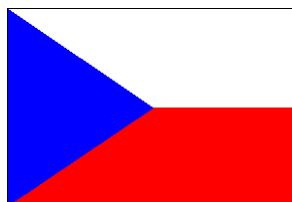




Methodology of financial flows, control and certification of programmes financed from the European Economic Area and Norwegian Financial Mechanisms 2014–2021

with effect from 20 November 2018



*Methodology of financial flows, control and certification of programmes financed
from the EEA and Norwegian Financial Mechanisms 2014–2021*

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INTRODUCTION

The Methodology of financial flows, control and certification of programmes financed from the EEA and Norwegian Financial Mechanisms 2014–2021 (hereinafter the “Methodology”) lays down the basic framework for financial management, control and certification of funds from the financial mechanisms.

The Methodology is divided into 3 parts:

Part I: Common provisions;

Part II: Financial management;

Part III: System of financial control and certification

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

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

In all cases, where there may be a difference between the original text and the translation, the official Czech text of the Methodology shall prevail.

DEFINITIONS¹

Audit Authority (hereinafter the “AA”) – a national public entity functionally independent of the National Focal Point, the Certifying Authority and the Programme Operator, which is designated by the beneficiary state and responsible for verifying the effective functioning of the management and control systems;

Audit Trail – the traceability of all documents to the procedures applied in the implementation of the EEA/Norwegian Financial Mechanisms 2014 - 2021 to establish the sequence of activities implemented according to set procedures;

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

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

GRACE – an online information system to support the implementation of the EEA/Norwegian Financial Mechanisms 2014–2021, used for example for submission of payment claims, reporting of expenditure, interest earned, irregularities, archiving of documents;

Grant – Funds provided to FM 3 Project Promoter from the EEA/Norwegian Financial Mechanisms 2014–2021;

VIOLA Information System (hereinafter the “IS VIOLA”) – management, accounting and payment information system used for the financial management of the EEA/Norwegian Financial Mechanisms 2014–2021;

¹ These are definitions for the purposes of this Methodology.

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Financial Mechanism Office (hereinafter the “FMO”) – the office assisting the EEA Financial Mechanism Committee and the Norwegian Ministry of Foreign Affairs in managing the EEA/Norwegian Financial Mechanisms 2014-2021. Administratively it is a part of the European Free Trade Association and is responsible for the day-to-day implementation of the EEA/Norwegian Financial Mechanisms 2014-2021 on behalf of the EEA Financial Mechanism Committee / Norwegian Ministry of Foreign Affairs and serves as a contact point;

Project Promoter – a public or private, commercial or non-commercial entity, as well as a Non-Governmental Organization, having the responsibility to initiate, prepare and implement a project.

Memoranda of Understanding on the Implementation of the EEA / Norwegian Financial Mechanism 2014–2021 (hereinafter the “MoU”) – agreements between donor states and the Czech Republic establishing the basic conditions of implementation of the EEA Financial Mechanism and Norwegian Financial Mechanism in the Czech Republic and defining mutually agreed-upon programme areas, the focus thereof and the level of support;

Norwegian Ministry of Foreign Affairs (hereinafter the “NMoFA”) – the institution that manages the Norwegian Financial Mechanism in the period 2014–2021 and makes decisions regarding the allocation of financial assistance in accordance with the Regulation on the Implementation of Norwegian Financial Mechanisms 2014–2021;

National Focal Point (hereinafter the “NFP”) – a national public entity designated by the Beneficiary State as a body responsible for achieving the objectives of the EEA/Norwegian Financial Mechanisms 2014–2021 and the implementation of Memoranda of Understanding;

Regulation on the Implementation of the EEA / Norwegian Financial Mechanism 2014–2021 (hereinafter referred to as the “Regulation”) – the general rules of the EEA/Norwegian Financial Mechanisms 2014–2021;

Non-Governmental Organization – an organization established as a legal entity that has not been established or founded for the purpose of doing business and is independent of local, regional and central government, public bodies, political parties and commercial organizations². Religious institutions and political parties are not considered to be Non-Governmental Organizations;

Irregularities Authority – national public body responsible for preparing and submitting reports on irregularities for the Czech Republic to the FMO. For the 2014–2021 programming period, the Certifying Authority acts as the Irregularities Authority;

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

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

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

² Non-Governmental Organizations in the Czech Republic may be (provided the state has no participation in them and they are not dependent on the state) for instance publicly beneficial corporation pursuant to Act No 248/1995, foundation or endowment fund pursuant to Act No 89/2012.

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Financial Mechanisms 2014–2021 and aimed at achieving agreed objectives and outcomes. Each programme consists of one or more programme areas;

Project – an economically indivisible group of works fulfilling a precise technical function and with clearly identifiable aims related to the programme under which it falls. The project may involve several sub-projects, i.e. smaller projects together constituting one larger project;

Regranting – funds directly related to the financing of individual projects within the programmes. This does not include funds for management of programmes;

Implementation structure entity – any entity involved in the implementation of programs financed from the EEA/Norwegian Financial Mechanisms 2014–2021;

EEA Financial Mechanism Committee (hereinafter the “FMC”) – a committee established by the Standing Committee of the EFTA States for the management of the EEA Financial Mechanism 2014–2021, which decides on the allocation of financial assistance in accordance with the Regulation on the implementation of the EEA Financial Mechanism 2014–2021;

Programme Management Costs – funds from the total programme allocation for its management;

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

Eligible expenditure – expenditure incurred for the intended purpose and within the period specified in the legal acts on allocation of funds that are in accordance with the Regulations and other conditions required by the FMC, the NMoFA, the FMO, the NFP or the PO for the programme.

PART I: COMMON PROVISIONS

1 SELECTED LEGISLATION AND DOCUMENTS

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

The use of the EEA/Norwegian Financial Mechanisms 2014–2021 (hereinafter “FM 3”) in the Czech Republic is based on the following documents:

1.1 International treaties

1. Protocol 38c to the Agreement between the European Union, Iceland, the Principality of Liechtenstein and the Kingdom of Norway on an EEA Financial Mechanism 2014–2021 of 3 May 2016;
2. Agreement between the Kingdom of Norway and the European Union on the Norwegian Financial Mechanism for the period 2014–2021, dated 3 May 2016;
3. Memorandum of Understanding on the Implementation of the Norwegian Financial Mechanism 2014–2021 between the Kingdom of Norway and the Czech Republic (signed on 4 September 2017);
4. Memorandum of Understanding on the Implementation of the EEA Financial Mechanism 2014–2021 between the Republic of Iceland, the Principality of Liechtenstein, the Kingdom of Norway and the Czech Republic (signed on 4 September 2017);

1.2 Key documents that define the framework and rules for implementation

1. Regulation on the implementation of the EEA/Norwegian financial mechanism 2014–2021 (hereinafter the “Regulations”) and other documents issued by the FMC, the NMoFA and the FMO (www.eeagrants.org);

1.3 Public procurement

1. Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC;
2. Commission Implementing Regulation (EU) No 2015/1986 of 11 November 2015 establishing standard forms for the publication of notices in the field of public procurement and repealing Regulation (EC) No 842/2011;

1.4 State aid

1. Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the common market in application of articles 107 and 108 of the Treaty (General Block Exemption Regulation);
2. Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty to de minimis aid;
3. Framework for State Aid for Research, Development and Innovation No 2014/C 198/01;

1.5 Czech legislation and Czech Government Decrees

1. Act No 134/2016, on public procurement;
2. Act No 500/2004, the Code of Administrative Procedure;
3. Act No 215/2004, on the organization of some relations in the field of State aid and amending the Research and Development Promotion Act;
4. Act No 130/2002, on the promotion of research, experimental development and innovation using public funds and amending certain related acts (the Research, Experimental Development and Innovation Promotion Act);
5. Act no 235/2004, on value added tax;
6. Act no 420/2004, on reviewing the economic management of territorial self-governing units and voluntary associations of municipalities;
7. Act No 499/2004, on archives and records service and amending certain acts;
8. Act No 47/2002, on the support of small and medium-sized enterprises and amending Act No 2/1969, on the establishment of ministries and other central State administration bodies of the Czech Republic;
9. Act No 320/2001, on financial control in public administration and amending certain acts (the Financial Control Act);
10. Decree No 416/2004, implementing Act No 320/2001, on financial control in public administration and amending certain acts (the Financial Control Act);
11. Decree No 323/2002, on budget structure;
12. Decree No 133/2013, on the establishment of the scope and structure of data for the development of the proposal of the State Budget Act and on the proposal of the medium-term outlook for the State budget and the time limits for its submission;
13. Act No 219/2000, on the assets of the Czech Republic and representation of the state in legal relations;
14. Decree No 62/2001, on the management of State assets by State organisational units and government organisations;
15. Act No 218/2000, on budgetary rules and amending certain related acts (the Budgetary Rules Act);
16. Decree No 5/2014 on the format, deadlines and scope of data submitted for the evaluation of the implementation of the State budget, budgets of State funds, budgets of territorial self-governing units, budgets of voluntary associations of municipalities and budgets of Regional Councils of cohesion regions;
17. Decree No 419/2001, on the scope, structure and deadlines for data submitted for the preparation of the draft final State account and the scope and deadlines for the preparation of draft final accounts proposals of the individual chapters of the State budget;
18. Decree No 560/2006, on State budget participation in the financing of asset replacement programmes;
19. Decree No 367/2015, on the principles and deadlines for financial settlement of relations with the State budget, State financial assets and the National Fund;
20. Decree No 286/2007, on the Central Register of Grants;
21. Act No 166/1993, on the Supreme Audit Office;
22. Act No 586/1992, on income taxes;
23. Act No 280/2009, the Tax Procedure Code;

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24. Act No 563/1991, on accounting;
25. Decree No 410/2009, implementing certain provisions of Act No 563/1991, on accounting, as amended, for certain selected accounting entities;
26. Decree No 504/2002, implementing certain provisions of Act No 563/1991, on accounting, for accounting entities with principal objects of activities other than business activities;
27. Decree No 500/2002, implementing certain provisions of Act No 563/1991, on accounting, for accounting entities that are entrepreneurs maintaining double-entry accounting;
28. Act No 255/2012, on control (the Control Rules);
29. Act No 2/1969, on the establishment of ministries and other central State administration bodies of the Czech Republic;
30. Act No 141/1961, on criminal proceedings before the courts (the Criminal Procedure Code);
31. Act No 125/2008, on transformations of commercial companies and cooperatives;
32. Act No 89/2012, the Civil Code;
33. Act No 340/2015, on the special conditions for the effect of certain contracts, the publishing of such contracts and the Register of Contracts (the Register of Contracts Act);
34. Act No 262/2006, the Labour Code;
35. Act No 234/2014, on civil service;
36. Act No 183/2006, the Building Act;
37. Act No 388/1991, on the State Environmental Fund of the Czech Republic.

2 MANAGEMENT STRUCTURE

For the effective and transparent management of the implementation of FM 3, implementing bodies with clearly defined responsibilities for each activity of the implementation cycle are established in accordance with relevant international documents at national and transnational level.

2.1 Financial Mechanism Office

The FMO provides administrative support to the FMC and NMoFA regarding operational activities within the implementation of FM 3. At the same time, it serves as the main contact point between Beneficiary States and the donor states. The FMO is established as a separate unit of the FMC and NMoFA.

The FMO is especially responsible for:

1. preparation of the basic documents with the Beneficiary States for assistance from FM 3 (MoU, Regulations) and their interpretation;
2. preparation of standardized forms and procedures for the implementation of FM 3 and ensuring their amendments to reflect the national specifics of the Beneficiary States;
3. receipt and assessment of “concept notes” submitted by the Beneficiary States;
4. services of a secretariat for the FMC and NMoFA when deciding on the programmes;

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5. preparation of the Programme Agreements;
6. verification of the interim financial reports and financial annexes to the final reports submitted by the CA for individual programmes;
7. external monitoring of programmes/projects within FM 3;
8. receipt and approval of annual and final programme reports on the programme from Beneficiary States;
9. preparation of annual reports on the implementation of the FM 3 and the submission thereof to the FMC and the NMoFA;
10. ensuring public awareness of the FM 3;
11. final evaluation of the FM 3.

2.2 National management structure

2.2.1 National Focal Point

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

The NFP is responsible for the overall achievement of the objectives and implementation of FM 3 in the Czech Republic, acts as a focal point, represents the Beneficiary State in its relations with the FMO and is responsible for the implementation of the MoU. The NFP is also responsible for the use of funds allocated to the Czech Republic in order to strengthen bilateral relations between donor states and the Czech Republic; these are the funds of the “Fund for Bilateral Relations”. The NFP distributes the funds of the Fund for Bilateral Relations directly to Project Promoters, or provides these funds for further distribution to Programme Operators upon their request.

Other activities carried out by the NFP primarily include the following:

1. supervision of the implementation of the programmes in accordance with the legal framework for FM 3 implementation in the Czech Republic and at the same time control of the quality and content of the documents submitted to the FMO through the NFP. If the NFP deems it necessary, it may request the necessary modification of such documents. The NFP also ensures that the POs are fully aware of their responsibilities under the FM 3 legal framework;
2. general provision of information on the existence, goals (including cooperation with entities in donor states), implementation and overall impact of FM 3 in the Czech Republic, in accordance with the requirements for ensuring transparency in the disbursement of FM 3 funds, provision of information and publicity, in particular through:
 - a) a communication strategy for FM 3;
 - b) organising at least three major information activities on the implementation of FM 3, such as seminars and conferences with stakeholders, press conferences or meetings with the press, including the opening and closing ceremony of FM 3;
 - c) establishing a dedicated website on FM 3 (both aid instruments – EEA FM and Norwegian FM) in Czech and English;

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- d) designation of a person responsible for providing information, communication and publicity within FM 3. This person shall support and act as coordinator for the POs as regards the provision of information, communication and publicity in FM 3.
3. surveillance over providing information and publicity by Programme Operators / Project Promoters in accordance with the Regulations / Communication and Design Manual / Communication Strategy;
4. continuous monitoring of FM 3 programmes implemented in the Czech Republic in terms of their progress in achieving the final results and objectives based on established indicators and financial requirements, evaluation of possible risks threatening the implementation of FM 3 in the Czech Republic. Monitoring results are specified in the Strategic Report (Article 2.6 of the Regulations);
5. in accordance with Chapter 13.2 *Setting up of Management and Control Systems in FM 3*, the submission to the FMO of a detailed description of the management and control systems, both for the national management structure and for the Programme Operator of each programme if so required by the FMO;
6. preparation of the general methodologies and guidelines for the implementation of FM 3, in collaboration with other bodies.

2.2.2 Certifying Authority

According to the MoUs, the Ministry of Finance – the National Fund Department shall act as the Certifying Authority in the Czech Republic.

The CA is especially responsible for the following:

1. submitting to the FMO certified Interim Financial Report (hereinafter the “IFR”) and the certified Financial Annex to the Final Programme Report, including the calculation of the final balance of the programme (hereinafter the “FB”), together with the Final Programme Report (hereinafter the “FPR”), in which the CA certifies the following:
 - a) that the summary of eligible expenditure submitted by the Programme Operator is in full conformity with the supporting documents, see chapter 14.3 *Documents collected for the purposes of certification*;
 - b) that the supporting documents have been examined and found to be authentic, correct and accurate;
 - c) that the summary of eligible expenditure is based on verifiable accounting which is in compliance with generally accepted accounting principles and methods;
 - d) that the summary of eligible expenditure falls within eligible expenditure under the Regulations and national practices;
 - e) that the summary of eligible expenditure is incurred as part of the implementation of the programme in accordance with the Programme Agreement;
 - f) that sufficient audit trail for the incurred expenditure exists (in accordance with Chapter 13.6 *Transparency, availability of documents and archiving*);
 - g) that co-financing committed to the programme has been paid (verified via reports in IS VIOLA)

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2. submitting to the FMO a forecast of likely payment applications in accordance with the Regulations;
3. declaring to the FMO any interest earned by FM 3 funds at the relevant bank accounts opened in the Czech Republic and transferring such interest to the bank account of the FMO in accordance with Chapter 6 *Administration of interest*;
4. taking account for certification purposes and for the purposes of registering irregularities of the results of all audits carried out by or under the responsibility of the Audit Authority, as well as of the outputs from checks carried out at the level of programmes and projects;
5. maintaining accounting records in electronic form of expenditure declared to the FMO;
6. ensuring that funds are made available to the Programme Operators and Project Promoters in accordance with the Regulations and Chapter 10 *Financial flows*;
7. ensuring that the amounts incorrectly paid or paid in breach of the eligibility of expenditure or withdrawn due to cancelling all or part of the financial contribution for a programme or project were reimbursed to the FMO prior to the closure of the programme, or that these amounts were subtracted from the amount of actually incurred expenditure reported in IRF/FB;

The CA ensures the establishment and maintenance of a separate bank account dedicated to FM 3.

The employees of the CA are entitled to carry out on-the-spot checks at the level of the PO or the Programme Partner/Project Promoter.

2.2.3 *Audit Authority*

According to the MoUs, the Ministry of Finance – the Audit Authority Department shall act as the Audit Authority in the Czech Republic.

The Audit Authority is especially responsible for:

1. ensuring that audits of the FM 3 implementation structure entities are carried out to verify the effective functioning of the management and control system at the national level of the Czech Republic;
2. ensuring that at least one audit is carried out of each programme to verify the effective functioning of its management and control system;
3. ensuring that audits are carried out on an appropriate sample of projects to verify the declared expenditure; the audited sample of expenditure must be representative and, as a rule, based on statistical sampling methods; the sample size must be sufficient to produce a valid audit opinion in accordance with point 5. below in this Chapter.

In duly justified cases, in accordance with internationally accepted audit standards, and in all cases where the number of projects in a particular year is insufficient to enable the statistical sampling method to be used, a non-statistical sampling method can be used based on the expert judgment of the Audit Authority. In such a situation, the selected sample must include at least 10% of the projects for which expenditure has been declared during the year and at least 15% of the expenditure declared during the year.

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4. preparation of the audit strategy within nine months of the approval³ of the last programme. The audit strategy may cover multiple programmes and shall set out the audit methodology, the sampling method for projects to be audited and the indicative audit plan to ensure that audits are spread evenly throughout the programming period; the audit strategy is submitted to the FMO for comment only upon request, within one month after the FMO request;
5. by 15 February of each year from 2019 to 2025:
 - a) in accordance with the audit strategy of the programme submitting to the FMO annual audit reports setting out the findings of the audits conducted during the previous 12 month-period ending on 31 December of that year, including any deficiencies identified in the management and control systems. The first report to be submitted by 15 February 2019 shall cover the period until 31 December 2018. The information concerning the audits carried out after 1 January 2025 shall be included in the final audit report, which is the basis for the Programme Closure Declaration referred to in point 6 of this chapter;
 - b) on the basis of the verifications and audits that have been carried out under its responsibility issuing an opinion to the FMO as to whether the management and control system functions effectively, and to confirm that the statements of actually incurred expenditure submitted to the FMO are correct and, therefore, that the underlying transactions are legal and regular;
6. submitting to the FMO at the latest by 31 December 2025 a Programme Closure Declaration assessing the validity of the application for payment of the final balance claimed in the FB;
7. where the Audit Authority chooses not to carry out the audits according to paragraphs 1–3, it shall appoint an independent and certified auditor to perform these tasks. However, this shall not relieve the AA from the responsibility for the due execution of the audits according to this chapter;
8. The AA shall ensure that audits are carried out in accordance with internationally accepted audit standards;
9. In accordance with Chapter 13.2 *Setting up of Management and Control Systems in FM 3*, the AA draws up a report and expert opinion confirming that the setting of the management and control system in the Czech Republic is in accordance with the Regulations and generally accepted accounting standards.

2.2.4 Irregularities Authority

According to the MoUs, the Ministry of Finance – the National Fund Department shall act as the Irregularities Authority in the Czech Republic.

The Irregularities Authority is responsible in particular for:

1. covering the general agenda of irregularities in the Czech Republic;
2. keeping the register of irregularities;

³ The approval of the programme is the moment when the last of the donors agrees with the final version of the text of the Programme Agreement.

3. regular reporting to the FMO on new irregularities and the progress made in the investigation and remedy of already reported irregularities.

2.2.5 Programme Operator

1. The PO is responsible for preparing and implementing the programme in accordance with the principles of efficiency, effectiveness and economy, namely:
 - a) ensuring that projects contribute to the overall objectives of FM 3 and the specific programme outputs, outcome(s) and objective(s), and that they comply with the Regulations, the Programme Agreement as well as applicable Czech Republic and European Union law in all implementation phases;
 - b) ensuring that persons with the necessary level of expertise and knowledge are involved in the preparation of the programme and the development of the results framework of the programme;
 - c) receiving applications, selecting projects to be funded and signing project contracts in accordance with Chapter 7 of the Regulations;
 - d) supporting and facilitating bilateral cooperation;
 - e) verifying that the expenditure declared by the Project Promoters has actually been incurred and complies with the Regulations, the Programme Agreement as well as applicable Czech Republic and EU law;
 - f) ensuring that payments to Project Promoters are made in a timely manner;
 - g) ensuring the quality of the implementation of the programme and verifying the projects' outputs and their progress towards expected programme's outcomes, *inter alia* through continuous administrative check of actually incurred expenditure reported by Project Promoters and, where necessary, verification / on-the-spot check / audit on a selected sample of projects/expenditure; the verification performed by the POs covers the administrative, financial, technical and physical aspects of the project, always taking into account the situation and the principle of proportionality;
 - i. verification can be done by selecting a sample whose selection is recorded by the PO in records that describe and justify the selection method and identify the project or transactions selected for verification. The PO determines the size of the sample in order to obtain reasonable assurance as to the legality and regularity of the underlying transactions, taking into account the project risk level, the Project Promoter and the results of the AA audits;
 - ii. The PO records the project verification procedures in internal manuals; each verification shall have its own record indicating what has been verified, the date and the outcome, including any measures taken to remedy any identified irregularities.
 - h) assessing the risks to the effective implementation of the programme, its results and taking appropriate action;
 - i) conducting annual monitoring of a sample of projects selected based on risk assessment and including random samples;
 - j) ensuring that the financial contribution under FM 3 is used exclusively for the purpose of the programme and its projects and according to the

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Programme Agreement and that all assets forming part of the programme are used only for such purposes as provided for in the Programme Agreement;

- k) ensuring that there is a system for recording and storing in computerised form accounting records for each project under the programme and that the data on implementation necessary for financial management, reporting, monitoring, verifications, audits and evaluation are collected;
- l) establishing an organisational structure of the institution acting as the PO which ensures independence and functional separation of the division responsible for verification of actually incurred expenditure and the approval of payments from other divisions responsible for the implementation of the programme;
- m) establishing and maintaining a separate interest-bearing bank account dedicated to the funds for “regranting”, i.e. FM 3 funds provided by the FMO for the financing of individual projects, and a separate bank account dedicated to the funds for “other payments” (in accordance with Chapter 5 *Bank Accounts*). The condition of interests accrued on the funds shall only apply to cases, which are not contrary to the national legislation. If the accounts do not bear interest, it is possible to have one analytically divided account;
- n) providing for an obligation of the Project Promoters to ensure, in the accounts, a clear assignment to the project of all the transactions directly related thereto;
- o) ensuring transparency and availability of documents in accordance with the requirements of Chapter 13.6 *Transparency, availability of documents and archiving*
- p) ensuring that the CA receives all necessary information on procedures and verifications carried out in relation to expenditure of the programme and its projects for the purpose of certification (see Chapter 14.3 *Documents collected for the purposes of certification*);
- q) drawing up and submitting to the Certifying Authority the IFRs, FB (in accordance with Chapter 3 *FMO Payments to the CA*) and reports on interest earned (in accordance with Chapter 6 *Administration of interest*), and also preparing and submitting to the NFP and the FMO the annual programme report, the monitoring report of the PO regarding the Fund for Bilateral Relations, and the FPR;
- r) submitting to the CA a forecast of likely payment applications necessary for the CA to fulfil its obligations in accordance with Chapter 3.5 *Forecast of likely payment applications*;
- s) ensuring entry of project-specific statistical data into IS GRACE;
- t) ensuring that the FMO and the NFP are upon request, and within reasonable time, provided with all documents and information related to the implementation of the programme and its projects;
- u) ensuring that the Project Promoters are fully committed and able to implement their projects on the basis of a signed project contract;
- v) ensuring that all necessary and appropriate measures are taken to prevent, detect and nullify any cases of suspected or actual irregularities, that they

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are investigated promptly and efficiently and properly reported and remedied, including making any financial corrections that may be appropriate;

- w) ensuring that all relevant local, national and European Union legislation (including, but not limited to, legislation on the environment, public procurement and state aid) are complied with;
- x) complying with any other obligations stipulated in the Programme Agreement.

2. The PO must ensure compliance with the requirements of the FMO for submitting required information electronically.

2.3 Programmes and the Programme Operators

For the 2014–2021 period the following programmes and Programme Operators were approved in the Czech Republic. Various settings of financial flows depend on the nature of the Programme Operator (see Chapter 10.2 *Financial flows between the CA and the PO*).

Programme code	Programme name	Programme Operator	Programme partner
CZ-TA	Technical assistance	MoF - NFP	-
CZ-BF	Fund for Bilateral Relations	MoF - NFP	-
CZ-RESEARCH	Research	TACR	-
CZ-EDUCATION	Education	DZS	-
CZ-HEALTH	Health	MoF	MoH
CZ-CULTURE	Culture	MoF	MoC
CZ-GOVERNANCE	Good governance	MoF	-
CZ-ENVIRONMENT	Environment, ecosystem and climate change	SEF	Ministry of the Environment
CZ-HUMANRIGHTS	Human rights, Roma inclusion and domestic and gender-based violence	MoF	-
CZ-JUSTICE	Justice	MoF	MoJ
CZ-HOMEAFFAIRS	Internal affairs	Moi	-

PART II: FINANCIAL MANAGEMENT

3 FMO PAYMENTS TO THE CA

3.1 General principles

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

The funds allocated to programmes within the FM 3 are provided by the FMO in favour of the Czech Republic to the source account of the CA (in EUR), in the form of the following payments:

1. advance payments;
2. interim payments (based on IFR);
3. final balance payments.

For each programme, the maximum allocation, i.e. the level of funds to be spent on the budget line “programme management cost”, is set in accordance with the Regulations. In accordance with the Regulations, the FMO plans to withhold 10% of the total allocation to “programme management cost” until the final programme report is approved. If the PO becomes entitled to a retention in the calculation of the final balance, the retention at the agreed amount is transferred to the CA account within the payment of the final balance (see Chapter 3.4 Payments of the *Final balance of programmes*).

Payments to programmes by the CA are made in CZK on the dates specified in Chapter 10.2 *Financial flows between the CA and the PO*. If the PO does not have its own funds for programme co-financing, it must provide for it at the ratio set out in the Programme Agreement within the same month in which the PO received funds from the CA.

The allocations of individual programmes are approved by the FMO in EUR in the Programme Agreements. However, programme implementation by the PO is in CZK. The allocation of each individual programme in CZK, which is dependent on the CZK/EUR exchange rate, is managed by each Programme Operator for its programme.

Payments to Project Promoters by the PO may take the form of advances or reimbursements of expenditure actually incurred by the Project Promoters. In the case of advance payments, prior to the provision of each additional advance payment, the already used funds from the previous advance payment must be accounted and the request for the additional advance payment shall be possibly reduced taking into account the actual disbursement of FM 3 by the Project Promoter.

In the area of co-financing, the Czech Republic is obliged to ensure, at the level of each programme, co-financing from public sources in the amount of 15 % to all the funds provided from FM 3. This co-financing obligation is implemented in all programmes, with the exception of the Technical Assistance (TA) and the Fund for Bilateral Relations (BF). In this context, the PO proves that it provides the agreed rate of co-financing for each individual expenditure. Concerning project co-financing, there are generally⁴ no specific requirements of donors for the involvement of Project Promoters and, therefore, the level of public support, i.e. the level of potential distortions of competition as a result

⁴ There are exceptions, see Article 6.4 of the Regulations.

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of provision of FM 3 public funds, should be particularly taken into account when setting the project co-financing rate. If the Project Promoter uses public funds for ensuring the project co-financing these funds may not be considered the programme co-financing which is required to be ensured by the PO.

Co-financing of FM 3 projects in the Czech Republic is based on the principle, that each Project Promoter shall ensure it at the level of their project. The Project Promoter in this context proves to the PO that when incurring expenditure on their project within each⁵ payment claim the level of co-financing set in the project contract is provided, or the PO shall pay to the Project Promoter only the part of the financing from each payment claim which was agreed in the project contract. The co-financing ensured by the PO in case of all programmes other than TA and BF, by Project Promoters and the share provided by FM 3 make up the total allocation for the project.

Fulfilment of co-financing at the programme level is monitored by the CA through data entered into IS VIOLA for purposes of preparation of supporting documents for certification. Given that, in case of some programmes, it is not possible to provide the grant and programme co-financing to the Project Promoter by a single payment, it is in the first place necessary to ensure the payment of the corresponding programme co-financing and subsequently the grant. In the supporting documents for purposes of certification, the expenditure (grant and programme co-financing) is reported as of the date⁶ when the grant was paid.

Expenditure realized by Programme Operators or delegated by the Programme Operators to other entities under the FM 3 within the Czech Republic are reported in IFRs/FB as at the date when the expenditure was originally incurred, irrespective of the primary source of funding.

See Chapter 10 *Financial flows* for specific procedures and options for the provision of funds within the implementation structure of FM 3 in the Czech Republic.

A completed project co-financed from FM 3 and funds which were granted on the basis of the Grant Award Decision from the State Budget (hereinafter the “SB”) / the National Fund (hereinafter the “NF”) pursuant to Section 14 of the Budgetary Rules Act, must be settled with the SB/NF by the Project Promoter. This obligation is governed by Section 75 of the Budgetary Rules Act and Decree No 367/2015, on the principles and deadlines for financial settlement of relations with the State budget, State financial assets and the National Fund (the Financial Settlement Decree). Projects co-financed from FM 3 are

⁵ In the case of NGO projects, if the NGO is not able to report project co-financing at the required level on a continuous basis within individual payment claims (including the option of using volunteer work as a source of co-financing), the required amount of project co-financing by the Project Promoter can be reported only in the final payment claim of the project. In such a case, when it comes to the final payment claim of the project, the proportion of the grant to the total eligible expenditure of the Project promoter may not exceed the amount specified in the legal act on the allocation of funds issued by Programme operator/concluded between Programme operator and Project promoter. For each irregularity, if it occurs, it is necessary to apply the ratio of the grant to other funding sources in relation to the refund to the FMO. This must be done in accordance with the relevant legal act, regardless of which source was used to finance the expenditure leading to the specific irregularity. If a situation arises where, due to a different application of the ratio of funding sources (and/or differently assessed expenditure) by FAA and FMO, an amount recovered for FM's portion will be lower than the amount that will have to be transferred to FMO, Programme Operator is obliged to cover that difference.

⁶ If the Project Promoter is an Organisational unit of the State/ State contributory organisation, for more details on the reporting date see Chapter 10.3 *Specificity of financial flows in the case of Project Promoters OUSs and SCOs*.

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settled in accordance with the aforementioned Decree on a one-off basis, within the time limits set by the Decree and as at 31 December of the year in which the project was completed. Projects co-financed from FM 3, which have received reimbursements of funds in the amount of already incurred expenditure, are considered to be financially settled.

If a project co-financed from FM 3 meets Section 12 and Section 13 of the Budgetary Rules Act, such a project is registered in EDS/SMVS. The specific procedure for registration of these projects is set out in Decree No 560/2006, on State budget participation in the financing of asset replacement programmes. When registering individual projects (including a change of registration) whose budget is usually higher than CZK 200 million, MoF approval is required.

3.2 Advance payments at national level

An advance payment may generally cover the share of eligible expenditure per programme preliminarily planned from the first day of programme expenditure eligibility up to a time when the setting of implementation in the Czech Republic and in the FMO allows the provision of the first interim payment, see Chapter 3.3 *Interim payments at national level*.

The maximum amount of advance payments together with the conditions for payment and settlement thereof are set out in the Programme Agreement. Advance payments are made to the CA in line with the agreed conditions and procedures set out in this Methodology; the CA releases the payments in compliance with the procedures set out in Chapter 10 *Financial flows*. The funds of the advance payments actually used up shall be reported to the FMO in the first IFR. The unused funds of the advance payment are further treated in the same way as unused funds of standard interim payments provided to the PO on the basis of individual IFRs.

3.3 Interim payments at national level

Interim payments by the FMO made to the Czech Republic - the source account of the CA shall be made subject to compliance with all requirements specified in the Programme Agreement and the Regulations. Providing interim payments from the CA level to lower levels is described in Chapter 10 *Financial flows*. The IFR shall serve as the basis for providing interim payments from the FMO. The IFR shall be prepared and sent to the FMO through IS GRACE.

Each calendar year consists of the 2 reporting periods stated below. After the end of each period the steps leading to the compilation of the IFR are made on the basis of the payments of Programme Operators for each programme implemented in the Czech Republic:

- 1 January – 30 June;
- 1 July – 31 December.

The IFR including the other documents, may be submitted by the PO to the Certifying Authority in electronic form already at the start of certification process, see Chapter 14 *Certification*. After the verification and approval of the electronic version at the level of the CA, the IFR is submitted by the PO in final form by the following deadlines:

- 1 January – 30 June – IFR submitted to the CA no later than on 1 September;
- 1 July – 31 December – IFR submitted to the CA no later than on 1 March.

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After verifying the facts in accordance with the procedures of Chapter 14 *Certification* and by the deadlines laid down by the Regulations, the CA submits the IFR to the FMO:

- 1 January – 30 June – IFR submitted to the FMO no later than on 15 September;
- 1 July – 31 December – IFR submitted to the FMO no later than on 15 March.

After the receipt of IFR, the FMO has 1 month (if it finds no serious deficiencies in the IFR) to check the facts contained therein (verify the correctness of the forms and compliance with the payment conditions) and transfer the requested funds to the CA source account:

- IFR submitted to the FMO no later than on 15 September – the FMO transfers the requested funds to the source account of the CA by 15 October;
- IFR submitted to the FMO no later than on 15 March – the FMO transfers the requested funds to the source account of the CA by 15 April.

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

Interim payments from the FMO credited to the CA source account by:

- 15 October cover the upcoming reporting period of the proposed expenditure of the Programme Operator of each programme from 1 November to 30 April;
- 15 April cover the upcoming reporting period of the proposed expenditure of the Programme Operator of each programme from 1 May to 31 October.

Each IFR⁷ consists of three parts:

- The statement of actually incurred expenditure – here, each PO reports its expenditure actually incurred, including the programme co-financing, in the individual months of the previous reporting period;
- Statement of proposed expenditure – here, each PO requests funds, including programme co-financing, related to its future expenditure under the programme for the period, see above;
- Information on progress towards the outputs and outcomes of the programme – this is a source of interim information for the NFP and FMO, it is not subject to certification.

Interim payments are based on the proposed expenditure of the PO for the next period, taking into account any balances on bank accounts opened for the purpose of FM 3.

Payments based on interim financial reports received by the FMO after their due date⁸ but on, or before, the following due date (see the due dates above) shall be due on the latter of the two due dates.

If the FMO does not receive the IFR within 12 months from the end of the reporting period in which expenditure was incurred by the Programme Operator, the actually incurred expenditure of that period shall be declared ineligible and it will not be possible to report it to the FMO.⁹ This rule applies both to the failure to submit the entire IFR, and

⁷ The IFR for the second half of the year will also include an overview of the interest earned, see Chapter 6 *Administration of Interest*.

⁸ The procedure is explained more in detail in Chapter 14.2 *Certification activities of the CA*.

⁹ In the case of costs of a Project Promoter OUSs/SCOs that are to be reimbursed directly from the National Fund's account and/or are paid from the Project Promoter's funds instead of PO's funds in accordance with

to the failure to report individual expenditure incurred in that reporting period. The 12-month time limit only applies to the Programme Operator's expenditure that was incurred in full compliance with the eligibility rules, but were not included in the respective IFR as a result of omission of the PO / Programme Partner.

If the AA/CA/NFP/PO has any doubts as to the eligibility of the expenditure incurred (e.g. due to suspicion of irregularity¹⁰), the PO is obliged to exclude this expenditure from the IFR submitted to the CA. Once it is subsequently proved that the expenditure is fully eligible, it will be possible to include it to the next IFR submitted to the CA following appropriate justification. In this respect, however, the time eligibility of programme expenditure must also be respected in order for the expenditure to be reported within the time limits set by the Regulations.

In case of delay in verification and submission of the IFR by the CA, the situation will be discussed with the FMO and in Budget Section 06 of the MoF and the final decision shall be adopted by the Deputy Minister for Section 06 of the MoF.

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

Should verification of correctness of the IFR by the FMO be negative, the FMO shall discuss with the CA and the PO the way to remedy the deficiencies, also with the help of the NFP if necessary. The FMO may provisionally hold interim payments until such deficiencies have been remedied. After the FMO receives all the necessary information and positively verifies the IFR, it shall release the requested payment as of the next due date according to the dates referred to in this chapter above or as of the date which it considers adequate - based on this verification - in case it decides to make use of remedies (suspension of payments, financial corrections or reimbursements).

3.4 Payments of the final balance of programmes

The Final Balance is the total reported eligible expenditure of the programme, taking into account any previous reimbursements and rounding differences, less the following amounts:

- a) the total advance and interim payments to the programme from the FMO;
- b) programme co-financing – for the programme, the incurred expenditure of both grant and programme co-financing are reported to the FMO in the IFR. When calculating the final balance, the programme co-financing must be deducted;
- c) the total interest earned until the date of the FPR, FB;
- d) any funds reimbursed from the Project Promoters to the PO and not paid by the PO to other projects or reimbursed to the FMO.

the Budgetary Rules (e.g. programme co-financing expenditure), the PO will only report this expenditure in the IFR/FB and they will not be directly reimbursed by the PO to the Project Promoter. The twelve-month time limit will commence from the end of the reporting period in which the expenditure was approved by the PO / Programme Partner and was entered in the IFR/FB under that date – see Chapter 10.3 *Specificity of financial flows in the case of Project Promoters OUSs and SCOs*.

¹⁰ For the procedure see Chapter 8.2.1 *Immediate reporting of irregularities to the FMO*.

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The final balance is either an overpayment of funds returned by the PO to the FMO, or an underpayment consisting in the transfer of the remaining funds by the FMO to the PO.

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

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

The final balance payable to the FMO based on the financial annex will be reimbursed to the FMO no later than within one month after the FMO approves the FPR. Interest earned in the period between the date of completion of the FPR and the date of reimbursement will be included in the amount of reimbursed funds, or into the final balance.

3.5 Forecast of likely payment applications

During each year, the CA submits to the FMO justified forecast of likely payment applications for all programmes implemented in the Czech Republic via IS GRACE for the remainder of the current financial year and subsequent financial years in the format provided by the FMO (see Annex 8 to the Regulations), not later than on:

- 20 February;
- 20 April;
- 20 September;
- 20 November.

The CA draws up the forecast based on the documents received from individual POs. Each PO is required to send their forecast of likely payment applications to the CA at the latest 10 days before the above stated dates.

4 BOOKKEEPING

4.1 Accounting at the CA level

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

The CA shall keep separate accounting records within an accounting entity within the MoF on all accounting transactions related to FM 3 funds on their bank accounts regarding transactions which occur during the implementation of programmes financed from FM 3.

The CA maintains accounting records especially on the following facts:

1. claim payable by the FMO in connection with an advance payment;
2. claim payable by the FMO in connection with the submission of the interim payment application and the payment of the final balance;
3. settlement of a claim payable by the FMO – receipt of funds from the FMO;
4. amount payable to the SB in connection with the approval and validation of the IFR submitted by the PO;
5. amount payable to the PO / Project Promoter in connection with the approval and validation of the IFR submitted by the PO;

6. settlement of an amount payable to the SB – transfer of funds from the source account of the CA to the revenue account of the SB chapter administrator from which the funds for the pre-financing of FM 3 expenditure were provided;
7. settlement of the amount payable to the PO / Project Promoter – transfer of funds from the source account of the CA to the account of the PO / Project Promoter;
8. creation of a liability towards the Project Promoter as a result of BF project approval / as a result of the approval of the payment application;
9. settlement of the amount payable to the Project Promoter – transfer of BF funds from the source account of the CA to the account of the Project Promoter;
10. amount payable to the FMO based on a request for the refund of unused funds from FM 3;
11. settlement of the amount payable to the FMO based on a request for the refund of unused funds from FM 3 from the source account of the CA to the FMO;
12. interest accrued in accordance with Chapter 6 *Administration of interest*;
13. amount payable to the FMO based on a request for an payment of interests generated on bank accounts of the CA and the PO¹¹;
14. settlement of exchange rate differences at the level of the CA.

in accordance with applicable laws and regulations including the provisions of Act No 563/1991, on accounting, and Decree No 410/2009, implementing certain provisions of Act No 563/1991, on accounting, as amended, for certain selected accounting entities.

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

4.2 Accounting and reporting of FM 3 expenditure

Eligible¹² expenditure incurred by the POs, Programme Partners, Project Promoters and Project Partners must be evidenced by originals or certified copies of accounting documents¹³ (invoices, bank statements and other accounting documents of equivalent probative value) and documents relating to the use of unit and indirect costs.

If the activities are implemented on the basis of a public procurement procedure, payments by the PO, Programme Partners, Project Promoter and Project Partners must be supported by certified copies of accounting documents issued on the basis of a signed contract.

In order to verify the expenditure incurred by the control bodies, the beneficiary of FM 3 funds must be able to provide either individual accounting documents and supporting documentation proving the execution of the expenditure (invoices, account statements,

¹¹ In accordance with Chapter 6 *Administration of interest*.

¹² The framework of eligibility of costs is set by the Regulations and the NFP Guideline for eligible costs within EEA and Norwegian Financial Mechanisms 2014–2021.

¹³ By submitting the certified copy of the document, the submitter declares its compliance with the original. The form of certification of such cost (e.g. a declaration by the responsible manager, accounting for the original, etc.) is to be determined by the PO. Accounting documents must meet the requirements of Article 11 of Act No 563/1991, on accounting, as amended.

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accounting statements, participation certificates, etc.) or may, subject to the principle of economy, the following alternative options¹⁴ and submit:

- a report of an independent auditor capable of performing mandatory audits of accounting documents attesting that the reported expenditure has been incurred in accordance with the Regulations, national legislation and relevant national accounting procedures;
- a report issued by a competent and independent public entity, which was recognized by the competent national authorities as being competent for the exercise of budgetary and financial control of the entity incurring the expenditure and which was not involved in the preparation of the financial statements attesting that the reported expenditure was incurred in accordance with the Regulations, national legislation and relevant national accounting procedures. This may be a report issued, for example, by an internal audit of an organization that is as a recipient of FM 3 funds.

If the beneficiary of the FM 3 funds has demonstrated the verified expenditure through the above reports, it does not mean that there should be no supporting documentation and accounting documents for the expenditure. There must be a proper audit trail for the expenditure, and the supporting documents must be available for possible audits and on-the-spot verifications of expenditure.

The PO is obliged to ensure there is a system for recording and keeping of accounting records in electronic form for each project within the programme. Furthermore, it collects information on implementation which is necessary for financial management, reporting, monitoring, verification, audits and evaluation of the FM 3.

The entities of the FM 3 implementation structure in the Czech Republic are obliged to keep accounts or tax records in accordance with Czech regulations. The recipients of FM 3 funds who keep their accounts¹⁵ pursuant to Act No 563/1991, on accounting, they are obliged to ensure a clear assignment to each project/programme of all transactions directly related to the project/programme in their accounting systems.

In case of receipt of funds from the FM 3, the recipients who do not keep accounts pursuant to Act No 563/1991, on accounting, shall keep tax records pursuant to Act No 586/1992, on income taxes, extended to include the following requirements that will be mentioned in the legal act on allocation of funds, namely that:

1. the relevant document shall meet the prerequisites for accounting documents in accordance with Article 11 of Act No 563/1991, on accounting (with the exception of item f);
2. the documents in question must be correct, complete, conclusive, comprehensive and chronologically kept in a manner that guarantees their sustainability;
3. within an inspection of FM 3 funds, the Project Promoter will provide the control authority on demand with its tax records in their entirety;

¹⁴ The use of alternative options may limit or possibly prohibit the PO in the case of Czech Project Promoters.

¹⁵ It includes both double-entry and simple accounting. The accounting of cost must be documented by an output from the accounting system (in PDF or Microsoft Excel), which must clearly identify from what accounting system and when it was generated. In the case of simple accounting, it is possible to submit a scan of the books.

4. the revenues and expenditure are kept with a clear link to the appropriate project to which they are connected.

4.2.1 Direct expenditure

Direct expenditure are all eligible expenditure that are directly related to the implementation of the programme/project and can be clearly identified without further calculations. However, if direct expenditure is only partially reported for FM 3 in the books¹⁶, in order to ensure a proper audit trail and a verifiable accounting record, there must be a reasoned calculation to verify the amount of expenditure reported in FM 3.

4.2.2 Standard scale of unit costs

A grant provided to the project may take the form of *a standard scale of unit costs*.

In this case, the amount of the grant shall be determined in one of the following ways:

1. in accordance with the rules for the application of the relevant standard scales of unit costs that are used for similar types of projects and stakeholders in EU policies;
2. in accordance with the rules for the application of the respective standard scales of unit costs that are used for similar types of projects and stakeholders within grant schemes fully financed by the receiving State in which the Project promoter or the partner has its registered office, or the donor State if Project Partner from the donor State has it has its registered office there.

Each use of the existing rules for the application of the relevant standard scales of unit costs must be assessed by the PO in such a way that the method is applied to similar types of projects and stakeholders, ensuring that the method is used as a whole.

The maximum amount of the grant (or part thereof) is then equal to the product of the units of the relevant eligible cost item and the specified unit rate.

The use of standard scales of unit costs, their amount and how they are determined must be specified in the legal act on the allocation of funds. The use of standard scales of unit costs, their amount and how they are calculated in the case of a project partner must be determined in a partnership agreement between the Project Promoter and the project partner.

Where standard scales of unit costs are applied, the demonstration of costs is limited to the demonstration of the relevant units. The use of standard scales of unit costs may be applied to all types of eligible expenditure where this is allowed in the Programme Agreement and in the relevant call for proposals.

4.2.3 Indirect costs

Indirect costs are all eligible costs which the PO, Project Promoter or Project Partner (hereinafter in this Chapter as “recipient”) cannot directly identify as the project/programme costs, but which can be identified and justified in their accounting system as costs incurred in direct connection with the eligible direct costs of the project/programme. They do not include any eligible direct costs. Eligible indirect costs

¹⁶ E.g. the remaining part of the costs resulting from the invoice is reported in a programme financed from a different source.

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of a project/programme represent a reasonable share of indirect costs of all indirect costs of a recipient. Their amount can be determined using one of the following methods¹⁷:

1. direct proof of indirect costs:
 - based on actual indirect costs of recipients who have an accounting system that identifies their indirect costs relating to the project/programme, as described above;
2. in the case where the *promoter* does not make use of the amount referred to in point 1 above, it may choose:
 - a) reporting a flat rate of up to 25% of its total direct eligible cost. Any eligible subcontracting costs (based on a contract/order), including costs for third party funds that the *promoter* does not use on its premises, must be deducted from the total direct eligible costs. The purpose of this measure is to prevent duplicities in case of direct costs of the project/programme and thereby their artificial increase for the purposes of increasing indirect costs.
 - b) reporting at a flat rate of up to 15% of eligible direct costs per employee without requiring the Program Intermediary to perform a calculation to determine the rate used.
 - c) flat rate reporting applied to direct eligible cost on the basis of existing methods and corresponding rates applied to similar types of projects and Project Promoters in European Union policies¹⁸.
 - d) if the Project Promoter or Project Partner is an international organization or its component or agency, a procedure where indirect costs may be identified in accordance with the specific rules set out by these organizations in accordance with the specific measures in the Programme Agreement.

For the above-mentioned indirect costs reported by flat rate in points (a) – (c), the *Promoter* is not required to submit to the Programme Operator any accounting documents or a report confirming the costs in accordance with the set rules. However, the method of calculating indirect costs and their maximum amount must be set for Project Promoters in the legal act on the allocation of funds, possibly in a partnership agreement between the Project Promoter and the Project Partner. In the case of point (d), the situation depends on the rules of the relevant international organization or its component/agency. The determination of the amount of the fixed rate under (a) must be based on an impartial, fair and verifiable calculation or calculation method that applies to national grants financed exclusively from national funds in the case of similar projects and *promoters*.

5 BANK ACCOUNTS

In accordance with the Regulations, The CA opens and maintains a separate bank account reserved for FM 3 funds. The funds provided to the Czech Republic from FM 3 are deposited in the current account of the MoF – National Fund (hereinafter the “NF”) for

¹⁷ In the case of programme costs, only the methods referred to in points 1, 2(a) and 2(b) may be used.

¹⁸ E.g. Horizon 2020.

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receiving and administering funds from FM 3 opened with the CNB (so-called “CA source account”)¹⁹. The source account of the CA is in EUR.

Every PO must open²⁰ and keep a separate bank interest-bearing account²¹ for funds for “regranting” and a separate bank account for “other payments” (expenditure on programme management and support for bilateral relations). Interest on funds in the account for “regranting” are reported once a year to FMO (see Chapter 6 *Administration of interest*), interest on funds on the account for “other payments” are part of the income of the PO. If the accounts do not bear interest, it is possible to have one analytically divided account.

In accordance with Chapter 10 *Financial flows*, all POs involved in the implementation of FM 3 open and maintain their bank accounts in CZK²². Where the Czech national legislation restricts the establishment of an independent bank account, the funds remain until their payment to the PO / Project Promoter against the actual expenditure incurred on the CA’s source account. The transfer of funds from the CA’s source account to the PO / Project Promoter is carried out in accordance with Chapter 10 *Financial flows*.

For the settlement of exchange rate differences and income of recoveries, the CA keeps a current bank account in CZK with the CNB (“universal account”). If necessary, the universal account is subsidized from the chapter General Treasury Administration (MoF), which contains the necessary funds earmarked from the budget.

The disposal rights for the source bank account and the universal account lie with the CA employees appointed by the Deputy Minister of Finance (for Section 06). The principle of double signature applies to disposing with the CA bank accounts.

Funds on CA bank accounts are not considered SB funds. Balances on these accounts are automatically transferred to the next year after the end of the calendar year.

6 ADMINISTRATION OF INTEREST

With respect to the legislative amendments effective from 1 January 2013, it is no longer possible, in the case of the CA and the POs connected to the state budget, to maintain separate bank accounts with interest-bearing deposits and thereby to report such interests in respect of the FMO. For this reason, in FM 3, only all the interest accrued on bank accounts kept for “regranting” of those Operators who are not linked to the State budget is reported to FMO and considered to be a FMO source.

The CA always verifies the accuracy of the interest reported by the PO.

CA annually reports all the interest credited to the Czech Republic’s accounts to the FMO via the IFR for the period July to December. The interest declared is not paid to the FMO on an ongoing basis, but the cumulative amount will be taken into account in the final balance of each programme.

¹⁹ In accordance with Act No 218/2000, on budgetary rules.

²⁰ Unless contrary to national specifics. If it is not possible to open and maintain 2 accounts, the funds on the current account are to be visibly separated with help of analytical evidence.

²¹ Considering national specifics, please see more details in Chapter 6 *Administration of interest*.

²² Only in the case of programmes CZ – Humanrights, CZ – Governance and CZ – BF, a bank account maintained in EUR can be set up to transfer funds to foreign entities.

The Czech Republic also has the obligation to report the default interest arising from any delay in reimbursement of funds to the FMO in accordance with Chapter 9.3 *Reimbursement*.

7 PUBLIC PROCUREMENT

Each implementation structure entity carrying out public procurement shall act in accordance with Act No 134/2016, on public procurement, and with the general principles of the Treaty on the Functioning of the EU. These principles include in particular the free movement of goods, free movement of services, right of establishment, non-discrimination, equal treatment, transparency, proportionality and mutual recognition of certificates.

These entities must always act in accordance with the NFP Guideline on procurement of small-scale contracts financed from the EEA and Norwegian FM 2014–2021.

8 IRREGULARITIES

An irregularity means any breach of the legal regulations governing the FM 3, European Union law and national legislation, if such a breach could affect or threaten any stage in the implementation of the FM 3 in the Czech Republic, especially the implementation and/or budget of any programme, project or other activities funded from the FM 3. Irregularities in programmes and projects include both unjustified and disproportionate expenditure, as well as incorrectly reported amounts of income created by the project/programme.

However, irregularities exclude ineligible expenditure of State organisational units and entities which pre-financed expenditure from their own funds, provided that such ineligible cost is detected and sufficient financial correction is made before the approval of the payment application of the FM 3 Programme Operator²³. Furthermore, irregularities also exclude ineligible cost at the level of a recipient, if it concerns grant provided in the ex-ante scheme and also provided that such ineligible cost is detected and sufficient financial correction is made before the PO's approval of the recipient's payment application. However, these cases shall continue to be treated as suspected breach of budgetary discipline, which shall be solved in compliance with the respective provisions of budgetary rules relating to breach of budgetary discipline (hereinafter the "BBD"). A crime committed in relation to the implementation of programmes or projects co-financed from the EEA and Norway Financial Mechanisms shall always be considered to be an irregularity.

The process of dealing with irregularities includes record-keeping, investigation and reporting of suspected irregularities and actual irregularities, further monitoring thereof and (where applicable) also enforcement/recovery of funds affected by irregularities. The POs are responsible for dealing with irregularities in the individual programmes²⁴.

²³ Only applies to expenses related to the projects themselves (regranting) and bilateral initiatives. When it comes to expenses on program management (management costs), ineligible expenses are always regarded as an irregularities, therefore Article 12.5, paragraph 3 of the Regulation does not apply to these expenses. This means that during the verification of managements cost, if CA identifies that PO incurred ineligible expenses, or if PO identifies that PP incurred ineligible expenses, both are regarded as an irregularities.

²⁴ In the case of Technical Assistance and the Fund for Bilateral Relations, this role is played by the NFP.

8.1 Investigation of irregularities

The entities involved in the implementation of the FM 3 must immediately notify the particular PO of any suspected irregularity. The PO is also obliged to verify other notifications leading to suspected irregularities, which are made by other entities. In the event of a suspected irregularity at the PO level identified by the PO itself, the PO refers the case to the CA for further investigation. If a suspected irregularity at the PO level is identified by an entity different from the PO, the entity is responsible for investigating the irregularity. In a situation where the suspicion of an irregularity is identified in the entities of the national management structure (CA, AA, NFP) that are in the position of the Project Promoters, suspected irregularities are always investigated by the national management structure entity specified in the Methodology, different from the entity where the suspected irregularity was identified.

The PO and the relevant entity of (supra)national management structure investigate individual cases of suspected irregularity in accordance with the procedures outlined in the following subchapters.

8.1.1 Justified suspected irregularities – project level

Any case of:

- a)* quantified finding from the AA final audit report;
- b)* quantified finding from the internal audit final audit report;
- c)* quantified finding from the final audit report of the EFTA Board of Auditors and the Office of the Norwegian Auditor General;
- d)* quantified finding from a completed verification/final audit report of the FMO;
- e)* quantified finding from a completed CA verification;
- f)* quantified finding from a completed SAO verification;
- g)* quantified finding from a completed NFP verification;
- h)* financial correction made by donors in accordance with Article 13.2 of the Regulations,

always constitute a justified suspected irregularity to the extent determined by the above body. The PO is obliged to apply a financial correction not only to the expenditure that was subject to the audit / verification, but also to other expenditures affected by this case of suspected irregularity. Once the funds concerned by the suspected irregularity are recovered / once the FAA decides on a possible partial²⁵ waiver of the deduction, the case becomes an actual irregularity.

²⁵ If the deduction is waived in full, it is not an irregularity except a breach of the budgetary discipline as a result of proven failure of the provider to cooperate, proven mistake of the provider or a situation changed or caused by the State in accordance with Guideline GFR-D-17 on decision-making in cases of requests for waivers of deductions and penalties for breach of budgetary discipline.

If the findings of the above mentioned control bodies lead to a suspected breach of the conditions or obligations laid down in the legal act on the allocation of funds in accordance with Act No 218/2000, on budgetary rules, the PO may act in relevant cases pursuant to Section 14e and Section 14f in accordance with Chapter 8.1.4.1 *Specificity of the cases investigated under the budgetary rules scheme* or the case is referred, together with the relevant documentation, to the relevant FAA for investigation of a suspected breach of budgetary discipline in accordance with Chapter 8.1.4 *Decisions of national authorities*.

If the above bodies identify a suspected crime which relates to an operation co-financed from FM 3 or an administrative delict/offence²⁶ of the contracting authority or contractor within the meaning of Act No 137/2006, on public procurement and the offence of the contracting authority within the meaning of Act No 134/2016, on public procurement, the PO shall act in accordance with Chapter 8.1.4 *Decisions of national authorities*.

The PO shall, where appropriate, recover the funds affected by the findings under the legal regime under which the funds were provided²⁷.

Based on its inquiries and the conclusions of the above-mentioned investigations in accordance with Chapter 8.2 *Reporting on irregularities*, the PO notifies these cases of suspected irregularities to the CA, the other providers of funds under the programme and the entity where the suspected irregularity was identified.

8.1.2 Suspected irregularity – project level

In the event of a suspected irregularity resulting from the PO verifications or if the Programme Operator is notified of a suspected irregularity and it is not a justified suspected irregularity in accordance with Chapter 8.1.1 *Justified suspected irregularities – project level* and the PO does not reject this notified suspected irregularity for obvious lack of merit, the PO shall, without undue delay, initiate or propose to the relevant controlling authority to initiate proceedings under Act No 320/2001, on financial control²⁸, on the basis of which it quantifies the amount of the suspected irregularity and requests the Project Promoter to provide for a remedy. The PO is obliged to apply a financial correction not only to the expenditure that was subject to the verification, but also to other expenditures affected by this case of suspected irregularity. Once the funds concerned by the suspected irregularity are recovered / once the FAA decides on a possible partial²⁹ waiver of the deduction, the case becomes an actual irregularity.

The PO shall state the facts relating to solved irregularities into the report on irregularities in accordance with Chapter 8.2 *Reporting on irregularities* and shall inform the CA or

²⁶ In accordance with Section 112 of Act No 250/2016, on the liability for and proceedings on offences, as well as in subsequent chapters of this methodology.

²⁷ In the case of PO DZS, the enforcement of the deductions for the breach of budgetary discipline by the financial administration bodies is not ensured. Amounts that DZS does not recover from the Project Promoters will be settled in accordance with Chapter 9.2 *Financial corrections* and the funds reimbursed to the founders of PO DZS – MEYS will be reduced, excluding the ineligible expenditures.

²⁸ Whether in a particular case a public control or administration initiated by an internal audit in accordance with Act No 320/2001, on financial control, depends on the nature of the entity in which the suspected irregularity occurred.

²⁹ If the deduction is waived in full, it is not an irregularity except a breach of the budgetary discipline as a result of proven failure of the provider to cooperate, proven mistake of the provider or a situation changed or caused by the State in accordance with Guideline GFŘ-D-17 on decision-making in cases of requests for waivers of deductions and penalties for breach of budgetary discipline.

any other providers of funds under the programme and the entity in which the suspected irregularity occurred.

If the PO concludes a suspected breach of the conditions or obligations laid down in the legal act on the allocation of funds in accordance with Act No 218/2000, on budgetary rules, the PO may act in relevant cases pursuant to Section 14e and Section 14f in accordance with Chapter 8.1.4.1 *Specificity of the cases investigated under the budgetary rules scheme* or the case is referred, together with the relevant documentation, directly to the relevant FAA for investigation of a suspected breach of budgetary discipline in accordance with Chapter 8.1.4 *Decisions of national authorities*.

If the PO concludes, at any phase of the irregularity procedure, a suspected crime was committed which relates to an operation co-financed from FM 3 or an administrative delict/offence of the contracting authority or contractor within the meaning of Act No 137/2006, on public contracts and the offence of the contracting authority within the meaning of Act No 134/2016, on public procurement, they shall act in accordance with Chapter 8.1.4 *Decisions of national authorities*.

The PO shall, where appropriate, recover the funds affected by the findings under the legal regime under which the funds were provided.³⁰

8.1.3 Resolving of suspected irregularities identified at the level of the PO, CA, AA and NFP

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

If there is a suspicion of irregularity in a situation where the AA or the CA are in the position of the Project Promoter, the NFP is responsible for the confirmation of the irregularity and for proper quantification of the amount to which the irregularity relates. In case of any irregularity in a situation where the NFP is in the position of the Project Promoter, the CA is responsible for the proper quantification of the amount to which the irregularity relates.

³⁰ See footnote No 27

If a suspected irregularity at the level of the PO in the position of the Project Promoter is identified, the competent entity which identified the suspected irregularity within its controlling activities or which was notified of the suspected irregularity³¹ by the PO is responsible for the investigation and due quantification of the amount of irregularity. Suspected irregularities at the level of POs identified by entities outside the national control structure shall always be notified by the PO to the CA in accordance with Chapter 14.3 *Documents collected for the purposes of certification*. The CA, the NFP and the AA shall inform each other of the adoption of appropriate corrective and preventive measures for systemic irregularities. If the findings of the entity which investigated and concluded the irregularity show an impact on other expenditure of the PO subject to the investigation, the PO must investigate all expenditure affecting the findings of the investigating entity, and then quantify the amount of the irregularity and report it to the CA.

The case is reported to the FMO as a suspected irregularity until the funds concerned by the suspected irregularity are recovered or, where applicable the FAA decides on the waiver of the deduction. Upon recovery / partial³² waiver by the FAA, the case becomes an actual irregularity.

If the CA, the AA or the NFP suspects, during any phase of resolving irregularities, the breach of budgetary discipline in accordance with Act No 218/2000, on budgetary rules, the commission of a crime which relates to an operation co-financed from FM 3 or an administrative delict/offence of the contracting authority or contractor within the meaning of Act No 137/2006, on public procurement and the offence of the contracting authority within the meaning of Act No 134/2016, on public procurement, they shall act in accordance with Chapter 8.1.4 *Decisions of national authorities*.

8.1.4 Decisions of national authorities

If:

1. there is a suspected irregularity, which consists in the suspicion of breach of budgetary discipline³³ according to Act No 218/2000, on budgetary rules, and the PO refers the case, together with relevant documentation, to the respective FAA for further investigation of the suspected breach of budgetary discipline. The PO shall include these facts in the summary of irregularities and, in accordance with Chapter 8.2 *Reporting on irregularities*, informs the CA, the AA, any other providers of grants in the given programme and the entity in which the suspected irregularity was detected.

³¹ In a situation where the NFP identifies a suspected irregularity in a programme where the NFP is at the same time the Programme Operator, the NFP does not initiate an investigation into the case of suspected irregularity, but reports the case to the CA and refers it to the competent FAA for further investigation of suspected breach of budgetary discipline.

³² If the deduction is waived in full, it is not an irregularity except a breach of the budgetary discipline as a result of proven failure of the provider to cooperate, proven mistake of the provider or a situation changed or caused by the State in accordance with Guideline GFR-D-17 on decision-making in cases of requests for waivers of deductions and penalties for breach of budgetary discipline.

³³ In the case of suspected breach of budgetary discipline according to Act No 218/2000, on budgetary rules, the FAA shall decide whether there was a breach of budgetary discipline or not. Such a decision of FAA on a deduction may be supplemented by the use of corrective or supervisory means according to Act No 280/2009, on tax rules, including the application of waiver in accordance with Act No 218/2000, on budgetary rules, provided that the amount of the irregularity notified as confirmed reflects the results of these follow-up proceedings.

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Relevant documentation shall mean, in particular:

- a) the identification of the project promoter (name, address, Identification Number);
- b) identification of the project in which BBD may have occurred (name and number of the project);
- c) legal act on the allocation of funds, including attachments;
- d) protocol on verification, including follow-up documentation;
- e) documents or other proofs found during the verification indicating BBD;
- f) information on the state of implementation/financing of the project.

If the respective FAA decides that there has been BBD in accordance with the Budgetary Rules Act, the PO is obliged to respect the final decision of the FAA and to confirm the irregularity / adjust the irregularity to match the amount of the detected BBD, and update the reported irregularity to the CA.

A breach of budgetary discipline is a confirmed irregularity only after 1 year from the moment, when the decision of the FAA became final. In case a request for waiver or partial waiver of the levy for breach of budgetary discipline in compliance with Section 44a(13) of Act No 218/2000, on budgetary rules, is submitted within one year, the irregularity is confirmed when the decision on waiver becomes final; depending on the moment of termination of the waiver proceedings and the decision becoming final, the irregularity may be confirmed before the expiry of this one-year period or later.

Amounts of recovered funds corresponding to the share of FM 3 funds shall be transferred by the FAA to the universal account of the CA in accordance with Section 44a of Act No 218/2000, on budgetary rules. The CA shall immediately inform the respective PO on the receipt of these funds. The amounts corresponding to the share of the funds provided from the State budget are transferred by the FAA to the State budget in accordance with Section 44a(1) and (3) of Act No 218/2000, on budgetary rules.

2. there is a suspected irregularity which consists in a suspicion of a crime related to an operation co-financed from FM 3, the PO shall refer the case within the meaning of Section 8 of act No 141/1961, the Criminal Procedure Code, to a public prosecutor or a police body. The PO shall include these facts in the summary of irregularities and, in accordance with Chapter 8.2 *Reporting on irregularities*, informs the CA, the AA, any other providers of grants in the given programme and the entity in which the suspected irregularity was detected.

If the competent court decides that a crime in accordance with the Criminal Code or Act No 418/2011, on criminal liability of and proceedings against legal persons, was committed, the PO must respect the final decision of the court and confirm the irregularity or, where relevant, modify the quantification of the irregularity so that it corresponds to the nature of the crime and notify the updated irregularity to the CA.

3. there is a suspected administrative delict/offence committed by the contracting authority or contractor within the meaning of Act No 137/2006, on public procurement and offence of the contracting authority within the meaning of Act No 134/2016, on public procurement, the PO refers this finding to the Office for the Protection of Competition for further investigation. The PO shall include these facts in the summary of irregularities and, in accordance with Chapter 8.2 *Reporting on irregularities*, informs the CA, the AA, any other providers of grants in the given programme and the entity in which the suspected irregularity was detected.

If the OPC decides that there has been an offence within the meaning of Act No 137/2006, on public procurement and Act No 134/2016, on public procurement, the PO is obliged to respect the final decision of the Office and confirm the irregularity and, where relevant, adjust the quantification of the irregularity so that it is equivalent to the nature of the offence and update the reported irregularity to the CA.

The PO is responsible for taking appropriate measures in order to remedy the situation and prevent further occurrence of the irregularity at the level of the PO / Project Promoter.

In case of suspicion of other offences, the PO acts in accordance with the relevant legal regulations.

8.1.4.1. Specificity of cases investigated under the budgetary rules scheme

If a provider of funds identifies, during investigation of suspected irregularity, a breach of conditions or obligations laid down in a legal act on the allocation of funds in accordance with Act No 218/2000, on budgetary rules, it may resolve the suspected irregularity by itself in the below cases, without immediately referring the case to the competent FAA.

The measures are of preventive nature; in principle, they do not even constitute a suspected BBD or any irregularity:

1. The provider of the grant is entitled not to pay the grant provided ex-post or its part if the Project Promoter breached an obligation determined in a legal regulation, did not comply with the purpose of the grant or conditions under which the grant was provided (Section 14e of Act No 218/2000), an ineligible cost was discovered and deducted from eligible expenditure before the payment application was approved. The grant provider shall inform the FM 3 Project Promoter and the FAA of such a measure³⁴. The FM 3 Project Promoter is entitled to submit objections against this measure. The provider of the grant shall inform the competent FAA of any decision on objections. In accordance with the definition of irregularity, the expenditure of a State organisational unit from their own budgets still constitutes suspected BBD.

³⁴ In accordance with Section 44a(6) of Act No 218/2000, the provider is recommended to record the individual breaches and to inform the FAA only after exceeding the CZK 1,000 limit in total for all breaches in relation to one grant or the total funds used.

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2. If the grant provider believes, on basis of verification findings, that the FM 3 Project Promoter breached a condition under which the grant was provided, paid and its remedy is possible in an additional period, the provider requests the FM 3 Project Promoter to take remedial measures and determines the period for its implementation (Section 14f(1) of Act No 218/2000). The grant provider shall inform the FAA³⁵ without undue delay about the request and the response to the request. To the extent that the recipient of the FM 3 funds has taken remedial action, there has been no BBD or irregularity.

Cases of suspected BBD as well as inconsistency:

3. The grant provider is entitled not to pay a grant provided upon an ex-post request or its part if, in the past in relation to expenditure already reported and approved in a payment application, the FM 3 Project Promoter breached an obligation determined by a legal regulation, did not comply with the purpose of the grant or conditions for the provision of the grant (Section 14e of Act No 218/2000). The grant provider shall inform the FM3 Project Promoter and the FAA of such a measure³⁶. The FM 3 Project Promoter is entitled to submit objections against this measure. The provider of the grant shall inform the competent FAA of any decision on objections. Such a case constitutes an irregularity.
4. The grant provider is entitled to reduce a grant provided upon an ex-post request or its part if, in the past in relation to expenditure already paid (in advance payments), the FM 3 Project Promoter breached an obligation determined by a legal regulation, did not comply with the purpose of the grant or conditions for the provision of the grant (Section 14e of Act No 218/2000). The grant provider shall inform the FM3 Project Promoter and the FAA of such a measure. The FM 3 Project Promoter is entitled to submit objections against this measure. The provider of the grant shall inform the competent FAA of any decision on objections³⁷. Such a case constitutes an irregularity.
5. If the grant provider believes, on basis of a verification finding, that the FM 3 Project Promoter breached an obligation laid down in a legal regulation, did not comply with the purpose of the grant or conditions for the provision and payment of the grant and it is not possible to request the Project Promoter to provide for a remedy, the provider shall request the FM 3 Project Promoter to return the grant or its part (Section 14f(3) of Act No 218/2000). The provider shall inform the respective FAA³⁸ without undue delay on the request to the Project Promoter for recovery of the grant and of the response to the request. The provider receives the refunded grant on the NF's foreign funds / (source) account and informs the CA of the receipt. Such a case constitutes an irregularity.

³⁵ See footnote No 34

³⁶ See footnote No 34

³⁷ See footnote No 34

³⁸ See footnote No 34

If the FM 3 Project Promoter is requested to take a remedial measure or return a grant, but the PP does not comply with requirements resulting from the request, the case is referred, together with the relevant documentation, to the respective FAA for investigation of suspected breach of budgetary discipline in compliance with Chapter 8.1.4 *Decisions of national authorities*.

The PO is obliged to monitor development of procedures held by the FAA, which relate to projects of their programme. Information on amounts enforced and returned through the FAA may be acquired by the provider of the grant according to Act No 218/2000, on budgetary rules, through electronic request service to IS CEDR. In accordance with Section 44a(11) of Act No 218/2000, on budgetary rules, access to information relating to the administration of payments for BBD is granted to other bodies authorised to control these funds. These bodies include the PO, authorities of EEA countries and further administration authorities participating in administration of these funds provided from abroad. The providers themselves then participate in the quality of outputs from IS CEDR by fulfilling their obligation under Section 75b of Act No 218/2000, on budgetary rules to record the data on the FM 3 funds provided and their recipients in IS CEDR within the time limits set by Decree No 286/2007, on the central register of grants.

8.2 Reporting on irregularities

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

The relevant PO is responsible for proper reporting to the CA of irregularities at the project level. If, on the basis of the procedures in Chapter 8.1 *Investigation of irregularities*, an irregularity arises in accordance with Chapter 8.2.1 *Immediate reporting on irregularities to the FMO*, the Programme Operator shall promptly send a report on the irregularity to the CA and the AA. In other cases, the individual POs shall submit to the CA reports of new irregularities, which resulted from investigation in compliance with Chapter 8.1 *Investigation of irregularities*, and the progress towards the resolution of the already reported irregularities within one month after the end of each quarter. When no new irregularities arise or no new measures are taken regarding already reported irregularities in a given quarter, the PO shall inform the CA of this fact within one month after the end of the quarter. Reports on the progress towards the resolution of the already reported irregularities are sent by the PO at least until the relevant cases of irregularities have been closed by the FMO in the donors’ information systems. If a case is open at the level of the Czech Republic even after the FMO closes the case from their side (e.g. unresolved recoveries, credits, etc.), the PO will continue to report to the CA on the progress towards the resolution of the already reported irregularities until the case is closed at the level of the Czech Republic. The PO shall work with the CA to ensure timely, correct and complete reporting of irregularities to the FMO. The report on new irregularities and the progress towards the resolution of the already reported irregularities shall be submitted by the PO in a format that is based on Annex 9 of the Regulations. The PO shall regularly or immediately inform the CA on all or any irregularities, including cases referred to in Chapter 8.2.4 *Reporting on irregularities upon request by the FMO*.

The body of the national management structure (AA, NFP) that identified the suspected irregularity of the PO acting as the Project Promoter, and the PO to which the

verification/audit report was delivered are responsible for reporting the irregularity to the CA. The PO/AA/NFP inform the CA about the identified irregularities on a continuous basis. The PO/AA/NFP inform the CA about the progress towards the resolution of the reported irregularities within one month after the end of each quarter. The PO/AA/NFP cooperate with the CA in order to ensure timely, due and complete provision of reports on irregularities to the FMO. The report on new irregularities and the procedure for solving the reported irregularities is submitted by the PO/AA/NFP in the format of Annex 9 to the Regulations / through audit or verification reports / through email communication.

The CA is responsible for the preparation of reports of irregularities and their reporting via IS GRACE to the FMO; the CA shall prepare reports to the FMO on irregularities and on any measures taken by the competent national authorities for the prevention, detection, investigation or remedy of these irregularities.

For the purpose of reporting irregularities to the FMO in EUR, if an expenditure did not enter into certification, use is made of the monthly CZK/EUR reporting rate of the European Commission valid for the day when the expenditure was accounted by the Programme Operator. If the expenditure affected by the irregularity has already been certified, use is made of the monthly CZK/EUR reporting rate of the European Commission valid for the month during which the expenditure is reported in IFR as ineligible to the FMO. In the case of irregularities the expenditure of which has not yet been accounted for at the level of the PO, use is made of the monthly CZK/EUR reporting rate of the European Commission, valid for the month of the expenditure.

8.2.1 Immediate reporting on irregularities to the FMO

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

1. they involve allegations of an act or omission which constitutes a criminal offence under the legislation of the Czech Republic, such as corruption, fraud bribery or embezzlement; or
2. they indicate the presence of serious mismanagement which affects the use of financial contributions from the FM 3; or
3. they pose an immediate threat to the successful completion of the project, due to the amounts in proportion to the total project cost, their gravity or any other reason (the amount of irregularity is equal to or greater than 30% of the project allocation); or
4. there is a suspected irregularity concerning an expenditure actually incurred as part of the current IFR reported by the PO to the CA and which could not later be reported as eligible to the FMO if the suspicion is disproved³⁹.

After receiving the information about this irregularity, the CA shall immediately send an irregularities report to the FMO (it shall also inform the AA, the PO and the NFP). The mandatory requirements for immediate reporting of irregularities are similar to those for regular reporting of irregularities.

³⁹ The CA shall also exclude this expenditure from IFR. If a suspected irregularity is not confirmed, the PO is entitled to include this expenditure into the next IFR submitted to the CA, including an appropriate explanation (considering the time eligibility of cost).

8.2.2 Regular reports on new irregularities to the FMO

In the case of irregularities other than those listed in Chapter 8.2.1 *Immediate reporting on irregularities to the FMO* or Chapter 8.2.4 *Reporting on irregularities upon request by the FMO*, the CA shall send a report to the FMO (it shall also inform the AA, the PO and the NFP) describing all cases of irregularities newly identified in the given quarter within two months from the end of each quarter.

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

8.2.3 Reporting on progress regarding already reported irregularities to the FMO

Within two months after the end of each calendar quarter, the CA shall, together with each report on new irregularities (see previous section), submit to the FMO a report on the progress towards the resolution of the already reported irregularities, which has been achieved in the investigation and remedying the reported irregularities.

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

8.2.4 Reporting on irregularities upon request by the FMO

In the following cases of irregularities in the regranting projects and the Fund for Bilateral Relations, it is not necessary to report irregularities to the FMO if the FMO does not request it:

1. cases where the irregularity consists solely in the failure to implement a project, in whole or in part, owing to the bankruptcy of the Project Promoter (does not apply to irregularities that are to be reported immediately); or
2. cases, which are detected and corrected by the PO, NFP or CA during the verification of the expenditure declared; or
3. cases, which relate to an amount below EUR 2 000,- in contribution from the FM3. In the case of irregularities related to non-compliance with public procurement rules, this amount refers to the overall value of the contract which is affected by the irregularity.

The above procedure does not cover irregularities to be reported immediately in accordance with Chapter 8.2.1 *Immediate reporting on irregularities to the FMO*, or irregularities that preceded the bankruptcy of the FM 3 Project Promoter.

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

CA keeps an overview of irregularities that do not need to be reported to FMO.

8.3 Mechanism for complaints

The submission of complaints regarding the suspected breach of the principles of good governance within the implementation of the FM 3 is governed by the national legislation of the Czech Republic⁴⁰. The NFP has an obligation to publish on their FM 3 website the

⁴⁰ In accordance with Article 175 of Act No 500/2004, the Code of Administrative Procedure.

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complaints procedure and, if any suspected irregularity results from any complaints, then the NFP shall notify irregularities according to their nature and in compliance with Chapter 8.2 *Reporting on irregularities*.

The CA shall promptly report to the FMO any complaints regarding suspected irregularities according to Chapter 8.2.1 *Immediate reporting on irregularities to the FMO*. Complaints regarding suspected irregularities of other kind shall be reported by the CA to the FMO in accordance with Chapters 8.2.2 *Regular reports to the FMO on new irregularities* and 8.2.3 *Reporting on progress regarding already reported irregularities to the FMO*.

9 SUSPENSION OF PAYMENTS, FINANCIAL CORRECTIONS AND RECOVERY OF AMOUNTS

9.1 Suspension of payments

The FMO/NFP⁴¹ may decide, in accordance with Articles 13.1 and 6.8.3(i) of the Regulations, to suspend payments to programmes if one or more of the following circumstances occur:

1. the payment terms have not been complied with in accordance with Part II *Financial management* and the Programme Agreement;
2. there is credible information indicating that progress in the implementation of the programme is not in accordance with the Programme Agreement;
3. reports referred to in the Regulations (Annual Programme Report and the Irregularities Report) or any other required information was not provided or is incomplete;
4. the access of the employees of external bodies carrying out monitoring and auditing required by the Regulations and the Programme Agreement is restricted;
5. the financial management of the programme is not in conformity with generally accepted accounting principles;
6. there have been suspected irregularities or confirmed irregularities, or such cases were not adequately reported, investigated and remedied;
7. during the implementation of the programme, there has been a breach of national legislation or EU legislation;
8. there has been a substantial change in circumstances, under which the implementation of FM 3 was originally set in the Czech Republic, and the circumstances have a significant impact on the financial contribution from the FM 3 provided for the programme;
9. the NFP, the CA or the PO or on behalf of them, an information was provided which substantially distorts reality and it may thereby substantially influence the implementation of the Programme Agreement;
10. proceedings were initiated in accordance with Chapter 9.2.2 *Procedure of granting corrections by the FMO*;
11. the NFP, the CA or the PO have not fulfilled their other obligations under the Programme Agreement or under the Regulations.

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

The NFP⁴² and the PO have, except in urgent cases, the right to present their views before the FMO decides to suspend payments. The PO shall present its opinion through the NFP by the deadlines determined by the NFP. The NFP shall ensure uniform and coordinated

⁴¹ It does not apply to NFP in points 9 and 11 of this Chapter.

⁴² In the case of suspension of payments by the FMO.

position for the FMO. The decision to suspend payment by the FMO must be justified and is immediately effective. The NFP and the PO are informed within seven working days from the date of the decision.

The NFP⁴³ and/or the PO may at any time submit documents or other relevant evidence and require the FMO to review its decision to suspend payments.

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

9.2 Financial corrections

In the Czech Republic, the Certifying Authority makes financial corrections arising from individual and systemic irregularities at the level of programmes, including payments to projects. If the funds have not yet been included in the statement of expenditure actually incurred, or were excluded from the IFR/FB statement of expenditure actually incurred by the PO or CO during the certification due to suspected irregularity, the procedure in Chapter 3.3 *Interim payments at national level* shall apply.

If such funds have already been certified, the Certifying Authority shall deduct the expenditure in the amount corresponding to the actual irregularity reported in the programme from the IFR/FPR statement of actually incurred expenditure, generally during the next certification. The CA shall always, within the communication with the PO/FMO, determine the method of financial correction in IFR/FB.

In addition to financial corrections made at the national level, the FMO may make financial corrections on the basis of the criteria specified in Chapter 9.2.1 *Criteria for financial corrections made by the FMO*, resulting in the cancellation of all or part of the financial contribution from the FM 3 to the programme or for the whole Czech Republic.

The cancelled financial contributions to the project can be reused within the same programme to fund projects other than those that have been subject to corrections. The cancelled financial contributions related to the Fund for Bilateral Relations, Technical Assistance or programme management cost may be reused within the same budget item for expenditures other than those subject to financial correction.

If financial corrections are made due to a systemic irregularity or irregularities in the management or control system of the programme, the financial contribution may not be reused within the same programme. The financial contribution may in this case be used in another programme in accordance with the procedures under Article 6.9 of the Regulations, which regulates programme changes.

9.2.1 Criteria for financial corrections made by the FMO

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

- a) there is a serious deficiency in the management and control systems established for FM 3 in the Czech Republic, which threatens the financial contributions from the FM 3;
- b) there has been a serious breach of the Programme Agreement;

⁴³ In the case of suspension of payments by the FMO.

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- c) there is a serious deficiency in the management and control system which threatens the financial contributions from the FM 3;
- d) expenditure reported in the certified IFR or the FPR are incorrect and were not corrected by the CA, the PO or the NFP before sending a notification on a possible correction of the FMO contribution (see Chapter 9.2.2 *Procedure of granting corrections by the FMO*);
- e) the NFP and/or the PO have not fulfilled their obligation to investigate or remedy the irregularities before sending a notification to the FMO on a possible correction of the contribution.

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

9.2.2 Procedure of granting corrections by the FMO

Before making the decision to grant financial corrections, the FMO notifies its intention to make such a decision to the NFP. The notification shall state the reason for the decision and the relevant amount of the correction. The NFP may provide the FMO with any documents relevant for reversing the decision within two months after the notification of the intention to issue correction has been sent.

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

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

The NFP will receive a notification of the decision to grant financial correction within seven working days after the date of the FMO decision. The notification shall state the reasons for the FMO decision.

9.3 Reimbursement

The Czech Republic must, through the CA, pay back to the FMO the required amount within three months after the decision in accordance with Chapter 9.2 *Financial corrections*.

The FMO waives claims for the return of funds from the Czech Republic – the CA where these were the subject of irregularities in the project, if the NFP proves that the loss and the circumstances connected with it were not due to negligent performance or failure to

perform the obligations by the NFP, the CA, the AA and the PO and at the same time the NFP and the PO took all reasonable steps to recover these funds.

The refunds by the Czech Republic – the CA to the FMO are not dependent on the payments from the PO or the Project Promoter. The funds are transferred from the source bank account to the FMO bank account.

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

9.4 General suspension of payments to the Czech Republic

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

1. information or documents received by the FMO or submitted to the FMO indicate the presence of systemic or widespread deficiencies in the management of the financial contribution from the FM 3 in the Czech Republic; or
2. the Czech Republic did not meet the requirement for the refund of any type of aid from FM 1 or FM 2.

The procedures referred to in the first, third and fourth paragraphs of Chapter 9.2.2 *Procedure of granting corrections by the FMO* are applied by analogy to the general suspension of payments to the Czech Republic.

10 FINANCIAL FLOWS

10.1 Financial flows between the FMO and the Czech Republic

Financial flows between the FMO and the Czech Republic (the CA) are performed based on advance payments, interim payments and final balance payments in accordance with Chapter 3 *FMO payments to the CA*.

The FMO provides funding in EUR. Funds in the source account of the CA are also managed in EUR until they are paid to the PO / Project Promoter.

10.2 Financial flows between the CA and the PO

The methods of reimbursement/disbursement of funds by the CA in favour of the PO / Project Promoter are different depending on the character of the PO / Project Promoter. The CA will only reimburse/disburse PO / Project Promoter grants, not co-financing.

The following entities are listed as Programme Operators in the MoU:

1. Ministry of Finance – 5 programmes;
2. Ministry of Finance – the NFP – Technical Assistance (hereinafter the “TA”) and the Fund for Bilateral Relations (hereinafter the “BF”);

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3. The Centre for International Cooperation in Education (hereinafter the “DZS”) – 1 programme;
4. Ministry of the Interior (hereinafter the “MoI”) – 1 programme;
5. State Environmental Fund of the Czech Republic (hereinafter the “SEF”) – 1 programme;
6. Technological Agency of the Czech Republic (hereinafter TA CR) – 1 programme.

**10.2.1 OUS as the Programme Operator – MoF , MoI, TA CR , SCO
DZS and SEF**

This situation arises in the case of the POs specified in points 2, 3, 4, 5 and 6 of Chapter 10.2 *Financial flows between the CA and the PO*. The MoF – NFP Operator is concerned by this flow only when the funds are budgeted in the MoF chapter and the PO does not require advance payments from the FMO to cover its planned cost. It therefore applies only to the programmes Technical Assistance and the Fund for Bilateral Cooperation, where the OUSs and SCOs are the Project Promoters.

This system of financial flows from the FM 3 budget is based on the principle of pre-financing of funds from the SB / State Fund and the subsequent transfer of funds to the account of the relevant chapter administrator / account of the State Fund from the CA source account. The funds from the CA source account are transferred to lower levels of FM 3 implementation in CZK. After the signing of the Programme Agreement (if it follows from the programme setting), the FMO releases an advance payment which is then left by the CA on their source account until the submission of the first IFR.

During the accounting period, the Project Promoter sends to the Programme Operator either an ex-post payment application regarding the requirements for subsequent reimbursement of already incurred and documented expenditure or an ex-ante payment application requesting transfer of funds to the Project Promoter before incurring the actual expenditure. If this is not the first ex-ante payment application, it must include the PO's account of expenditure incurred for the past monitoring period. The Project Promoter processes the payment application in CZK. For each application, the PO shall perform checks to verify its factual accuracy and the eligibility of the reported expenditure. On the basis of these verifications, it subsequently releases the required funds to the Project Promoter. Together with the FM 3 funds sent to the Project Promoters, the PO always releases and sends⁴⁴ the funds of programme co-financing⁴⁵ in the proportion that is set in the relevant Programme Agreement.

If the Project Promoter is an OUS or an SCO, it shall provide pre-financing of its budgeted funds in accordance with Chapter 10.3 *Specificity of financial flows in the case of Project Promoters OUSs and SCOs*.

After the reporting period ends, in accordance with Chapter 3.3 *Interim payments at national level* the PO prepares and submits to the CA for certification an interim financial report stating the actual expenditure incurred by the Programme Operator and the Project Promoters (SOUs / SCOs) for the given period and the funds requested by the PO for the immediately following reporting period of the proposed expenditure. Through the

⁴⁴ Not applicable to Project Promoter = OUS and SCO.

⁴⁵ There is no programme co-financing in the programmes Technical Assistance and the Fund for Bilateral Relations.

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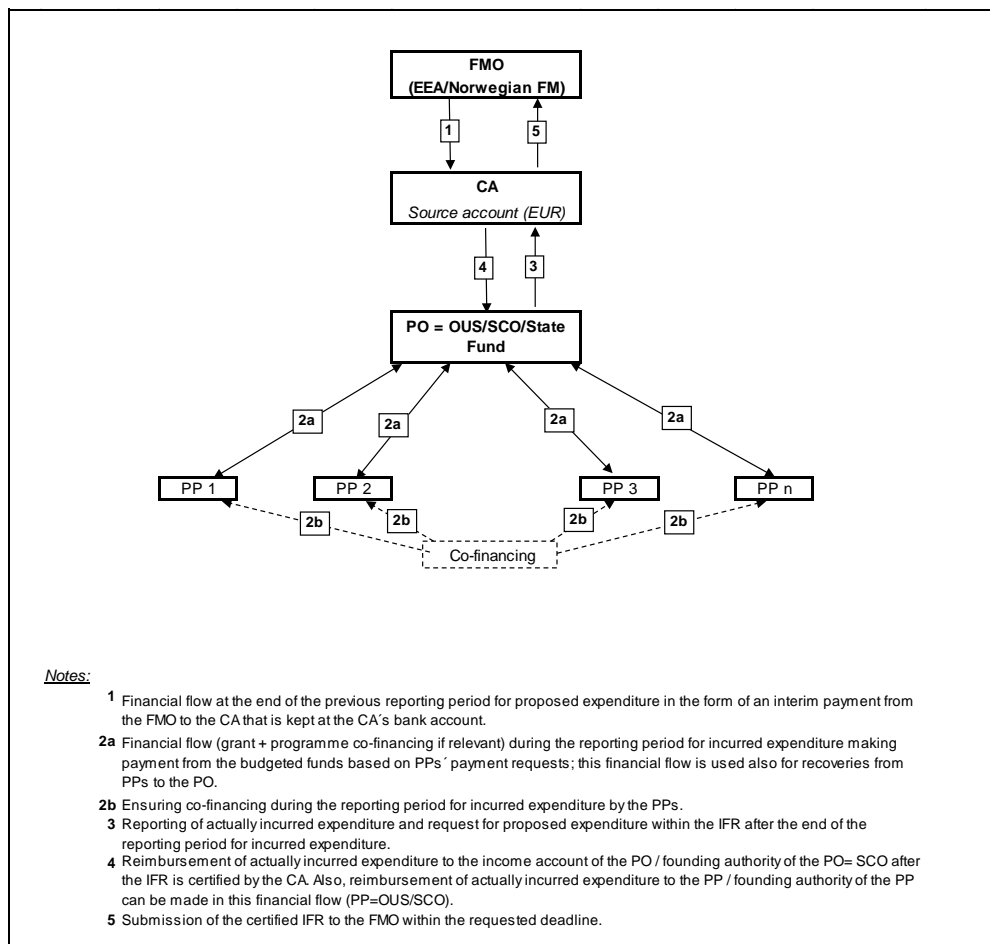
summary application, it requests the grant funds actually incurred in the previous period. This expenditure actually incurred during the previous reporting period shall be paid from the source account of the CA for the given programme to the respective revenue account of the SB / State Fund account within the period of 15 working days after the day when the CA confirmed the accuracy of the final supporting documentation for certification. The IFR verified and signed by the CA is submitted to the FMO to verify the information in it. After the approval of the IFR by the FMO, interim payments are made to the CA according to the deadlines specified in Chapter 3.3 *Interim payments at national level*. The procedures are almost identical in the case of final certifications / final payments to programmes.

Exchange rate differences arise at the level of the CA at the moment when the transfer of the advance / interim / final payment is made from the source account (EUR) to the revenue account of the SB chapter / State Fund account (CZK). Funds are transferred in the amount of expenditure actually incurred by the PO and Project Promoter (OUS/SCO) within the reporting period.

In this case, the exchange rate difference equals the difference between the rate at which an actually incurred expenditure of the PO or the Project Promoter (OUS/SCO) in the IFR or a summary application (payment at the current CNB exchange rate – buy) is paid from the CA source account to the PO revenue account, and the monthly reporting exchange rate of the EC, which is assigned to each actually incurred expenditure at the PO level taking account of the month in which the payment application was accounted / the month of the expenditure.

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Chart 1:



10.2.2 Programme Operator – MoF

This situation occurs in the case of POs listed in points 1 and 2⁴⁶ of Chapter 10.2 *Financial flows between the CA and the PO*, where the PO MoF – NFP is not a direct beneficiary of the FM 3 funds of this financial flow.

In this case, the system of financial flows from the budget of the FM 3 is based on the principle of transfer to the account of the Programme Operator of advance / interim / final payments from the CA source account after these funds are received from the FMO. In accordance with the Regulations, payments are provided to the PO MoF, to which BF funds are also provided through this cash flow, within 15 working days after they are credited to the CA source account. The funds are released from the source account maintained in EUR to the PO in CZK⁴⁷.

During the reporting period, the Project Promoter sends to the Programme Operator either an ex-post payment application regarding the requirements for subsequent reimbursement of already incurred and documented expenditure or an ex-ante payment application requesting transfer of funds to the Project Promoter before incurring the actual expenditure. If this is not the first ex-ante payment application, it must include the

⁴⁶ The PO MoF – NFP also uses the financial flow mentioned in the Chapter 10.2.1 *Programme Operator OUS– MoF, MoI, TA CR or SCO DZS and SEF*.

⁴⁷ Only in the case of programmes CZ – Humanrights, CZ – Governance and CZ – BF, the funds may be released in EUR.

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account of expenditure incurred by the Project Promoter for the past monitoring period. The Project Promoter prepares the payment application in CZK⁴⁸. For each application, the PO shall check its factual accuracy and the eligibility of the reported expenditure. Based on these checks, it then releases the funds to the Project Promoter in CZK⁴⁹. Together with the FM 3 funds sent to the Project Promoters, the PO always releases and sends⁵⁰ the funds of programme co-financing⁵¹ in the proportion that is set in the relevant Programme Agreement.

After the reporting period ends, in accordance with Chapter 3.3 *Interim payments at national level* the PO prepares and submits to the CA for certification an interim financial report stating the actual expenditure incurred by the Programme Operator for the given period and the funds requested by the PO for the immediately following reporting period of the proposed expenditure. By means of a summary application, the PO applies for the funds to be spent in the next reporting period of the proposed expenditure. The certified IFR is submitted to the FMO to verify the information in it. After the approval of the IFR by the FMO, interim payments are made to the CA according to the deadlines specified in Chapter 3.3 *Interim payments at national level*. The procedures are almost identical in the case of final certifications / final payments to programmes.

Exchange rate differences arise at the CA level when the advance / interim / final payments requested by the PO for the next reporting period of proposed expenditure are transferred from the CA source account (EUR) to the PO account (CZK).

The exchange difference is based on the difference between the CZK/EUR exchange rate at which the required funds are transferred (conversion at the CNB foreign exchange rate) and the exchange rate specified by the CA for the conversion of funds requested by the PO for the following reporting period of proposed expenditure from CZK to EUR. At the same time, it is crucial for the resulting exchange rate difference in the programme, at which monthly exchange rates the funds transferred are subsequently reported in IFR by the PO as actually incurred expenditure to the FMO.

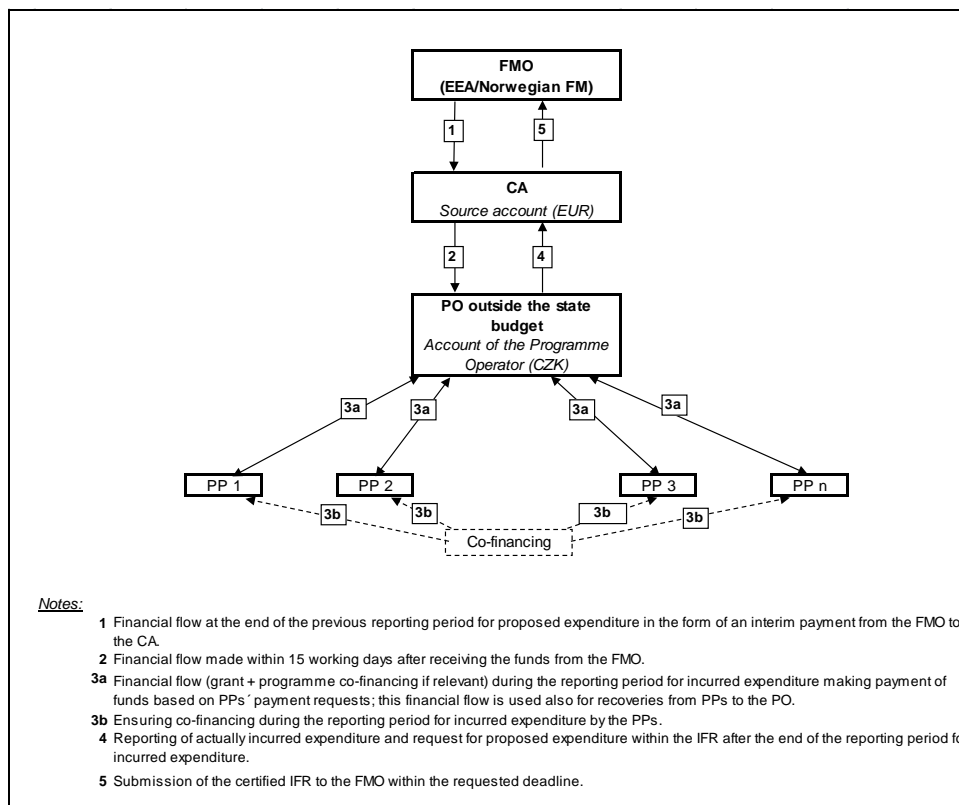
⁴⁸ For foreign Project Promoters of programmes CZ – Humanrights, CZ – Governance and CZ – BF, it is possible to prepare payment applications in EUR.

⁴⁹ Only in the case of programmes CZ – Humanrights, CZ – Governance and CZ – BF, the funds may be released in EUR.

⁵⁰ Not applicable to Project Promoter = OUS and SCO.

⁵¹ There is no programme co-financing reported in the programme Fund for Bilateral Relations.

Chart 2



10.3 Specificity of financial flows in the case of Project Promoters OUSs and SCOs

If the Project Promoter is an OUS, it must budget its revenues and expenditure for its projects under the relevant chapter of the State budget during its preparation. It shall always budget the grant, as well as the programme co-financing and, to the extent necessary, the funds for project co-financing. Pursuant to the provisions of Section 45(1) of Act No 218/2000, on budgetary rules, the OUS budget includes only revenues and expenditures related to its activities, i.e. activities defined in the Articles of Incorporation of the OUS or prescribed by law by which it was set up. Any transfers of funds between OUSs can only be implemented through a budgetary measure, unless the legislation in force allows otherwise. However, the implementation of a budgetary measure cannot be considered as an actually incurred expenditure. FM 3 expenditure can only be realized after funds have been transferred through a budgetary measure. Funds budgeted within the scope of the breakdown of mandatory indicators of expenditure of OUSs may be exceeded only in cases laid down in Article 25(1b) of Act No 218/2000, on budgetary rules.

If the Project Promoter is an SCO whose founder is an OUS⁵² and at the same time the funds are not secured from another source in accordance with Section 53(1) of Act No 218/2000, on budgetary rules, the founder of the organisation shall ensure for the SCO the budgeting of the grant, the programme and, to the necessary extent, also the project co-

⁵² This is a central authority of the State administration or a State organizational unit, which shall be determined by a special law and which is entitled to provide the funds.

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financing within its own budget chapter. Also, in this case, it is necessary to act in accordance with the provisions of Section 45(1) of Act No 218/2000, on budgetary rules, so any transfers of funds between OUSs can only be made through a budgetary measure, unless otherwise allowed by the applicable legislation. Funds budgeted within the scope of the breakdown of mandatory indicators of expenditure of OUSs (the founder of the SCO) may be exceeded only in cases laid down in Article 25(1b) of Act No 218/2000, on budgetary rules.

During the reporting period after spending the expenditure for the project, the Project Promoter sends to the relevant PO a payment application regarding the requirements for subsequent reimbursement of already incurred and documented funds.

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

1. if the PO is MoF = NFP (Fund for Bilateral Relations, Technical Assistance), MoI, TA CR, DZS and SEF, Chapter 10.2.1 *Programme Operator OUS – MoF, MoI, TA CR or SCO DZS and SEF* shall apply. After the verifications, the PO only includes the expenditure actually incurred by the Project Promoter in the IFR. Expenditure is reported for the certification purposes to the date of approval of expenditure by the PO / Programme Partner. These are not reimbursed by the PO to the Project Promoter. After the end of the reporting period, the amount of actually incurred expenditure included in the IFR shall be transferred to the revenue account of the Project promoter (Project Promoter = OUS) or to the revenue account of the founder of the Project Promoter (Project Promoter = SCO) within 15 working days after the day when correctness of the final supporting documentation was confirmed by the CA.
2. If the PO is the MoF, Chapter 10.2.2 *Programme Operator MoF* shall apply. After the verifications, the PO transfers the amount of expenditure actually incurred by the Project Promoter to the revenue account of the Project Promoter (Project Promoter = OUS) or to the revenue account of the founder of the Project Promoter (Project Promoter = SCO).

10.4 Specificity of financial flows in the case of Project Promoters within the Fund for Bilateral Relations at national level

1. As regards bilateral cooperation expenditure incurred by the Project Promoters, including the MoF – NFP, relevant POs / Project Promoters from among OUSs/SCOs, the system of financial flows is identical to the system described in Chapter 10.3 *Specificity of financial flows in the case of Project Promoters OUSs and SCOs*.
2. As regards expenditure incurred on bilateral cooperation by any entity whose management and financing is not tied to the state budget, the cash flow from the FM 3 budget is based on the principle of providing payments to Project Promoters directly from the source account of the CA. In this case, it is also possible to pay the expenditure on bilateral cooperation incurred by foreign entities. The funds that the CA receives from the FMO are released to the Project Promoters based on their payment applications submitted to the NFP. After the necessary checks, the CA transfers the funds from its source account directly to the bank account of the

Project Promoter within 15 working days⁵³ from the receipt of the approved version of the payment application from the NFP.

After the end of the reporting period in accordance with Chapter 3.3 *Interim payments at national level*, the reimbursed expenditure is included in the IFR and reported to the FMO.

3. As regards the expenditure of individual Programme Operators for their Project Promoters, in terms of the BF programme, which is operated by the NFP, the operators of other programmes implemented in the Czech Republic are considered Project Promoters of the BF programme, both in the case of expenditure they spend on their bilateral activities, as well as in the case of expenditure which means payments to their Project Promoters for bilateral activities. This expenditure is not reported in IFR/FB of individual programmes (except for the BF programme), but the individual POs report them through their BF PO monitoring reports, in which they also request funds for the next monitoring period, directly to the NFP which, after the end of the reporting period, submits the IFR for all expenditure for bilateral activities under the BF programme in favour of the CA.

After the BF expenditure certification, the funds:

- of the expenditure actually incurred of the previous reporting period are paid to Programme Operators⁵⁴ that have pre-financed BF expenditure from the SB / State Fund from the balance of the CA source account for the BF programme to the revenue account of the relevant chapter of the SB / State Fund account within 15 working days from the date when the CA confirms the correctness of the final supporting documentation to certification;
- requested for the next reporting period of the proposed expenditure, are paid to PO MoF (excluding the NFP) within 15 working days after the FMO payment is credited to the CA source account.

11 EXCHANGE RATE DIFFERENCES

Any generated exchange rate differences arising from the provision of payments to Programme Operators in CZK from the CA account kept in EUR are recorded and managed by the CA via IS VIOLA. Any exchange rate losses on the CA source account are covered from the universal account kept in CZK. If exchange rate profits are generated on the CA source account, they are transferred back to the universal account.

More detailed information on exchange rate differences is described in specific chapters on financial flows (Chapter 10.2.1 *Programme Operator OUS – MoF, MoI, TA CR or SCO DZS and SEF* and Chapter 10.2.2 *Programme Operator MoF*).

12 ROUNDING

The aggregate amounts in EUR in the Programme Agreements, the IFR, the Annual Programme Report and the FB are rounded mathematically to whole euros. Where these

⁵³ In the case of advance payments to Project promoters the payment shall be transferred within 10 working days.

⁵⁴ In the case of the PO DZS, the funds are paid to the revenue account of the Ministry of Education, Youth and Sports, the founding authority of DZS.

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documents mention or describe partial amounts in EUR or in CZK, these amounts are rounded mathematically to two decimal places.

The total amounts of the grant, programme and project co-financing put into IS VIOLA at the level of bookkeeping documents by the PO are rounded as follows⁵⁵ according to the individual paragraphs in this Chapter. The grant item and the programme co-financing item must, in compliance with the rounding practices and the requirements for the reporting format in IFR or IS GRACE, be rounded to whole numbers. The project co-financing item is not reported through the IFR to the FMO and therefore it is not necessary to round it to whole numbers.

The total grant amount reported at the level of IS VIOLA bookkeeping documents in both CZK and EUR is rounded down to whole numbers. The grant amount is calculated as the relevant percentage of the basis of the total expenditure (grant + programme co-financing + project co-financing). The calculated, applied percentage, if possible not rounded off, is based on the legal act on the allocation of funds, the Program Agreement, or another document where the individual shares of the funding sources are specified.

The total programme co-financing amount reported at the level of IS VIOLA bookkeeping documents in both CZK and EUR is also rounded to whole numbers. The amount of the programme co-financing is calculated on a basis constituted by the grant and programme co-financing rounded down to whole numbers as the relevant percentage of the total cost. The calculated, applied percentage, if possible not rounded off, is based on the legal act on the allocation of funds, the Program Agreement, or another document where the individual shares of the funding sources are specified. The resulting amount of programme co-financing is calculated by deducting the grant amount rounded down to whole numbers from the basis referred to above in the paragraph.

The total resulting project co-financing amount, reported both in CZK and EUR, is then calculated up to the total amount of eligible, reported expenditure, taking into account the rounded grant amount and the programme co-financing. This amount is ultimately rounded to a maximum of two decimal places.

It is not necessary to round in the calculations leading to the final amounts of grant, programme co-financing and project co-financing. The above method must be applied to the rounding of only the resulting amounts entering IS VIOLA.

Returned funds from the FM 3 Project Promoters are also divided to the part of the grant, programme co-financing and project co-financing. The procedure for quantifying the individual refund components is similar to the above procedure for determining the individual components of the expenditure, only the grant share refund is rounded up to whole numbers, the basis for calculating the programme co-financing is also rounded up to whole numbers, and the share attributable to project co-financing is then calculated up to the total refund amount after deducting the share of the rounded programme co-financing and grant.

⁵⁵ The calculations of each component of expenditure are to be performed in the order of paragraphs as outlined in this Chapter.

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Example:

a) specification

The total project allocation is CZK 729,122;

The total grant is CZK 495,800;

The total programme co-financing is CZK 87,496;

The total project co-financing is CZK 145,826;

a total expenditure of CZK 134,859.60 was reported for the monitoring period.

b) breakdown for the purposes of IS VIOLA:

Calculated grant share for the whole project: $495,800 / 729,122 = 0.6799959403227443 = 67.99959403227443 \%$

Grant share attributable to the reported cost: $0.6799959403227443 * 134,859.60 = 91,703.98051354917 \doteq \text{CZK } 91,703$

The calculated share of the basis for calculating programme co-financing for the whole project: $(495,800 + 87,496) / 729,122 = 0.7999978055798618 = 79.99978055798618\%$

The share of the basis for the calculation of the programme co-financing for the reported expenditure: $0.7999978055798618 * 134,859.6 = 107,887.3840613779 \doteq \text{CZK } 107,887$

Programme co-financing attributable to the reported expenditure: $107,887 - 91,703 = \text{CZK } 16,184$

Project co-financing attributable to the reported expenditure: $134,859.60 - 16,184 - 91,703 = \text{CZK } 26,972.60$

PART III: SYSTEM OF FINANCIAL CONTROL AND CERTIFICATION

13 SYSTEM OF FINANCIAL CONTROL

The MoF, as the central administrative authority for financial control, in accordance with the relevant provisions of Act No 2/1969, on the establishment of ministries and other central State administration bodies of the Czech Republic, methodically manages, coordinates and is responsible for the performance of financial control within FM 3. Issuing partial methodological instructions of the Ministry of Finance, consulted with the relevant EC bodies is based on the applicable Czech and EU legislation.

The main objectives of financial control include, in particular, whether the laws and measures are observed, whether the protection of public funds against risks, irregularities or other shortcomings is ensured, whether there is no uneconomic, ineffective and inefficient use of public funds, and whether operations have been demonstrably accounted.

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

13.1 Internal control system

All the public authorities involved in the implementation of the programs have the necessary management and control system in place that is in line with EU and Czech legislation, Regulations and the MoU and is capable of identifying in due time the administrative, systemic or deliberate errors and create conditions to prevent errors.

13.1.1 Management control

Management control is provided by responsible management personnel and forms part of the internal management of all entities involved in the implementation of FM 3, in particular when preparing projects prior to their approval (i.e. both at the stage of evaluation and approval of applications, as well as in concluding contracts), in the continuous monitoring of the operations until their final settlement and accounting and subsequent verification of selected operations within the evaluation of the achieved results and the accuracy of the management.

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

1. all entities involved in the management and control of the programme have clearly defined specific functions, both in the system-wide implementation and within each entity separately;
2. there is compliance with the principle of separation of certification, payment, management and audit functions among different entities involved in the implementation of individual programmes and the actual entities;
3. there are clear procedures in place for ensuring the correctness and eligibility of expenditure reported under the programmes;

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4. there are reliable accounting systems, monitoring and financial reporting systems in place in electronic form;
5. a system of reporting on the implementation of individual programmes and projects and a programme monitoring system are in place;
6. measures are taken to conduct an audit of the setup and implementation of the management and control system;
7. such systems are put in place and procedures are established to provide audit trail;
8. procedures for the reporting and monitoring of irregularities and the recovery of sums unduly paid are laid down;
9. a system of double independent check and double signatures is used when approving individual documents and making payments;
10. information systems can be used safely;
11. potential conflict of interest is prevented;
12. substitutability of employees in all positions is ensured.

Each implementation structure entity must have a manual of workflows, including procedures for conducting verification, both administrative and on-the-spot verifications, which must ensure compliance with the requirements set out in the above points. The manual must include checklists for the individual types of checks, which identify the main areas of verification.

If the persons performing continuous and ex-post verification find unauthorized, ineffective or inefficient spending of funds from FM 3 budget in violation of FM 3 regulations, EU and Czech regulations, they shall report their findings in writing to the head of the relevant institution and the PO. The head of the institution is obliged to take measures to remedy deficiencies and measures to ensure proper performance of this verification.

13.1.2 Internal audit

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

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

13.1.3 Internal audit activities

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

The activities of internal audit departments include, among other things, the examination of:

1. the existence of manuals at all levels of management, which include detailed written workflows used in performing the various activities. Manuals are prepared and updated through “controlled documentation”;
2. compliance with the system of double independent check and double signatures is used when approving individual documents and making payments;

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3. keeping accurate, complete, demonstrable, comprehensible and clear accounting relating to expenditure financed from the FM 3 budget in accordance with Act No 563/1991, on accounting;
4. the clarity of the definitions of functions, the consistent separation of approval, payment and accounting functions (there must not be a situation where the same person approves, executes and accounts the payment);
5. substitutability of employees in all positions;
6. safe use of information systems;
7. preventing a possible conflict of interest.

If the Internal Audit Department finds that appropriate remedial measures have not been taken, it shall immediately notify the head of the public authority in writing of this fact. The purpose of internal audit is not only a review and evaluation of operations and an internal control system, but also a recommendation to improve the quality of the internal control system, to prevent or mitigate risks, to take action to remedy identified deficiencies and to provide consultation.

The results of internal audits, if they concern the areas of good governance and programme management, regularly carried out at individual levels of PO / Programme Partner, are submitted to the relevant head of the public administration body and made available to the AA, CA, NFP or the Internal Audit Department at the level of the PO in the case of an internal audit of a Programme Partner.

13.2 Setting up of Management and Control Systems in FM 3

Within six months from the date of the last signature of the MoU, the National Focal Point shall provide the FMO with a detailed description of the management and control systems, covering in particular the procedures of the NFP, the CA, the Irregularities Authority and the AA.

Within six months after the approval⁵⁶ of the programme by the FMO, the PO submits to the National Focal Point for approval a detailed description of the management and control system of the PO, covering in particular:

1. expenditure verification, monitoring and audit system;
2. system for the prevention, reduction, detection, reporting and remedy of irregularities;
3. a set system of keeping the audit trail of all supported activities.

The NFP informs the FMO about the approval of the description of the management and control systems of the PO within three months after its submission. If the submitted description of the management and control system of the PO shows serious deficiencies, which are not remedied within a reasonable time, these deficiencies will be reported to the FMO.

The detailed descriptions of the management and control systems are documented by a report and opinion of the Audit Authority confirming that the implementation system for both the national management structure and each Programme Operator is in line with the Regulations and generally accepted accounting principles. The report shall take account

⁵⁶ The approval of the programme is the moment when the last donor agrees with the final version of the text of the Programme Agreement.

of the proportionality of the requirements of the management and control system with regard to the effectiveness of achieving the programme objectives. If the AA decides not to perform the audit, it is obliged to entrust such activities to an independent and certified auditor; however, this does not release it from the responsibility to fulfil this obligation.

A detailed description of the management and control systems of the PO is presented in English together with the documents mentioned in the previous paragraph only at the request of the FMO. The NFP shall submit these documents within two months after the receipt of the request. The FMO may raise comments within two months after the receipt of the said documents.

Before disbursing the first payment for any programme, the FMO shall decide whether the Czech Republic meets the above-mentioned requirements concerning the setting of the functioning of the national management structure.

13.3 Controls under the responsibility of the PO

The PO is responsible for managing and implementing the relevant FM 3 programme in accordance with the principle of sound financial management, and therefore ensures that operations are selected for funding according to the criteria for each programme and that they are consistent with relevant EU and Czech legislation throughout their implementation.

The PO controls physical implementation in accordance with the Regulations and related procedures and manuals by verifying the performances (goods and services) delivered and the actual expenditure incurred on the operations declared by the Project Promoters and their compliance with FM 3, EU and Czech legislation. The PO performs public administration control of the controlled persons at all levels of implementation of funds from FM 3 budget and acts in accordance with Section 8(2) of Act No 320/2001, on financial control.

For this purpose, the PO performs control in respect of the Project Promoter / Programme Partner through the following:

1. ex-ante public-administration check;
2. ongoing public-administration check during the implementation of operations (administrative and on-the-spot checks) by combining operational and review procedures on a selected sample of operations until they are completed and accounted for;
3. ex-post public-administration on-the-spot check on a sample of selected operations by review procedures.

These checks verify whether:

1. the operations carried out and the public expenditure incurred to implement them were at all times in accordance with the relevant programme (or its objective), FM 3, EU and Czech legislation, approved budgets, issued legal acts on the allocation of funds and that they meet the criteria of economy, effectiveness and efficiency;
2. measures taken to avoid or mitigate operational, financial, legal and other risks in conducting operations were effective enough and whether adaptation to any new risks was taken into account, in particular in cases of changes in economic, legal, operational and other conditions;
3. records of the completed transactions and record keeping associated with each operation is complete, truly reflects the resources, state and transfers of funds.

The PO ensures the existence of a system for recording and storing accounting records in electronic form for each operation and data collection necessary for audits. The PO must also ensure that the procedures and all documents relating to the funding and the programme audits carried out are available to the FMO, the EFTA Board of Auditors and the Office of the Norwegian Auditor General for at least 10 years from 1 January following the year when the FMO approved the FPR⁵⁷, but no later than on 31 December 2030. The PO may delegate part of its supervisory powers by a public-law contract or another act in accordance with the legal regulations of the Czech Republic to other authorized entities; this does not, however, relieve the PO of the responsibility for fulfilling its obligations under this chapter.

13.4 Audit under the Responsibility of the AA

In accordance with the FM 3 Regulations, the Audit Authority is responsible for the performance of audits, without prejudice to the scope of competence of the Internal Audit Department. Its responsibilities include in particular:

1. system audits to independently and objectively verify the effective operation of the management and control system (system audits);
2. audits of operations on a suitable sample to verify the declared expenditure (audits of operations).

At the same time, the AA must ensure that:

1. its audit activities take into account the internationally accepted audit standards;
2. there is a single access to the reports of the system audits and audits of operations carried out at the relevant levels of implementation; the audit findings of the AA are the basis for risk management at the level of the PO, CA and the NFP.

System audits at CA level are carried out by the AA (in accordance with Article 5.5 of the Regulations and Chapter 8.1.3 *Resolving of suspected irregularities identified at the level of PO, CA, AA and NFP*), without prejudice to the scope of competence of the Internal Audit Department.

13.5 External audits and controls

13.5.1 EFTA audit and audit of the Office of the Norwegian Auditor General

The EFTA Board of Auditors or the Office of the Auditor General of Norway may carry out audits of all FM 3-funded programmes and projects as well as verify the FM 3 management and control system set in the Czech Republic. A representative of the audited entity, or a representative of the NFP, shall accompany the auditors upon request and provide them with all the necessary assistance.

With the exception of urgent cases, the EFTA Board of Auditors or the Office of the Auditor General of Norway is obliged to notify the FMO and NFP of the audit two weeks before the audit.

13.5.2 Audits and on-the-spot checks by the FMO

Regardless of the AA audits carried out, the FMO may carry out audits and on-the-spot checks of programmes and projects and verify the effective functioning of the

⁵⁷ In accordance with Section 44a of Act No 218/2000, on budgetary rules.

management and control systems in the Czech Republic. The NFP representatives shall accompany, upon request, the authorized FMO representatives and provide them with all necessary assistance.

Except in cases of emergency, the FMO is obliged to inform the NFP and relevant POs of the audit or on-the-spot check two weeks in advance.

The NFP and POs should receive an audit report for comment before they are finalized.

13.5.3 Control performed by the Supreme Audit Office

The Supreme Audit Office (hereinafter the “SAO”) is entitled to carry out independent verification in accordance with Act No 166/1993, on the Supreme Audit Office.

13.6 Transparency, availability of documents and archiving

All entities involved in FM 3 implementation are required to provide such audit trail for FM 3 financial contributions that will enable:

1. reconciliation of expenditure certified by the CA in IFR and FB with original documents, which are kept at different administrative levels (PO, Project Promoter, etc.); and
2. verifying the correctness of the allocation and transfer of funds from FM 3 and the co-financing share within the Czech Republic.

All entities involved in FM 3 implementation must ensure that the original or certified copies of all documents regarding expenditure (including the records of allocation and performance of public contracts) and the related audits are kept on commonly used media.

The documents must be backed up at programme level for the needs of authorised control entities (employees or representatives of the MoF, the SAO, the FAA, the FMO, the EFTA Board of Auditors, the Office of the Auditor General of Norway and others) for at least 10 years from 1 January following the year when the FPR was approved by the FMO⁵⁸, but at least until 31 December 2030.

14 CERTIFICATION

The CA is responsible for certification. The certification of expenditure is a specific activity set out in the Regulations, the objective of which is for CA to make sure that the funds within the programmes have been spent correctly. Certification of expenditure is the verification of IFR expenditure statements (actually incurred and proposed). In the case of expenditure actually incurred, it is, in particular, verification whether the set implementation system provides reasonable assurance that expenditure included in the statement of actually incurred expenditure has been incurred in accordance with EU, FM 3 and national regulations and thus creates sufficient conditions for proper certification of this expenditure. In addition to the actually incurred expenditure, the certification process of the proposed expenditure includes whether the expected amount is in line with the implementation of the programme and its financial plan.

The certification process begins on the day following the end of the reporting period for which certification is to be carried out. Before the end of the reporting period the CA

⁵⁸ In accordance with Section 44a of Act No 218/2000, on budgetary rules.

informs the Programme Operators on the planned launch of certification by a letter asking them to submit documents for certification contained in Chapter 14.3 *Documents collected for the purposes of certification*. The AA is also informed of the planned start of the certification. The letter defines the period for which the certification is carried out and the specifications of the documents to be submitted by the PO. The request also includes a CZK/EUR exchange rate for the conversion of funds requested by the PO in the IFR for the next reporting period of the proposed expenditure of the PO. The documents requested by the CA to perform the certification must be submitted by the PO to the CA in the already agreed signed form by the deadline under Chapter 3.3 *Interim payments at national level*. No later than one month before that deadline, the PO must submit the relevant documents to the Certifying Authority in electronic form for verification. The submission of documents in the signed form is conditional upon their prior approval by the CA.

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

The result of certification is verification and submission of an interim (within the IFR) or final (within the FB) payment application to the FMO via IS GRACE. An independent certification is carried out for each programme.

14.1 Certification process

The certification of expenditure includes verification of the statement of expenditure (actual/proposed), verification of compliance with national, FM and EU legislation and the proper functioning of the management and control system, whose compliance with the Regulations and generally applied accounting standards was confirmed by the AA, in particular at the level of programme implementation.

The proper functioning of the management and control system, compliance with national legislation, the Regulations, MoU and EU legislation and the eligibility of reported expenditure are verified on a continuous basis by the CA. The certification is to be carried out by the CA among other things upon obtaining assurances from the PO that the following basic conditions were complied with during the reference (reporting) period:

1. compliance with legislation and the area of the management and control system
 - a) The POs have provided assurance that the EU, FM 3 and national regulations are being observed during implementation;
 - b) The POs provided assurance that they applied the principles of sound financial management;
 - c) The POs have provided assurance that the implementation of projects in accordance with FM 3 legislation and manuals/guidelines regulating this area has been properly verified;
 - d) POs gave assurances that the implementation included any necessary measures for prevention or early detection and treatment of irregularities;
 - e) recommendations issued by the FMO, the NFP, the CA and the AA in accordance with the Regulations on each programme were reflected in the implementation by the PO;
 - f) the FMO/NFP have not decided on any suspension of payment period or suspension of payments in accordance with Chapter 9.1 *Suspension of payments*;

2. Area of expenditure incurred:

- g) the statement of actually incurred expenditure in the IFR covers the eligible expenditure incurred and defined in accordance with Chapter 8 of the Regulations (Eligibility of expenditures) and national procedures;
- h) the statement of actually incurred expenditure shall include expenditure related to operations that were selected by transparent procedures described in manuals and other relevant documents of the PO and that complied with the EU rules, the FM 3 and national legislation throughout the implementation;
- i) the expenditures incurred are demonstrated by original or certified copies of accounting documents⁵⁹ (invoices, bank statements and other accounting documents of equivalent probative value);
- j) when submitting the IFR to the CA, eligible expenditure actually incurred (demonstrated through overviews⁶⁰ generated in IS VIOLA) are accounted in the accounting system of the PO;
- k) The PO shall provide assurance that the State aid rules have been applied to the relevant operations.

3. Area of proposed expenditure

- l) proposed expenditures are duly substantiated and they result from financial needs of particular projects and the programme.

During the certification of expenditure, the CA also verifies the set⁶¹ co-financing rate and other data on programmes/projects entered/transferred to IS VIOLA/IS GRACE. For this reason, the PO shall check the accuracy of the data in IS VIOLA and IS GRACE before sending the documents for certification to the CA. The fact that the written data on the documents submitted for certification are inconsistent with the data in information systems, is considered an obstacle to certification of expenditure.

14.2 Certification Activities of the CA

The CA staff regularly analyze and evaluate the documents listed in the Chapter 14.3 *Documents collected for the purposes of certification*. If irregularities or other systemic deficiencies are found which were not included in previous irregularity reports of the PO, the CA staff must notify the suspected irregularity immediately to the relevant PO in accordance with Chapter 8.1 *Investigation of irregularities*.

The CA staff may carry out on-the-spot verifications/inspections at the level of the PO or, Programme Partner / Project Promoter, and the controlled person is required to provide the CA staff with sufficient cooperation and requested documentation during verification / checking. It is one of the ways for the CA to make sure that the PO or the Project Promoter / Programme Partner complies with the established written procedures prescribed for its activities and that the management and control systems ensuring the sound financial management are working properly in practice. On-the-spot verifications/inspections are carried out in accordance with the Regulations and Act No 320/2001, on financial control. The controlled entity shall be informed, usually 10

⁵⁹ See footnote No 13

⁶⁰ Summaries of programme budget disbursements.

⁶¹ In the case of a project in the legal act on allocation of funds, in the case of a programme in the Programme Agreement.

working days in advance, of the date and content of the scheduled on-the-spot verification/inspection. In the event of an extraordinary verification/inspection due to suspected irregularities, this period may be reduced.

As part of its certification activities, the CA verifies the documents for the selected sample of certified expenditure of the PO, including the method of verification of expenditure reimbursed/disbursed to projects by the PO. In exceptional cases, if so allowed or required by the circumstances and it is feasible given the CA capacity, the CA verifies 100% of expenditure at programme level. The CA may also verify the expenditure incurred at the project level, especially in cases of projects with suspected irregularity, or if there are other facts that might indicate a possible threat to FM 3 implementation. If a suspected systemic irregularity is found in an entity involved in FM 3 implementation, the CA decides whether to carry out any verification/inspection of other entities that might be affected by the systemic irregularity.

If the CA finds any deficiencies in the documents submitted by the PO or the Project Promoter, it shall inform the relevant entities and suspend the certification until the shortcoming is resolved in cooperation with the PO. In severe cases (e.g. suspicion of a systemic irregularity), the CA may decide to suspend the certification. The CA informs the PO and the NFP of the suspension of the certification. At the same time, if there is a problem during the certification that is not properly resolved by the PO by the deadline set by the CA, the PO risks that the IFR will not be sent by the due dates to the FMO and thus the PO will not receive the interim payments by the deadlines, see Chapter 3.3 *Interim payments at national level*⁶². If there is a delay, the procedure will depend on communication with the FMO. In this case, the CA does not provide its own funds.

If the verification/inspection of the documents submitted by the PO (other stakeholders) finds no deficiencies, or the deficiencies are properly removed in due time by the CA, the CA will finish the operations related to the IFR certification. The certification will then be notified to the relevant PO, AA and NFP. The PO will also be informed about the crediting of funds to the CA account.

14.3 Documents collected for the purposes of certification

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

1. Summary application, including mandatory attachments:
 - a. IFR/FB;
 - b. Overviews of programme budget disbursements.
 - c. Overviews of the proposed programme expenditure;
2. supporting documentation for expenditure, including proof of accounting to FM 3 source;
3. forms:

⁶² In exceptional cases, when the CA does not agree with the IFR and the supporting documentation submitted by the PO, but the PO will, for the purpose of smooth funding of the programme, require an advance (interim) payment from the FMO by the regular due date, the CA will remove the contested expenditures from the IFR and report them immediately to the FMO as a suspected irregularity in accordance with point 4 of Chapter 8.2.1 *Immediate reporting of irregularities to the FMO*.

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- a. PO declaration (submitted by the PO upon each certification);
4. documents and information related to financial control:
 - a. AA Audit Plan;
 - b. reports on results of audits under Article 5.5.1(a) and 5.5.1(c) of the Regulations along with the information on the planned method of dealing with findings identified during audits – in the information system of the AA (hereinafter the “IS AA”);
 - c. information on the removal of deficiencies identified during audits (in IS AA);
 - d. results of internal audits, insofar as they relate to the good governance and programme management (to be submitted by the PO continuously as soon as possible after the results have been made available by the competent internal audit unit);
 - e. reports on the results of programme verifications/audits of the PO carried out by external entities and on the planned method of removing the deficiencies identified during the audits (to be submitted by the PO on a rolling basis as soon as possible after the reports are available); information on the method of removing the deficiencies is submitted by the PO as soon as possible after the submission of this information to the entity that performed the verification/audit;
 - f. annual audit report under Article 5.5.1(e) of the Regulations – submitted by the AA annually in the years 2019–2025 as soon as possible after the report is sent to the FMO;
 - g. information on the method of verification of the implementation of projects under Article 5.6.1(g) and 5.6.1(i) of the Regulations, including information on the size of the sample and the method of its selection, and a summary of the verifications/inspections carried out in the given period (the overview of the verifications/inspections is submitted by the PO upon each certification);
 - h. information on verifications/inspections of the exercise of rights delegated by the PO to the Programme Partner, including the current state of addressing particular findings from these verifications/inspections (to be submitted by the PO upon each certification);
 - i. information on the origin, amount and nature of the funds returned by the Project Promoter or, where applicable, the PO;
5. programme documents and methodical documentation of the PO (submitted by the PO as soon as possible after their approval and after every update);
6. the documents from the evaluation process for the selection of projects under the programme and the results/conclusions of the verification of the evaluation process in accordance with Article 7.4.2 of the Regulations (to be submitted by the PO no later than 10 working days after the completion of the verification process);
7. valid templates of legal acts on the allocation of funds – draft templates must be submitted to the CA at least 30 days before they are issued and upon every update in order to take account of any comments of the CA);
8. specimen signatures of responsible persons at the PO (submitted by the PO at first certification and in case of their update);

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9. other (minutes, irregularities reports, etc.).

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

- a. in electronic form – submitted after the end of the period for which certification is carried out, no later than one month before the deadline for the submission of documents in the final form (see point b);
- b. in the final form – submitted in accordance with Chapter 3.3 *Interim payments at national level*.

Within its workflows, the PO maintains and processes documentation (including checklists), which forms the basis for both the general verification of the functioning of the PO and the verification of the control activities applied on Project Promoters. This documentation is available for the verification of expenditure and PO activities carried out by the CA and other competent bodies.

14.3.1 PO declaration

PO declaration that its employees involved in the implementation of the programme are familiar with the relevant legislation and other relevant documents and that they will observe them. At the same time, through the PO declaration, the Programme Operator provides the CA with an assurance regarding the fulfilment of the conditions specified in Chapter 14.1 *Certification system* required to carry out certification. The PO declaration is filled in for each reporting period under certification.

ABBREVIATIONS

AA	Audit Authority
BBD	Breach of budgetary discipline
BF	Fund for Bilateral Relations
CA	Certifying Authority
CNB	Czech National Bank
CR	Czech Republic
CZK	Czech <i>koruna</i>
DZS	<i>Dům zahraniční spolupráce</i> (Centre for International Cooperation in Education)
EC	European Commission
EDS/SMVS	Evidenční Dotační Systém / Správa Majetku ve Vlastnictví Státu (Grant Registration System / Administration of State-Owned Property)
EEA	European Economic Area
EFTA	European Free Trade Area
EU	European Union
EUR	Euro
FAA	Financial Administration Authority of the Czech Republic within the meaning of Act No 456/2011, on financial administration of the Czech Republic, as amended
FB	Final Balance
FM 1	EEA/Norwegian Financial Mechanisms 2004–2009
FM 2	EEA/Norwegian Financial Mechanisms 2009–2014
FM 3	EEA/Norwegian Financial Mechanisms 2014–2021
FMC	Financial Mechanism Committee
FMO	Financial Mechanism Office
FPR	Final Programme Report
GRACE	Online information system to support the implementation of EEA/Norwegian FM 2014–2021
IFR	Interim Financial Report
IS	Information system
IS AA	Information system of the Audit Authority
MoF	Ministry of Finance
MoC	Ministry of Culture
MoU	Memoranda of Understanding
MoJ	Ministry of Justice
MEYS	Ministry of Education, Youth and Sports
MoI	Ministry of the Interior
MoH	Ministry of Health
NMoFA	Norwegian Ministry of Foreign Affairs
MoE	Ministry of the Environment
NF	National Fund
NFP	National Focal Point
NGO	Non-governmental non-profit organization
OUS	Organizational Unit of the State
PO	Programme Operator
PP	Project Promoter

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SAO	Supreme Audit Office
SCO	State co-funded organization
SB	State Budget
SEF	State Environmental Fund of the Czech Republic
TA	Technical Assistance
TACR	Technological Agency of the Czech Republic

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