

Good morning ladies and gentlemen,

Let me introduce the results of our two-day lasting discussion at the first discussion group.

First of all, I would like to thank all participants who cooperate with us. All contributions and comments were really interesting and very useful. In our opinion a good deal of work has been done.

At first, I would like to inform you briefly about contents of all presentations that were given in our discussion group. And in the second part of my talk I will express a few basic ideas, which our team prepared.

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### Mr. Sloup - Audits of funds spent on cleaning-up flood damages

The content of the first presentation, which was presented (reported) by Mr. Sloup from the CR, are the results and conclusions of the audits which is called „Audit of funds spent on cleaning-up flood damages“.

It is important to understand that in August 2002 the Czech Republic was hit by extensive floods. A huge damage was caused on both state and private property. Financing for the clear up of flood damage was provided from the state budget and state funds of the CR and also from EU programmes and loans from European Investment Bank.

Audit of the management of supports earmarked for a disposal of flood damage was carried out at MT, Transport Infrastructure State Fund, Ministry of Agriculture, Ministry of the Environment and selected beneficiaries. Supports were audited for the period from 2002 to 2005.

Scrutinizing of the management lead to a few important findings:

- The flood damages were significantly overestimated especially in the case of the Ministry of the Environment and the Ministry of Agriculture.

- Supports were used improperly. In some cases it was proven that buildings were damaged before the floods, usually because of poor maintenance.
- A part of projects was performed in spite of the fact that there was no connection with remedying flood damage specified in the approved programmes.
- There was insufficient internal control during process of approval and providing supports.

**There were three typical kind of Response from** the ministries in this audit:

Acceptance of finding audits - the most common reaction - the ministries accepted audit conclusions and corrective measures were prepared.

Adoption of remedial measures - the least frequent response - the ministries admitted making mistakes and agreed to adopt specific remedial measures to prevent a recurrence.

And the last very negative response: Rejection of finding audits — The ministries' highlighted some SAO findings as totally wrong and they rejected adopted corrective measures.

Finally, Mr. Sloup highlighted that above mentioned audit results and conclusions and the auditees' responses are very valuable material for planning and preparing future audits, for example audits focused on anti-flooding preventive measures.

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## Mr. Ruta

In the next presentation Mr. Ruta informed (acquainted) us about the main findings and conclusions of the "Audit of state budget finances spent on the provision of investment incentives and investment aid"

**Subject of the audit** was the use of state budget finances spent on the provision of investment incentives awarded by the government and provided on the basis of a written contract called "Memorandum of Understanding Declaring a Common Intention".

The audited entities were the Ministry of Finance and Ministry of Labour and Social Affairs. The audited beneficiaries were commercial enterprises.

### **Sources used during the audit**

One of the most important sources for carrying out this audit were the findings and results of a previous audit, that was performed two years ago.

This case shows that carrying out follow-up audit is a good way to encourage auditees not only to adopt corrective measures but also to perform them in practice.

The follow-up audits can define certain significant risks for future expenses of the state budget and highlight them.

### **Audit findings**

Monitoring of impacts showed that the audited ministries do not respect in all cases audit conclusions. The corrective or preventive measures that would eliminate expected risks are not adopted by ministries in time.

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### **Germany Presentation on: Tax subsidies**

Well, we can turn our attention to the third presentation. Mr. Jan Eickenboom and Mr. Dirk Ehlscheid from Germany prepared a really interesting talk devoted to fiscal policy in Germany and relating issues.

#### **•Attitude to the fiscal policy in Germany**

Fiscal policy in Germany faces a major challenge, as just most other countries, the main target is to ensure the existence of a strong community for the benefit of next generations.

And so, public finances need to be consolidated and a clear limit must be imposed on the public debt. An important issue in this field are tax subsidies.

In Germany is still a large number of tax privileges not subject to any time limit, some of which have been in force since 1918. A radical change in this situation is necessary. One of the possible ways is carrying out regulatory impact assessment.

#### **•Regulatory Impact Assessment for Tax Subsidies**

Regulatory impact assessment must not be an obscure process. Transparent subsidy policy means the provision of comprehensive information to the general public.

A readable report should be presented to Parliament and the public. The results should be presented so as to clearly show to any external non-experts how the assessment was carried out.

The Federal Government has published subsidy reports every two years. These reports reflect only part of the government activities, which directly and indirectly influence the economy. According to BRH, subsidy reporting should be reflected all the government activities; subsidy policies should be fully transparent in all fields.

The Bundesrechnungshof did field work at the Federal Ministry of Finance and found that there was no transparent monitoring and reporting of tax subsidies. The implementation of the policy guidelines especially in the field of tax subsidies is still highly inadequate. This leads to demand a formal enactment, something like a Subsidy Principles Act.

The last point of a talk related to [•VI EUROSAT Congress and a EUROSAT project, that is called Coordinated audit of tax subsidies](#),

The objectives of the coordinated audit mission are to:

- enhance the sharing of knowledge,
  - enhance communication between EUROSAT members in areas of special interest,
  - obtain best practice information,
  - strengthen informal networks and
  - improve cooperation with academic/research institutions.
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## [The Audit of Subsidies by the Court of Audit Spain](#)

And last but not least, Mrs. Carmen de Vicente introduce presentation that is named „The Audit of Subsidies by the Court of Audit Spain“.

Carmen informed us about current situation on the field of providing subsidies in Spain in a very comprehensive way. In her talk there are mentioned following issues:

- recent general legal framework in Spain, mainly as a result of the audit she gives as an example
- kind of subsidies and their classification
- the management of subsidies, obligations of the beneficiaries

Finally, Mrs. De Vicente introduced an example: „Audit of subsidies granted for the development of Plans related to training actions to improve the professional capacity of workers”.

The management of these subsidies was made with the collaboration.

#### Main results:

- the Collaborating Entity managed the funds improperly (paying costs not relating to purpose of subsidy)
- the C.E. did not carry out confirmations on whether the terms were observed
- the C.E. accepted in some cases beneficiary's declaration of the costs without providing the corresponding vouchers. There were lack of documentary necessary for verification all costs
- In some cases, beneficiaries received more than only one subsidy for the same purposes. The Court detected that some invoices were presented for the justification of more than one. This fact was reported to the Prosecutor's Office, for the possible offence existence.
- Some beneficiaries received several public subsidies. The Spanish Court found out that the total amount of all of them was higher than the cost of the subsidized activity.
- Some costs had percentage limits on the total cost and it was proven that, somewhere they had been not well classified in order to justify a higher cost of the subsidized activity.

The main recommendation of the audit was that a new law on subsidies was necessary. That law was approved by the Parliament on 2003.

#### Slide 6

It can be one of the possibility how to ensure better audit results

#### Slide 7

Unclear interpretation of concrete law enactments.

In some cases a version of articles enable two or more interpretations

#### Slide 8

It was clearly showed in relation to Investment Incentives .....

#### Slide 10

Carrying out follow-up audits can be very useful. A good analyses of primary audit contribution can help auditors to reach well the aims of audit.