (EC) No 1080/2006 of the European Parliament and of the Council, Article 2

¹¹ *EU Funds* [on-line]. [2011-03-01]. EU Regional Policy. Available from: <<http://www.strukturalni-fondy.cz/Information-about-EU-Funds/EU-Regional-Policy>>

¹² Regulation (EC) No 1081/2006 of the European Parliament and of the Council, Article 2

Looking at the list of funds used as a tool in an European policy, a Cohesion fund is to be found there as well. However, that one does not count as a Structural Fund, hence it will not be mentioned in detail in this work.

Operational Programme (OP) is a “*document submitted by a Member State and adopted by the Commission setting out a development strategy with a coherent set of priorities to be carried out with the aid of a Fund.*”¹³

Priority Axis is “*one of the priorities of the strategy in an operational programme comprising a group of operations which are related and have specific measurable goals.*”¹⁴

Programming “*The objectives of the Funds shall be pursued in the framework of a multiannual programming system organised in several stages comprising the identification of the priorities, the financing, and a system of management and control.*”¹⁵

Programming period and its definition can be found within the definition of a Programming noted above. It is a term often mentioned in connection with Structural Funds. It corresponds to a part “*multiannual programming system*”.¹⁶

Beneficiary is “*an operator, body or firm, whether public or private, responsible for initiating or initiating and implementing operations ... and receiving public aid.*”¹⁷

¹³ Council Regulation (EC) No 1083/2006, Article 2 (1)

¹⁴ dtto, Article 2 (2)

¹⁵ Council Regulation (EC) No 1083/2006, Article 10

¹⁶ dtto

¹⁷ dtto, Article 2 (4)

3.2.2 Objectives of EU's Regional Policy in Programming Period 2007 - 2013

Within the EU policy of economic and social cohesion, three objectives were identified to be achieved in programming period 2007 – 2013 with the aid of the Structural Funds and other authorities:

1) Convergence objective focuses on “... *improving conditions for growth and employment through the increasing and improvement of the quality of investment in physical and human society, adaptability to economic and social changes, the protection and improvement of the environment, and administrative efficiency.*”¹⁸ It is the priority objective of the Funds and it aims on the least-developed Member States.

2) Regional Competitiveness and Employment objective is on the contrary aimed on the more developed regions. Its goal is “*strengthening regions' competitiveness and attractiveness as well as employment by anticipating economic and social changes*”.¹⁹ These changes should be connected to the opening of trade, innovation and the promotion of the knowledge society, the improvement of the environment etc.

3) European Territorial Cooperation objective is unlike the two above mentioned objectives focused on cross-border cooperation. It should do so “*through joint local and regional initiatives, strengthening transnational cooperation by means of actions conducive to integrated territorial development linked to the Community priorities, and strengthening interregional cooperation and exchange of experience at the appropriate territorial level.*”²⁰

3.2.3 The Institutional System and Authorities of the Implementation Process in the Czech Republic

Along with the phenomenon of the Structural Funds, demand for a new institutional system also turned up. In the Czech Republic, the central coordinator for all activities associated with European funds is the Ministry for Regional Development. It plays a

¹⁸ Council Regulation (EC) No 1083/2006, Article 3 Section 2 (b)

¹⁹ *ditto*, Article 3 Section 2 (a)

²⁰ *ditto*, Article 3 Section 2 (c)

role of a National Cooperation Authority and one of its main tasks is to prepare the National Development Plan and the National Strategy Reference Framework (NSRF). In the NSRF, the development areas are described as well as the operational programmes within each objective of the EU policy of economic and social cohesion. The whole NSRF and especially the OPs are sent to the European Commission for approval. The summary of the operational programmes approved for the programming period 2007 – 2013 is available in the Supplements in **Table 3**.²¹

According to the Article 59 of the General Regulation, within each operational programme, specific management and operational systems have to be set up to ensure forming the functions of bodies involved in management and control, also ensuring that the principle of separation of functions exists between the authorities and that the expenditures declared under each OP are correct and provided through reliable accounting and other systems. Functioning of these authorities can be according to the Article 46 of General regulation financed within a special OP. The programme in the Czech Republic is called the OP Technical Assistance. Finances allocated into this programme from both EU funds and the state budget of the Czech Republic are amounting to EUR 0.29 billion.

The authorities to be established and their functions are as follows:

Managing authority (MA) is “*a national, regional or local public authority or a public or private body designated by the Member State to manage the operational programme.*”²² Its tasks are to ensure the whole implementation process of the OP. It is responsible for selecting the operations for funding, for verification of accuracy of the expenditures, for existence of systems in computerised form for recording and storing all data gathered and last but not least it is responsible for assuring the flow of information between the authorities. In the Czech Republic, the function of the MA

²¹ The Supplement IV of this thesis was created in accordance National Strategic Reference Framework of the Czech Republic 2007 – 2013

²² Council Regulation (EC) No 1083/2006, Article 59 Section 1 (a)

execute the ministries in case of thematical OPs, and the Regional Councils in case of the regional OPs.

Certifying authority is “a national, regional or local public authority or body designated by the Member State to certify statement of expenditure and applications for payment before they are sent to the Commission“.²³ In the Czech Republic, the united function of the paying and certifying authority (PCA) is carried out by the National Fund established by the Ministry of Finance. The certifying authority is responsible for the financial flow between a Member State and the European Commission.

Audit authority (AA) is “a national, regional or local public authority or body, functionally independent of the managing authority and the certifying authority, designated by the Member State for each operational programme and responsible for verifying the effective functioning of the management and control system.“²⁴

A Member State also has the possibility to set up intermediate authorities to participate on the execution of some or all functions of the managing or certifying authority. In the Czech Republic, the intermediate bodies have also been integrated into the system. They are subordinated to the MA which delegates some of its functions and responsibilities on them. These are mainly those activities when direct communication with applicants for the grant and beneficiaries of the financial aid is necessary.

The AA also has an intermediate body as long as the number of audits to be performed is inconsistent with number of auditors of the AA. Therefor the Government of the Czech Republic has imposed by a document Usnesení vlády č. 760 z 11. července 2007²⁵ a provision of the function of an audit bodies of the audit authority. In the appendix to the Government resolution the guidelines on activities of audit authority as well as audit bodies are specified. The guidelines define, that the audit authority is the

²³ Council Regulation (EC) No 1083/2006, Article 59 Section 1 (b)

²⁴ dtto, Article 59, Section 1 (c)

²⁵ Author’s translation: Government resolution No 760 on 11 July, 2007

Ministry of Finance, and the audit bodies are individual ministries of the Czech Government, the capital city of Prague and Regional Councils of the cohesion regions. Within these authorities, the IA departments are established. In accordance with the General Regulation, the AA does not perform neither the audits of the management and control system or the audits of operations, but it is also responsible for ensuring the independence of the audit bodies which perform the audits. Unlike the audit bodies, the AA communicates with the European Commission the audit strategy as well as the annual control reports.

Monitoring committee “shall satisfy itself as to the effectiveness and quality of the implementation of the operational programme“.²⁶

3.2.4 *Special Criteria*

Besides explanation of general terms and description of functions and processes, the General Regulation also defines concepts whose abidance must be ensured. One of these concepts is additionality. It states that “Contributions from the Structural Funds shall not replace public or equivalent structural expenditure by a Member State.“²⁷ The additionality is weighted according to the average annual public or structural expenditures based on the previous programming period with respect to exceptional outlays. For example the additionality for the Convergence objective will be examined by the European Commission mid-term in 2011.

Moreover, there are horizontal issues to be ensured. One of them is a concept of the sustainable development. “The objectives of the Funds shall be pursued in the framework of sustainable development and the Community promotion of the goal of protecting and improving the environment.“²⁸

Next one is the equality between men and women and the non-discrimination. “The Member States and the Commission shall take appropriate steps to prevent any

²⁶ Council Regulation (EC) No 1083/2006, Article 65 (a)

²⁷ dttto, Article 15 Section 1

²⁸ dttto, Article 17

*discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation during the various stages of implementation of the Funds and, in particular, in the access to them.*²⁹

3.3 Approval and Allocation of Financial Resources

In the previous chapters main concepts related to terms audit and Structural Funds, which are essential for this thesis, were introduced. But to describe the audit process itself, it is necessary to explain the procedures of the implementation starting with the announcement of the first call till the financial settlement of the whole OP. Then it is possible to understand when does the audit authority and the audit bodies of the AA enter the implementation process and what is the essence of their work.

3.3.1 Criteria for Allocation

For the purpose of financial aid allocation, the Czech Republic is divided into specific regions. Those are called NUTS (Nomenclature of Territorial Units for Statistics). There are three main groups according to the number of citizens living in each region. The structuring is carried on according to values showed in **Table 1** (in Supplements). The Czech Republic is divided into eight new regions as we can see on the map **Picture 1** (in Supplements). The cohesion regions are North-West, North-East, South-West, Central Bohemia, South-East, Moravia-Silesia, Central Moravia and the capital city of Prague.

The reason for which the new structure was established is that the current regional division of the Czech Republic falls into the category of NUTS III regions, but for drawing financial aid assigned to objectives Convergence and partially Regional Competitiveness and Employment, only NUTS II regions are allowed to apply.

The conditions under which financial resources can be assigned differ according to the individual objective. As described in General Regulation, the requirements are for the:

1) Convergence Objective – the region must correspond to NUTS II level, its GDP per capita measured by the purchasing power parity in 2000 – 2002 must be lower than

²⁹ Council Regulation (EC) No 1083/2006, Article 16

75 % of the average GDP EU-25 per capita in the same period. In the Czech Republic, all regions are in compliance with these conditions except the Capital City Prague.

2) Regional Competitiveness and Employment Objective – NUTS II or NUTS I level regions might apply, the GDP condition is opposite to the one in Convergence objective. That means the GDP per capita must be higher than 75 % of the average GDP EU-25 per capita. In the Czech Republic the region fulfilling these conditions is only the Capital City Prague.

3) European Territorial Cooperation Objective – the cross-boarder NUTS III regions lying along with all the inner and some outer state boundaries. All NUTS regions in the Czech Republic are eligible to apply for financial aid within this objective.

3.3.2 *Administrational Bodies Involved in Allocation of Financial Resources*

When it comes to the organization structure of allocation process, a new authority emerges next to the already presented ones in 3.2.3.

Financial Department is “*an unit within the Chapters of state budget which makes payments to the beneficiaries from the state budget resources, corresponding to the part of national funding and the part designated for pre-funding of those expenses, which are to be covered by resources from the budget of EU.*”³⁰ The specific function of the financial department varies with regards to the operational programme. The situation is slightly different with financial departments for regional OPs and e.g. for OP Cross-border co-operation Czech Republic – Poland.

3.3.3 *Financial Resources from the EU Budget*

The overall resources available for the EU funds in period 2007 – 2013 are EUR 308,041,000,000 at 2004 prices. This amount is indexed at 2 % per year for the purposes of programming. The biggest amount (81,54 %) is allocated to the

³⁰ Author’s translation based on the original version: Metodika finančních toků a kontroly programů spolufinancovaných ze strukturálních fondů, Fondu Soudržnosti a Evropského rybářského fondu na programové období 2007 – 2013, p. 2

Convergence objective. For the objective Regional competitiveness and employment it is 15.95 % and for the European territorial cooperation objective the resources amount 2.52 %.

The amount allocated for the Czech Republic is in total EUR 26.69 billion. The allocation for the individual objectives for the programming period 2007 – 2013 is shown in the *Table 2* in Supplements.³¹

The Member States which do not use Euro as their currency need to convert the amounts “using the the monthly accounting exchange rate of the Commission“.³²

3.3.4 *Financial Flows between the EU and the Czech Republic*

A strategic document for financial management of OPs co-funded from the EU budget is a „Metodika finančních toků a kontroly programů spolufinancovaných ze strukturálních fondů, Fondu soudržnosti a Evropského rybářského fondu na programové období 2007 – 2013“.³³ It is a framing document and it admits adjustments for individual OPs, however this must be approved by the Minister of Finance of the Czech Republic.

The financial flows of resources “shall take the form of pre-financing, interim payments and payment of the final balance.“³⁴ Firstly the Commission sets the maximum amount of financial resources for each programme and for each Structural Fund in a programming period. After the OP is approved, the Commission transfers the pre-payment on the special bank account of the PCA in the Czech Republic. During the course of OPs, the applications for interim payments are accumulated and then sent to

³¹ *Pravidla pro zajištění spolufinancování prostředků EU z národních veřejných zdrojů* [on-line]. [2011-03-11]. Available from: <http://www.mfcr.cz/cps/rde/xbcr/mfcr/III_material_Pravidla_pro_zajisteni_spolufinancovani_pdf.pdf>

³² Council Regulation (EC) No 1083/2006, Article 81 (3)

³³ Author’s translation: Methodology of Financial Flows and Control of Programmes Co-funded from the Structural Funds, Cohesion Fund and European Fisheries Fund in Programming Period 2007 – 2003

³⁴ *ditto*, Article 76 (1)

the Commission three times in a year. *„The cumulative total of pre-financing and interim payments made shall not exceed 95 % of the contribution from the Funds to the operational programme.“*³⁵

The interim payments and the final payment are effected pursuant to the applications supported by the documented certifications. The certification of expenses is a procedure when the PCA is verifying correct use of financial aid within each OP. After the successful certification, the transfer of the resources from the EU budget to the state budget of the Czech Republic takes place.

The financial flows through which the beneficiaries receive the financial support differ. Municipalities, allowance organizations and companies have to undergo different processes. The methods used are for example “flow-through“ grants, a funding principle, a pre-funding principle as well as the principle of the “Lead partner“. For its complexity, the topic will not be further analysed in this thesis.

The General Regulation also sets the limits for co-funding proportion for all Member States. The Czech Republic falls into the category with following condition: the average GDP per capita in the 2001 – 2003 period was lower than the 85 % of the EU-25 average. Fulfilling this condition, the part of the eligible expenditures is 85 % from the ESF and ERDF for the Convergence and Regional competitiveness and employment objectives, and 15 % from the state budget of the Czech Republic. This is a very good condition, because for example France gets 75 % for the Convergence objective and 50 % for the Regional competitiveness and employment objective.

The beneficiaries also have to financially participate on the project. The public procurement ceiling were set according to the type of a subject/beneficiary and also according to the region in which it applies for the grant. The problematics of public procurement had to be regulated since there is a disagreement with the rules for the public contracts, which look at the public procurement as favouritism of chosen subject.

³⁵ Council Regulation (EC) No 1083/2006, Article 79 (1)

Therefore exceptions to the public procurement had to be set up such as de minimis and block exemptions.³⁶

So far the procedures between the EU and the managing authorities were introduced. The next chapter describes the processes running mainly between the applicants and the managing authorities of the OP.

3.3.5 *Allocation Process towards the Beneficiaries*

As explained, the operational programmes frame the whole process. The OPs further consist of priority axes and then support areas. The managing authority announces throughout the year individual calls for proposal of applications (herinafter the “calls“) in compliance with a previously published plan of calls. Along with each call also the Guidelines for applicants and beneficiaries are introduced. If the content changes, the MA publishes an amending guideline. For this all might be happening in quite a short time, the structure can become hard to orientate oneself in. Therefore for example the ROP Central Bohemia discloses information on the guidelines being in force, see **Picture 2** in Supplements.

The author of this thesis decided to illustrate the process with information from a specific call. It is a randomly chosen call No. 56 from the regional operational programme Central Bohemia for the programming period 2007 – 2013.³⁷

In general, the text of the call encompasses information on its thematic focus, the activities supported within the projects and indicators of the activities for examination of the proposal. In the Guideliness we can find the amount of financial resources allocated for the call and also the rules for financing. The call No. 56 is financed by 80 % from the ERDF and by 20 % from the Regional Council budget of the cohesion region Central Bohemia which acts as a recipient and a manager of the support from the Structural Funds.

³⁶ *Pokyny pro žadatele a příjemce pro výzvu č. 56 regionálního operačního programu regionu soudržnosti Střední Čechy*

³⁷ dtto

Next important area to be explained is the eligible expenditures. According to the General Regulation the expenditures “*shall be eligible for a contribution from the Funds if it has actually been paid between the date of submission of the operational programmes to the Commission or from 1 January 2007, whichever is earlier, and 31 December 2015.*”³⁸ Further rules “*shall be laid down at national level*”³⁹ with respect to an individual OP. These rules have been set up and approved by Usnesení vlády ČR ze dne 24. ledna 2007 č. 61.⁴⁰

The projects to be proposed are also defined in terms of time and territorial horizon. In the call No 56, the projects might be realized within the whole are of NUTS II Central Bohemia region and the acceptance of applications is stopped when the amount of incoming applications reaches 150 % of allocated resources for the call. The applications are submitted in electronic form through the web application IS BENEFIT7 and in printed form handed in to the MA of ROP NUTS II Central Bohemia.

When all the applications are gathered together, their evaluation takes place within 20 days after the call is closed. The selection criteria have several phases. In the first part controls of acceptability and control of formal requirements take place. If the applications for grant pass, the second part of evaluation is carried out. Specific criteria for each call are examined and evaluated with a certain amount of points. The maximum of points the project can get is determined in advance. In order to get on in the process, the projects need to get at least 65 %.

The successful projects proceed to the final stage, which is the risk analysis and in some cases also the ex-ante control. The applicants are evaluated concerning the “financial health“. Their rentability, indebtedness and liquidity are investigated in relation to financial statements such as balance sheet and profit and loss account. The

³⁸ Council Regulation (EC) No 1083/2006, Article 56 (1)

³⁹ dtto, Article 56 (4)

⁴⁰ Author’s translation: Government resolution No 61 from the 24 January 2007

Regional Council then publishes the list of projects approved for financing including the allocated amounts and the contracts on provision of a grant are signed.

During implementation of the project, specific requirements are set upon the beneficiaries. For example the beneficiary needs to open a bank account only for the project purposes, there are special conditions for supplier selection etc. When the realization phase is carried out and after finishing the project, progress monitoring takes place.

3.3.6 *Financial Management of the Project*

Payments are sent to the beneficiary during the project implementation based on the simplified application for payment of a grant. It contains appeal for pay-off of the eligible expenditures which need to be supported by tax documents (invoices). The simplified applications might be submitted each three months at the maximum and not more than 85 % of a grant might be paid off. The remaining 15 % are repaid after the project implementation is finished, 60 days after physical realization. If all the applications for payment of a grant are correct, the financial department transfers the financial resources from the Regional Council budget on the beneficiary's account.⁴¹

As noted above in 3.1.2, before the signature of a contract on provision of a grant, during the project implementation or after its ending, the on-spot controls might take place according to the Act No. 320/2001 Coll., on Financial control. There are three kinds of public administration controls: ex-ante, interim and ex-post. Also the external controls might be carried out for example by the Supreme Audit Office of the Czech Republic, Ministry of Finance of the Czech Republic, European Commission, the European Court of Auditors or the European Anti-Fraud Office (OLAF).

Not only controls on various levels, but also audits intervene into the implementation process to verify the effective functioning of management and control system and/or to

⁴¹ Compare to Pokyny pro žadatele a příjemce pro výzvu č. 56 regionálního operačního programu regionu soudržnosti Střední Čechy, p. 56 and following

verify the reported expenditures on a sample of operations (projects). These audits are a subject to a chapter 3.5 of this thesis.

3.4 General Principles of Internal Audit

Just as any specialized occupations have their unique techniques and procedures, also auditors have their regulations and rules which guide execution of their work. These principles are a subject to this chapter.

In 3.1 the difference between the essence of work of auditors focusing on “accounting“ activities and those performing the audits in terms of the internal control system in public administration bodies was explained. Therefore it is not surprising, that also the regulations vary. The auditors performing within the Act No. 93/2009 Coll., on Auditors follow the regulations published by the Chamber of Auditors of the Czech Republic. This authority sets, that the auditors are obliged to work in accordance with the International Standards on Auditing (ISAs) which are issued by the International Auditing and Assurance Standards Board (IAASB). It is one of the standard-setting boards working by the International Federation of Accountants (IFAC).

Next chapter focuses on the regulations which apply on the audit activities in terms of internal control system in public administration bodies.

3.4.1 International Professional Practices Framework

It was already mentioned, that within the institutional system supervising and managing the implementation process, the audit authority is responsible for execution of all audits. It “*shall ensure that the audit work takes account of internationally accepted audit standards.*“⁴²

These Standards are a part of an International Professional Practices Framework (IPPF) published by the Institute of Internal Auditors (IIA), which was established in the USA in 1941. The authority mediating the Standards between the IIA and the Czech Republic

⁴² Council Regulation (EC) No 1083/2006, Article 62 (2)

is the Czech Institute of Internal Auditors (ČIIA). ČIIA has much shorter history, it was established in March 1995 to support the profession of internal audit by providing information and consultations as well as organizing educational seminars.⁴³

*“As a coherent system, a framework facilitates consistent development, interpretation, and application of concepts, methodologies, and techniques useful to a discipline or profession.”*⁴⁴ The IPPF consists of two main parts. The first is called Mandatory Guidance and it is obligatory to all auditors. The second part is called Strongly Recommended Guidance and its purpose is to guide the internal auditors within the effective use of Code of Ethics and of the Standards.

3.4.2 *Mandatory Guidance of the IPPF*

1) Definition of IA: *“Internal auditing is an independent, objective assurance and consulting activity designed to added value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.”*⁴⁵

2) Code of Ethics *“describes the minimum requirements for conducts, and behavioral expectations rather than specific activities”*.⁴⁶ It is divided into two main parts: the Principles and the Rules of Conduct. The purpose of the Rules of Conduct is to better understand the Principles in order to implement them into practice.

There are four main principles to be applied by the internal auditors:⁴⁷

Integrity – *“The integrity of internal auditor establishes trust and thus provides the basis for reliance on their judgement.”*

⁴³ Český institut interních auditorů [online]. [2011-03-02]. What is internal audit?. Available from: <<http://www.interniaudit.cz/en/ciia/>>

⁴⁴ Mezinárodní Rámec profesní praxe interního auditu., p. 10

⁴⁵ dtto., p. 20

⁴⁶ dtto, p. 12

⁴⁷ Mezinárodní Rámec profesní praxe interního auditu, p. 24, 26

Objectivity – “Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. ... Internal auditors are not unduly influenced by their own interests or by others in forming judgements.

Confidentiality – “Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.”

Competency – “Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.”

3) International Standards for the Professional Practice of Internal Auditing (Standards) “provide a framework for performing and promoting internal auditing”.⁴⁸ The Standards consist of: Attribute, Performance and Implementation standards. Also a specific number system holds for better orientation. The Attribute standards set the basic requirements on those performing the internal audit whether it is an organization or an individual. They are ordered by a number in 1xxx format and by a name. The Performance standards describe the character of internal audit services as well as the qualitative measures for assessing the IA’s performance. They are named the same way as the Attribute Standards with one exception, their numerical line is 2xxx. And last but not least, the Implementation standards are an extension of the first two types of standards. They are written right after the text of the standard itself. There are two types of the Implementation standards. They are focused either on assurance (A) or consulting (C) activities. For better explanation, an example of a Standard 2440 – Disseminating Results is presented in **Supplement 1**.⁴⁹

Despite it looks that both fields of auditors’ profession as described above have their specific Standards and thier usage is stricly assigned to this or that branch, the situation is a little bit different. The environments in which an audit is carried out differ a lot. As long as the goal is to deliver the best possible performance, tha auditor might sometimes

⁴⁸ dtto, p. 12

⁴⁹ dtto, pp. 55 - 56

find guidance in other than IIA Standards. Therefore it is set, that when necessary and efficient, the auditors of AA or of the audit bodies might next to the IIA Standards also use the INTOSAI or IFAC standards or other internationally recognized auditing standards.

3.4.3 *Strongly Recommended Guidance of the IPPF*

This guidance is not obligatory, however as flowing from the name, it is highly recommend to perform the audit activities accordingly. As written in the IPPF, the Strongly Recommended Guidance describe “*practices for the effective implementation of The IIA’s Code of Ethics and the International Standards*“.⁵⁰ The Guidance is divided into three subparts: Position Papers, Practice Advisories and Practice Guides. The object of the Practice Advisories is now only the “*methodology and approach for implementing the Code of Ethics and the Standards*“⁵¹, which means, that it has been reduced as compared to the previous version. The omitted part was not deleted for good, but it was put into the two new parts: Practice Guides and Position Papers. The first ones “*allow guidance to be issued at the tools and techniques level, and includes detailed processes and procedures, programs, and step-by-step approaches*“.⁵² The Position Papers help in “*understanding significant governance, risk or control issues*“⁵³ not only the internal auditors, but also the wider audience not directly familiar with this concept.

3.5 Methodology of Internal Audit of Structural Funds

This chapter is the main part of the bachelor thesis. Firstly it describes the regulatory framework under which the audits are carried out and the hierarchy of authorities involved. Also the planning process of an OP is introduced along with the obligatory documents. Then the common methodology for the assessment is introduced and finally the individual procedures of both types of audits being performed within the audit

⁵⁰ Mezinárodní Rámec profesní praxe interního auditu, p. 10

⁵¹ dtto, p. 14

⁵² dtto, p. 14

⁵³ dtto, p. 12

system of an operational programme. That means the systems audits and audits of operations.

3.5.1 *Legal Framework and Applicable Regulations*

There are several types of regulations which serve as a guide when carrying out the audits. The first group consists of the internationally recognized practice, e.g. the ethical norms and standards, which were a subject to the previous chapter. The second group could be named as directly applicable legislation issued either by the European Communities (EC) or by the Member State. Two regulations are essentially important: the Council Regulation (EC) No 1083/2006 and Commission Regulation (EC) No 1828/2006, both previously mentioned in the thesis.

In compliance with the supremacy principle, the national legislation participates in regulating the implementation of the Structural Funds. Among these belongs mainly the Act on Financial Control, already mentioned and the Act No. 552/1991 Coll., on State Control, as amended.

The final type is the methodological instructions. Based on the Article 103 of the General Regulation, a Coordination Committee of the Funds (COCOF) was established. Among many documents they published regarding the implementation of the regulations dealing with the Structural Funds, the COCOF 08/0019/00-EN is crucial. It describes the methodology for the assessment of management and control systems in programming period 2007 – 2013 not only on the EU level, but also on the national level. Whilst this is a key document concerning systems audits, the audits of operations follow the procedures stated in COCOF 08/0021/02-EN called the Guidance note on sampling methods for audit authorities.

In the Czech Republic, the guiding document is the *Manuál pro audit řídicích a kontrolních systémů operačních programů*.⁵⁴ Together with its supplements, especially the second supplement called *Odborný průvodce procesy auditu systémů a auditu*

⁵⁴ Author's translation: Manual for Audit of Management and Control Systems of Operating Programs, hereinafter the "Manual"

operaci⁵⁵, it provides a framework for carrying out the systems audits as well as the audits of operations.

3.5.2 *Authorities Involved in Audit and Control Systems*

It is necessary to ensure that the EU budget and the national co-financing, their inflows and outflows and the management function correctly. This task falls mainly within the competence of the European Court of Auditors. It acts as an external and independent auditor when verifying the systems as well as the EU budget outflows, not only in the European Commission's departments, but also in Member States. The European Commission participates in the responsibility for the EU budget, therefore it needs to satisfy itself that the management and control systems in each Member State operate in an effective and correct way according to the Article 72 of a General Regulation.

It performs the compliance audits either on its own behalf or with help of the external supplier of audit services. These authorities test the management and control systems within OPs of a Member States. Authorities being tested are the audit authorities, paying and certifying authorities and the managing authorities as well as their intermediate bodies. In the end, the European Commission decides whether it either can rely on the opinion issued by the audit authority concerning the functioning of the systems and correctness of the statements of expenditures, or whether it carries out its own audits for the management and control systems are insufficient.

In the Czech Republic the responsibility of an AA for providing all audits within each OP was laid on the Ministry of Finance of the Czech Republic. The hierarchy of supervision and control processes is as follows: the primary control system is carried out by the MAs and the PCA. To supervise these controls, the audit bodies perform audits as a part of a secondary audit system. The audit bodies are in the organizational structure of the MA and they account for their work directly to the Minister or to the chairman of the Regional Council and to the director of the AA. The audit authority leads them methodically and is also responsible for their work. And above all, the central

⁵⁵ Author's translation: Specialized Guide on Processes of Systems Audits and Audits of Operations

audit system is carried out by the AA. It contains the audits of primary control system, of a secondary audit system and also audits of operations. A graphical illustration of this system is in **Table 4** in Supplements.

3.5.3 *Planning of Audits*

Planning activities are very important for managerial functions, for our everyday life, and it cannot be thought apart from the audit system. According to the Manual, there are four main types of planning documents: audit strategy, medium-term plan (for three-year period), annual audit plan and sample for audits of operations.

The most important one, the audit strategy, which is worked out by the AA, needs to be presented to the European Commission after the approval of the OP. The audit strategy should be “*covering the bodies which will perform the audits, ..., the method to be used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period.*”⁵⁶ Also the financial resources and personnel needed to be estimated based on the current quality of management and control systems and written in the audit strategy. When there is a common management and control system of OPs, a single audit strategy might be used. If the Commission doesn’t come up with any remarks within three months, the audit strategy stands as accepted. It must be revised minimally once a year and approved by the Minister of finance. The medium-term plans and annual audit plans are based on the audit strategy.

3.5.4 *Risk Assessment*

To ensure verifying of all activities of operational programmes and their priority axes from the beginning of the programming period, a part of an audit strategy and of audit plans is also a risk assessment and an evaluation of pre-defined key requirements for each subject of the implementation structure of each OP.

As stated in the Manual, an audit risk model is formed for two reasons: to give a reasonable assurance about functionality of management and control systems of OP and

⁵⁶ Council Regulation (EC) No 1083/2006, Article 62 (1) (c)

to carry out efficient audits. Using the information from the audit risk model, the AA and the audit bodies can better focus on more risky areas.

The audit risk (AR) is in a Manual defined as a risk, that auditor either issues an opinion without reservations, even though the statement of expenditures contains important irregularities, or on the contrary, that auditor issues an opinion with reservations or a negative opinion, even though there are no important irregularities.

The audit risk is composed of three parts: the inherent risk (IR), the control risk (CR) and the detection risk (DR). The individual categories see described below. The audit risk is then computed with help of a following equation:

$$AR = IR \times CR \times DR.^{57}$$

Important is a reverse relationship between the audit risk and the audit assurance. Therefore:

$$\text{Audit Assurance} = 1 - AR.^{58}$$

a) The inherent risk (IR) rises from the substance of the environment. It is influenced by the external factors, e.g. economic, political and cultural, as well as by the internal factors such as the type of the organization and the qualification of employees. The technique used to evaluate the inherent risk is basically information gathering without further analysis. The purpose is to gain as much information as possible about the particular OP, about the organizational structure of the organization/entity being audited and also about the control procedures. This all should help to understand the audite area before the systems audit starts. The outcome of this is the summary of inherent risks where the probability of occurrence is the highest and where there is the biggest possible impact on the aims of the OP.

⁵⁷ Manuál pro audit řídicích a kontrolních systémů operačních programů spolufinancovaných v programovém období let 2007 – 2013, p. 83

⁵⁸ dtto, p. 84

According to the Manual, with the Structural Funds, the inherent risk is set to the highest possible level, which means 100 %. It implies a higher professional scepticism when planning and carrying out the audits. It is all because there is a fraud risk from the management's side. In other words, it is assumed, that irregularities are caused by deliberate faults and deceptions. The management of the OP is responsible for regulation of the inherent risk, not the auditor.

b) The control risk (CR) depends on the functionality of the control mechanisms. The auditor identifies the level of risk, that the significant irregularities in the statement of expenditures will not be avoided, identified and corrected by the management and control systems. The auditor needs to consider, whether the faults or deceptions might occur, how it might happen and then tests if the control procedures are able to prevent these irregularities from happening.

This assessment whether on the level of operational programme or within a specific systems audit is carried out according to the same framework. It is because the European authorities wanted to ensure a unified approach to this assessment and for that purpose the Guidance on a common methodology for the assessment of management and control systems in the Member States was published. As results from its title, this guidance applies only to the systems audits, not on the audits of operations. The method of key requirements assessment is used by the European control and audit bodies (European Commission, European Court of Auditors – see part 3.5.2) as well as by national audit authorities and audit bodies when performing the systems audits. Therefore explanation of this approach is placed to the part 3.5.5 where the performance of systems audits is described.

c) The detection risk (DR) corresponds to a risk that auditor will not detect an important fault which exists in the statement. We distinguish two basic types of detection risk: a selective risk and a non-selective risk. The selective risk can be further divided having regard to the type of audit being performed, either the systems audits or the audits of operations.

The selective risk within the systems audits has two aspects: the control risk is either set too high or too low. In both cases it stems from the fact, that auditor did not verify 100 % of all operations or transactions, but only a sample. If the CR is set too high, it leads to uneconomical behaviour, more audits are carried out than it is necessary. In the second case, if the control risk is set too low, the auditor finds the management and control systems reliable and therefore plans smaller number of audits of operations. This behaviour leads to ineffective audits. But in reality, auditors should not rely that much on the systems and should perform more audits.

The selective risk with the audits of operations can also take two possible forms: we distinguish the risk of incorrect rejection and the risk of incorrect acceptance. The risk of incorrect acceptance *“is the risk that the sample supports the conclusion that the recorded account balance is not materially misstated when it is materially misstated.”*⁵⁹ The risk of incorrect rejection works the other way round and in such a case, auditor might suggest pointless recommendation which implies more audits, and therefore it rises the costs.

The non-selective risk comprises all aspects of audit risk which are not caused by sampling. In general, these are human errors such as a choice of an improper audit procedure. As stated in the Manual, to minimize the non-selective detection risk, precise planning, managing, controlling and monitoring of audit activity is necessary.

These two types of audit are closely related to each other. The results of systems audits directly influence the sample size for the audits of operations. And moreover, the audits of operations confirm or disprove the results of functioning of the management and control systems. To see how this theory works in practice, a simple example is given. According to the Implementing Regulation, the reasonable assurance in the audit opinion to be reached corresponds to 95 % level of assurance combined both from the systems audits and the audits of operations. That implies 5 % audit risk and the inherent

⁵⁹ HITZIG, Neal B. Statistical Sampling Revisited. *The CPA Journal Online* [online]. May 2004, Vol. 74, 5, [cit. 2011-03-14]. Available from: <<http://www.nysscpa.org/cpajournal/2004/504/essentials/p30.htm>>

risk is set on 100 % with the Structural Funds. We can use the numbers to form the equation $IA = IR \times CR \times DR$. If the control risk is high, let's say 50 %, the auditor can afford to set the detection risk at 10 % in order to fulfil the audit risk level: $0,05 = 1 * 0,5 * 0,1$. To ensure low detection risk, the amount of testing as well as the sample size need to be increased. On the other hand if the control risk is low, let's say 12,5 %, the formula allows the detection risk to be at 40 %. This means than auditor can dare to audit a smaller sample size and the costs will decrease.⁶⁰

When the important concepts such as risk assessment and plans of audit were explained, the procedures of systems audits as well as of audits of operations are introduced.

3.5.5 *Systems Audits*

According to the General Regulation, the audit authority is “*ensuring that audits are carried out to verify the effective functioning of the management and control system of the operational programme.*”⁶¹ There are many types of systems which are tested, e.g. systems ensuring the correctness of expenditures within the OP, a reliable accounting, monitoring and financial reporting systems in electronic form, systems ensuring flow of information and monitoring when intermediate bodies are implemented, and systems and procedures ensuring adequate audit trail.⁶²

The systems audits generally proceed in three phases: 1) the audit preparation, 2) the on-the-spot work and 3) the audit completion.

1) When preparing the audit, at first it is necessary to set its goal coming out of e.g. the audit strategy or individual requirements of the authorities. Based on the goal, the group

⁶⁰ Compare to COCOF 08/0021/02-EN. Guidance note on sampling for audit authorities (under Article 62 of Regulation (EC) No 1083/2006 and Article 16 of Commission Regulation No 1828/2006), p. 8

⁶¹ Council Regulation (EC) No 1083/2006, Article 62 (1) (a)

⁶² Audit trail is “a paper or electronic trail that gives a step by step documented history of a transaction. It enables an examiner to trace the financial data from general ledger to the source document.” Business Dictionary [online]. [cit. 2011-03-20]. Audit trail. Available from: <<http://www.businessdictionary.com/definition/audit-trail.html>>

of auditors defines a realistic extent of audit. The goal and the defined extent are finally described in a document called an audit assignment. It is also important to determine an audited entity within an organization or an authority, which is responsible for the audited activity. The audited entity might be e.g. an employee and he/she is a very important source of information when describing the systems and processes as well as when communicating the continuous results.

These activities are followed by the pre-audit. Its task is to gather as many pieces of information as possible. It focuses on identification and deep understanding of main processes running within the audited entity. Once this is done, it is possible to specify the purpose, goals as well as general characteristics of the process. Along with that also identification of risks and control mechanism is possible. It is useful to describe the process with its attributes, either graphically using flowcharts, or verbally.

After the pre-audit, usually a risk assessment is carried out in order to plan the particular audits. An outcome of an assessment should be an audit risk model. Firstly the group of auditors decides upon which of the most significant risks are suitable for auditing and it also considers its capacity possibilities. Based on that, areas and processes to be audited are defined in a work programme. In this document also audit techniques to be used are mentioned. Also an audit schedule is worked out which includes the time schedule of individual steps. It is proper to consult the audit schedule and work programme with the audited entity.

The audit preparation phase is finished by audit announcement. It includes not only time schedule, the goal of audit and the way of communication during the audit activity, but also a documentation and data requirements.

2) The on-the-spot work begins with an initial meeting. The group of auditors makes sure, that all employees of the audited entity are familiar with the goal, techniques and schedule of audit work. After the initial meeting, the audit work itself can be started. The auditors test the functioning of the systems.

The auditors combine two approaches when performing the audits: they use the risk analysis as well as the key requirements assessment. Within the risk analysis, the auditors define the main procedures and their goals within the subpart of a management and control system along with their main risks. Then the auditors look at the control mechanisms which are implemented to eliminate or minimize the risk and test them in adequacy and efficiency. This represents the “variable” part of audit work which is adjusted according to the particular system. However there is also a “non-variable” set of key requirements which need to be assessed in any case.

The audit authorities within each Member State are advised to apply the same method when evaluating the managing and certifying authorities and their intermediate bodies *“to ensure harmonisation of audit results and so that auditors in different parts of the control chain can rely on each other’s work”*.⁶³

The assessment is carried out according to 15 key requirements and 50 assessment criteria for each key requirement. These are divided based on the authorities as follows:

- Managing authority and any intermediate bodies – 7 key requirements
- Certifying authority and any intermediate bodies – 4 key requirements

There are four categories used for the assessment of the key requirements as well as of the authorities as a whole. These are as following:⁶⁴

- Category 1 Works well; only minor improvements needed.
- Category 2 Works, but some improvements are needed.
- Category 3 Works partially; substantial improvements are needed.
- Category 4 Essentially does not work.

The first step is the assessment of criteria for each key requirement using the abovementioned categories. There is a description of minimum requirements for each criterion to help the auditors. In the second step, the results of assessment criteria are

⁶³ COCOF 08/0019/01-EN. Guidance on a common methodology for the assessment of management and control systems in the Member States (2007 - 2013 programming period), p. 1

⁶⁴ dtto, p. 4

used to evaluate the key requirement as a whole. There are a few rules described to be followed, but auditor's professional judgement and information gained from examining the system play also an important role. The evaluation is recorded in a table which provides a transparent summary. In the third step, the assessment of key requirements by authority is done.

The methods used to examine the management and control mechanisms are e.g. analysis of management and other documentation, interviews, observation as well as the walk-through test on a chosen sample (observation of the system at work from the very beginning until the last process, purpose is to confirm that the management and control processes work as demanded), the compliance test (auditor verifies, that the management and control mechanisms work effectively and according to the plan), the objective accuracy test (predicates about the completeness and validity of information) and the repetitive test (the auditor checks whether he/she comes to the same result as provided by the primary management and control mechanisms). The tests are carried out only with a sample of operations.

All these techniques and tests provide data which form basis for formulating preliminary findings and recommendations. The last step of the on-the-spot work is a final meeting. Its purpose to inform all parties concerned about the preliminary findings.

3) The audit completion includes at first writing of an audit report. Its first draft is based on the audit conclusions and sent to the head of an audited entity and its other employees and entities involved. They all have an opportunity to express their remarks and comments. The auditors discuss the comments with their authors and formulate the final audit report. That is sent to the head of an audited entity. The form of an audit report is referred to in part 3.6.1 of this thesis. According to the second supplement of the Manual, to consider the audit work as finished, four steps need to be done: a presentation of the audit report to the audited entity according to the Section 13a of the Act on Financial Control, a presentation of the audit report to the third parties, a submission of the corrective actions into the database and an archiving of the audit

documentation. The audit documentation should be transparent enough to enable another auditor to come to the same results.

3.5.6 Audits of Operations

Along with the systems audits, the audit authority is according to the General Regulation also responsible for “ensuring that audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared”.⁶⁵ The Implementing Regulation imposes that the audits should be performed each 12 months starting on 1 July, 2008. Important here is a concept of an operation which is defined as “a project or group of projects selected by the managing authority of the operational programme ... according to criteria ... implemented by one or more beneficiaries allowing achievement of the goals of the priority axis to which it relates”.⁶⁶

The procedures within the audit of operations could be also described in three basic steps: a) selecting the sample of operations, b) carrying on the audit and finally c) audit’s results evaluation.

a) Once the goals of audit are set, the auditors approach to the selection of the sample. The size of the sample to be used for so called substantive tests is directly affected by three parameters: the confidence level, the variability of the population and the acceptable error set by the auditor.

The confidence level is “determined according to the assurance level obtained from the system audit”.⁶⁷ This implies, that if the assurance level is high, this means reaching Category 1 (see 3.5.4), not less than 60 % of the population should be audited. If the assurance level is average, it corresponds to Categories 2 and 3, the percentage of the population is not set, but it can be estimated from the third possibility, when the assurance level is low, it means that the system is evaluated by Category 4, not less than

⁶⁵ Council Regulation (EC) No 1083/2006, Article 62 (1) (b)

⁶⁶ dtto, Article 2 (3)

⁶⁷ COCOF 08/0021/02-EN. Guidance note on sampling for audit authorities (under Article 62 of Regulation (EC) No 1083/2006 and Article 16 of Commission Regulation No 1828/2006), p. 11

90 % of the population should be audited. The sample size is also indirectly affected by the population size itself, whereas *“the size of the corresponding sample increases with larger populations, but at a decreasing rate“*.⁶⁸

The acceptable error corresponds to the maximum materiality level. The level is set flat on 2 % and it is *“applicable to the expenditure declared to the Commission in the reference year.“*⁶⁹ The declared expenditures also serve as a background when we speak about the population from which we are to select a sample.

There are several audit sampling method among which an auditor has to choose according to specified criteria. These methods are classified into statistical, non-statistical and specific. We further choose among two statistical methods: the Monetary unit sampling (therein after the “MUS“) method and the Difference estimation method. The basic criteria for their application are stated below.

MUS is a statistical method used when the variability is high and the population consists of more than +/- 800 operations. Its main advantages are the implied stratification, small sample size and focus on larger items, but on the other hands the disadvantages can be it assumes only low error rate and it neglects smaller items.⁷⁰

Difference estimation is also a statistical method used when the variability is low and the population size includes +/- 800 operations. Among its advantages belongs easy extension of the sample if necessary, on the other hand the disadvantages are a higher sample size and the sampling is more complicated than with the MUS method.⁷¹

⁶⁸ COCOF 08/0021/02-EN. Guidance note on sampling for audit authorities (under Article 62 of Regulation (EC) No 1083/2006 and Article 16 of Commission Regulation No 1828/2006), p. 12

⁶⁹ dtto, p. 18

⁷⁰ Compare to COCOF 08/0021/02-EN. Guidance note on sampling for audit authorities (under Article 62 of Regulation (EC) No 1083/2006 and Article 16 of Commission Regulation No 1828/2006), p. 30

⁷¹ Compare to Odborný průvodce procesy auditu systémů a auditu operací: Dodatek č. 2 k Manuálu pro audit řídicích a kontrolních systémů operačních programů spolufinancovaných v programovém období let 2007 až 2013, p. 74

Non-statistical method suggests that the population has less than 800 operations, but still in a place value of hundreds.

Special method is used when the population consists only of tens of operations. The sampling method is in this case not specifically described, but general principles for sample selection need to be obeyed as stated in the second supplement to the Manual.

b) When the sample is selected, its audit can be started. It is carried out according to the Section 13a of the Act on Financial Control. Firstly takes place the preparation of audit in a form of a desk review. Its task is to analyse the available documentation to the project as well as e.g. information about previously performed audits. This analysis serves as a basis for the audit plan. This plan, similarly as a plan for the systems audits includes the goal, techniques and dates of the audit as well as the names of the auditors.

The purpose of the audits of operations are defined in the Implementing Regulation. The audits verify that the following requirements are met:⁷² *“the operation meets the selection criteria for the operational programme, has been implemented in accordance with the approval decision and fulfils any applicable conditions concerning its functionality and use or the objectives to be attained“, “the expenditure declared corresponds to the accounting records and supporting documents held by the beneficiary“, “the expenditure declared by the beneficiary is in compliance with Community and national rules“ and “the public contribution has been paid to the beneficiary in accordance with Article 80 of Regulation (EC) No 1083/2006“.*

To reach reliable results, the auditors must not follow only the pre-set checklists with questions and areas to be verified, but they also need to take into account e.g. who is the beneficiary, type of the project, amount of financial aid etc. The auditor uses various techniques to verify the abovementioned requirements, such as analyses and

⁷² Commission Regulation (EC) No 1828/2006, Article 16 (2)

calculations, comparison, physical observation, interviews and inspections.⁷³ Once the auditing of the sample of operations is finished, the final step is, as in case of systems audits, to write an audit report (further described in 3.6.2). However, submitting the audit report must not be a final step if any irregularity is suspected. The subject of irregularities is further expanded in part 3.7.

c) So far we worked only with the selected sample, but it is necessary to evaluate the whole population. Therefore the auditors of the AA in co-operation with the audit bodies extrapolate the results based on the sample of operations on the whole population. The methods used for the extrapolation vary according to the sampling method and hence they will not be described in detail.

The final step is evaluating the compliance with the requirements by issuing an opinion. The auditor can issue either a unqualified opinion, which means a positive result. The auditor can express dissatisfaction by issuing a qualified opinion, where only minor deficiencies were detected, or even an adverse opinion meaning a negative result. The auditor might also decide to issue a disclaimer of opinion when he/she draws a conclusion that he/she “*has not completed an examination, or the examination is not broad enough in scope to enable to form an opinion*“.⁷⁴ Specific reasons for publishing this or that opinion depend on the particular sampling method used.

3.6 Definition and Meaning of Audit’s Conclusion

3.6.1 Conclusion of Systems Audits

As already explained, an important document to bit is written at the end of each audit is an audit report. It should be brief, objective and concise as well as constructive with achievable solutions. The report should also be on a high formal and design level. It

⁷³ Compare to Odborný průvodce procesy auditu systémů a auditu operací: Dodatek č. 2 k Manuálu pro audit řídicích a kontrolních systémů operačních programů spolufinancovaných v programovém období let 2007 až 2013, p. 94

⁷⁴ *Business Dictionary* [online]. [2011-03-23]. Auditor's disclaimer of opinion. Available from: <<http://www.businessdictionary.com/definition/auditor-s-disclaimer-of-opinion.html>>

should follow a pre-planned content form which is given as follows. It should consist of three main parts which differ from those we know e.g. from a seminar paper. The first part is the summary. Usually it is tailed off, but in this case its purpose is to attract readers to pay attention also to the detailed report. The Summary includes very brief description of audit description along with its goals, the overall opinion on the audited subject – auditor’s statement, and also key problems, the most important findings and main recommendations.

The second part of the audit report is a body of the report and it contains the goals of audit, content of audit report, process of audit and members of the audit group. Also information necessary to understand the audited area and their sources. Very important part are the findings and recommendations. The findings must be based on trustworthy facts and it should also contain evidence and description of a method used to prove the statement. The findings should be rated according to their significance as of high, medium or low materiality. Whereas the least significant have no or small impact on functioning of the system, the most significant is of a systemic character and might lead to irregularities. The audit recommendations suggest steps to be taken in order to minimize or remove the identified risk. Also a person responsible for realization of the recommendation needs to be appointed.

The third part of the audit reports corresponds to the supplements. These include detailed description of analyses, the audit risk map, the audit assignment and most importantly the action plan. This document takes the form of a table including recommendations, its priority and decision whether it was accepted or not. If it was accepted, there is also the deadline for its fulfillment and the person responsible.

The audit report is presented to the audit authority through the information system ISAO and the audit authority supervises the quality of such audits as well as fulfillment of the action plan.

3.6.2 *Conclusion of Audit of Operations*

As stated in the Act on Financial Control, the audit activity is officially considered as finished once the audit report is handed in to the head of the public service body who was in charge of the audit performance. The structure of the report in case of the audits of operations is very similar to the report written for the systems audits. The draft of report comprises the summary at the first place, then description of audit activities, operations and expenditures as well as the audit result together with findings and financial formulation of irregularities detected. The audited entity is entitled to take a standpoint to the findings and eventually have remarks on it. If there are any remarks, they need to be worked in to produce a final audit report.

3.6.3 *Annual Control Report*

There are two summarizing documents which have to be submitted to the European Commission after a 12 month-period separately for each operational programme. The first document is the annual control report which is based on the results of systems audits and the audits of operations. The second one is the annual opinion which issues the head of the audit authority in order to issue an overall opinion on the whole operational programme. The opinion might be either qualified, unqualified or a negative result.⁷⁵

3.7 Detection of Irregularities and Penalties

Whether on purpose or unconsciously, any of entities and bodies involved in the implementation process might fall into a mistake. Understandably these need to be detected, examined and corrected.

The irregularity is in terms of General Regulation defined as “*any infringement of a provision of Community law resulting from an act or omission by an economic operator which has, or would have, the effect of prejudicing the general budget of the European Union by charging an unjustified item of expenditure to the general budget.*”⁷⁶

⁷⁵ Compare to Council Regulation (EC) No 1083/2006, Article 62 (1) (d)

⁷⁶ Council Regulation (EC) No 1083/2006, Article 2 (7)

We distinguish basically between three types of irregularities. They might be either categorized as breaches of budgetary discipline, as systemic irregularities or as other irregularities. All types might occur within a single operation just as within the whole operational programme and they might also occur within any entity involved in the implementation process (beneficiaries, managing authority, certifying authority, audit authority and their intermediate bodies). The way of its handling depends not only on the entity by which it occurred and on the type of irregularity, but also on how significant it is and in which phase of the allocation process it is discovered.

Arising from the above mentioned, the detailed process of solving the irregularities differs, but the framework is just about the same.⁷⁷ As set in the General Regulation, the Member States are in charge of “*preventing, detecting and correcting irregularities and recovering amounts unduly paid together with interest on late payments where appropriate. They shall notify these to the Commission and keep the Commission informed of the progress of administrative and legal proceedings*“.⁷⁸

For the prevention is primarily responsible the MA of an operational programme. During their primary controls also most of the irregularities should be detected and corrected. The PCA might also detect remaining irregularities when carrying out its control activities for the certification purposes.

If the prevention is not effective and the irregularity is detected, the next step to be undertaken is information of responsible subjects and solution of the irregularity, or more precisely the suspect of irregularity. The following process described serves as an example and corresponds to solution of irregularities within beneficiaries.

In this case, the MA is fully responsible for the solution. It initiates a procedure in accordance to the Act on Financial Control either itself, or it passes the case on a particular control body. It can be either the territorial financial authorities, the Supreme

⁷⁷ Compare to Metodický pokyn – Nesrovnalosti, pp. 29 - 30

⁷⁸ Council Regulation (EC) No 1083/2006, Article 70 (b)

audit office, the Office for the Protection of Competition, the Police of the Czech Republic etc. The deficiency is handled as a suspect of irregularity until a legitimate decision is given.

In general, next step is to registration and reporting of all irregularities/suspects of irregularities. The Member States send to the European Commission a regular quarterly report on irregularities. A subject to this report are all primary administrative or judicial findings defined as *“a first written assessment by a competent authority, either administrative or judicial, concluding on the basis of specific facts that an irregularity has been committed, without prejudice to the possibility that this conclusion may subsequently have to be revised or withdrawn as a result of developments in the course of the administrative or judicial procedure”*.⁷⁹

The reporting structure can be divided into internal and external. Entities belonging to the internal part are all entities on the national level, it means all bodies involved in the implementation process up to the AFCOS contact points. These contact points were established based on the Article 280 of the EC Treaty which sets that *“the Member States shall coordinate their action aimed at protecting the financial interests of the Community against fraud. To this end they shall organise, together with the Commission, close and regular cooperation between the competent authorities.”*⁸⁰ The AFCOS contact points act as a co-ordinator of the internal and external reporting scheme. Their main task is to ensure reporting on the national level and communicate it with the external part of the whole structure. The external part is represented by OLAF (Office Européen de Lutte Anti-Fraude, or European Anti-Fraud Office).

On the external level, all irregularities which are not subject to the exceptions from reporting are announced. On the other hand, in the internal reporting, all irregularities

⁷⁹ Commission Regulation (EC) No 1828/2006, Article 27 (b)

⁸⁰ Consolidated versions of the Treaty on European Union and of the Treaty Establishing the European Community, Article 280 (3) of the Treaty Establishing the European Community

are recorded, even those being subject to the exceptions (see below). That is because the information are designated for the PCA who needs to have overall information.⁸¹

Exceptions from the reporting duty exist and they set that in cases “*where the irregularity consists solely in the failure to execute ... owing to the bankruptcy of the beneficiary*“, “*brought to the attention of the managing authority or certifying authority voluntarily ... whether before or after the payment of the public contribution*“ and in cases where irregularities are “*detected and corrected ... before any payment to the beneficiary*“.⁸² Also a financial limit for reporting is set “*where the irregularities relate to amounts of less than EUR 10 000*“.⁸³ It is important to bear in mind, that the exception from reporting holds only in case of unintentional activity, the suspected fraud is always a subject to reporting.

Concerning the financial respect, to prevent from any pecuniary loss, the PCA has the right to suspend the payments and certification on a project, priority axis or a whole operational programme, where an irregularity/suspect of irregularity was detected. The recovery of unduly used or suspended financial resources depends on the irregularity type.

The financial corrections carried out by the PCA are of three types. If the financial resources were not yet paid from the EU budget to the Chapters of the state budget, which provided the prefinancing, the expenditure will not be part of a application for total payment. If the resources were already paid to the Chapter of the state budget, but not yet certified, the amount of resources will be cleared against next applications for payment. And thirdly, if the certification process was already completed, the PCA decreases the amount of next statement of expenditures by the amount in question.⁸⁴

⁸¹ Compare to Metodický pokyn – Nesrovnalosti, p. 48

⁸² Commission Regulation (EC) No 1828/2006, Article 28 (2)

⁸³ dtto, Article 36 (1)

⁸⁴ Compare to Metodika finančních toků a kontroly programů spolufinancovaných ze strukturálních fondů, Fondu Soudržnosti a Evropského rybářského fondu na programové období 2007 – 2013, pp. 44-45

4 Conclusion

Goals of this bachelor thesis were to map the problematics of internal audit within the Structural Funds of the European Union. Initially it was explained that this type of audit is a part of an internal control system in the public administration bodies and therefore is regulated by the Act on Financial Control in contrast to the audits carried out for the “accounting” purposes. Next part was focused on topic of Structural Funds. Their legal regulatory framework was introduced and important terms, such as operational programme, Structural Fund, European Regional Development Fund and others were explained. The three main objectives for the programming period 2007 – 2013 within the economic and social cohesion policy were described. The chapter also treated on the new institutional system which was established in the Czech Republic by introducing its main authorities. The last part of this chapter was devoted to requirements and horizontal topics to be complied with such as additionality, sustainable development, equality between men and women and the non-discrimination.

The third chapter takes down the process of approval and allocation of financial resources from the Structural Funds. It was found out that a new territorial division had to be established in the Czech Republic, so called NUTS regions, in order to fulfill requirements for allocating the financial aid within individual objectives. The author described the financial aspect when introducing pre-financing, interim payments and payment of the final balance. The description of the allocation process was divided into two parts – financing on the EU level and on the national level which discussed the procedures to be undertaken by beneficiaries with the view of receiving the financial aid. Before explaining the core of the thesis, the author also included a chapter on the regulations of audit profession. The Standards and other guidance materials within the International Professional Practices Framework were introduced. The Czech Institute of Internal Auditors was mentioned as an authority supporting the internal auditors in the Czech Republic.

The main chapter dealing with the internal audit of the Structural Funds defined two types of audits carried out: systems audits and audits of operations. The hierarchy of entities participating on their performing on both EU and national level was introduced.

Also the audit strategy was described as a key document when planning the audits. As an important method used to analyse the systems was mentioned the risk assessment. An audit risk model is created to define the most consequential risks. Later on, it helps the auditors with selecting the areas of the system to which a greater attention should be paid. The audit risk evaluation was defined as a product of three risks: inherent, control and detection. Moreover the unified approach for evaluating the systems audits is introduced. The method based on the assessment of key requirements and assessment criteria is used.

The purpose of the systems audits was explained as verification that the management and control systems function effectively. These audits proceed generally in three steps: the preparation and planning, the on-the-spot controls when the systems are tested and final part where the audit report is written. The auditor's conclusion together with recommendations on how to improve the functioning of the systems is mentioned there. The audits of operations are among others carried out to verify the declared expenditures. The audit work starts with selecting the sample of operations with help of a relevant statistical or non-statistical method. It continues with performing the audits using prepared checklists. Methods such as physical observation, analysis, calculations and interviews are employed. All findings are also listed in the audit report. After finishing the audit the extrapolation of its results on the whole population is necessary as well as issuing an opinion.

The topic of irregularities was also included as long as everything does not always have to go according to the plan. In this chapter, the irregularity was defined as well as the authorities responsible for their settlement. The reporting duty was described along with its external and internal structure and exceptions. The three steps of financial corrections made in order to correct the deficiencies form the final part of the thesis.

The topic was worked out from many different aspects all forming a comprehensive overview of the problematics of internal audit of Structural Funds, a topic to be still up-to-date in few years time.

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6 Supplements

A. Supplements

Supplement 1

Standard 2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated.

2440.A1 – The Chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

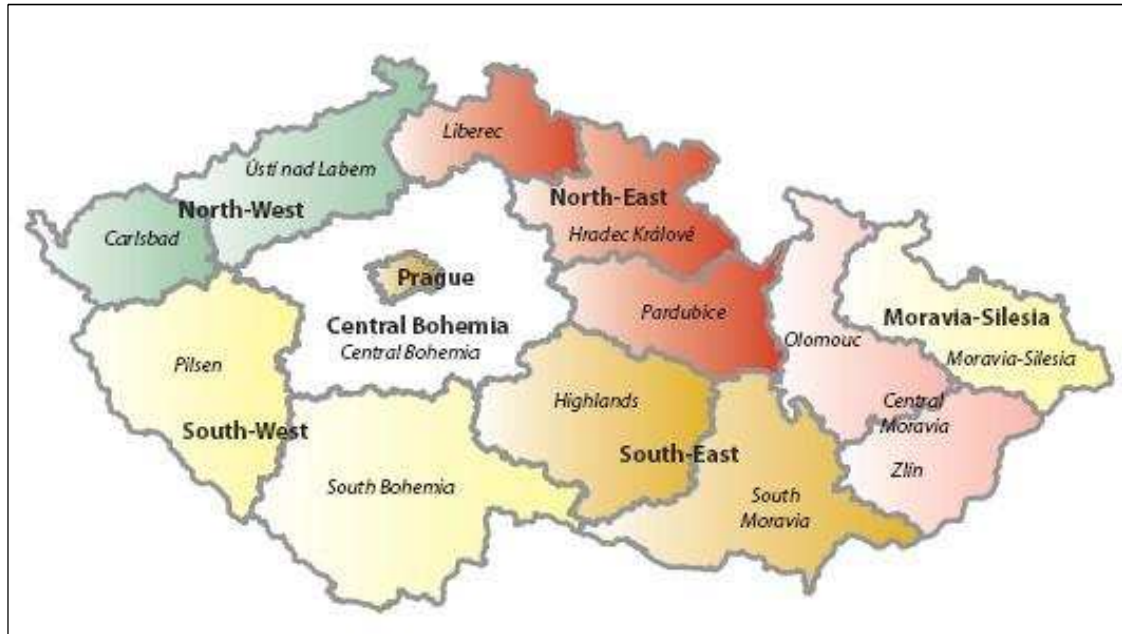
- Assess the potential risk to the organization;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

B. Supplements - Pictures

Pict 1 NUTS II Regions in the Czech Republic



Picture 2 Guidelines in Force for Individual Calls

Platnost metodických pokynů pro danou výzvu	
Č. výzvy/PPŽP	Vydané metodické pokyny upravující dokumentaci k výzvě*
1	3, 4, 5, 7, 10, 12, 14, 15, 16, 18(D1), 19, 20, 23, 25, 26, 30, 31, 32
2	5, 7, 10, 12, 14, 15, 16, 18(D1), 19, 20, 23, 25, 26, 30, 31, 32
3 - 6	5, 7, 10, 12, 14, 15, 16, 18(D1), 19, 20, 23, 25, 26, 30, 31, 32
7	7, 10, 12, 14, 15, 16, 18(D1), 19, 20, 23, 25, 26, 30, 31, 32
8	8, 18(D1), 19, 20, 23, 25, 26, 30, 31, 32
9 - 18	10, 11, 12, 14, 15, 16, 18(D1), 19, 20, 23, 25, 26, 30, 31, 32
19 - 20	12, 14, 15, 16, 18(D1), 19, 20, 23, 25, 26, 30, 31, 32
21	13, 14, 18(D1), 19, 20, 23, 25, 26, 30, 31, 32
22 - 26	12, 14, 15, 16, 18(D1), 19, 20, 23, 25, 26, 30, 31, 32
27, 30, 31, 33	18(D1), 19, 20, 21, 22, 23, 25, 26, 27(D1), 28, 30, 31, 32
28, 29, 32	18(D1), 19, 20, 21, 22, 23, 25, 26, 27(D1), 28, 29(D1), 30, 31, 32
34, 35	18(D1), 19, 23, 25, 26, 27(D1), 28, 29(D1), 30, 31, 32
36, 37	18(D1), 19, 23, 25, 26, 27(D1), 28, 30, 31, 32
38 - 42	18(D1), 24, 25, 26, 27(D1), 28, 29(D1), 30, 31, 32
43	18(D1), 24, 25, 26, 27(D1), 28, 30, 31, 32
44	18(D1), 26, 27(D1), 28, 29(D1), 30, 31, 32
45 - 46	18(D1), 27(D1), 29(D1), 30, 31, 32
47 - 48, 50 - 52	18(D1), 27(D1), 30, 31, 32
49	18(D1), 27(D1), 29(D1), 30, 31, 32
53	18(D1), 29(D1), 31, 32
54, 56, 57	18(D1)
55	18(D1), 29(D1)
90	1, 2, 4, 6, 9, 35
91	12, 14, 15, 16, 17, 18, 19, 20, 23, 25, 27(D1), 28, 29(D1), 30, 31, 32, 33, 34, 35
92	27(D1), 28, 30, 31, 32, 33, 34, 35
93	18(D1), 31, 32, 33, 34, 35
Poznámky:	- červenou barvou jsou uvedeny metodické pokyny, které pro danou výzvu již nejsou platné, nebo jsou zapracovány do novějších metodických pokynů - je-li u MP uvedeno (D1) platí metodický pokyn ve znění dodatku

C. Supplements - Tables

Table 1 Recommended number of citizens for each NUTS level

Level	Recommended minimum number of citizens	Recommended maximum number of citizens
NUTS I	3,000,000	7,000,000
NUTS II	800,000	3,000,000
NUTS III	150,000	800,000

Table 2 Distribution of EU funds finances among the ESC policy objectives in the period 2007 - 2013

Objective	Fund	Allocation 2007 – 2013 (mil. EUR)
Convergence	ERDF, ESF, CF	25,959.3
Regional Competitiveness and Employment	ERDF, ESF	343.3
European Territorial Cooperation	ERDF	389.1
Total		26,691.6

Table 3 Summary of Operational Programmes according to the Objectives

Convergence Objective – Operational Programmes	
Thematic Operational Programmes	Abbreviation
OP Enterprise and Innovation	OP EI
OP Research and Development for Innovations	OP R&DI
OP Human Resources and Employment	OP HRE
OP Education for Competitiveness	OP EC
OP Environment	OP E
OP Transport	OP T
Integrated OP	IOP
OP Technical Assistance	OP TA

Regional Operational Programmes	Regions of the Czech Republic Included
ROP NUTS II Southwest	Plzeňský and Jihočeský
ROP NUTS II Southeast	Vysočina and Jihomoravský
ROP NUTS II Central Moravia	Olomoucký and Zlínský
ROP NUTS II Northwest	Ústecký and Karlovarský
ROP NUTS II Northeast	Liberecký, Královéhradecký, Pardubický
ROP NUTS II Moravia-Silesia	Moravskoslezský
ROP NUTS II Central Bohemia	Středočeský
Regional Competitiveness and Employment Objective – Operational Programmes	
OP Prague - Competitiveness	
OP Prague - Adaptability	
European Territorial Co-operation Objective – Operational Programmes	
OP Czech Republic – the Independent State of Bavaria 2007 – 2013	
OP the Independent State of Saxony – the Czech republic 2007 – 2013	
OP Austria – the Czech Republic 2007 – 2013	
OP the Slovak Republic – the Czech Republic 2007 – 2013	
OP the Czech Republic – Poland 2007 – 2013	
OP Trans-national Co-operation	
OP Interregional Co-operation	
ESPON 2013	
INTERACT II	

Table 4 Example of Controls/Audits System in the Czech Republic within an operational programme

The Control / Audit Body	Subject of Controls / Audits
European Commission	Audits of management and control systems in the Czech Republic
Audit Authority	Central audits <ul style="list-style-type: none"> - of secondary audits of MA (by Audit bodies) - of primary control on the beneficiary level (by MA)
Audit bodies	Secondary audits of MA and PCA
Paying and Certifying Authority	Primary controls in the certification process
Managing Authority	Primary Controls on the beneficiary level

Beneficiaries
