



Audit conclusion from audit No.

12/10

Funds earmarked for the limitation of industrial pollution and environmental risks

The audit was included in the audit plan of the Supreme Audit Office ('SAO') for 2012 under no. 12/10. The audit was managed and the audit conclusion drawn up by SAO member RNDr. Petr Neuvirt.

The aim of the audit was to scrutinise the provision, drawdown and use of funds earmarked for the limitation of industrial pollution and environmental risks.

The audit covered the years 2008 to 2011; where relevant the preceding and following periods were also scrutinised. The audit took place from April 2012 to October 2012.

Auditees:

Ministry of the Environment; State Environmental Fund of the Czech Republic; CENIA, the Czech Environmental Information Agency, Prague; Zdravotní ústav se sídlem v Ostravě (Medical Institute based in Ostrava); University of South Bohemia in České Budějovice; Mendel University in Brno; FARMAK, a.s., Olomouc; KDYNIUM a.s., Kdyně; LAKUM - GALMA a.s., Frýdlant nad Ostravicí; Plzeňský Prazdroj, a.s., Plzeň; Synthesia, a.s., Pardubice; Centrum organické chemie s.r.o., Rybitví; ISATech, s.r.o., Pardubice; Jihomoravská armaturka spol. s r.o., Hodonín; Rašínova vysoká škola s.r.o. (Rašín private university), Brno.

Objections lodged against the audit protocol by the Ministry of the Environment and the State Environmental Fund of the Czech Republic were dealt with by the heads of audit teams by means of decisions on objections. No appeals were lodged against the decisions on objections.

*At its 22nd session held on 26 November 2012 **the SAO Board issued resolution no. 8/XXII/2012 approving the audit conclusion as follows:***

I. Introduction

The Ministry of the Environment ('MoE') is the supreme state supervisory authority in environmental matters and the central body of state administration for all components of the environment. The audit targeted the fulfilment of the MoE's obligations with regard to limiting industrial pollution and environmental risks and finances used in connection with these areas.

The audit focused on finances under the Operational Programme *Environment*, specifically priority axis 5 – *Limiting Industrial Pollution and Environmental Risks*. During the audited period priority axis 5 ('PA5') fulfilled the function of the MoE's departmental grant programme – it concentrated solely on limiting industrial pollution and reducing the risks of serious industrial accidents impacting on the environment.

The MoE is responsible for the overall effectiveness of the Operational Programme *Environment* ('OP Environment') supported out of EU funds and for ensuring it is managed and implemented correctly. It takes part in announcing calls for offers, assessing grant applications and issuing decisions on the provision of grants; it performs control work and carries out monitoring duties.

The State Environmental Fund of the Czech Republic ('SEF') under the administration of the MoE is the intermediate body for OP Environment. Its obligations are set out in *The Agreement on Delegating Certain Activities and Powers of the Ministry of the Environment as the Managing Authority of the Operational Programme Environment to the State Environmental Fund of the Czech Republic* ('the delegation agreement'), which was concluded with the consent of the European Commission ('the Commission'). The administration of applications for grants and applications for payment, on-the-spot inspections of beneficiaries, control with regard to competition law and activities linked to monitoring and OP Environment publicity are thus delegated to the SEF, for example.

PA5 grant beneficiaries are entities for which the MoE issued a decision on the provision of a grant on the basis of their applications. The environment minister also issued them with a decision on the provision of support from the State Environmental Fund of the Czech Republic, on whose basis the contract on the provision of support from the State Environmental Fund is signed between the SEF and the beneficiary. Beneficiaries implement approved projects, whereby they are bound by the conditions of both decisions and the contract.

Financial summary of OP Environment priority axis 5

PA5 is intended to finance individual projects, i.e. up to €25 million. The PA5 allocation is approximately €60.06 million from the *European Regional Development Fund* ('ERDF'), which accounts for approx. 1.23% of the total EU allocation to OP Environment. National support sources of approx. €11.24 million are provided out of SEF resources. Together with the SEF resources, support for PA5 is intended to amount to approx. €71.30 million.

From the launch of OP Environment in 2007 to 17.4.2012, 59 projects were approved in PA5 with total costs of approx. CZK 1,520 million - from which the support from ERDF shall amount to approx. CZK 704 million, support from SEF to approx. CZK 95 million and own resources of beneficiaries shall amount to approx. CZK 721 million. The approved amount from ERDF represents therefore approx. 47 % of the total allocation for PA5.

According to SEF materials, as of 17.4.2012 finances were provided to a total of 28 beneficiaries for 29 projects. Implementation was completed for 17 projects; financing was completed in the case of four projects and expenditure was certified for one project. As of 17.4.2012 more than CZK 301 million was transferred to beneficiaries' accounts, payment of which is expected to come out of ERDF finances, i.e. approx. 20% of the PA5 allocation. Approx. CZK 34 million was then transferred to beneficiaries from SEF finances.

The SAO audited 13 beneficiaries; the volume of audited finances was approx. CZK 280 million, which is approx. 35% of the approved grants from the ERDF and SEF. A list of audited beneficiaries with a brief description of the supported projects is given in the annex to this audit conclusion.

NB:

- The legal regulations referred to in this audit conclusion are applied as effective for the audited period.
- All conversions between EUR and CZK were done using the mean exchange rate of the Czech National Bank as of 26.4.2012, i.e. EUR/CZK 24.78.

II. Findings of the audit

A. The Ministry of the Environment's role in the implementation of international treaties and regulations; conceptual work

The MoE is the guarantor of international treaties to which the Czech Republic acceded and which are linked to industrial pollution. These include the *Rotterdam Convention*, which entered into effect on 24.2.2004 and relates to banned or severely restricted chemicals and very harmful pesticides. Another important treaty is the *Stockholm Convention*, which entered into effect on 17.5.2004 and deals with carbon-based chemicals, including industrial chemicals such as PCBs, pesticides (DDT) and dioxins, which cause a number of serious illnesses, persist in organisms for a long time and are passed on to offspring.

Under the international treaties, integrated pollution prevention and control ('IPPC') has in recent years become the fundamental tool for limiting industrial impacts and risks. The main aim of IPPC is to achieve a higher degree of protection of the environment as a whole and it focuses on a preventive approach, not redressing existing environmental damage. The introduction of best available techniques ('BATs') is an effective method for achieving this goal. The IPPC strategy and the use of BATs are detailed in Directive 2008/1/EC¹ of the European Parliament and of the Council, which was implemented in Czech law by Act No. 76/2002.² Among other things, this act established an integrated environmental pollution register and publicly accessible information system of emissions and transmissions of pollutants to which a separate piece of legislation, Act No. 25/2008, has applied since 2008.³

Council Directive 96/82/EC⁴ responds to the need to prevent serious accidents involving hazardous substances and also to the need to limit the consequences of such accidents for people and the environment. In the Czech Republic the prevention of major accidents is covered by Act No. 59/2006.⁵

Strategic approaches to chemicals are also part of the *Sixth Community Environment Action Programme*, which was laid down by Decision No. 1600/2002/EC⁶ of the European Parliament and of the Council. Manmade chemicals should not pose a risk to people and the environment.

Regulation (EC) No. 1907/2006⁷ of the European Parliament and of the Council, referred to as REACH, follows up this programme. Its principal objective is to create a comprehensive system for the use of chemicals and responsibility for their safety. REACH was transposed into Czech law by Act No. 350/2011.⁸

¹ Directive 2008/1/EC of the European Parliament and of the Council, on integrated pollution prevention and control.

² Act No. 76/2002, on integrated pollution prevention and control, the integrated pollution register and amending certain acts (integrated prevention act).

³ Act No. 25/2008, on the integrated environmental pollution register and the integrated system for fulfilling reporting duties in the area of the environment and amending certain acts.

⁴ Council Directive 96/82/EC, on control of major-accident hazards involving dangerous substances.

⁵ Act No. 59/2006, on the prevention of serious accidents caused by selected hazardous chemical substances or chemical preparations and amending Act No. 258/2000, on the protection of public health and amending certain related acts, as amended, and Act No. 320/2002, amending and repealing certain acts in connection with the termination of district authorities, as amended (act on the prevention of serious accidents).

⁶ Decision No 1600/2002/EC of the European Parliament and of the Council laying down the Sixth Community Environment Action Programme.

⁷ Regulation (EC) No 1907/2006, concerning the registration, evaluation, authorisation and restriction of chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No 793/93 and Commission Regulation (EC) No 1488/94 as well as Council Directive 76/769/EEC and Commission Directives 91/155/EEC, 96/67/EEC, 93/105/EC and 2000/21/EC.

⁸ Act No. 350/2011, on chemical substances and chemical mixtures and amending certain acts (chemicals act).

One of the key conceptual documents drawn up by the MoE is the *Sustainability Strategy of the Czech Republic*, which was approved by the Czech government in 2004 and is a consensual framework for equilibrium between the economic, social and environmental development of society. The hazard associated with chemical contamination mainly from industrial production and transport, in accidents linked to human activity and in the use of chemicals in agriculture and in consumer goods is also regarded as a risk for sustainable development in this strategy. Another fundamental conceptual document drawn up by the MoE and approved by the government is the *State Environmental Policy of the Czech Republic*. At the time of the audit this policy only existed for the 2004-2010 period; the draft of the new policy was not drawn up until August 2012 and was subsequently submitted by the MoE to the Czech government for approval.

B. Findings relating to grant providers

1. Defining the objectives of priority axis 5 of Operational Programme *Environment*

The binding structure of documentation for OP *Environment* reckons with the setting of global, specific and operational goals and also outcomes in the priority axes. According to the *OP Environment Implementation Document* the outcome should not be identical to the goal but should illustrate “*the programme’s immediate, direct and instant benefit...*” Certain specific goals and outcomes coincide, however, e.g. “*creating an integrated system for monitoring and limiting the risks of chemicals*” is both a goal and an outcome. The operational objective of “*introducing technologies to limit industrial pollution and reduce environmental risks*” is an almost exact reiteration of the outcome of “*implementing technologies to limit industrial pollution and reduce environmental risks*”; a variation of this formulation is also part of the specific goals. According to the MoE this expression of outcomes is not entirely appropriately formulated and is clumsy. The MoE has not yet taken any steps to eliminate this clumsy language even though it is aware of them, including the negative consequences arising from this state of affairs. Problems are especially likely to arise when the programme is assessed.

The formulation of specific and operational goals and outcomes, including shortcomings highlighted by the SAO, the Commission approved in the OP environment documentation.

2. Indicators of priority axis 5 of Operational Programme *Environment*

Two PA5 programme indicators formed part of the OP Environment programming document approved in 2007. The first was “*the number of facilities applying the methodologies created in the context of supported projects*” – target state 300 facilities; the second was “*the number of projects focusing on limiting industrial pollution and reducing environmental risks*” – target state 250 projects. The MoE and SEF have been preparing a change to these programme indicators since as long ago as 2008. The revision of the first indicator was supposed to make it more evidential and enable a categorical assessment. The revision also had its roots in the lack of interest among applicants and the consequent financial volume of projects fulfilling the defined goals. The first indicator was changed to “*the number of BATs or REACH centres built or rebuilt*” – target state 5 centres. The newly formulated indicator focuses on the number of created centres and not on their actual benefit. The original indicator focused on the usability of new methodologies in practice and the extent to which the procedures acquired with grant support will be used in specific facilities, operations and technologies. Now just five centres have to be built without any qualified link to the practical use of the centre’s activity.

In response to the current developments in the failure to fulfil the second programme indicator, its target value was reduced to less than a quarter, i.e. 60 projects. Despite the change, this indicator says nothing about the results relative to the resources used.

The change to the indicators, including the downscaling of target values, was approved by the Commission as part of a change to the OP Environment programming document.

For projects seeking to reduce emissions or reduce their risks, the following outcome parameters were used: *“percentage reduction of the relevant substance before and after implementation”* or *“ratio of indicators of the technique in question and BAT technique”* at the same time as an output parameter of *“number of facilities applying technologies to limit industrial pollution or reduce environmental risks”*. The upshot of proceeding in this way is the fact that after projects are completed it will not be possible to quantitatively assess how emissions were reduced under the programme as a whole or how the risk caused by a relevant substance was limited, but solely how many facilities were installed and what relative improvement this constitutes in the case of the specific facilities. The indicator thus defined provides insufficient evidence about the effect achieved by the programme relative to the finances used. In addition, it will not be possible to compare the final numbers of facilities with the target value, because following the revision the programme indicators and their target values are based on a different principle.

The MoE designed PA5 to ensure that supported projects were demonstrably and significantly linked to fulfilling the requirements of transnational concepts, international programmes and European regulations. Given the way the indicators – outcomes and outputs – are defined in the decisions on the provision of a grant, however, it will be difficult to quantify these projects’ benefit.

3. Work of the MoE and SEF when assessing grant applications

The MoE and SEF jointly devised the assessment criteria contained in the calls. The vast majority of the criteria in PA5 is not derived from quantitative values; as a rule they are verbal expressions. Certain criteria, or the assessment of these criteria, are subjective, e.g. the effectiveness of a proposed measure or the quality of monitoring is rated on a scale of *“high”*, *“medium”* and *“low”*. Yet the *OP Environment Implementation Document* applicable at the time of the audit had the following to say about the assessment criteria: *“All criteria shall be defined in absolute terms. Standard values shall be defined in all sub-criteria specific to a given type of project, with the understanding that the assessment result shall be a comparison of this standard value with the value achieved... in the case of the application in question.”*

Two specific eligibility criteria are defined for PA5 (*“application’s compliance with the current OP Environment call”* and *“compliance of the data stated in the application form with the relevant documents submitted as annexes to the application”*), but these content and wording of these two criteria do not do justice to the specific nature of the priority axis.

When providing grants the SEF assesses whether the project generates revenues. The grant would be subsequently reduced by any project revenues. No PA5 project has to date been judged to be revenue-generating. The audited projects have a sustainability period set at five years. In this context the SAO points out that when performing control work on projects whose implementation has been completed the MoE and SEF should focus primarily on projects where there is an assumption of revenue generation. This applies at least to BAT centres that will seek to sell e.g. new technologies.

In PA5 projects are supported whose output is the creation of pollution information systems or software tools in connection with major accidents. These projects are usually initiated and designed by private entities. The principal expected users these projects are designed for are state and local-government authorities and organisations founded by the state to prevent and deal with major accidents. However, these bodies’ interest in the outputs of the supported projects is currently nothing more than the private entities’ supposition. No concrete

negotiations or agreements on the future use of these tools at an estimated price were presented during the audit. The support beneficiaries plan to negotiate with the competent authorities or responsible organisations only at the end of the projects' implementation; what is more, even regional pollution information systems must be linked to authorities and organisations with national competence and to their registers.

In their opinions on applications the MoE's expert units recommend these projects as a suitable offer, but in certain cases they also draw attention to, for example, the incompleteness of the plan in the matter of the use and development of project outputs or the incomplete identification of risks that the project outputs will not comply with the existing requirements. The applications were nevertheless approved without the project objectives being adjusted or added to.

The creation of major-accident prevention information systems is one of the specific goals of OP Environment PA5, but it would be more appropriate to assign projects of this type according to the needs and requirements of the relevant responsible authorities and, above all, to design the projects in collaboration with them.

4. Other MoE and SEF activities in implementing the Operational Programme Environment

OP Environment bodies

As the OP Environment managing authority the MoE has the overall responsibility to the European Commission for the programme's implementation. The audit scrutinised activities linked to PA5 projects, whereby both the MoE and the SEF documented their active work in the various bodies of OP Environment. These are regional working groups in all the regions; the "thematic board", which discusses and recommends grant applications; the steering committee that issues recommendations in relation to the selection of projects for support; and the managing authority, which issues registration certificates on the basis of the steering committee's recommendations; after the project costs have been finalised the SEF issues grant decisions.

Assessment of and information on the course of OP Environment

The OP Environment annual reports for 2007 to 2011 were made available for audit. According to the delegation agreement, the MoE and SEF jointly draw up the annual reports; after they are approved by the monitoring committee they are published and sent to the Commission and other bodies. Information both about financial progress and, above all, the substantive progress achieved in the implementation of OP Environment and the priority axes in respect of their specific and verifiable goals is supposed to be part of the annual reports. Given the structure of the programme indicators, however, relevant information for assessing substantive progress is not available. No problem was identified as serious in the annual reports.

Reports on the implementation of OP Environment for the monitoring report drawn up with reference to Article 67 (2) of Council Regulation (EC) No 1083/2006⁹ inform about progress in PA5 in a similar way to the annual reports but at a later time. According to the delegation agreement, the MoE and SEF jointly draw up these reports. The most recent report on the implementation of OP Environment at the time of the audit was drawn up as of 31.3.2012.

⁹ Council Regulation (EC) No 1083/2006, laying down general on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999.

Since 2010 both the annual reports and the reports for the monitoring committee have mentioned the suspended certification at European level, which is a problem of OP Environment as a whole and not just PA5.

MoE control work

As the OP Environment managing authority the MoE is responsible to the Commission, among other things, for performing control work – the MoE delegated the actual execution of this work to the SEF. The delegation agreement also states that the MoE is responsible for supervision of compliance with the delegated activities. In the years 2008-2011 the MoE performed seven checks of fulfilment of the SEF's obligations as set out in the delegation agreement.

The SAO audit found that, for example, the MoE checked the SEF's control work thoroughly and in detail, including checking compliance with monitoring indicators, the separation of the intermediate, payment and control functions, and compliance with time limits when processing applications and approving assessment documents.

In the 2008-2011 period the entrusted audit entity (the MoE's internal audit and financial control division) conducted 12 system audits, but none of them was primarily targeted at PA5 of OP Environment. According to the MoE, checks of individual projects did not qualify for the sample of audited certified expenditure because of the size of the financial allocation or the number of projects approved to date.

In the first half of 2012 auditors of the entrusted audit entity, together with invited experts, performed audits of operations in a sample of 92 OP Environment projects selected by the Commission; again, no PA5 projects were part of this sample.

The MoE did not directly audit any beneficiary of funding from PA5 of OP Environment.

SEF control work

As part of its control work the SEF mainly checks the physical implementation of projects (on-the-spot inspections), partly as interim checks that are performed at least once during the implementation of a project and partly as ex-post checks performed after project implementation. The SAO audit found no shortcomings in the SEF's control work in the sample of projects supported in PA5.

C. Shortcomings identified among beneficiaries of grants in priority axis 5 of the Operational Programme *Environment*

The most serious shortcomings in the tender process and also in contractual terms were found in the *ARATech 2013* project of the firm ISATech, s.r.o. This project seeks to prepare and create a practically tested software tool for assessing risks of a major accident within the meaning of Act No. 59/2006. ERDF and SEF grants amounted to a total of approx. CZK 11 million of the total costs of approx. CZK 13.5 million.

ISATech, s.r.o., did not define the subject of the public contract sufficiently precisely either in the tender documentation or the draft contract for work, especially as regards the extent of the required work. It did not demand a valuation of the individual jobs of work within the defined stages, even though it had available an itemised control budget. The tender documentation did not contain a specification of any percentage participation of the supplier in individual activities in the project's implementation stages, so the participant in the contracting proceedings did not know when drawing up the offer what volume of work it would perform.

A financial valuation of the supplier's involvement in the work was only made once the contract for work was concluded. Even the contract for work did not define, however, what percentage of this work would be done by ISATech, s.r.o., and what percentage by the selected supplier. The contract for work did not correspond to either the tender documentation or the selected supplier's offer.

By the end of the time limit for submitting offers ISATech, s.r.o., as the contracting entity, accepted one offer with an offer price of CZK 6,400,000 excl. VAT. The following was stated in the tender documentation of ISATech, s.r.o.: *"The offer shall contain the candidate's declaration that it accepts all the conditions laid down in the tender documentation and the other facts stated in the annex..."* The candidate did not submit the required declaration that it accepts all the conditions laid down in the tender documentation.

The tender documentation defined the scope of the required work after completion of the project, among other things:

- *the operation of a public portal for free access for a period of 5 years after the completion of the project;*
- *free administration of a web application – for a period of 5 years after the completion of the project.*

In its offer the candidate failed to fulfil the scope of defined work thus required by the contracting entity.

ISATech, s.r.o., thus failed to define, in either the tender documentation or the draft contract for work, the subject of the public contract in a sufficiently precise manner, thus violating Section 76 of Act No. 137/2006¹⁰, as it did not exclude an offer from a candidate whose offer did not fulfil the scope of defined activities required by the contracting entity. With this candidate it concluded a contract for work in which the accepted offer price was CZK 6,400,000 excl. VAT. The contract for work did not correspond to either the tender documentation or the selected supplier's offer.

CENIA, the Czech Environmental Information Agency, only introduced analytical accounts linked to the supported project on account 042 – *Fixed tangible assets in progress* during the course of implementation of the project. For certain other accounts used for individual accounting cases no analytical records were established, even though the *Binding Instructions for Applicants for and Beneficiaries of Support from OP Environment* specified that they should be introduced for all accounts used for transactions linked to the project. CENIA did not introduce analytical records for the following accounts: 403 – *Transfers for the provision of fixed assets*, 3212 – *Investment suppliers*, and 2411 – *Current account – operations*.

CENIA did not comply with Section 4 (8) of Act No. 563/1991¹¹ in that in its financial statements as of 31.12.2010 it did not comply with the defined substance for the relevant balance sheet items; this resulted in some items being undervalued and others being overvalued. Hardware worth CZK 5,890,057 acquired as part of the supported project was not transferred to account 022 – *Movable items and sets of movable items* after it was put into operation in September 2010. In addition, hardware worth CZK 4,828,404 was incorrectly posted to account 041 – *Fixed intangible assets in progress* and was not moved to account 022 after it had been put into operation in September 2010. CENIA posted software worth a total of CZK 858,644 to account 042 – *Fixed tangible assets in progress* and undervalued account 04101 – *Fixed intangible assets in progress* by the same amount.

¹⁰ Act No. 137/2006, on public contracts.

¹¹ Act No. 563/1991, on accounting, as amended.

D. Current state and elimination of problems in the matter of the temporary restriction of certification of OP *Environment* expenditure

The MoE gave the SAO information on important circumstances that are influencing the development of OP Environment as a whole and at the time of the audit mainly had a negative impact on the process of certifying expenditure at European level. In PA5 only one project with a grant of €0.515 million has still been certified.

The Ministry of Finance, as the paying and certifying authority, and the Ministry for Regional Development, as the national coordinating authority, issued a joint decision of 22.12.2010 suspending the certification of expenditure and the payment of summary applications in OP Environment. The reason was a suspicion of illegal activity in OP Environment. As a result, the European Commission suspended payments in June 2011.

One of the fundamental conditions for payment to be resumed by the Commission was the performance of 92 audits of operations using a sample of certified expenditure for OP Environment projects from the start of the programming period. The audits were performed in the first half of 2012 by the entrusted audit entity and by an independent international audit firm. This audit work identified errors worth a total of 3.52% of the audited expenditure.

From 9 to 13 July 2012 there was an audit mission of the European Commission's Directorate-General for Regional Policy – the aim was to identify the reliability of the Czech auditors' work using a sample of 10 projects. After concluding the investigation and following the subsequent negotiations in October 2012 the Commission proposed that the Czech Republic perform across-the-board financial corrections amounting to 5% of all OP Environment expenditure paid out to beneficiaries from the start of the programme to 31.8.2012. The correction corresponding to EU resources thus amounts to approx. CZK 1.6 billion, whereby this amount may be used up to the end of 2015 for new selected projects. The Czech Republic accepted the financial correction and pledged to apply it by gradually reducing requests for payment.

III. Summary and evaluation

The audit focused on priority axis 5 of OP Environment, which, in the audited period, fulfilled the function of the MoE's departmental grant programme focusing on limiting industrial pollution and reducing the risks of serious industrial accidents impacting on the environment.

The *State Environmental Policy of the Czech Republic* is one of the conceptual documents drawn up on this issue by the MoE. At the time of the audit (August 2012) there was no valid version of this document. Given the importance of the environment in the Czech Republic and its transnational character it is essential to take the kind of steps that would lead to the approval of a new state environmental policy.

In the case of PA5 the binding documentation of OP Environment envisages the identification of goals and direct benefits, whereby the direct benefits should not be identical to the goals. The MoE defined goals that were the same as benefits and, as of August 2012 it had not taken any steps to eliminate this problem even though it was aware of it.

The MoE designed PA5 to ensure that supported projects were linked to fulfilling the requirements of transnational concepts, international programmes and European

regulations. The indicators set out in the decisions on the provision of a grant will make it difficult to quantify the benefit of the supported projects, however.

The indicators dealing with the achievement of goals and benefits in PA5 were adjusted in 2009. The indicator targeting the usability of new methodologies in practice with a value of 300 used technologies has been adjusted to 5 new BAT or REACH centres, without any qualifying link to the practical use of the centres' work.

The indicators for projects designed to limit pollution or reduce environmental risks are set up in a way that will make it impossible after the projects are completed to quantitatively assess how pollution was reduced or a risk caused by a relevant substance was reduced in consequence of the programme's implementation. The indicators will merely show how many pieces of equipment were installed and what relative improvement these specific facilities will bring. The indicators thus defined give no information about the actual effectiveness of the use of finances earmarked for reducing the volume of pollutants in the Czech Republic.

No PA5 project has to date been judged to be revenue-generating. In this context the SAO points out that when performing ex-post control work on projects whose implementation has been completed the MoE and SEF should focus primarily on projects where there is an assumption of revenue generation. This applies at least to BAT centres that will seek to sell e.g. new technologies.

In PA5 projects are supported whose output is the creation of pollution information systems or software tools in connection with major accidents. These projects are usually initiated and designed by private entities. The principal expected users these projects are designed for are state and local-government authorities and organisations founded by the state to prevent and deal with major accidents. However, these bodies' interest in the outputs of the supported projects is currently nothing more than the private entities' supposition. No concrete negotiations or agreements on the future use of these tools at an estimated price were presented during the audit. The support beneficiaries plan to negotiate with the competent authorities or responsible organisations only at the end of the projects' implementation; what is more, even regional pollution information systems must be linked to authorities and organisations with national competence and to their registers. The SAO proposes changing the current practice and awarding projects according to the actual needs and requirements of the relevant competent authorities. Projects not yet completed must be modified in collaboration with these authorities.

One of the most serious findings among beneficiaries of grants from priority axis 5 of OP Environment is the irregularities in ISATech, s.r.o., which did not define the subject of the public contract sufficiently precisely in either the tender documentation or the draft contract for work. Furthermore it did not comply with Section 76 of Act No. 137/2006 because it failed to exclude from the tender a candidate whose offer did not fulfil the scope of defined activities required by the contracting entity. With this candidate it subsequently concluded a contract for work in which the accepted offer price was CZK 6,400,000 excl. VAT. The contract for work did not correspond to either the tender documentation or the selected supplier's offer. The SAO notified the appropriate tax administrator of the facts indicating a breach of budgetary good practice.

CENIA, an organisation part-funded out of the state budget, did not proceed in line with Section 4 (8) of Act No. 563/1991, as in its financial statements as of 31.12.2010 it did not comply with the substantive definition of the relevant balance sheet items, resulting in certain asset accounts being undervalued and others overvalued.

At the end of the audit the MoE notified the Supreme Audit Office in writing that the certification of OP Environment suspended in December 2010 had been resumed. In October 2012 the European Commission paid out approx. €876 million to the Czech Republic. The financial correction amounting to 5% of the OP Environment expenditure reimbursed to date may be used up to 2015 for new selected projects.

Supported projects of audited beneficiaries of grants from priority axis 5 of the Operational Programme *Environment*.

Contracting entity	Description of the project	Project status	Approved total support in CZK
CENIA	National information system for collecting and assessing information on environmental pollution	I	164 312 120
University of South Bohemia in České Budějovice	BAT centre of the University of South Bohemia in České Budějovice	IC	5 005 794
Rašínova vysoká škola s.r.o.	Information system to support the assessment of domino effects from the point of view of the act on the prevention of major accidents	I	9 996 776
Mendel University in Brno	Acquisition of equipment for a BAT centre at Mendel University in Brno	IC	8 807 622
Jihomoravská armaturka spol. s r.o.	Acoustic modifications to the foundry of Jihomoravská armaturka, Hodonín	IC	4 759 623
Zdravotní ústav se sídlem v Ostravě	Information monitoring system of industrial pollution in the Moravia-Silesia Region	I	26 329 500
Zdravotní ústav se sídlem v Ostravě	Monitoring of nano-particles in the environment	IC	11 672 236
LAKUM - GALMA a.s.	Reconstruction of air extraction equipment and neutralisation station for zinc galvanisation line	I	12 381 500
FARMAK, a.s.	Reducing the degree of risk – reconstruction of cooling equipment to reduce the quantity of liquid ammonia	IC	7 437 532
Centrum organické chemie s.r.o.	Construction of a centre for testing eco-innovative technologies to reduce the risks of chemical burdens (EKOTECH ROOM)	I	8 149 197
ISATech, s.r.o.	ARATech 2013 – software tool for assessing the risks of major accidents	I	11 023 756
Synthesia, a.s.	Liquidation of organo-halogens in wastewater from production of organic pigments	IC	6 264 412
Plzeňský Prazdroj, a.s.	Replacement of cooling apparatus for KEG, filtration, hops warehouse and outdoor museum	IC	11 036 925
KDYNIUM a.s.	Reduction of ethanol emissions in the production of ceramic shell moulds on packaging lines	IC	7 650 000

I – project under implementation.

IC – implementation of the project completed.

* Project status as at 17. 4. 2012.