Czech Republic
Supreme Audit Office

EU REPORT 2019

REPORT ON THE EU FINANCIAL MANAGEMENT IN THE CZECH REPUBLIC

SEPTEMBER 2019

Supreme Audit Office
Jankovcova 2
170 04 Prague 7
tel.: +420 233 045 111
fax: +420 220 808 094
www.nku.cz

Contents

SECTION II

Editor's note:

The editorial deadline for the *EU Report 2019* was set at 31 March 2019. For this reason, this publication provides primarily the data and information that was available to authors up to that set date. Data published after the editorial deadline have only been presented in the text in exceptional cases, having not been the subject of analysis or comparison and intended only as supplementary in nature.

The core of Section I of *EU Report 2019* is comprehensive information on the findings of the Supreme Audit Office from its audits thematically focused on funds from the European Union budget whose audit reports were approved in the period under scrutiny, i.e. from 1 April 2018 until 31 March 2019. Also part of that section are the observations and evaluations of Mr. Petr Klement, member of the Supervisory Committee for the European Anti-Fraud Office nominated for the Czech Republic.

Concentrated in Section II is information concerning the financial management of EU funds in the Czech Republic by the competent executive bodies, both at the level of the European Union and under the national implementation structure. Information requested from the competent authorities of the Czech Republic primarily concerns the budget year 2018. Information concerning financial management at the level of the European Union and its Member States has been taken from the official summarised or annual reports of the European Commission, its bodies and other EU institutions including data found on the websites thereof. Such information primarily concerns the budget year 2017.

Opening message from the President of the Supreme Audit Office

Dear Readers,

We are presenting you with the annual *EU Report* in which the Supreme Audit Office summarizes and comments on the financial management of EU funds in the Czech Republic. The year 2018 was the first year in this programming period, for which the EU assessed the Czech Republic for its compliance with the n+3 rule, and came to the conclusion that the Czech Republic eventually complied with the rule and achieved most of the milestones that were set at the end of the year 2018.

However, a less positive trend is that the Czech Republic is still failing to set up a continuous utilization of the EU funds allocated for the Czech Republic. According to data from the European Commission, the Czech Republic, along with Belgium, Slovenia and Greece is in the 19th-22nd spot among other MSs in terms of drawing its allocation, which can be evaluated as below-average. This is a long-term problem, which the SAO has already pointed out, as well as the risks associated with the delayed usage of EU funds.

Already in the previous programming period, it became apparent that delayed usage of EU funds in the beginning resulted in an effort to use funds in a rush at the end of the programming period. The priority for the use of EU funds should be to ensure that the projects that receive support really deliver the effects they are expected to achieve in areas where it is needed.

The acceleration of absorption at the end of the programming period may also result in funding projects which benefits are not entirely clear or cannot be evaluated at all, which is one of the SAO‘s repeated audit findings. This shows there is room for improvement especially in the system of distribution of EU funds in the Czech Republic.

An example of such deficiencies may be the findings of an audit aimed at increasing energy efficiency. The Czech Republic had anticipated to achieve a total of 20 petajoules of new energy savings by 2020. However, at the end of 2017 our savings turned out to be minimal, falling below 1%. Thus, invested EU funds did not bring any improvement. Such poor results are often due to a number of factors such as unrealistic, too general or difficult to evaluate goals or long decision-making deadlines. As regards the aforementioned audit of energy saving funds, the average timelength of evaluation process on providing the approval was more than 1 year. Other weaknesses identified during the audits include ineligible expenditure, bad setting and functioning of management and control systems, or breaches of public procurement rules.

As can be seen, there is still much to be done and time is running out in this programming period. Therefore, I hope that this publication, which shows, among other things, where there is room for improvement in the distribution of European money in the Czech Republic, will especially be useful feedback for those responsible officials.

Miloslav Kala,

SAO President

List of used abbreviations

AB	Audit Body (MoF – Dept. 52)
ADIS	Automated Tax Information System
AFCOS	Anti-Fraud Coordinating Structure
AFCOS CCP	Central contact point for the AFCOS network
AfEI	Agency for Enterprise and Innovation
AE	Audited entity
AIS	SAO Audit Information System
AMIF	Asylum, Migration and Integration Fund
Annual 2018 Growth Analysis	Annual Growth Analysis for 2018
Annual Report	Annual Report on the Protection of the EU´s financial interests in 2017
BRH	Federal Court of Auditors of the Federal Republic of Germany
CAP	Common Agricultural Policy
CC	Contact Committee
CCo	Criminal Code
CF	Cohesion Fund
CFP	Common Fisheries Policy
CHMI	Czech Hydrometeorological Institute
CMO	Common market organisation
CNB	Czech National Bank
Cohesion Policy	Policy of economy, social and territorial cohesion
Commission	European Commission
Convergence Programme	Convergence Programme of the Czech Republic
Council	Council of the European Union
CR	Czech Republic
ČD	Czech Railways
DAS	Statement of Assurance as to the reliability of the accounts (Déclaration d’assurance)
DG AGRI	Directorate-General for Agriculture and Rural Development (DG AGRI)
DG COMP	European Commission Directorate-General for Competition
DG GROW	Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs
DG MARE	Directorate-General for Maritime Affairs and Fisheries
ECJ	EU Court of Justice
E-MARKETS	Electronic markets
ERDF	European Regional Development Fund
EMFF	European Maritime and Fisheries Fund
EP	European Parliament

EPPO	European Public Prosecutor´s Office
ESF	European Social Fund
ESIF	European Structural and Investment Fund
EU	European Union
EU-28	28 EU Member States
ECA	European Court of Auditors
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund (EAGF)
EUSF	European Union Solidarity Fund
FA	Financial Audit
FADN	Farm Accountancy Data Network
FA CR	Financial Administration of the Czech Republic
FI	Financial Instrument
GBER	General Block Exemption Regulations
GD	General Directorate
GDF	General Directorate of Finance
GDP	Gross Domestic Product
GNI	Gross National Income
ICT	Information and Communication Technologies
INTERREG CR–PL	Interreg V-A Czech Republic – Poland
IROP	Integrated Regional Operational Programme for 2014–2020
IS	Information system
ISF	Internal Security Fund
LPIT	Legal person income tax
MA	Managing Authority
MCS	Management and control system
MEYS	Ministry of Education, Youth and Sports
MFF	Multiannual Financial Framework
MFFCR	Military Forests and Farms of the Czech Republic
MoA	Ministry of Agriculture
MoE	Ministry of the Environment
MoF	Ministry of Finance
MoH	Ministry of Health
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry of Regional Development
MOSS	Mini One Stop Shop
MoT	Ministry of Transport
MS	Member State of the EU
National programme	National Reform Programme of the Czech Republic 2018
NCA	National Coordination Authority (MoRD)

NEEAP	Czech National Energy Efficiency Action
NERP	Czech National Emission Reduction Programme
NF	National Fund (Dept. 55 of the MoF)
OFIs	Other financial instruments (EU)
OLAF	Supervisory Committee of the European Anti-Fraud Office
OP	Operational programme
OP EIC	OP Enterprise and Innovation for Competitiveness
OPEm	OP Employment
OPEn	OP Environment
OPEn7+	OP Environment 2007–2013
OPF	OP Fisheries
OP HRE	OP Human Resources and Employment
OP PGP	OP Prague – Growth Pole of the CR
OPPA	OP Prague – Adaptability
OP RDE	OP Research, Development and Education
OP RDI	OP Research and Development for Innovation
OPT	OP Transport
OPTA	OP Technical Assistance
other irregularities	irregularities of non-fraudulent nature
PA	Priority Axis
Partnership Agreement	Partnership Agreement for the 2014–2020 programming period
PCA	Paying and Certifying Authority (MoF – Dept. 55 National Fund)
PCR	Police of the Czech Republic
PF	Performance framework
PGO	Prosecutor General's Office
PP	Public procurement
PP4+	Programming Period 2004–2006
PP7+	Programming Period 2007–2013
PP14+	Programming Period 2014–2020
PU	Priority of the Union
RDP	Rural development programme 2014–2020
RDP7+	Rural development programme 2007–2013
Report 2019	Report on the Czech Republic 2019
RIA	Railway Infrastructure Administration
ROP	Regional operational programme
RV	Railway Vehicles
SAI	Supreme Audit Institutions
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SAO Act	SAO Act no 166/1993 Coll., on the Supreme Audit Office

SAPS	Single Area Payment Scheme
SEF	State Environmental Fund
SGEI	Services of general economic interest
SFTI	State fund of Transport Infrastructure
SME	Small and Medium Enterprises
SMS	Single Market Scoreboard
SR	ECA Special Report
State of establishment	the state where the taxable entity has its registered office or establishment
State of identification	the state in which the supplier has registered for the MOSS regime
Strategy	National Strategy for Protecting the Financial Interests of the EU
TFEU	Treaty on the Functioning of the European Union
TOR	Traditional Own Resources
Transposition Report	Government Report on the Transposition of Legislative Commitments Ensuing from Membership of the Czech Republic in the European Union for 2018
VAT	Value Added Tax
WHO	World Health Organisation
YEI	Young Employment Initiative

Abbreviations of EU Member States used in chart legends

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxemburg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom

Summary

SECTION I

SAO auditing and monitoring activities

- During the period under scrutiny from April 2018 to March 2019, the **Board of the Supreme Audit Office (SAO) approved the audit reports of 15 audits focused on funds from the EU budget, of those three being financial audits (FA).**
- Without including the data from **FAs, 96 audited entities (AE) were audited,** with **ascertained deficiencies** at a total of **CZK 88.59 million found**, of that a total of **CZK 28.37 million comprising 13 notifications reported to the tax administrator.**
- **Under the FAs, three AEs were subjected to audit, with the identified deficiencies totalling CZK 81 104 110 000**, of that **CZK 13.80 million comprising two notifications reported to the tax administrator.**
- **In total, 474 ascertained deficiencies** were described in the approved audit reports **from all types of audits** (performance audits, financial audits and legality audits).
- **Most frequently it was the legal regulations** concerning **eligibility of expenditures** that were violated, followed by the set of regulations for the **setting up and functioning of the management and control system (MCS)**, as well as the regulations governing **public procurement.**
- From the year 2015 through March 2019, **the government discussed a total of 63 audit reports** that focused on funds from the EU budget, which contained **550 audit findings. For 82 of the identified deficiencies, the Managing Authorities (MA) had not adopted any measures or the adopted measures were not sufficient until the editorial deadline of the *EU Report 2019*.**

Audit activities of other audit bodies in the Czech Republic

- In 2018 the **Audit Body (AB)** carried out **373 audits of operations, 11 system audits and one audit of financial statements for 10 Operational Programmes (OP). For eight OPs** it issued an **unqualified opinion** and for the remaining **two a qualified opinion.**
- In connection with the Statement of Assurance **for 2017, the European Court of Auditors (ECA) performed nine audit missions in the Czech Republic.** Over the period under scrutiny, **entities from the Czech Republic were included** in the audited sample **of six ECA performance audits.**

Successes and obstacles in the fight against fraud

- In Chapter C, **Mr Petr Klement, member of the Supervisory Committee of the European Anti-Fraud Office (OLAF),** presents information concerning the legislative and institutional steps taken at the EU level to improve success in the fight against fraud.

SECTION II

Budgetary matters and protection of the EU's financial interests

- **The budget of the European Union (EU) for 2017** consisted of total **revenue** of **EUR 139.02 billion** and **expenditure** of **EUR 137.38 billion. The net position of the Czech Republic** approached an amount of **EUR 2.31 billion.**
- According to the information of the **Ministry of Finance (MoF), the net position of the Czech Republic** for the year **2018 was nearly EUR 1.77 billion.**
- **The Czech Republic reported 41 irregularities of a fraudulent nature and 307 cases of non-fraudulent irregularities (other irregularities)** in the drawing of EU budget expenditure. In comparison with the previous period **the Czech Republic recorded a drop in all the monitored categories.**
- **The 2018 European Semester,** which represents the coordination of economic, fiscal and social policy, **was launched by the European Commission (Commission) with the issuing of the *Annual Growth Survey for 2018* (2018 Growth Survey),** in which it laid out its priorities. Along the lines of the recommended priorities, **the Czech Republic submitted the *National Reform Programme of the Czech Republic 2018* (National Programme)** and the ***Convergence Programme of the Czech Republic* (Convergence Programme)** to the **Commission**, which passed it along with recommendations to the **Council of the European Union (Council). The Council recommended that the Czech Republic improve the long-term sustainability of public finances** with regard to the aging population, **reduce the administrative burden for investment**, inter alia by speeding up permit proceedings for infrastructure projects, **and increase the innovation capacity of businesses.**
- **Implementation of the strategic documents of the Czech Republic along with the recommendations of the Council was investigated by the Commission**, which **issued a *Report on the Czech Republic 2019* (Report 2019).** The Commission stated that **in improving the sustainability of public finances the Czech Republic had achieved limited progress and in reducing the administrative burden some progress.**

Sector matters

Revenues

- In 2018 the **Commission continued in reforming the EU budget** by submitting draft reforms for the **system of own resources.** It also **proposed abolishing corrections and rebates for individual EU Member States (MS)** and **raising the ceiling for the own resources transfers** of individual MSs. **It also proposed new rules for the taxation of digital assets.**
- In 2018 the **Government of the Czech Republic** prepared a **government tax bundle** containing changes in income tax, value added tax (VAT) and excise duties.

Expenditures co-financed from European Structural and Investment Funds (ESIF)

- **The allocation from ESIF for the Czech Republic** in the programming period **2014–2020** (PP14+), which compared to the prior PP7+ also includes financing of the rural development programme, represents **EUR 24.07 billion**, which along **with the public funds of the Czech Republic** forms available resources of **EUR 33.64 billion.**

- At the current conversion, the **total allocation** amounts to **CZK 616.8 billion, with the performance reserve** representing **CZK 36.9 billion of that. Drawing of the allocation met with problems again in 2018**, which is evident from comparison with other MSs. **The value of financial resources billed in payment requests totalled a mere 25% of the allocation.**
- **The n+3 had been successfully met** for all programmes by the end of 2018.
- **Under implementation of the performance framework** for the possibility of drawing on the performance reserve at 6%, **95 milestones** had been **met** by the end of 2018 **out of a total of 134. The Commission had not yet closed its evaluation**, as MAs could still apply the value of all eligible costs spent by beneficiaries in 2018 to fulfilment of milestones in 2019.

EU Common Agricultural Policy (CAP)

- **In 2018 an equivalent of nearly CZK 36.61 billion was paid out under the CAP in the Czech Republic**, with **EU funds totalling CZK 30.36 billion** of that. Contributing **most** to these pay-outs were **direct payments, with an amount exceeding CZK 22.34 billion** (over 61%).
- **As of 31 December 2018, the Czech Republic had drawn nearly EUR 1.01 billion from the *European Agricultural Fund for Rural Development* (EAFRD), which is 43.72% of the allocated EU resources.**

Other financial management activities

- The Czech transposition deficit as well as the number of infringement proceedings for failure to meet the obligations of transposing legislative commitments remained above the EU average in the years 2017 and 2018.

SECTION I

AUDIT WORK OF SAO AND OTHER AUDIT BODIES IN THE FIELD OF EU BUDGET FUNDS EARMARKED FOR THE CZECH REPUBLIC

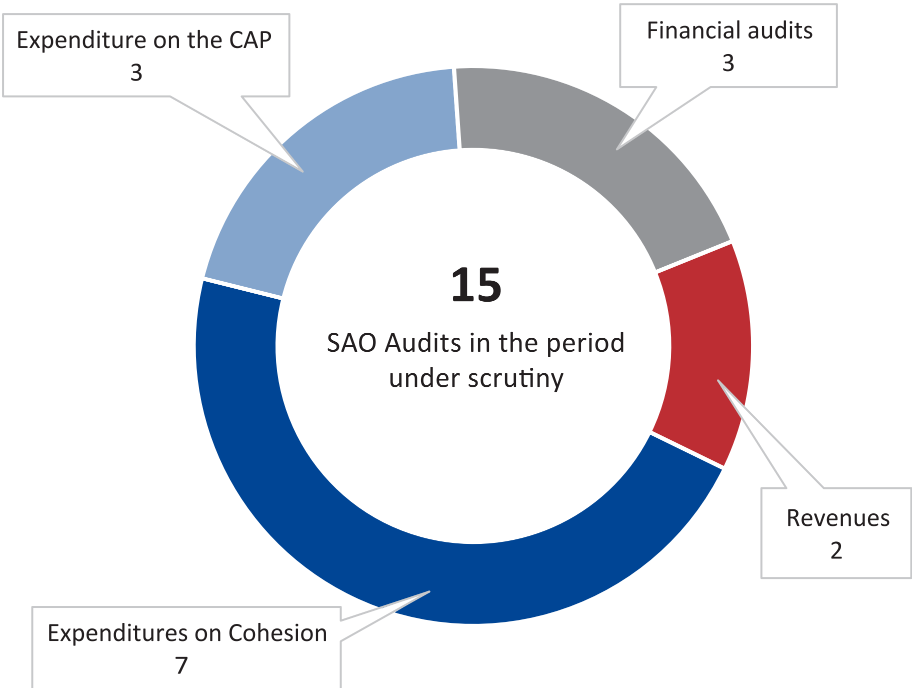
A. SAO audit work in the period under scrutiny

Every year the Supreme Audit Office conducts around 35 audits of various types in accordance with the SAO Act[1] with all manner of focus. This chapter of the *EU Report 2019* is dedicated to those audits that were fully or at least in part focused on funds related to the EU budget and which were completed in the period form 1 April 2018 to 31 March 2019.

A.1 Summary of approved audit reports

In the period under scrutiny the SAO Board approved the audit reports of a total of **15 audits** concerning **EU budget funds** (EU relevant audits).

Chart 1: Breakdown of audits in the period under scrutiny by their focus



1 SAO Act no 166/1993 Coll., on the Supreme Audit Office.

Table 1: Overview of EU relevant audits

Audit no	Audit title	Published in the *SAO Bulletin* (number/year)
17/12	*Administration of value added tax*	4/2018
17/21	*Administration of corporate income tax*	1/2019
17/23	*Measures to increase energy efficiency carried out within the priority axis 3 of the operational programme Enterprise and Innovation for Competitiveness 2014–2020*	4/2018
17/26	*Funds earmarked for the measures of cooperation within the Rural Development Programme Czech Republic 2014–2020*	3/2018
17/31	*Closing account of the state budget chapter Ministry of Agriculture for the year 2017, the financial statements and data for 2017 submitted for the assessment of fulfilment of the state budget 2017*	4/2018
17/33	*Assurance of security for railroad operations and passengers*	6/2018
17/35	*Acquisition and restoration of rail track vehicles*	6/2018
18/01	*Support of business real estate and business infrastructure*	6/2018
18/04	*Funds earmarked for the support of the air quality improvement*	1/2019
18/05	*Accounting of the Ministry of Finance for 2017*	3/2019
18/06	*Support for the promotion of research and development for innovation provided by the OP Enterprise and Innovations for Competitiveness*	1/2019
18/08	*Funds spent on the support of the animal production sector*	3/2019
18/10	*State property under the management of the Vojenské lesy a statky ČR, state enterprise*	1/2019
18/13	*Closing account of the state budget chapter "Ministry of Health" for the year 2017, the financial statements of the Ministry of Health for 2017 and data submitted by the Ministry of Health for the assessment of state budget fulfilment for the year 2017*	1/2019
18/33	*Subsidy from the operational programme „Prague – Growth Pole of the Czech Republic" provided for promoting social inclusion and combating poverty*	3/2019

Note: The colour marking of the EU relevant audits corresponds to their focus according to the previous graph.

In ten cases the audits focused **on expenditure provided to the Czech Republic from the EU budget.** Of these audits, **one** was conducted as a **performance audit** (Audit no 18/04) and **four contained elements of a performance audit and a legality audit** (Audit no 17/33, 17/35, 18/01 and 18/33). The remaining **five audits were legality audits** (Audit no 17/23, 17/26, 18/06, 18/08 and 18/10).

Of these ten audits focused on EU expenditures, a total of **four audits** also audited the **set-up of the MCSs for the relevant programmes** (Audit no 17/23, 17/26, 18/01 and 18/08).

The functioning of the MCS was also focused by one of the two audits conducted in the **field of revenues** (Audit no 17/12), while the **other of them also contained elements of a performance audit** (Audit no 17/21).

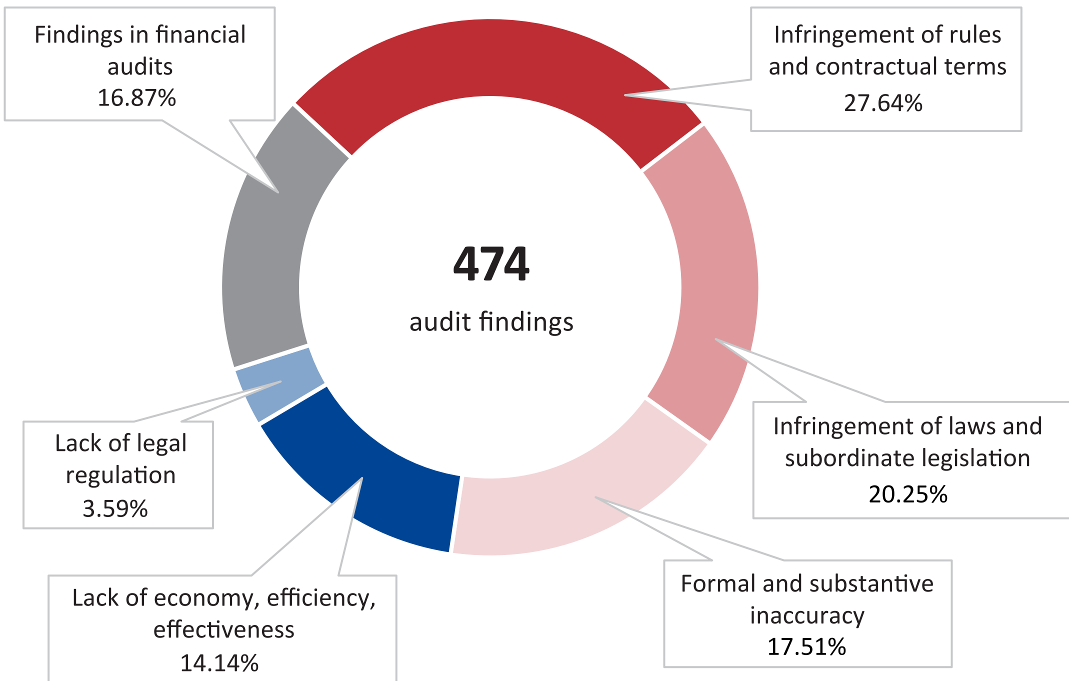
The remaining **three audits** (Audit no 17/31, 18/05 and 18/13) **were financial audits.** The substantive focus of these audits is mostly directed at the closing account of the budget chapter and financial accounts of the administrator for the relevant budget chapter. For this reason, the volume of funds included in the financial audit is much higher than in the case of audits on performance or legality and regularity of operations. The shortcomings ascertained during the financial audits in the field of accounting and reporting concern incomparably higher amounts, which would further distort the presented statistical results in relation to other types of audits. For this reason, the volumes of the deficiencies found by the financial audits are presented separately below; other data for the financial audits are included in the joint values.

In total, **97 entities (audited entities)** were audited, though a number of them were audited under more than one audit and have thus been included in the total multiple times.[2] The SAO found **deficiencies in 50 audited entities,** i.e. 51.55% (a number of audited entities have been counted multiple times).

In the audits under scrutiny, the SAO made a total of **474 audit findings**, of which **80** were **quantifiable. The SAO quantified the volume of detected deficiencies at CZK 88.59 million.** Another **CZK 81 104 110 000** was the value of **quantified misstatements** detected **in the financial audits.** Of these, some were assessed as enforceable and thus the SAO reported a total of **15 notifications to the tax administrator** to be dealt with further. **The total amount of such notifications amounted to nearly CZK 42.17 million.**

As a result of three audit findings made under Audit no 17/33, **one criminal complaint was filed.**

Chart 2: Breakdown of audit findings by category



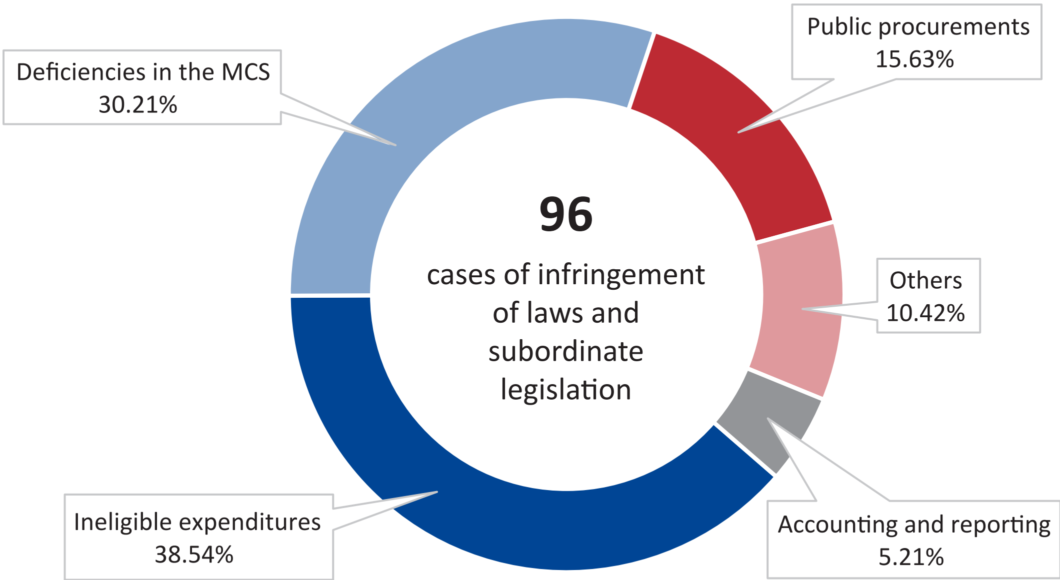
Note: All the audit findings made during the audits are included in the category *Findings in Financial Audits* even if they fall into other type categories (in the vast majority of cases, they constitute a violation of accounting laws or decrees). These findings are reported separately here, as by their nature they differ significantly from findings made in other types of audits.
The *Formal and Material inaccuracy* includes findings related to such matters as failure to update the management documentation or failure to set the unit cost/eligible expenditure limits for acquisition investments, or the absence of less significant data in legal acts, or their ambiguity, etc.

2 Such audited entities particularly include the Ministries performing the role of MAs of individual programmes co-financed from the EU budget.

Out of the total of 394 audit findings made **outside of FAs, 96** were categorised as ***Breach of Statutory and Subordinate Standards*** (this category includes violations of EU binding legal standards, laws, decrees and government orders of the Czech Republic). Under this category of findings, **tax administrators were given notifications for a total amount of nearly CZK 28.37 million.** In the case of 80 findings in **FAs**, statutory and subordinate standards had been violated in **71 cases** (included in the category *Findings in Financial Audits*) and **notifications were submitted to tax administrators for a total of CZK 13.80 million.**

The breakdown of audit findings from the category *Breaches of Statutory and Subordinate Standards* (not including FAs) by individual groups of such breaches[3] is depicted in Chart 3.

Chart 3: Type and rate of occurrence of breach of laws and regulations in EU relevant audits without FA



The most frequent audit finding in terms of violating laws and regulations was **ineligible expenditure** (this category also includes ineligible projects and ineligible beneficiaries), followed by **deficiencies in the MCS.** These two categories represent **nearly 70% of all detected cases of legal breaches** when not counting FAs. The *Other* category mainly includes violations of provisions of the Building Act[4] and related regulations.

In the case of FAs, the situation was different. **70%** of cases were **violations of the Accounting Act**[5] and related regulations. By their nature the individual findings most frequently fell under the category of **errors in accounting and reporting** or the category **deficiencies in the MCS.**

3 The findings are primarily categorised by the breached regulation; if for example the Public Procurement Act has been violated and as a result an expenditure is ineligible with the qualification of violation of budget rules, this finding is categorised under *Public Procurement*.

4 Act no 183/2006 Coll., on Town and Country Planning and the Building Code (the Building Act).

5 Act no 563/1991 Coll., on Accounting.

A.2 Audits of revenues

SAO audits concerning revenues in relation to the EU budget focus both on taxes harmonised under the EU (VAT) and taxes that are not harmonised with the EU (e.g. income tax).

Audit no 17/12 – Administration of value added tax

The EU's tax policy targets the smooth functioning of the single European market and the fight against tax evasion. **In light of the high risk of tax evasion, management of VAT is a repeated subject of SAO audits.** The difference between the VAT actually collected and the theoretical amount of tax that could be collected after tax entities have met all obligations was around 14% in 2016 in the Czech Republic, and 12% in the EU as a whole[6]. This "tax gap" represents a loss of revenue for the Czech budget, as well as the EU budget. In previous years this issue was addressed in particular by Audit no 14/17[7] and no 11/07[8].

The SAO also actively deals with the issue of VAT as a member of the working group for the VAT under EUROSAI. Over the course of monitoring of this area, **risks of tax evasion during cross-border trading were identified, with the risk in the area of e-commerce appearing to be highly significant.**

Audit no 17/12 set as its goal to assess the legislative treatment of VAT, particularly in the area of e-commerce, the approach of financial and customs authorities in managing this tax and the effectiveness of the supervisory system, including the impact on state budget revenues. This audit was conducted as a legality audit, and was conducted under the *Cooperation Agreement between the Supreme Audit Office of the Czech Republic and the Federal Court of Auditors of the Federal Republic of Germany*.

The SAO audited the set-up and functioning of the simplified Mini One Stop Shop (MOSS)[9] for taxation of selected cross-border services and goods.

SAO audit findings

E-commerce is a specific, dynamically developing field of trade, the financial volume of which in the Czech Republic exceeds CZK 100 billion[10] a year. It allows for the direct cross-border purchase of goods or receipt and subsequent consumption of selected services by a consumer who does not have the obligation to notify the tax administrator of such a transaction. In such cases the supplier, as a taxable person, is obliged to declare and pay VAT in the state of consumption. For this reason, the audit activities and measures taken by tax administrators in one MS can have a direct impact on VAT collection in other MSs.

The SAO found that the EU legislation governing management and administrative cooperation in the field of VAT have deficiencies that significantly limit the effectiveness of administrating this tax. The system does not guarantee that cross-border transactions will be properly taxed. The cause is primarily the inappropriate division of powers among individual MSs and insufficient cooperation among tax administrators of EU states.

---

6 *Study and Report on the VAT GAP in the 28-EU Member States: 2018 Final Report*, TAXUD 2015/CC/131.

7 Audit no 14/17 – *Management of value added tax and the impact of legislative changes on state budget income*; audit report published in part 2/2015 of the *SAO Bulletin*.

8 Audit no 11/07 – *Management of value added tax during import of goods from third countries*; audit report published in part 1/2012 of the *SAO Bulletin*.

9 *Mini One Stop Shop*, i.e. a special regime for a single administrative site for taxation of selected cross-border transactions – see below.

10 Qualified estimate of the SAO.

The Council Directive on administrative cooperation in the field of VAT[11] allows, and under certain circumstances requires, cooperation among MSs. In the special MOSS regime, this cooperation has taken place automatically. In the sending of goods and providing of selected services outside of MOSS, it has occurred only in isolated cases. The cause is the fact that outside of MOSS, tax administrators do not have sufficient data that they could exchange. The result is insufficient supervision of the accuracy of tax declarations.

With the growing volume of cross-border trade, the impact of the deficiencies detected will grow. These deficiencies are a risk for conducting VAT administration under MOSS and for its expansion to other types of transactions in the form that the Commission is proposing.[12]

The SAO, on the basis of cooperation with the Federal Court of Auditors of the Federal Republic of Germany (BRH), stated that the implementation of MOSS has met its set goals, but there is still room to increase the efficiency of tax collection. Certain procedures lack a basis in the legislation, or are left up to the state of consumption, which is however only able to carry them out in a limited or difficult manner.

The legal treatment and procedures for customs administration during the import of small packages ensure effective and adequate control of the accuracy of the declared base for tax calculation. The procedure for properly ascertaining the basis for calculating customs is however administratively time-consuming and resource intensive. SAO did not find deficiencies in the approach of customs authorities.

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	App. 100 000.00	Out of which from the EU budget	Cannot be quantified
Quantifiable deficiencies at the system level	0.00	Out of which from the EU budget	0.00

Based on its findings, the SAO has recommended the following at the level of EU legislation:

- strengthen the responsibility and powers of the state where the taxable entity has its registered office or establishment (state of establishment) or in which the supplier has registered for the MOSS regime (state of identification) so that a maximum of actions in administering VAT for B2C transactions[13] are provided for primarily by this state on behalf of all the states of consumption
- in the case of expansion of the powers of the state of establishment, implement a reward for this state for tax administration conducted on behalf of the consumption states
- strengthen the rights of the tax administrator in terms of acquiring information from third parties, in particular: providers of payment services, providers of postal and courier services, operators of electronic markets (e-markets) and similar platforms;
- establish responsibility of e-market operators for proper taxation of transactions concluded through them
- set up coordinated searching of taxable persons, primarily from the position of state of establishment and sharing of the results of these searches

11 Council Regulation (EU) no 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax.

12 Council Directive (EU) 2017/2455 of 5 December 2017 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods.

13 *Business to customer* – a designation for the business relations between corporations and end customers.

- remove restrictions on use of MOSS for establishments in other MSs
- do not restrict the obligatory exchange of information in the sense of Art. 7 (1) of Council Regulation no 904/2010[14] solely to specific cases

Based on its findings, the SAO has recommended the following at the level of national legislation:

- analyse the possibility of modifying the provisions of Section 148 of the Tax Code[15] and potentially propose a change to it ensuring the deadline for setting the tax under MOSS may be suspended in the case an inspection is commenced by the tax administrator of a different MS.
- implement an obligation for not established persons to periodically inform the tax administrator about transactions made to the country to the benefit of non-taxable persons and set up the obligation for persons not established in the EU to have a tax representative.

Proposals and realisation of corrective measures

The MoF and General Directorate of Finance (GDF) adopted a number of measures for the SAO findings. For example, if the **financial authority determines that a taxable person is registered under MOSS and the Czech Republic is the state of consumption,** then since 1 January 2019 it has been **checking whether this person has an establishment in the Czech Republic.** If the Czech Republic is the state of consumption, the tax administrator now checks the reported tax identification number of the establishment assigned by the financial administration in another MS (VAT ID). **For tax entities registered in MOSS that report performance to states with a lower VAT rate, records to check the place of performance can be requested.**

In connection with changes to the legislation in the area under scrutiny, the Financial Administration of the Czech Republic (FA CR) adopted measures of a long-term nature. For example, with the expansion of MOSS to state ministries and organisations by 30 April 2021 a new information system (IS) will have been developed and tax administration will be divided among all regions, as a result of which the tax administrator will have access to both tax statements. The GDF has requested that a comparison of line 26 of the VAT tax return and the tax return in MOSS be implemented in the *Automated Tax Information System* (ADIS) so that such comparison be functional starting 1 January 2021.

Audit no 17/21 – Administration of legal person income tax

An area of risk for administrating legal person income tax (LPIT) that was identified was the field of transfer pricing, or transactions realised between personally or financially related parties. In the EU, LPIT is not harmonised, which allows taxpayers to conduct undesirable optimisation through connected entities abroad or in tax havens. In terms of managing LPIT, new measures should gradually be implemented at the European level to fight taking advantage of gaps between the tax systems of MSs and countries outside the EU and to ensure protection against the evasion of tax obligations. LPIT and the administration have not been audited long-term by the SAO.

The goal of the audit was to assess how LPIT is set up and the approach of FA CR authorities in administering this tax. Audit no 17/21 was conducted as a legality audit utilising elements of a performance audit.

14 Council Regulation (EU) no 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax.

15 Act no 280/2009 Coll. the Tax Code.

Five directives have been drawn up under the EU concerning primarily the exchange of information for the purposes of verifying facts relevant for properly determining and establishing tax. **The Czech Republic implemented three of these directives into the national legislation several months later compared to the deadlines stipulated by the Commission** (in the case of directive DAC 5, the delay was a full six months). The Commission formally notified the Czech Republic of its late implementation, but did not issue any financial or other sanction. **The GFD monitored the impact of information being exchanged in terms of additionally imposed tax and reducing the tax loss, with tax of CZK 102.6 million being added for direct taxes in the monitored period of 2013–2016. The GFD was not able to calculate the impact separately for LPIT.**

One of the possibilities for estimating the level of tax evasion is monitoring the tax gap. For the year 2012 the MoF calculated the tax gap for LPIT in two variants, which differed based on the method of calculation used, with the first estimate of evasion totalling CZK 8.3 billion and the second CZK 15 billion. The MoF did not make an estimate for the tax gap of LPIT in the monitored period of 2013–2016.

In the years 2013–2016 the FA CR completed a total of 9 012 tax audits on the basis of which the tax obligation was changed or tax loss reported reduced in LPIT returns. **The fiscal impact of the completed tax proceedings following the application of ordinary or extraordinary corrective measures was not collectively monitored by FA CR and it did not publish information on the results of its audit activity that were overestimated in terms of impact on the state budget. The difference between the published statistics on tax audits and the additional tax registered on the accounts of taxpayers totalled CZK 1.5 billion.** Aside from the reduction or reversion of prescribed tax due to use of remedial measures, the reason for this difference could also be charging in a different period (primarily when the audit was completed and additional tax imposed on the cusp of the calendar year).

The effectiveness of audit activity from the perspective of revenue was negatively influenced by incorrect decisions by the tax administrators, which were subsequently overturned by the application of remedial measures. As a result of this, the additional tax imposed was reduced. **For the period of 2013–2016, overpayments repayable to taxpayers of CZK 180 million occurred as a result of erroneously assessed additional tax. The interest on these repayable overpayments, which burdened the state budget, amounted to further CZK 61 million.**

Since 2014, taxpayers have been obliged to attach to their tax return an overview of transactions with related persons including a quantification of these transactions. Despite the great significance of such data, the MoF merely introduced an annex (form) to the tax return for determining them. Neither the GFD nor MoF substantiated having dealt in introducing this form with the question of whether the requested data are essential for tax administration. This condition must be met for introducing a form, otherwise it is necessary to only request data on the basis of the law.

The FA CR only began addressing an audit of the taxation of CZK bonds issued in 2012 in 2017, based on information from the media, the public or information arising from meetings of the budget committee of the Chamber of Deputies of the Czech Parliament. The abuse of the law in taxation of CZK bonds was not detected as a risk by the FA CR in the years 2013–2016. **The SAO stated that the FA CR did not react to the risk of abuse of the institution of denominated bonds at all issuers in time. For at least 15 taxpayers, the three-year limitation period for assessing tax had expired. The exercising of financial costs from issued bonds for the year 2013 in an amount of CZK 46.3 million could not be audited.**

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	2 333.97	Out of which from the EU budget	Cannot be quantified
Quantifiable deficiencies at the system level	0.00	Out of which from the EU budget	0.00

Proposals and realisation of corrective measures

The MoF agrees with the conclusion of the SAO in that the legislative process in the Czech Republic is long. The MoF will continue to strive to submit implementing amendments in parliament as quickly as possible while maintaining the current quality enabling successful involvement in exchange of information. **The MoF will continue to continuously monitor the indicators indicating a change in the volume of LPITs´ evasion. At the same time, from 2019, the MoF will periodically, i.e. once every two to three years, estimate the amount of the tax gap.** From 1 January 2020, the GFD proposes to supplement the published "*Information on the activities of the Financial Administration*", respectively "*The report on activities of the Financial Administration and the Customs Administration*", with a table containing data on changes in tax which would reflect the results of tax inspections after the subsequent proceedings of ordinary and extraordinary appeals.

The error rate of the data in the annex to tax returns was rectified with an adjustment to the ADIS system in 2016, when a control statement was introduced which alerts any potential irregularities when entering data from tax returns, annexes and reports.

A.3 Audits of expenditure

Every year, expenditure audits represent the largest number of audits under the SAO audit plan.

Audit no 17/23 – Measures to increase the energy efficiency realised under Priority Axis 3 of Operational Programme Enterprise and Innovation for Competitiveness 2014–2020

Audit no 17/23 was included in the *SAO Audit Plan for 2017* based on the results of regular monitoring of implementation of the national energy efficiency target to which the Czech Republic committed as part of its contribution to meeting the objectives of the *Europe 2020* strategy, as well as on the basis of the results of previous audits[16] focused on support for increasing energy efficiency and support for the use of renewable energy sources.

The goal of the audit was to check whether the audited entities were providing – or drawing funding for the purpose of – realisation of selected measures in accordance with the legal regulations, effectively and economically. The auditors also checked the achievement of the targets of selected projects under Priority Axis (PA) 3 for OP *Enterprise and Innovation for Competitiveness* (OP EIC) and determined whether these projects were contributing to the meeting of the objectives for increasing energy efficiency in accordance with the *Europe 2020* strategy. Audit no 17/23 was conducted as a legality audit, checking the setting and functioning of the management and control system for OP EIC, with selected projects also being subjected to the audit.

16 In particular Audit no 15/02 – *State funding provided for supporting energy savings*; audit report published in part 1/2016 of the *SAO Bulletin*.

The audit also examined whether the audited entities acted in order to meet the energy efficiency goals listed in the *Czech National Energy Efficiency Action Plan*[17] (NEEAP). To this end, SAO audited the Ministry of Industry and Trade (MoIT), the Agency for Enterprise and Innovation (AfEI), and also checked the beneficiaries of 15 projects that were to contribute through energy savings to meeting the specific objective 3.2 *Increasing the Energy Efficiency of the Business Sector*.

SAO audit findings

The SAO investigated the spending of EU funds, particularly the funds from the *European Regional Development Fund* (ERDF) that were provided to small, medium and large enterprises for achieving planned energy savings. According to the NEEAP, projects in OP EIC should generate a total of 20 petajoules (i.e. 20 000 000 gigajoules) of new energy savings in 2020. **The energy savings achieved under OP EIC as at 31 December 2017 were however minimal, not reaching even 1% of the planned value. Moreover, the financial demands of the projects that the SAO audited were more than double of the MIT's 2014 estimate.** This means that the average amount of a specific subsidy, i.e. the average costs for 1 gigajoule of savings achieved for the projects audited, reached CZK 2 181 instead of the estimated CZK 1 000 per 1 gigajoule of energy savings.

There is no great interest on the part of businesses in OP EIC projects that support achieving energy efficiency through energy savings. The lack of suitable projects was determined for the subsidy calls and for the call that was declared for the "financial instrument "that was meant to provide businesses with favourable loans for achieving energy savings. Under the financial instrument call, not one loan had been provided at the time the audit was ended (February 2018). **In addition, the MIT did not act in accordance with the EU regulations in setting the conditions for and implementing the *Energy Savings* financial instrument, as in the agreement on financing of this instrument it did not set the expected results that were to be achieved.**

Approval of projects submitted under PA 3 takes a very long time. **The average length of evaluation and approval of a project is over 1 year, specifically 404 days.** In terms of the evaluation, selection and approval of projects for PA 3 calls, up until the end of 2017 an **insufficient process** was used for **uncovering the ownership structure of applicants in assessing the status of small and medium enterprises (SMEs),** which is a deciding factor for setting the level of support provided. When assessing the projects, the MoIT as the subsidy provider did not have access to information confirming the data on the applicant's ownership structure up to the level of the so-called ultimate beneficial owner.

For approved projects it is practically impossible to assess what their actual contribution is to meeting the energy efficiency goal in industry. The reason is that the resulting values concerning the final consumption of energy in industry are monitored through a statistical indicator, and these values are to a considerable extent also influenced by external factors outside the purview of OP EIC.

The SAO ascertained that nearly one third of the audited beneficiaries acted in conflict with the rules of OP EIC. **Beneficiaries particularly made errors in public procurement and also in claiming ineligible expenditures in payment requests.** Certain errors comprised **breach of budgetary discipline and thus the SAO notified the tax administrator.**

17 The National Energy Efficiency Action Plan describes the planned measures focused on increasing energy efficiency and the expected or achieved energy savings, including savings during the supply, transfer or transport and distribution of energy, as well as in final energy use. MSs are obliged to submit national energy efficiency action plans to the Commission in three-year intervals based on the requirement of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.

The SAO also checked the management and control system of OP EIC – its settings and especially its reliability and effectiveness. Selected elements of this system were assessed particularly in relation to PA 3. **The SAO assessed the MCSs** on the basis of facts determined at the MoIT, AfEI and beneficiaries **as "partially effective".**

The results of the audit drew attention inter alia to **two problematic areas:**

- **meeting the predicted energy savings values** the Czech Republic committed to meet by 2020
- **setting the conditions for introducing and utilising financial instruments** as alternative form of support under PP14+

The SAO also examined the implementation of corrective measures adopted on the basis of results of previous audits and found that corresponding measures had been adopted on the findings of Audit no 14/06[18] and no 15/02[19], **but measures had not been fully implemented for the deficiencies found under Audits no 16/01[20] and no 13/17[21].**

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	606.90		Out of which from the EU budget	606.90	
Quantifiable deficiencies at the system level	0.00		Out of which from the EU budget	0.00	
Audited volume of funds at the project level	69.98		Out of which from the EU budget	69.98	
Quantifiable deficiencies at the project level	0.24		Out of which from the EU budget	0.24	
Enforceable deficiencies at the project level	0.24		Out of which from the EU budget	0.24	
Notification of deficiencies at the project level (financial volume and number) to the tax authorities	0.24	3	Out of which irregularities (financial volume and number)	0.24	3

Proposals and implementation of corrective measures

The MIT already drafted and submitted a report on rectifying the discovered deficiencies during the course of the audit. Specific corrective measures concerned for example simplifying the evaluation criteria in new calls focused on energy savings, assessing the ownership structures of applicants for support, or adding key criteria to the inspections sheets for controlling selection of providers and performance of contracts. The subject of further monitoring on the part of SAO will for example be measures to rectify deficiencies in the communication between MoIT and AfEI.

18 Audit no 14/06 – *Funds earmarked for the support of energy production from renewable resources*; audit report published in part 4/2014 of the *SAO Bulletin*.

19 Audit no 15/02 – *State funds provided to support energy savings*; audit report published in part 1/2016 of the *SAO Bulletin*.

20 Audit no 16/01 – *Funds from the European Union and state budget earmarked for financing measures under Operational Programme Enterprise and Innovation in terms of achieving targets*; audit report published in part 1/2017 of the *SAO Bulleting*.

21 Audit no 13/17 – *Funds from the European Union and state budget earmarked for realising Operational Programme Enterprise and Innovation*; audit report published in part 2/2014 of the *SAO Bulletin*.

Audit no 17/26 – Funds earmarked for the measure Cooperation under the Czech Rural Development Programme for 2014–2020

The SAO monitors the provision of European subsidies to agriculture with a view to the setting of conditions for providing such subsidies on the part of their provider, which is the Ministry of Agriculture (MoA). On the basis of findings from monitoring, the results of audits conducted by the ECA, and especially the results of previous audits focused on the MCSs under the CAP, the audit in question was included in the audit plan.

The reason for launching audit preparations were the results of a risk analysis and also the fact that the *Cooperation* measure is a new element for supporting research, technological development and innovation in agriculture under the *Rural Development Programme 2014–2020* (RDP), for which CZK 3.8 billion has been allocated from public funds. **The SAO identified risks in setting the purpose and objectives of support, the subsidy conditions in terms of selection and control of projects, and from the perspective of ensuring the eligibility and economy of expenditures. The SAO saw further risks in the system for monitoring and evaluating progress and achievement of project results and measure objectives.**

It was the ambition of this audit to identify weak points and problematic parts of implementation of the given measure before the deadline for evaluation of the performance framework (meeting of "milestone" values by 31 December 2018), the fulfilment of which is a condition for freeing up the financial bonus (performance reserve). It was also to assess whether implementation of the measure guarantees the financing of necessary and effective innovative projects.

The aim of Audit no 17/26 was to verify whether the MCSs and conditions set for the provision of funds from the EU and state budget for measure M16 – *Cooperation* under RDP had the ability to ensure effective, economical and efficient spending of public funds, and to check whether effective and necessary projects contributing to achieving these goals were selected and financed. This audit was conducted as a legality audit.

The audit was carried out at the systemic level at the MoA and State Agricultural Intervention Fund (SAIF) and the state of implementation of the measure was assessed in the mid-term of the programme period.

The period under scrutiny was the years 2014 to 2017. Funds of over CZK 2.9 billion were checked at the system level, having been allocated as at 31 December 2017 for the *Cooperation* measure under five declared calls.

SAO audit findings

The SAO audit detected a number of fundamental deficiencies in the management system and in the setting of conditions for provision of subsidies, which had a negative effect on the effectiveness and economy of the spending of funds. **Errors were primarily detected in the incorrect focus of support and the preference for a certain type of applicant, in the unequal and often complicated conditions for applicants, in the field of evaluation, and in the selection of projects to be financed.**

The audit found that **implementation of the *Cooperation* measure has been accompanied from the beginning by significant delays**, with only five projects for a total of CZK 186 million having been completed and paid out by the end of the fourth year of the programming period (as at 31 December 2017). For three of the six sub-measures/operations, implementation was unsuccessful. The *Cooperation* measure is **carried out predominantly through a single operation focused on development in the processing of agricultural products. Under this operation, where 74% of the budget for the whole *Cooperation* measure is allocated, the**

majority of beneficiaries are large food industry companies. Generally, these are businesses that report a profit, yet they collect subsidies repeatedly.

Expenditures for science and research, which are considered of key importance under the *Cooperation* measure, are in fact negligible, making up roughly 1% of the eligible expenditures. Applicants spend nearly the whole expenditure on the purchase of machines, equipment and structural modifications. The audit showed that **there is no support for SMEs**, even though this was one of the main goals of the *Cooperation* measure. The reason for this lack of success is primarily the **complicated and unfavourable subsidy conditions, due to which applicants from microenterprises and SMEs do not have an interest in subsidies or their applications were not approved by the MoA.**

The MoA also committed errors in selecting projects. In assessing and evaluating projects, **there was no sufficient audit trail, the decisions of the evaluators were not reviewable and the selection of projects was not transparent**. It is also problematic that **the appeals of certain unsuccessful subsidy applicants were assessed by the same committee that originally decided they were not eligible.**

The audit also determined that the **MoA was not able to substantiate and explain the chosen subject and purpose of support.** The MoA chose seven support areas for implementation, giving marked priority to the area *Development of new products, procedures, processes and technology in the sectors of agriculture, food processing and forestry*, to which it allocated 86% of the funds assigned for the *Cooperation* measure. This despite the fact that the EU regulations allowed for support of other areas as well that would better correspond to the development needs of Czech agriculture and rural areas and the needs of potential applicants.

The results of the audit proved the existence of the majority of expected risks. For example, the risks of improperly chosen support topics, unfounded provision of support, favouring certain beneficiaries and types of project, and improper setting of project selection criteria were all confirmed. Partially confirmed were the risks concerning insufficient monitoring and evaluation of progress and measure objectives, or the lack of limits on eligible expenditures.

In contrast, what was not confirmed was the risk of overlap between activities paid from the *Cooperation* measure and those supported from RDP's *Technical Aid*.

In light of the fact that only five projects had been paid out at the time of realisation, the audit was carried out at a systemic level. For this reason, the **audit findings were not quantifiable, even though the deficiencies were serious.**

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	2 637.78	Out of which from the EU budget	1 463.33
Quantifiable deficiencies at the system level	0.00	Out of which from the EU budget	0.00

Proposals and implementation of corrective measures

It follows from the position of the MoA and SAIF on the audit report for Audit no 17/26 that the MoA and SAIF accepted the majority of the SAO's audit findings and adopted corrective measures for most of the findings, not only for the current programme period, but in relevant cases also for the future programme period.

In the current programme period the rules for provision of subsidies have been or should be adjusted so that there is greater interest in subsidies, so the rules are simpler and more accessible for SME applicants, and also more transparent project evaluation should be introduced and funds should be reallocated between operations under the *Cooperation* measure and the performance reserve shifted between priorities so as to meet the material and financial milestones. Corrective measures cannot, however, be reflected in the most financially significant operation, where the allocation has currently already been exhausted and further rounds for receiving applications will not be declared.

According to the statement of the MoA, in the future programming period the subsidy measures and conditions for applicants should be set up better in the sense of greater support for SMEs and supporting projects that correspond to the needs and priorities of the Czech Republic. Furthermore, the MoA should improve project evaluation and improve the focus of support and setting of goals and milestones so as to better correspond to the expected absorption capacity and actual needs.

The SAO will continue to monitor the corrective measures. The SAO will only be able to assess the appropriateness and sufficiency of the measures proposed for the next programming period in further audits.

Audit no 17/33 – Ensuring the safety of railway traffic and passengers

The SAO continually monitors the area of rail traffic safety. In the previous years, this issue was addressed primarily by Audit no 07/25[22]. Through an analysis of the findings from the ongoing monitoring and from the aforementioned audit, the SAO identified primarily the following risks:

- The absence of an up-to-date risk analysis of the safety of railway traffic and passengers precludes systematically and efficiently allocating funds for projects to eliminate the most significant risks in terms of passenger and railway traffic safety.
- Projects that are less important or insufficiently justified in terms of the declared purpose are also chosen for implementation.
- During implementation the time and financial parameters are not observed.
- Works are not sufficiently prepared; projects contain errors.

The most significant risk appeared to be the first one, i.e. the absence of a current risk analysis for establishing the priority of various proposed projects, particularly in relation to securing railway crossings.

The aim of Audit 17/33 was to verify whether the provision of funds for the security of railway traffic and passengers contributed to eliminating areas of risk and whether the stipulated objectives were achieved effectively and economically in implementation of projects. This audit was conducted as a legality audit with elements of a performance audit.

The audit was focused on projects for the renovation and modernisation of railway crossings carried out by the Railway Infrastructure Administration (RIA). The goal of these projects was to eliminate risks occurring at level crossings of railways with roads. Thus funds spent on increasing safety at railway crossings were subjected to the audit with regard as to whether:

- the highest risk spots were eliminated with priority
- during preparation of project the conditions for their economic and effective implementation were created
- implementation of the projects achieved the set goals and the financial, time-based and material parameters with commensurate costs

22 Audit no 07/25 – *Funds earmarked for ensuring the safety of railway traffic and passengers;* audit report published in part 3/2008 of the *SAO Bulletin*.

The period from 2013 to 2017 was audited, along with the period preceding and following in relevant cases.

Projects for renovating and modernising railway crossings were financed from the budget of the State Fund for Transport Infrastructure (SFTI), with part also being co-financed from EU funds via OP *Transport* (OPT). SFTI funded individual projects under three global items, thus they were not named projects included in the SFTI budget. The preparation and realisation of ten investment projects completed in 2015–2017 with total costs of CZK 730.9 million were selected for detailed audit. The objective of the projects was to increase safety at railway crossings; for some also eliminating permanent restrictions on track speeds. Under the audited projects, 77 railway crossings were renovated or modernised.

SAO audit findings

None of the materials of the Ministry of Transport (MoT) and RIA dealing with the safety of railway crossings addressed the issue comprehensively. No specific crossings were dealt with, no timeline for eliminating the defects of the highest risk crossings was set and the required funds were not defined. The exception was a single analysis, which however dealt solely with certain crossings on transit railway corridors.

The number of accidents on railway crossings did not significantly change in the period under scrutiny of 2013–2017. In this period nearly CZK 2 637 790 000 was spent on increasing safety on railway crossings, out of that just under CZK 1 729 560 000 from SFDI funds and CZK 908 230 000 from EU funds.

In the preparatory phase of construction projects, substantive changes to the project documentation and problems in acquiring construction permits took place, which led to the expected implementation deadlines of projects being prolonged by one to three years.

The economy of costs for realisation could have been influenced by certain facts that the SAO discovered in the procurement proceedings for selecting construction contractors. **The tenders were participated in by a low number of applicants** (on average only three candidates applied), **which could have influenced the level of bids to the RIA's detriment.** For three of the four tenders audited at RIA – Construction Administration West, it was found that the bids for certain candidates were evidently based on the bid price of the selected (winning) candidate (bid-rigging). **These findings resulted in a criminal complaint.**

The results of the audit demonstrated the existence of the expected risks consisting of the absence of a risk analysis that would make it possible to identify the most dangerous railway crossings and thereby focus funding on eliminating/modernising these in particular. The risk of failure to observe time parameters was also confirmed, which was caused by insufficient preparation of the projects.

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	2 637.79	Out of which from the EU budget	908.23
Quantifiable deficiencies at the system level	0.00	Out of which from the EU budget	0.00
Audited volume of funds at the project level	346.79	Out of which from the EU budget	118.03
Quantifiable deficiencies at the project level	0.77	Out of which from the EU budget	0.00

Enforceable deficiencies at the project level	0.00	Out of which from the EU budget	0.00
Filing a criminal complaint for deficiencies at the project level (number)	1	Out of which from the EU budget (number)	1

Proposals and implementation of corrective measures

As part of corrective measures, the RIA will continue in doing away with infrequently used railway crossings, primarily on utility roads. The RIA will also propose new technical solutions for "barriers opened by request" intended for infrequently used crossings on regional and local tracks.

Neither the MoT nor RIA have however adopted measures for identifying railway crossings which, for example for historical reasons, do not meet the requirements of the standards or regulations and which due to a combination of risk factors (e.g. proximity to an intersection of roads, higher traffic levels, etc.) could represent risk areas in railway traffic.

The SAO furthermore recommends continuing in introducing camera systems monitoring railway crossings for the purpose of preventing risky behaviour by drivers.

Audit no 17/35 – Acquisition and renewal of railway vehicles

The SAO continually devotes itself to monitoring the renewal and modernisation of railway vehicles (RV). In previous years it dealt with this issue primarily through Audit no 10/24[23]. Through an analysis of data and information from continuous monitoring and findings from the aforementioned audit, the SAO identified primarily the following risks:

- failure to set up indicators and parameters which would allow to evaluate the fulfilment of stipulated objectives and expectations
- considerable deviation of programme implementation from the approved financial conditions; the MoT didn't want to deal with evaluating the meeting of goals and time and financial parameters until the final assessment of OPT
- failure to observe the rule of efficiency and effectiveness of funds spent on the part of the subsidy beneficiary
- lower effectiveness of provided support; failure to meet objectives and the associated risk of ineffective and inefficient spending of public funds

The objective of Audit no 17/35 was to verify the effectiveness, economy and efficiency of support provided to railway carriers to acquire and renew RVs. This audit was conducted as a legality audit with elements of a performance audit.

The audit was focused on the provision, drawing and use of state budget and EU funds earmarked for the support of projects for acquisition and modernisation of RVs carried out under the programmes under the MoT and the four regional OPs.

The audit primarily examined the following:

- setting of objectives in acquisition and modernisation of RVs
- creating a system of indicators allowing the objective assessment of achieving goals
- setting procedure for dealing with issue of obsolete fleet
- effectiveness and efficiency of procedures used

23 Audit no 10/24 – *Funding earmarked for procuring and renewing railway vehicles*; audit report published in part 2/2011 of the *SAO Bulletin*.

- transparency of provision of support
- evaluating effects of provided support
- economy and legality of procedures for acquiring and modernising RVs

SAO audit findings

The SAO identified the risk of insufficient efficiency and effectiveness of support provided for the renewal and modernisation of RVs. In the conceptual and follow-up materials, the MoT only laid down the goals for renewing RVs in general terms, without specified material, financial and time-related systemic measures to effectively address the issue of renewing the obsolete RV fleet in the Czech Republic. **The MoT didn't propose any binding long-term indicator to allow for objective measuring of the level of progress in this area.** More than a third of the fleet of Czech Railways (ČD) comprises RVs older than 30 years, i.e. past the end of their moral and technical service life. **The share of railway passenger transport in passenger transport, which the renewal of RVs should help to grow, has long been failing to rise.**

The volume of support provided from programmes under the responsibility of the MoT was significantly lower than the MoT had originally anticipated. In the years 2009–2013, support of CZK 4 billion was supposed to be provided, as a result of austerity measures however the MoT only provided subsidies of CZK 400 million. For PP14+, the MoT had counted on an amount of CZK 19.1 billion, but it only set aside CZK 7.7 billion.

The impact of MoT support on changing the unsatisfactory service age of RVs in the Czech Republic was insignificant. In the period 2008–2018, ČD modernised or procured new RVs for a total value of CZK 44.5 billion not including VAT. Of this, the support provided from subsidy programmes under the MoT totalled CZK 1.5 billion, i.e. 3.4%, and from regional OPs (outside the responsibility of the MoT) CZK 3.1 billion, i.e. 7.0%. The vast majority of RV renewal amounting to CZK 39.9 billion (89.6%) was financed by ČD from its own and external sources.

Funding of RV renewal from various sources without sufficient coordination and evaluation of the effects is associated with the risk of ineffective, uneconomical and inefficient spending of public funds. Coordination of the process of acquiring RVs intended for superregional transport (under the responsibility of the MoT) and regional transport (in the jurisdiction of the regions) has not been resolved. The conditions for providing subsidies under the responsibility of the MoT and individual regions differed significantly.

Aside from ČD, the MoT also provided support to another beneficiary for modernising two RVs. This **beneficiary violated the conditions for provision of a subsidy, thereby committing a breach of budgetary discipline, as it improperly used funds totalling CZK 2.09 million.**

The selection of a RV provider did not take place in a sufficiently competitive environment. The public contracts for supplying RVs were awarded by ČD in four procurement procedures, in which they selected suppliers for 28 RVs for a total of CZK 4.3 billion **always on the basis of having assessed just a single bid. This procedure did not verify the advantage of the price and conditions of supply in the manner that competition between multiple suppliers does, which could have affected the economy of the project´s implementation.**

The results of the audit demonstrated the existence of the expected risks consisting of setting up insufficient indicators and parameters, failing to meet the requirements laid down for realising the programme, low effectiveness of support, and failure to achieve the set goals.

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	4 319.00		Out of which from the EU budget	2 118.00	
Quantifiable deficiencies at the system level	1 174.00		Out of which from the EU budget	1 174.00	
Enforceable deficiencies at the system level	0.00		Out of which from the EU budget	0.00	
Audited volume of funds at the project level	4 319.00		Out of which from the EU budget	2 118.00	
Quantifiable deficiencies at the project level	2.09		Out of which from the EU budget	0.00	
Enforceable deficiencies at the project level	2.09		Out of which from the EU budget	0.00	
Notification of deficiencies at the project level (financial volume and number) to the tax authorities	0.00	0	Out of which irregularities (financial volume and number)	0.00	0

Proposals and implementation of corrective measures

The MoT proposed a measure of creating a document containing proposals for the procedure of the MoT and regions, which are ordering public services, in dealing with the issue of fleet renewal as part of public services in passenger transport. The SAO will only be able to verify the effectiveness of this measure in a follow-up audit.

Audit no 18/01 – Support for commercial real estate and commercial infrastructure

The SAO continually monitors the field of support for business in industry. **This audit aimed to examine the system for provision and use of funds earmarked for supporting commercial real estate and commercial infrastructure with regard for fulfilling the declared benefits.** Some of the activities that were a priority of the audit were supported under programmes financed **exclusively from the state budget (CZK 12.076 billion)** and some **from OP EIC (CZK 14.788 billion, of that CZK 2.019 billion from the state budget).** This audit was performed as a legality audit with elements of a performance audit.

The audit focused on the setting and functioning of the system of evaluating the benefits of support provided from EU funds for commercial real estate and commercial infrastructure. The audit also assessed whether the support brings the expected benefits and whether these benefits are being demonstrably evaluated.

SAO audit findings

- The benefit of supporting commercial real estate and commercial infrastructure from the *Real Estate* programme of OP EIC is meant to be the transition of small and medium enterprises to production ensuring competitiveness, reducing operating costs, high added value and better opportunities on foreign markets. After implementation of the projects the MoIT did not monitor whether the businesses demonstrated the anticipated benefits. **For half of the audited sample of 12 projects it has not yet been confirmed that the businesses are more competitive, have lower costs or better opportunities on foreign markets as a result of the support.**

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	26 864.00	Out of which from the EU budget	12 769.00
Quantifiable deficiencies at the system level	0.00	Out of which from the EU budget	0.00
Audited volume of funds at the project level	4 100.60	Out of which from the EU budget	117.37
Quantifiable deficiencies at the project level	0.00	Out of which from the EU budget	0.00

Proposals and implementation of corrective measures

The MoIT adopted measures for monitoring the benefits of support. The SAO considers these measures sufficient. It will be possible to verify their effectiveness in a follow-up audit.

Audit no 18/04 – Funds earmarked for helping improve air quality

The SAO continually monitors the area of national and international support for improving air quality. In previous years this issue was addressed primarily by audits no 07/02[24] and no 12/10[25].

Through an analysis of the data and information from ongoing monitoring and the findings from the aforementioned audits, both new and persistent problematic topics crystallised and steps were taken to prepare the audit in question. **The SAO identified risks primarily in the ongoing dissatisfactory state of air quality in the Czech Republic and failure to meet the emission limits for selected pollutants. It also judged problems associated with the spending of funds on measures to help improve air quality, and assessed as highly significant the risks associated with inconsistent implementation of priority measures aiming to meet the legal limits by 2020.**

The goal of Audit no 18/04 was to examine the provision and use of funds spent to help improve air quality and determine whether these funds contribute to improving air quality in the Czech Republic. This audit was conducted as a performance audit.

The SAO audited EU funds provided via the OP *Environment* (OPEn), PA 2 of which – *Improving air quality in human settlements*, is the main source of financing for measures to support improving air quality. The SAO also examined funds of the State Environmental Fund (SEF) paid out under the grants of the *National Environment Programme*. The audit checked the set-up and functioning of the MCSs, blanket measures, selected projects supported, and both EU and national funds paid out to support improving air quality. The period under scrutiny was 2015–2017, as well as the previous and subsequent period where relevant.

SAO audit findings

Under PA 2, the goal of the Ministry of the Environment (MoE) is to replace around 14% of obsolete non-compliant solid-fuel boilers with new low-emission heating sources. The financial allocation of the first two calls made so far covers the exchange of only approx. 10% of obsolete boilers. Marked improvement in the sector of local household heating can

24 Audit no 07/02 – *Funds in the field of air quality protection*; audit report published in part 4/2007 of the *SAO Bulletin*.

25 Audit no 12/10 – *Funds earmarked for limiting industrial pollution and environmental risks*; audit report published in part 4/2012 of the *SAO Bulletin*.

only be expected after 2022, when the operation of outdated boilers will be prohibited across-the-board. The resulting effect will however primarily be dependent on the level to which the banning of such boilers is observed and enforceable.

Also supported from PA 2 is **realising measures to reduce resuspension**[26] **and pollutant emissions from stationary sources.** An audit of the administration of selected projects at the level of the Intermediate Body (SEI) found that **the SEI did not require submission of documents for final evaluation of projects** from aid recipients at the stipulated deadlines. **The SEI thus did not act in accordance with the provisions of Section 25 (1) of the Act on Financial Control**[27]**,** as it failed to introduce and maintain an internal control system so as to warn in time of failure to fulfil obligations on the part of beneficiaries.

In the case of materially completed projects, for 7 of the 15 audited projects focused on reducing emissions from industry, the established indicators were met. The remaining projects were not yet in a phase of realisation sufficient enough to allow assessment of the set indicators having been fulfilled.

The third support area of PA 2 finances **projects focused on improving the system of monitoring, evaluating and forecasting the development of air quality** and weather, which serves inter alia to evaluate the current state, forecast future development in the short-term and long-term, and also to evaluate the effectiveness of measures for improving air quality. The financially most significant recipient of aid under this specific objective is the Czech Hydrometeorological Institute (CHMI). This organisation funded by the MoE is realising a total of 13 projects with the help of support from PA 2, with the total EU contribution being CZK 312 million. The audit found that seven of these projects with an EU contribution collectively totalling CZK 147 million (46% of the total EU contribution for CHMI) is primarily focused on related meteorological aspects, and not on monitoring and evaluating air quality, which however the setting of specific objective 2.3 allows for.

Air quality in the Czech Republic is not overly improving. For certain priority pollutants the legally stipulated emission limits have long been being exceeded. The SAO came to the conclusion that certain measures laid down in strategic documents to help improve air quality have not been being performed and for other measures the stipulated deadlines have not been observed. The audit detected significant risks endangering the achieving of air quality targets for 2020:

- The strict national uncrossable emission limits for 2020 will be difficult to meet.
- The measures laid down for improving air quality are not being fulfilled sufficiently and in time.
- Rectification of the deficiencies determined by national courts in the programmes for improving air quality will not take place until after 2020.
- There is a risk that the Czech Republic will not meet the target for reducing exposure to fine particles.
- CHMI does not have an up-to-date concept for the State Emission Monitoring Network at its disposal.
- In the years 2016–2016, no entity in the Czech Republic submitted an aid request for a project under the LIFE programme, which is thematically focused on air quality and emissions and is managed directly by the Commission.

26 Resuspension is caused by particles that are elevated back into the air (secondary dust levels).

27 Act no 320/2001 Coll., on Financial Control in Public Administration and the Amendment to Certain Acts (Act on Financial Control).

The audit results demonstrated the existence of the anticipated risks primarily endangering the fulfilment of **the Czech Republic's** commitments **in terms of air quality by 2020.**

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	10 603.08		Out of which from the EU budget	9 921.98	
Quantifiable deficiencies at the system level	0.00		Out of which from the EU budget	0.00	
Audited volume of funds at the project level	4 313.83		Out of which from the EU budget	4 288.30	
Quantifiable deficiencies at the project level	2.37		Out of which from the EU budget	2.37	
Enforceable deficiencies at the project level	0.01		Out of which from the EU budget	0.01	
Notification of deficiencies at the project level (financial volume and number) to the tax authorities	0.01	1	Out of which irregularities (financial volume and number)	0.01	1

Proposals and implementation of corrective measures

Already during the course of the audit, the MoE and CHMI were preparing an update for the *Czech National Emission Reduction Programme* (NERP). As per Directive 2016/2284[28] this update should be submitted by 1 April 2019 at the latest and should once again define supplementary measures through which meeting of targets by 2020 is to be ensured. The subsequent measures are also to partially compensate for the ineffectiveness of the previously adopted measures. Following up on the NERP update, the MoE is also preparing to update the air quality improvement programmes. CHMI is currently drafting a new concept for the state emission monitoring network, which should be completed by the end of 2019. In order to ensure timely implementation of the new supplementary measures arising from the *Clean Air Dialogue* with the Commission at the end of 2018, the MoE should provide for as rapid as possible submission of a draft government resolution imposing the supplementary measures to support meeting the air quality goals set for 2020. The SAO will continue to monitor this process. Based on the most up-to-date data, the SAO will also follow the trend of emission and pollutant reduction and evaluate such data in relation to the set air quality targets.

Given the significant impact of cross-border transmission of pollutants on air quality in the Czech Republic, the SAO also recommended that in preparing the update to NERP, the MoE take steps toward cross-border consultations in accordance with Directive 2016/2284, in particular with Poland.

Audit no 18/06 – Support for advancing research and development for innovation provided from Operational Programme Enterprise and Innovation for Competitiveness

The SAO has long been monitoring the advancement of research and development, which is supported inter alia from OP EIC. In previous years it has dealt with this issue primarily with

28 Directive (EU) 2016/2284 of the European Parliament and of the Council of 14 December 2016 on the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC.

audits no 13/08[29], no 15/27[30] and no 16/01[20]. It also addressed the issue of OP EIC in audit no 17/23 (see above), the audit report of which was only approved after the implementation phase of audit no 18/06 had been commenced.

With an analysis of information and data from ongoing monitoring, problem areas crystallised and the SAO identified risks primarily in the areas of setting aid targets under Priority Axis 1 of OP EIC, the rules for provision of aid, project selection, and drawing allocation of PA 1, with particularly the risk of insufficient monitoring of expected and actual benefits of support appearing to be highly significant.

The task of this legality audit was **to examine the system for provision and use of funds earmarked for supporting the advancement of research and development for innovation from OP EIC, particularly with a view to fulfilment of the declared benefits.**

Audited were the EU funds provided via PA 1 – *Support for advancing research and development for innovation.* The audit checked how the aid objectives were set up, the monitoring of aid benefits, the level of allocation drawing, the conditions for provision of aid and its focus, the administration of realised projects under PA 1, the transparency of evaluation and project selection, utilisation of support projects for the stipulated purpose, observance of aid conditions, ability of project to be operated for the sustainability period, and supplier selection. The period under scrutiny was 2014–2018.

SAO audit findings

Deficiencies were found in the setting of PA 1 aid objectives, with both **PA 1 specific objectives** and the majority of results assigned thereto that the Czech Republic wishes to achieve with EU support, **were not set specifically enough and do not contain measurable parameters. The MoIT prepared a set of indicators for PA 1 that is insufficient for monitoring fulfilment of specific objectives and through which it is not possible to monitor the actual reaching of individual results.**

The SAO furthermore determined that the **MoIT had not yet conducted an evaluation of the fulfilment of benefits declared by the PA 1 specific objectives**. The MoIT only plans to perform the result evaluations and analyses that are the basis for assessing fulfilment of results for both specific objectives and the benefits of aid under PA 1 in the coming years.

Interest in support on the part of SMEs was considerably lower than the MoIT had anticipated. The state of implementation of PA 1 was not only influenced negatively by this low interest, but also **by the long approval process for project applications.** The process of evaluating and approving projects was transparent, but for example for calls where receipt of applications ended in 2016, it lasted on average 345 calendar days. This long period was one of the reasons for the late commencement of implementation of approved projects and as a result also the low drawing of allocated funds.

In the field of integrated territorial investment, the SAO determined that although the MoIT had already declared 16 calls with a total volume of CZK 2 112 110 000, up until the point the SAO audit was completed, only 15 aid applications had been submitted with a total requested aid amount of CZK 448.49 million; **no project had been approved for implementation and thus the drawing of funds had not been commenced.**

29 Audit no 13/08 – *Funds earmarked for targeted support of agricultural research, development and innovation through the budget chapter of the Ministry of Agriculture;* audit report published in part 4/2013 of the *SAO Bulletin*.

30 Audit no 15/27 – *State funds earmarked for targeted support of research and development through the budget chapter of the Technological Agency of the Czech Republic;* audit report published in part 4/2016 of the *SAO Bulletin*.

In the rules for provision of aid under PA 1, the SAO found an absence of treatment of the issue of establishing a lien on the subject of support.

In terms of the supervisory activities of the MoIT, it was found that the ministry as an MA had not launched any on-the-spot checks during the sustainability period for projects that had completed realisation, despite the fact that one third of the 551 projects had been completed for longer than a year at the time of the SAO audit. **The MoIT thus did not verify whether the assets acquired from the subsidy were still owned by the aid recipients and whether they were being used in accordance with the stipulated aid conditions.**

For support beneficiaries, the SAO checked whether the realised projects were in accordance with the requirements for the *Innovation* support programme. In all cases these were innovation projects that were focused on increasing the technical and utility values of products (product innovation) as well as increasing the efficiency of production processes (process innovation). The minor deficiencies that were detected in the submission of payment requests and placing part of the acquired assets in lien did not have an impact on realisation of the audited projects, nor on the drawing of funds.

The results of the audit demonstrated the existence of the anticipated risks in terms of the setting of aid objectives, monitoring aid benefits, setting the rules for provision of aid and the risk of a lower level of drawing of funds under realisation of PA 1; in contrast the risk of failure to ensure utilisation of the innovated operations by aid recipients was not confirmed.

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	16 685.01		Out of which from the EU budget	16 685.01	
Quantifiable deficiencies at the system level	0.00		Out of which from the EU budget	0.00	
Audited volume of funds at the project level	218.95		Out of which from the EU budget	218.95	
Quantifiable deficiencies at the project level	18.51		Out of which from the EU budget	18.51	
Enforceable deficiencies at the project level	0.04		Out of which from the EU budget	0.04	
Notification of deficiencies at the project level (financial volume and number) to the tax authorities	0.00	0	Out of which irregularities (financial volume and number)	0.00	0

Proposals and implementation of corrective measures

The SAO recommends adjusting the rules for provision of aid under PA 1 in terms of the issue of establishing a lien on the subject of aid due to the risk of failure to achieve the project purpose if the acquired asset is transferred to a third party as a result of the lien being realised within the sustainability period.

The SAO will continue to monitor the setting of rules for provision of aid under OP EIC.

The recommendation of adjusting the rules for provision of aid has a direct impact on the issuing of management documents under realisation of OP EIC, specifically filling in the conditions listed in the decision on provision of a subsidy.

Audit no 18/08 – Funds spent on aid in the livestock sector

The field of agriculture is monitored by the SAO on an ongoing basis, particular in regard to the setting of conditions for provision of subsidies. Based on the findings from monitoring and results of previous audits (audits no 15/09 and no 17/06) focused on provision of subsidies under the MoA, particular the results of the audit focused on national subsidies for agriculture and forestry, the audit in question was undertaken.

The reason for preparation of the audit were the results of a risk analysis and the fact that a high volume of financial support flows into the livestock sector. The MoA has long offered livestock breeders a considerable amount of broad-spectrum support, both from the state budget and from the EU budget. At the same time, in the last three years, the MoA has provided cattle and hog breeders extraordinary financial support above and beyond the standard (long-term) subsidies due to the crisis in the dairy and beef and pork sector. The situation, which is felt in a surplus of these commodities on the European market, is caused primarily by the Russian embargo against meat and dairy products from the EU and the end of milk quotas.

It was the ambition of the audit to examine whether, with the high volume of public funds provided to this sector, the sector is self-sufficient, systematically managed and whether the funds invested in meat and dairy production are worthwhile. The audit was to answer the question of whether the MoA had an idea of where to direct the support, what the point of the aid is, what goals were to be achieved, and in what manner the support should be provided so as to have as great a benefit as possible.

Audit no 18/08 aimed to examine the system of management and provision of support in the livestock sector, including the setting of strategic objectives, and to determine whether the provided funding help achieve the anticipated benefits and effect. This audit was performed as a legality audit and also checked the setting and functioning of MCSs.

The audit was conducted at the system level at the MoA and SAIF. The provision of subsidies from the state budget, from the *Czech Rural Development Programme for 2007–2013* (RDP7+) from the RDP, and the provision of what are called direct payments and extraordinary aid into the livestock sector were all audited. The SAO focused on the set-up of conditions for this support, the management and control activity of the MoA and SAIF, as well as the reliability of monitoring and evaluation of the impact of provided aid.

The audited period was 2014–2017.

The Czech Republic numbers among the EU countries where livestock production is significantly subsidised by a large number of various aid and subsidies. In the years 2015–2017 alone, CZK 21 billion went to such support, of that CZK 10 billion from EU funds. The SAO examined subsidy applications for a total of CZK 1.2 billion and conducted an audit of three subsidy recipients.

SAO audit findings

The management system and the conditions that the MoA set up for providing aid from EU sources were, aside from several minor shortcomings, found to be functional and effective. The SAO discovered that **several beneficiaries were intentionally dividing agricultural investment projects up into multiple subsidy requests, thereby acquiring a higher subsidy than the stipulated limit allowed.**

For example, one subsidy recipient submitted a total of six applications within a single round for a subsidy to modernise feeding halls for hogs, yet they were a structurally, technologically and functionally connected feeding halls. The projects were carried out at the same time, at the same site, through a single construction company, based on a single set of project/technical documentation, a single procurement procedure, and served the same purpose. Overall this concerned projects for over CZK 127.88 million. Were the project to be realised as a single whole (in the form of a single subsidy application), the eligible expenditure would be a maximum of CZK 30.00 million and the subsidy (35%) a max. of CZK 10.50 million. The SAIF however provided the recipient with a subsidy totalling over CZK 26.79 million, i.e. CZK 16.29 million higher than it would have provided if the project were realised as a single whole. Thereby the **SAIF committed a breach of budgetary discipline of CZK 16 293 306.**

In the current programming period these conditions have already been adjusted, with the limit of eligible expenditure for a single project having been increased to CZK 150.00 million.

The SAO also determined that the **MoA is not managing to meet the strategic objectives** that are set for the livestock sector. **Levels of livestock (dairy cattle and hogs) and the self-sufficiency of the Czech Republic** in covering the consumption of beef and pork **had fallen at the end of 2017 compared to 2015, despite the fact that subsidies for livestock production have been rising since 2012,** for example the subsidies for breeding hogs and poultry grew by 300% between 2012 and 2016.

The SAO also analysed data from FADN[31], which is used by the Commission. This network is the main source of information on the real economic situation of agricultural enterprises. An analysis of FADN data showed that the Czech Republic pays a significant sum of subsidies into livestock production. **Comparing the volume of subsidies provided for livestock production in the Czech Republic and in other MSs, the Czech Republic has long displayed values high above the EU average in all production specialisations with the exception of hogs and poultry.** For this production specialisation a growth in subsidies is evident starting in 2013. The analysis also found that **since 2010, the costs for production of milk and mixed production have increased significantly.**

Volume of funds verified by the audit **(CZK million)**

Audited volume of funds at the system level	21 106.79		Out of which from the EU budget	10 119.26	
Quantifiable deficiencies at the system level	0.00		Out of which from the EU budget	0.00	
Audited volume of funds at the project level	1 180.80		Out of which from the EU budget	153.32	
Quantifiable deficiencies at the project level	22.74		Out of which from the EU budget	18.64	
Enforceable deficiencies at the project level	16.42		Out of which from the EU budget	12.31	
Notification of dificiencies at the project level (financial volume and number) to the tax authorities	16.42	1	Out of which irregularities (financial volume and number)	12.31	1

Proposals and implementation of corrective measures

The results of this audit have not yet been taken up by the Czech Government.

31 The *Farm Accountancy Data Network*

Audit no 18/10 – State assets which the state enterprise Military Forests and Farms has the right to manage

This audit focused primarily on the impact of changes stemming from the amendment to the State Enterprise Act[32] for the state enterprise Military Forests and Farms of the Czech Republic (MFF CR) and the ownership changes within the meaning of the Act on the Boundaries of Military Training Grounds[33].

An analysis of the risks created on the basis of monitoring and findings from previous audits identified key areas for possible audit. The SAO saw the main risks in the fact that in 2017 MFF CR drew subsidies for land which it no longer had the right to manage, and for the territory of the terminated military training ground it applied for a subsidy for an improper category of forest (change of special designation forest to production forest).

In the period under scrutiny, MFF CR received subsidies from OPEn amounting to CZK 51.07 million for financing 30 projects and from RDP it received a total of CZK 281.99 million in the same period.

The goal of this audit was to examine whether MFF manages state assets in accordance with the legislation, in an effective and economic manner, and also to check fulfilment of the functions of a state enterprise founder. Aside from this main objective, the audit also dealt in part with auditing the subsidies for MFF projects co-financed from EU funds.

Three projects from OPEn with a total EU contribution of CZK 9.87 million were selected for the SAO audit. The criterion for selecting projects to be audited was their financial significance and the fact that the projects had not been audited by the provider. Audit no 18/10 was a legality audit.

SAO audit findings

As part of one of the projects, **MFF CR committed a breach of budgetary discipline, using funds from the provided subsidy to pay for an ineligible expenditure. The MFF CR wrongfully paid for VAT from the subsidy,** despite the fact that it was a VAT payer and had exercised the right to deduct it. **The SAO notified the competent tax administrator of this fact.**

Volume of funds verified by the audit **(CZK million)**

<table>
<tr><td>Audited volume of funds at the project level</td><td colspan="2">10.97</td><td>Out of which from the EU budget</td><td colspan="2">9.05</td></tr>
<tr><td>Quantifiable deficiencies at the project level</td><td colspan="2">0.00</td><td>Out of which from the EU budget</td><td colspan="2">0.00</td></tr>
<tr><td>Enforceable deficiencies at the project level</td><td colspan="2">0.00</td><td>Out of which from the EU budget</td><td colspan="2">0.00</td></tr>
<tr><td>Notification of deficiencies at the project level (financial volume and number) to the tax authorities</td><td>0.004</td><td>1</td><td>Out of which irregularities (financial volume and number)</td><td>0.004</td><td>1</td></tr>
</table>

32 Act no 77/1997 Coll., on State Enterprise, as amended by Act no 253/2016 Coll.

33 Act no 15/2015 Coll., on the Termination of the Brdy Military Training Grounds, Setting the Boundaries of Military Training Grounds, Changing the Borders of Regions and Amendment to Related Acts (the Act on the Boundaries of Military Training Grounds).

Proposals and implementation of corrective measures

The Ministry of Defence rectified the majority of detected deficiencies without delay and also changed the founding charter of MFF CR based on the amended State Enterprise Act. It will ensure rectification of systemic shortcomings in the state enterprise development concept prepared for adoption by 31 December 2019.

Audit no 18/33 – Support from Operation Programme Prague – Growth Pole of the Czech Republic provided for social inclusion and the fight against poverty

As part of ongoing monitoring of the management of EU budget funds in the Czech Republic, the SAO also deals with the sub-chapter *Competition for Growth and Employment*. The only region in the Czech Republic whose projects are financed primarily from this subheading is the City of Prague region. In the programming period 2014–2020, OP *Prague – Growth Pole of the Czech Republic* (OP PGP) is being implemented in this area. In previous years it was primarily audits no 09/09[34], no 11/35[35] and no 14/09[36] that were devoted to this subheading of the EU budget.

An analysis of the risks produced on the basis of monitoring and findings from the aforementioned audits identified key areas for potential inspection. The SAO particularly identified risks in the following:

- incorrect setting of individual PA 3 measures
- possible overestimation of total PA 3 allocation
- absence of thorough ongoing monitoring of project benefits
- difficult evaluation of meeting of PA 3 objectives
- improper setting up of system for selecting and evaluating projects
- insufficient supervisory activity by MA
- ineffective spending of resources for realised projects
- failure to observe general principles of eligibility
- failure to observe rules for efficiency and effectiveness of funds spending on the part of aid beneficiaries

The goal of this audit was to examine whether the City of Prague, in the role of managing authority for OP PGP, provides and the selected beneficiaries draw funds for selected OP measures effectively, efficiently, and in accordance with the legislation. Audit no 18/33 was conducted as a performance audit with elements of a legality audit.

The period 2014–2017 was audited, as well as the preceding and following period where relevant. The audit was conducted on a sample of 22 projects realised by a total of 17 beneficiaries and funds of CZK 118.62 million were vetted.

The auditors evaluated whether the funds were provided and drawn for the selected measures of PA 3 effectively, i.e. whether OP PGP (PA 3) leads to the intended results. Everything steered toward answering the main audit question, which was: *Are the audited entities providing and drawing funds for the measures of OP PGP Priority Axis 3 effectively and efficiently and in accordance with the legislation?*

34 Audit no 09/09 – *Funds earmarked for realisation of Single Programming Document for cohesion region Prague for Objective 2;* audit report published in part 1/2010 of the *SAO Bulletin*.

35 Audit no 11/35 – *Funds from the European Social Fund pre-financed and co-financed from the state budget earmarked for projects realised within the City of Prague;* audit report published in part 2/2012 of the *SAO Bulletin*.

36 Audit no 14/09 – *European Union and state budget bunds earmarked for realisation of Operational Programme Prague – Competitiveness;* audit report published in part 4/2014 of the *SAO Bulletin*.

SAO audit findings

The effectiveness of projects selected for auditing was assessed, i.e. whether and how these projects contribute to social inclusion and the fight against poverty in Prague. **Eight of the 22 assessed projects received a negative evaluation and the remaining projects were evaluated by the SAO as rather effective.** At the same time the auditors focused on the efficiency of the individual projects, i.e. what scope, quality and benefits they achieved in comparison with the amount of funds spent. Here **the SAO determined that 10 of the 22 evaluated projects can be considered problematic. The most serious errors were found in four projects, of those two being conducted by social enterprises, one by a contributory organisation established by Prague, and one by a municipal district.**

A number of errors were found at the level of the OP settings and management. Deficiencies were detected in the selection of projects for support of social enterprises. Despite the fact that it was only possible to realise social enterprises under projects of cultural community centres or activation of local communities, **of the four evaluated projects two of them did not meet this condition.** In addition, Prague as the MA knew about this fact when deciding on the aid, yet still selected the unsuitable projects and also provided them with funds.

Further deficiencies detected by the audit consisted of **the insufficient monitoring of the benefit of the OP** through established indicators. The SAO discovered that **the meeting of certain target value indicators is unlikely,** as the interim values are very low. The **level of success of programme's contribution to meeting the national targets of the *Europe 2020* strategy will also be difficult to assess, as the City of Prague has not set a suitable indicator for measuring this contribution.**

The SAO also found deficiencies in connection with the failure to meet the deadlines by the MA for evaluating and selecting projects and declaring the results of calls. While subsidy applicants had 2.5 to 4 months to prepare a project, administration of the project for funding took the Managing Authority several times longer (11–18 months). Meanwhile the number of projects assessed was in no way high (in two of the three assessed calls it was only ten projects) to be able to justify such a delay. **For more than half of all the assessed payments the MA also failed to observe the deadline for paying out aid to the recipient.** The delay sometimes reached as much as two months, with the reason being primarily staffing changes at the MA or problems with setting up payments in the information system for managing and administrating the projects (*MS 2014+*) run by the MoRD.

The results of the audit demonstrated the existence of all the anticipated risks. The SAO assessed certain deficiencies found with the City of Prague as failure to meet the provisions of the Czech and EU legislation constituting breach of budgetary discipline and discrepancies amounting to CZK 6.83. For six aid recipients, ineligible expenditures were found, which were evaluated as breach of budgetary discipline totalling CZK 4.88 million.

Volume of funds verified by the audit **(CZK million)**

<table>
<tr><td>Audited volume of funds at the system level</td><td colspan="2">115.87</td><td>Out of which from the EU budget</td><td colspan="2">71.80</td></tr>
<tr><td>Quantifiable deficiencies at the system level</td><td colspan="2">6.83</td><td>Out of which from the EU budget</td><td colspan="2">6.83</td></tr>
<tr><td>Enforceable deficiencies at the system level</td><td colspan="2">6.83</td><td>Out of which from the EU budget</td><td colspan="2">6.83</td></tr>
<tr><td>Notification of deficiencies at the project level (financial volume and number) to the tax authorities</td><td>6.83</td><td>1</td><td>Out of which irregularities (financial volume and number)</td><td>6.83</td><td>1</td></tr>
</table>

Audited volume of funds at the project level	112.27		Out of which from the EU budget	66.02	
Quantifiable deficiencies at the project level	17.38		Out of which from the EU budget	9.21	
Enforceable deficiencies at the project level	4.88		Out of which from the EU budget	2.76	
Notification of deficiencies at the project level (financial volume and number) to the tax authorities	4.88	6	Out of which irregularities (financial volume and number)	0.00	0

Proposals and implementation of corrective measures

The NCA, as the central authority setting the joint rules for all operational programmes in the Czech Republic, including OP PGP, is in the role of a subsidy provider in relation to the City of Prague. As a subsidy provider, on the basis of the results of SAO audit no 18/33, it committed to continue in ongoing monitoring and evaluation of OP PGP implementation within the integrated risk management system. Furthermore, the NCA committed that, if it identifies a risk, it will prepare a proposed measure to eliminate that risk in cooperation with the Managing Authority.

A.4 Financial audits with ties to EU budget funds

The subject of financial audit (FA) is generally the preparation of the closing account of a state budget chapter, accounting and preparing financial statements, and the accuracy of data submitted for evaluation of fulfilment of the state budget. FAs have specific aspects, primarily in that in comparison with legality audits or potentially performance audits, the financial volumes concerned are many times higher. In order to prevent distortion of statistics, they are kept separately in the *SAO Audit Information System* (AIS)[37].

Audit no 17/31 – The final account of the Ministry of Agriculture's chapter of the state budget for 2017, financial statements of the Ministry of Agriculture for 2017 and the data submitted by the Ministry of Agriculture for evaluation of fulfilment of the state budget for 2017

The task of this FA was to determine whether the MoA acted in accordance with the relevant legislation in the closing account preparation, accounting, preparation of financial statements and submitting data for evaluation of fulfilment of the state budget for the year 2017. The audit also focused on evaluating the measures adopted to correct the shortcomings detected by audits no 13/38[38] and no 14/37[39].

Audit no 17/31 was of the nature of an ongoing FA and under this audit the SAO also verified the accuracy of the reported data related to EU funds.

37 AIS is the internal information system of the SAO.

38 Audit no 13/38 – *Final account of Ministry of Agriculture's chapter of the state budget for 2013, statement of accounts and financial reports of the Ministry of Agriculture for 2013;* audit report published in part 3/2014 of the *SAO Bulletin*.

39 Audit no 14/37 – *Funds of state budget, European Union budget and other funds received from abroad;* audit report published in part 3/2015 of the *SAO Bulletin*.

SAO audit findings

In relation to EU funds, **deficiencies of a systemic nature** were found in this audit, **in particular in terms of accounting for financial corrections** meted out by the Commission **under the CAP for a total of EUR 30.5 million.** The inaccuracy consisted of the fact that the MoA only accounted for the commitment to the Commission arising from the assessed financial correction in off-balance sheet accounts, even though based on the Commission's implementing decision the assessed commitment was incontestable and thus unconditional, which the MoA was obliged to account for in the general ledger and report in the balance sheet.

Over the course of the audit, even before the accounting books were closed, a systemic deficiency was discovered consisting of **not valuating foreign currency receivables and commitments in CZK as at the balance sheet date.**

Proposals and implementation of corrective measures

Inter alia, on the basis of the SAO findings on the erroneous accounting on corrections, the **MoA** made use of the legal option laid down under Section 17 (7) of the Accounting Act and once again **opened the closed accounting books, carried out the requisite correction of accounting entries and prepared a new set of financial statements** under the Accounting Act.

The MoA rectified the error in the manner of valuating foreign currency receivables and commitments while the audit was still underway.

Audit no 18/05 – Ministry of Finance accounting for the year 2017

The goal of this ex-post FA was to check whether the MoF had acted in accordance with the applicable legislation in keeping accounting in 2017, in particular in terms of the accuracy, completeness, conclusiveness and comprehensibility of accounting, compliance with the chart of accounts, the correctness of the accounting methods used and other conditions for accounting in the selected areas.

Under audit no 18/05, the auditors examined inter alia the accuracy of accounting and reporting of selected significant operations and balances of the *National Fund*[40] (NF), i.e. operations and balances relating to EU funds. **The audited volume was calculated at CZK 69 430 million for the NF.**

Also audited were national transfers, the cash flow summary and the overview of changes to own capital; in connection with audit no 16/03[41], measures adopted to rectify deficiencies found with an impact on accounting in 2017 were checked.

SAO audit findings

In relation to EU funds, this audit found deficiencies in the NF accounting, primarily the **reporting of non-existent NF receivables to the Commission totalling CZK 600.5 million** for programmes and projects realised and co-financed from funds from EU structural funds and the *Cohesion Fund* (CF) under programming period 2004–2006 (PP4+). These receivables did not however exist as at the balance sheet date of 31 December 2017. All receivables to

40 The audit focused primarily on the accounting procedures for significant operations, particularly for funds from EU structural funds and the *Cohesion Fund* or ESIF, and for reported remainders on significant accounts in the programming periods 2004–2006, 2007–2013 and 2014–2020.

41 Audit no 16/03 – *Final accounts from the budget chapter of the Ministry of Finance, State Debt, Operations of State Financial Assets and General Treasury Administration for 2015, data for evaluating fulfilment of the budget for 2015 submitted by the Ministry of Finance for these chapters and the Ministry of Finance accounting for 2015*; audit report published in part 3/2017 of the *SAO Bulletin*.

the Commission in respect of the EU budget commitment laid down by the Commission for programmes/projects for all of PP4+ had already been settled with provision of the final payment by the Commission, and no payment of funds from the EU budget on the aforementioned grounds could thus any longer be expected. **The risk of reporting non-existent receivables owed to the Commission reached an amount of CZK 5 690 million. The MoF did not determine the actual state of these receivables even with an inventory check, and thus did not act in compliance with the Accounting Act.** The reporting of non-existent receivables is connected to the MoF's accounting procedure, where receivables owed to the Commission are accounted at the same time with accounting on MoF commitments to pre-financed entities which are posted on the basis of approved aggregate payment requests submitted by the pre-financed entities. The audit also drew attention to the fact that if the MoF does not adjust the existing procedures for reporting facts on receivables owed to the Commission, then as with PP4+ **the risk arises that for the aforementioned reasons receivables owed to the Commission could be reported for PP7+ as well, despite the fact that the Czech Republic no longer has any claim to funds from the EU budget.**

It was furthermore found that as at 31 December 2017, the MoF reported with respect to outstanding aggregate requests under PP4+ balance sheet **commitments to pre-financed entities of CZK 5.62 billion for which it is however not certain whether they will be fully paid to these entities** and whether the funds spent under pre-financing from the state budget will be reimbursed from the received refunds. Under Section 45 (1) e) of Decree No 410/2009 Coll.[42], the MoF should inform on these significant facts in the annex (Notes) to the financial statement.

The reporting of these balance sheet commitments is related to what is called **recommitment**[43], where the value of approved aggregate requests exceeds the value of the EU commitment to the Czech Republic (allocation) for a specific programme/project,[44] so the aggregate requests can no longer be paid from EU funds. The only source for compensating at least some of these commitments, i.e. funds already spent from the state budget, is the gradual cash flow of refunds from enforced irregularities. For recommitted programmes/projects however, the Payment and Certifying Authority[45] (PCA) cannot predict when and in what amount these receivables of pre-financed entities will be paid, as this payment is conditioned on uncertain cash flows from potential refunds[46] as a result of financial corrections.

As part of the balance sheet commitments, the MoF also reported **refunds**[47] as short-term commitments to entities to which these funds are to be transferred. The Budgetary Rules[48] govern the receipt of refunds to the bank account of the NF (PCA). **The PCA procedure for handling refunds and transferring them to the state budget chapters that had pre-financed the related expenditure is not however governed by this act.** An audit of selected cases of

42 Decree no 410/2009 Coll., implementing certain provisions of Act no 563/1991 Coll., on Accounting, as amended, for certain selected accounting units.

43 Recommitment occurs as a result of efforts to draw as much as possible from the EU allocation for a given programming period.

44 Primarily due to the existence of ineligible expenditures and other irregularities and related financial corrections.

45 The activity of the payment and certifying authority in terms of the policy of economic, social and territorial cohesion in the Czech Republic is performed by the Ministry of Finance – Department 55 National Fund.

46 In the context of drawing funds from the EU, the situation can occur whereby the PCA receives funds back to its bank account (refunds). The funds in this account are not consider state budget funds and the remainder on this account is transferred to the following calendar year.

47 This concerns the PP4+ and PP7+.

48 Act no 218/2000 Coll., on Budgetary Rules and Amending Certain Acts (the Budgetary Rules).

refunds[49] for which the investigation of irregularities had already been completed found that **in the years 2011–2015 the PCA received refunds to its universal account of CZK 1.3 billion[50], which it subsequently did not transfer for payment of unpaid aggregate requests, nor did it divert them to the EU budget.**

Proposals and implementation of corrective measures

The SAO's audit report along with the measures to rectify the detected deficiencies proposed by the Ministry of Finance (National Fund) had not been discussed by the Czech government by the editorial deadline of the *EU Report 2019*.

Audit no 18/13 – Final account of the state budget chapter of the Ministry of Health for 2017, the statement of accounts of the Ministry of Health for 2017 and data submitted by the Ministry of Health for evaluating fulfilment of the budget for 2017

The goal of this ex-post FA was to check whether the Ministry of Health (MH) had acted in accordance with the applicable legislation in compiling the closing account, accounting, preparing financial statements and submitting data for evaluating fulfilment of the state budget for 2017.

Under this audit the SAO also checked the accuracy of reporting of data related to EU funds and financial mechanisms. These were funds that the MoH received and provided under OP *Research, Development and Education* (OP RDE), OP *Employment* (OPEm), OPEn and under the *Integrated Regional Operational Programme* (IROP), as well as financial mechanisms (Swiss-Czech Cooperation Programme and EEC/Norway) and also Community (EU) programmes.

SAO audit findings

Under Audit no 18/13, SAO inspectors found, in relation to EU funds and financial mechanisms, **risks and deficiencies of a systemic scope with a significant impact on the reported data,** specifically:

- **the MoH accounted for received funds from the NF** for spent non-transfer (wage) expenditures under OPEm projects for which the MoH was the ultimate beneficiary of the transfer **to the improper revenue account** (the inaccuracy was calculated in the millions of CZK)
- **the MoH classified received funds from the NF** under Norway Grants projects **with an incorrect budget structure item** as per Decree no 323/2002 Coll.[51]; the inaccuracy consisted of the **failure to break down income into investment and non-investment funds** (the inaccuracy was calculated in the tens of millions of CZK)
- **the MoH did not account for conditional receivables with respect to pre-financing of the transfer provided to the Czech Republic primarily from the EU budget** under OPEm, IROP and also under the financial mechanisms for programmes of the Czech-Swiss Cooperation Programme and EEC/Norway (the inaccuracy was calculated in the hundreds of millions of CZK).

Proposals and implementation of corrective measures

The SAO audit report had not been discussed by the Czech government by the editorial deadline of the *EU Report 2019*, thus information on the MoH measures to rectify the detected deficiencies is lacking.

---

49 This concerns refunds with certification, i.e. incorrectly used funds that were returned to the PCA and which are or will be certified.

50 In the amount of CZK 70.3 million for PP4+ and CZK 1.2 billion for PP7+.

51 Ministry of Finance Decree no 323/2002 Coll., on the Budget Structure.

A.5 SAO monitoring activity

The SAO sets up its annual audit plans in accordance with the legally stipulated obligations[52], from stimulus stemming from its own activity, from the Chamber of Deputies, the Senate and the bodies thereof, or at the instigation of the government. However, the dominant source of stimulus is the SAO own activity which contributes 95–100% of the audits included in the audit plan every year. The SAO own activities comprise the analysis of audit findings from completed audits, and analytical output from ongoing monitoring of the development of specific areas entrusted to individual SAO audit departments according to the SAO organisational structure. On the basis of systematic collection of data, inter alia including legislative and conceptual changes in ministries, financial flows, long-term trends, and updating of ministerial priorities with assessments of strengths and weaknesses, topics with an increased level of risk are chosen in individual areas. Based on the conducted analyses of these risks and in accordance with the objectives of the medium-term strategy for SAO audit activity, the topics are then assessed in an expert committee and in the case of positive evaluation enter the planning process, which is completed with approval of the annual audit plan in the SAO Board.

It is evident from the above information that the monitoring activity of the SAO audit departments is no less important than the actual audit activity. The mandate to audit the management of EU funds including co-financing of joint projects from public budgets is spread among the majority of departments in the SAO Audit Section, thus in light of the great scope of output from monitoring this publication can only feature selected information.

A.5.1 Budget revenue

Part of the SAO monitoring focused on budget income is obtaining additional information from other external control bodies. Aside from special reports of the ECA (SR), these sources of information include the annual Commission evaluation on the fulfilment of the national reform programme and convergence programme, which is contained in the Country Report Czech Republic. In the 2019 report issued for the period of 2018, **the Commission stated that the Czech tax and social benefit systems function in accordance with the EU average in terms of reducing inequality.** The gap between market income inequality and disposal income inequality (i.e. after taxes and transfers) is similar to the EU average. The Commission also stated that the **collection of taxes has improved in the Czech Republic, but on the other hand the frequency of changes and higher costs for observing regulations are cause for concern for businesses.** For natural person income tax, the Commission also pointed out the fact that the reform of income tax legislation has not yet been completed.

SAO considers the field of transfer pricing, i.e. the undesirable optimisation through related parties abroad or in tax havens, to be a high-risk area in administration of LPIT.

In relation to fulfilment of recommendations addressed to the Czech Republic in 2017, the Report 2019 mentions supporting effect of measures introduced such as control statements and electronic evidence of sales. Significant progress can be observed in the fight against tax evasion. **Weaknesses in fulfilling the recommendations however are the limited measures adopted to simplify the tax system and reducing costs associated the paying of taxes.**

The SAO considers a significant risk in connection with the collection of VAT to be the fact that the VAT management system both under the MOSS regime and outside it does not guarantee that cross-border transactions will be duly taxed.

52 Section 17 (3) of the Act on the SAO.

In connection with monitoring the output of SRs, attention must be drawn to SR no 26/2018: *A series of delays in Customs IT systems: what went wrong?* As part of the programme *Customs 2020*[53] and related customs regulations, ECA auditors investigated whether the ISs necessary for improving customs operations in the EU will have been created by the deadline set by the Union Customs Code for 2020. The audit found a number of delays in realising new ISs for the Customs Union, the reason being for example changes in the scope of projects, insufficient resources allocated by the EU and Member States and the drawn-out decision-making process. Shortcomings were however also found in the approach of the Commission, which did not provide information on the delays in an appropriate manner. The auditors also commented on the inappropriateness of the targets for the *Customs 2020* programme and the mechanisms for submitting reports for monitoring ISs´ implementation.

A.5.2 Expenditure for security and justice

In 2018 the **Ministry of the Interior** (MoI) drew funds for projects co-financed from EU funds in the field of internal affairs, from ESIF, from Union (formerly Community) programmes and the *European Migration Network.* An aggregate amount of **CZK 927.12 million** was provided from EU funds and from the state budget **CZK 318.97 million**[54].

In the field of internal affairs, 17 projects were supported in 2018 from the *Asylum, Migration and Integration Fund* (AMIF) for a total of CZK 417.6 million. This primarily concerned the projects Management of MoI Refugee Facilities (nine projects) with a focus on operation of centres for supporting integration of foreigners. In total CZK 98.68 million was drawn in 2018.

To date 11 projects for a total value of CZK 663.5 million have been supported from the funds of the *Internal Security Fund* (ISF). These are projects of the General Directorate of Customs, the Police Presidium and the Ministry of Foreign Affairs. Among the costliest projects are the *National Border Protection Situation Centre* for CZK 120 million and *Support for Fighting Cybercrime* for CZK 159 million. In total CZK 226.3 million was drawn in 2018 under the ISF. Unused resources of CZK 312.6 million are on record.

The most significant risks of projects supported from AMIF and ISF are, according to the SAO, the limited measurability of the benefits of realised projects and their usefulness in practice, meeting of planned deadlines for implementation, and transparency of public procurement.

In PP14+, the MoI also performs the role of implementer of projects under IROP, OPEm, OPEn and project financed via EU programmes.

In 2018 the MoI drew a total of CZK 492.79 million from **IROP**, which represented 73% of the total approved expenditure. The supported projects are focused above all on building new ISs providing for development of public administration and eGovernment. Among the most important projects are the *Internal Communication Information System* for over CZK 340 million, *Modelling of Architecture and Harmonising Operational Data* for CZK 233 million and *Completing and Modernising Technological Architecture for Public Administration Communication Site Reference Interface* for CZK 154 million.

Also supported from IROP funds are projects for modernising the Czech Fire Rescue Corps and Police of the Czech Republic (PCR). Among the costliest projects are for example *Increasing the Readiness of the Czech Fire Rescue Corps for Dealing with and Managing Risks Caused*

53 Regulation (EU) no 1294/2013 of the European Parliament and of the Council of 11 December 2013 establishing an action programme for customs in the European Union for the period 2014–2020 (Customs 2020) and repealing Decision No 624/2007/EC.

54 Drawing including claims from unused expenditures.

by Climate Change for more than CZK 706 million or *Increasing the Security and Accessibility of PCR Systems* for CZK 300 million. At the end of 2018, undrawn funds were on record for CZK 386.32 million.

A permanent problem of the prepared projects according to the SAO is the delay in preparation and submitting of subsidy requests for approval and the length of the approval process itself. In subsequent realisation a primary problem is the delay in announcing public tenders and in the field of ISs the practical dependence of the customer on an exclusive supplier of information technology.

Under **OPEm**, the MoI drew CZK 126.59 million in 2018, which represents a mere 50% of the approved expenditure. The greatest share in failure to draw funds was due to, e.g. the projects *Support for Professionalization and Quality of State Services and State Administration* or *Efficient Development and Boosting the Competencies of Human Resources II*. The total unused funds on record were CZK 201.66 million.

The reason for the low level of drawing was in part ongoing issues in filling specialised positions on the realisation teams in connection with the situation on the labour market. At the same time, projects experienced prolongation of the implementation period and inspections of subjects of declared tenders.

Through **OPEn** projects are financed that focus on reducing the energy performance of utilised buildings. Projects were primarily realised by the regional directorates of the PCR. In total CZK 215.32 million was drawn. Unused funds reached an amount of CZK 94.08 million.

In 2018 the **Ministry of Justice** (MoJ) continued in implementing projects as a beneficiary of funds from **IROP** and **OPEm**. In total it drew **CZK 49.44 million** from EU funds and **CZK 13.75 million** from state budget funds.

Under **IROP**, realisation continued of the project entitled *eJustice 2020 – eISIR* with the goal of creating an electronic *Insolvency Register Information System* (eISIR), which introduces electronic submissions and fully electronic records into insolvency proceedings. The EU contribution totals CZK 177 million and the proportion from the state budget CZK 42 million. Another important project is named *Agenda Information System for Probation and Mediation Service*, which aims to simplify and streamline the activity of the Probation and Mediation Service of the Czech Republic. The total expenditure was approved at CZK 48.6 million, of which the IROP share was CZK 39.3 million.

From the resources of **OPEm**, projects under the MoJ were supported primarily in the field of increasing employee education and skills. Among the most important projects were the Probation and Mediation Service Projects *Why Me? II* (comprehensive counselling for crime victims) and *Fragile Chance II* (development and expansion of practice of committees for conditional release, implementation of two innovative restorative programmes and drafting systemic changes in conditional release in the Czech Republic). The total expenditure for projects was approved at CZK 194 million, with a deadline for completion of all projects in 2020.

According to SAO findings, programmes continue to encounter problems with meeting the anticipated implementation deadlines and in public procurement. For both implemented and planned projects, the question arises as to what extent their realisation is beneficial and whether the viability of projects will be longer than sustainability periods under the legal acts on provision of aid.

A.5.3 Expenditure for industry

A key policy of the MoIT that has long been financed from the ESIF, is support for business. Under PP14+, this support is provided from OP EIC. The goal of OP EIC is to achieve a competitive and sustainable economy based on knowledge and innovation. Among the priorities of this programme are:

- development of research and development for innovation
- developing business and the competitiveness of SMEs
- effective management of energy, developing energy infrastructure and renewable energy sources, support for introducing new technologies in the field of managing energy and secondary raw materials
- developing high-speed access networks to the internet and information and communication technologies (ICT)

The allocation of EU funds for **OP EIC** totals **EUR 4.33 billion,** i.e. converted approximately **CZK 112.61 billion**[55].

In 2018 the SAO focused on support for business real estate and business infrastructure (audit no 18/01), which has been provided by the MoIT from EU funds since 2004. The SAO has been monitoring this area for a long time and as far back as 2016 (Audit no 16/01[20]) it drew attention to the objectives of the programme *Real Estate 2014–2020* not being sufficiently set up in relation to the evaluation thereof. In 2018 the assessment of this programme had not yet been concluded. Implementation under the currently underway programme *Real Estate 2014–2020* is meant to achieve spatially and economically appropriate business infrastructure allowing small and medium enterprises to transition from standard production and services to product or services of a higher technical and technological standard ensuring competitiveness, reduction of operating costs and high added value with the potential for better application in foreign markets. After projects´ implementation, the MoIT did not monitor whether businesses displayed the expected benefits. For half of the audited sample of 12 projects it has not yet been confirmed that the businesses are more competitive, have lower costs or have found better grounding in foreign markets as a result of the aid.

The SAO has long pointed out the vague setting of goals for business support, the absence of measurable indicators for assessing objectives and the resulting difficult-to-implement demonstrable evaluation of the benefits of business support.

In 2018 the SAO also pointed out under audit no 18/06 that the state of implementation of PA 1 under OP EIC is being negatively influenced by the low interest of SMEs in aid. The interest of these entities was significantly lower than the MoIT anticipated. The SAO considers the main reasons to be the long approval process for project applications and the fact that the drawing of funds earmarked for integrated territorial investments has not yet been commenced. By the end of October 2018, funds had been provided to beneficiaries on the basis of decision to allocate a subsidy for total amount of CZK 16 685 million, i.e. 48% of the total allocation for the given PA. Drawing of funds for projects in the implementation phase totalled a mere CZK 3 485.8 million, i.e. 10% of the total allocation.

55 Exchange rate of 26.00 CZK/EUR.

A.5.4 Expenditure for transport

OP Transport serves to fulfil the strategic investment needs and resolve key problems in the transport sector in the Czech Republic. The overall allocation of EU funds totals **EUR 4.56 billion**, i.e. converted approximately **CZK 116.73 billion.**

In the field of road infrastructure, the plight of long preparation periods for works continued in 2018. Even though a law was adopted in 2009[56], that was meant to accelerate the construction of transport infrastructure, even after many amendments thereto, no acceleration has occurred. Therefore in 2013[57] the SAO pointed out the weak position of the state in land use and construction proceedings and the problems related to settling ownership issues for real estate and land.

In 2013 the preparation for building motorways lasted on average nine years. In 2018 the SAO found[58] that the length of preparation for such works lasted on average 13 years, i.e. four years longer.

On 1 January 2018 an amendment to the Building Act[4] took effect, inter alia introducing for transport construction the possibility of a special building office issuing a joint land use decision and construction permit. In July 2018 another change to this act went through the legislative process. This amendment[59] introduces for selected works what is called an "interim decision" which in cases where the conditions for expropriation have been met (with the exception of determining the amount of compensation for expropriation) allows the necessary land to be expropriated and deal with the dispute over the amount of compensation afterwards. The dispute on amount of compensation would thus not block the issuing of a construction permit.

Whether and how these changes will speed up the preparation of linear infrastructure will only be shown by practice and naturally the output of anticipated SAO audits. In light of the short time which the aforementioned amendments have been in effect however, the positive influence of these changes has not yet been widely demonstrated.

A.5.5 Expenditure for agriculture and forestry

The SAO considers one of the major challenges of contemporary Czech agriculture to be climate change, in particular the more frequent occurrence of drought and the associated long-term shortage of water in the landscape. The threat of drought does not stem solely from climate change and the worsened state of the countryside, but also from the current orientation of agricultural crop production governed primarily by economic conditions.

Despite the fact that the MoA and EU provide subsidies to farmers and foresters, in the opinion of experts, financial aid will not stop devastating drought. Experts see the remedy in the **return of organic matter back into the soil.** The soil would thus at least gain a basic moisture and pliability so as to be able to absorb water from rainstorms. **There should also**

56 Act no 416/2009 Coll., on Acceleration of Construction of Transport Infrastructure (effective from 25 July 2017 under the name On Acceleration of the Construction of Transport, Water and Energy Infrastructure and Infrastructure for Electronic Communication).

57 Audit no 12/18 – *Funding earmarked for construction of motorways and expressways;* audit report published in part 3/2013 of the *SAO Bulletin*.

58 Audit no 17/05 – *Construction, modernisation and reconstruction of motorways*; audit report published in part 1/2018 of the *SAO Bulletin*.

59 Act no 169/2018 Coll., amending Act no 416/2006 Coll., on Accelerated Construction of Transport, Water and Energy Infrastructure and Electronic Communication Infrastructure, as amended, and related acts.

be a reduction in field sizes, a return of stabilising landscape features and a return of "improving crops" among the economically viable crops. Naturally the **weight of agricultural equipment** used on fields should also be **reduced**. What could also help is the **construction of ponds or reservoirs and modification of already established amelioration works.** In light of the ongoing period of drought, the issue is also becoming more drastic in forests, **where shallow-rooted trees are drying out and the ability of trees to resist pests and weather is being reduced.** A bark-beetle catastrophe has hit the Czech Republic, which the MoA has been attempting to address since April 2018 both through changes in legislation and financial support provided to forest owners. **The MoA will provide roughly CZK 1.15 billion in 2019 for intervention in forests damaged by bark beetle and the restoration thereof, which is twice the amount in 2018.**

The MoA is dealing with the fight against drought and shortage of water in the landscape in cooperation with the MoE and other ministries. In the coming programming period and in preparing national legislation, **the MoA should take into account protection of the landscape, soil and water as a top priority.** At the same time, it should **increase aid for provident methods of managing arable land that will lead to protection of these resources.** Organic agriculture, which is one of the sustainable methods of farming, should combine tried-and-true environmental approaches and contribute to a high level of biodiversity and conservation of natural resources.

In the opinion of the SAO, Czech agriculture should move more towards the current trends of the new CAP, i.e. **focusing more on ecological and climate-related aspects.** Part of direct payments should thus be tied to eco-schemes. These include measures for supporting more careful management of water and arable land, support for greater diversity of flora and fauna, and protecting the climate.

The Commission proposes that by 2021 direct payments (paid out per hectare or per animal) **be capped at EUR 60 000 per agricultural entity. The Czech Republic has long opposed this proposal** and is endeavouring for all entities active in agricultural to have to meet the new conditions for achieving environmental protection targets regardless of their size. **At the same time, it demands that ecological payments be exempted from the capping scheme, as "megafarms" would lose any motivation for responsible and ecological farming.** It is precisely large agricultural enterprises that are typical for the Czech Republic, and capping would have a much greater impact on local agriculture than in countries where small-scale farms are the norm. Large agricultural enterprises would thus receive lesser subsidies than they have been entitled to to date. There are over 1 800 businesses farming on over 500 ha of farmland in the Czech Republic. The average acreage on which agricultural businesses farm in the Czech Republic is 133 hectares. The Czech Republic also has one of the largest acreages of organic farms, 120 hectares.

The income of Czech farmers is roughly 65% dependent on subsidies from the EU budget. Domestic farmers receive payments from the EU both for land farmed, and for various investment projects, for example for new equipment, technologies and renovation of agricultural buildings. Czech farmers also face growing costs for seeds, fertiliser, plant production resources, fuel, as well as labour and farmland rent.

Subsidies are important for farmers, but on the other hand they cause problems on the common market. Products are imported into Czech shops from other MSs that have a lower price than domestic products. This is particularly true of pork, dairy products, fruit and vegetables. A current problem on the European market is the twofold quality of foods sold under the same brand and packaged in the same or similar manner in various MSs. The European Parliament (EP) took up this problem in spring 2019 and adopted a draft European

Directive on protecting consumers against misleading and unfair practices[60], which however does not address the twofold quality of foods. The MoA has been intensively addressing this situation and submitted an amendment to the Food Act[61] to the government in which it is prohibited to market foods labelled the same as foods sold in another MS but with different ingredients or with differing properties. The Czech Agricultural and Food Inspection Authority would monitor compliance with these rules under the submitted bill, and would be able to issue a fine of up to CZK 50 million for violating this ban. The MoA is also working to support food quality by awarding quality labels, such as the labels *Klasa, Regionální potravina [Regional Food],* and *Česká potravina [Czech Food]*.

It follows from monitoring of the issue of agriculture that in the coming programming period, the MoA should lobby for Czech interests as part of the CAP reform valid from 2021. **The Czech Republic should endeavour to increase self-sufficiency and competitiveness, to preserve and strengthen food safety, to take care of the landscape and water sources, and to ensure a better life in the countryside.**

A.5.6 Expenditure for regional policy

As part of its regular monitoring activity focused on ESIF, SAO also assesses weaknesses and barriers interfering with the proper and smooth course of implementing EU aid focused primarily on eliminating differences between individual regions. One of the significant and yet rarely controlled areas within the whole EU is the issue of public aid. **Public aid** is generally understood as any economic advantage provided from public funds (from the EU, state budget, or funds of self-governing territorial units) to one or more entities that would not otherwise achieve such an advantage within its business.

Under ESIF the area of public aid is one of the main instruments in providing funds for supporting individual sectors, including regional development, specifically through **General Block Exemption Regulations** (GBER), **notifications, services of general economic interest** (SGEI) **and *de Minimis* aid** (i.e. small-scale support).

In the period 2009–2017, public aid for regional development in the Czech Republic alone totalled **EUR 5 689.9 million.** The most money was provided for public aid in 2015. The specific values are listed in the table below.

Table 2: Public aid in the Czech Republic in 2009–2017 **(EUR million)**

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Public aid	374.2	435.0	743.8	856.9	861.4	834.1	1 093.2	211.3	280.0	5 689.9

Source: General Directorate COMP[62]; see http://ec.europa.eu/competition/state_aid/scoreboard/index_en.html.

Every instance of public aid for which the rules of the *Treaty on the Functioning of the European Union* (TFEU), the block exemption regulations or the *de minimis* aid rules cannot be applied (and which has not been notified by the Commission and the Commission has not issued a positive decision on) is illegal aid. **In the case of provision of public aid incompatible with the internal market, both the provider and beneficiary are at risk of having to return it. If the Commission issues a negative decision on a case of illegal aid, the provider is obliged to recover the public aid. The beneficiary must return the awarded aid including interest.**

60 Directive (EU) 2019/633 of the European Parliament and of the Council of 17 April 2019 on unfair trading practices in business-to-business relationships in the agricultural and food supply chain.

61 Act no 110/1997 Coll., on Foodstuffs and Tobacco Products and Amending and Supplementing Certain Related Acts.

62 European Commission Directorate-General for Competition.

If a MS provides illegal state aid incompatible with the common market, it is exposing itself to the risk of proceedings conducted by the Commission and the matter can be passed along to the EU Court of Justice (ECJ). **Penalties associated with failure to observe notification and other obligations present a significant risk for the state budget of the Czech Republic.**

In order to eliminate the occurrence of errors and their consequences (risk management), the legislation entails a number of obligations for providers (administrators of public budgets), which together represent the management of public funds. Primary among these obligations is deciding on aid, control of conditions, and repayment of illegal aid.

In its monitoring and analytical activity, the SAO has focused on identifying the main risks associated with setting the rules for public aid under the ESIF, particularly in the area of regional development.

The main risks according to the SAO include:

- failure to inform the Commission of all intentions to provide or alter public aid (e.g. insufficient utilisation of notifying public aid, application of GBER, SGEI)
- improper setting of public aid in breach of the regulations for this area (General Block Exemption Regulation[63], legislation for Services of General Economic Interest)
- not harmonising the requirements for demonstrating incentive effects for large enterprises with the requirements for SMEs
- failure to meet all the conditions of the General Block Exemption Regulation[62] and exceeding the cut-off values for aid amounts laid down in the regulation
- failure to conduct subsequent evaluation of the aid schemes in certain categories whose annual budget exceeds EUR 150 million to assess the positive and negative effects of the aid scheme

The SAO continues to see risks for the category of *de minimis* aid under implementation of the European legislation that governs this area. This concerns for example the accumulation of *de minimis* aid of EUR 200 000 and *de minimis* aid under services of general economic interest of EUR 500 000. When these types of aid are added together, the permitted limit set by the individual European regulations must not be exceeded and *de minimis* aid must not be used in comparison with other legislative regulations for services of general economic interest. Among the further risks is failure to comply with the obligation to record the prescribed information on *de minimis* aid provided into the central *de minimis* register[64] by the legal deadline or failure to meet all the requirements of the entrustment act for SGEIs.

The public aid risks that the SAO identified in its monitoring activity also follow from the findings of the ECA. It arrived at a number of findings at the level of MSs which can also be applied at the level of the Czech Republic.

The ECA dealt with compliance with public aid rules in the policy of economy, social and territorial cohesion (Cohesion Policy) in PP7+[65]. It also investigated whether the measures that the Commission adopted for PP14+ will increase its ability and the ability of MSs to prevent cases of violation of public aid rules, and to detect and correct them. The ECA found inter alia that MSs´ audit bodies detected breaches of public aid rules to a much lesser extent than the

63 Commission Regulation (EU) no 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty Text.

64 The central register for *de minimis* aid was created 1 January 2010. The goal of the register was to create a central system for keeping records of *de minimis* aid provided on the basis of directly applicable EU regulations.

65 SR no 24/2016: *More efforts needed to raise awareness of and enforce compliance with State aid rules in cohesion policy.*

Commission or ECA. This attests to the fact that MS audit authorities still focus insufficiently on public aid under their audits.

A.5.7 Receivables and liabilities from EU funds

In connection with monitoring of the state of the financial completion of previous programming periods, it was shown that the NF (PCO) still has balance sheet liabilities to pre-financed entities with respect to unpaid aggregate requests applied under PP4+.

With regard to non-regulated areas, the SAO points out the non-existence of certain settlement deadlines (cf. e.g. audit no 18/05). This concerns for example refunds; for these there is no clear deadline set by which funds acquired from refunds are to be transferred for settling unpaid aggregate requests or to the EU budget. Also for aggregate requests for payments there is no set deadline by which the PCO should pay these requests from the moment of approval by the PCO.

An evaluation based on income and expenditure (particularly if they don't have clearly set deadlines for execution), which primarily takes place e.g. as part of closing accounts of individual state budget chapters and also in the state closing account, thus only provides limited information on the achieved result and situation. The impact of uncertainty regarding settlement deadlines can however also be reflected in the accrual accounting itself[66].

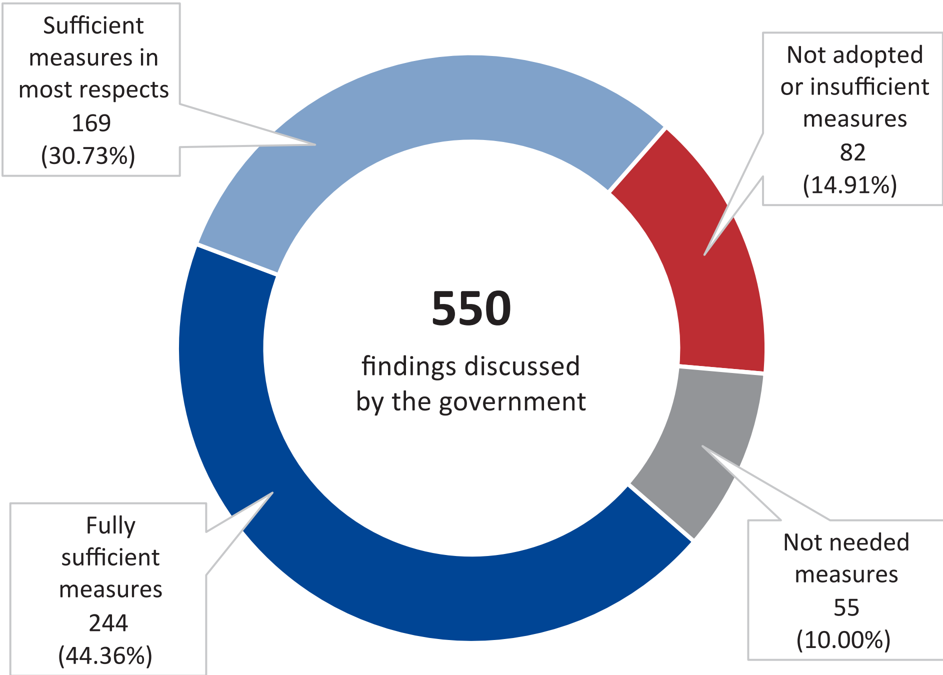
The SAO draws attention to the importance of monitoring data on receivables and liabilities in accounting and related costs and revenues, because it is this type of accrual information that gives a fair view of the financial situation of the state; it captures transactions and facts at the moment they occurred and not when the money was received or spent.

A.6 Measures adopted by the government to rectify deficiencies detected by SAO audits

The Supreme Audit Office systematically monitors adopted measures to rectify detected deficiencies from the results of completed audits that are adopted by the Czech government at the proposal of the programmes' managing authorities. Before the submitted proposals are discussed by the cabinet, the SAO submits its comments and can thus directly influence the scope and focus of corrective measures adopted. Records of measures are kept in a separate register that is part of the AIS database. Since 2015 the SAO had collected data for 63 audits focussed fully or in part on auditing programmes and projects co-financed by EU funds in the AIS. A total of 550 detected deficiencies of primarily a systemic character are on record in these audits. The corrective measures are divided up from the point of view of the SAO into four categories based on an evaluation of their adequacy.

66 E.g. in Audit no 14/37 (see also footnote 39), the SAO state that the MEYS accounted the approved aggregate requests entered in IS VIOLA as a receivable on the balance sheet account, while the MoA recorded a similar case as an off-balance sheet receivable. The impact of these differing approaches in the given case was an amount exceeded CZK 13 billion.

Chart 4: Evaluation of measures adopted by the government to remedy ascertained deficiencies



For the total number of **550** detected deficiencies discussed by the government as at the editorial deadline of the *EU Report 2019*, corrective measures were adopted, of which **244** reacted to SAO findings to their full extent and 169 reacted to the deficiencies detected in most respects. For a total of **82** system shortcomings specified in SAO audit reports, **no measures were adopted or the adopted measures were insufficient.** For the remaining **55** system shortcomings, **no measures were demanded for various reasons.** This category for example includes measures adopted on SAO findings immediately after the audit was completed, as well as cases where the audited entity notified tax administrators itself to deal with irregularities. This category also includes deficiencies found in the management documents of programmes from PP7+ that are no longer found in the documents for PP14+.

On the basis of analyses of the benefits and impact arising from the aforementioned 63 audits completed by the editorial deadline of the ***EU Report 2019*, the SAO has been monitoring the fulfilment of a total of 373 corrective measures**. In the AIS database, for every systemic deficiency the nature and scope of adopted/unadopted measures and the level of satisfaction of SAO with their focus is followed. **There is a total of 54 unadopted measures** to eliminate deficiencies. The largest part of these can be attributed to the **MoA** (14), followed by the **MoF and its organisations** (10) and third is the **MoRD** (8). The reasons for failure to adopt measures consist for one thing in the time-consuming process for adopting the necessary legislative changes or conceptual and strategic materials, and also in the differing evaluation of the adequacy of adopted sub-measures and the differing opinion of the MA on the nature of the deficiency detected by the SAO.

Statistical data showed that **75% of the recommendations were adopted to their full extent** or at least in most respects and **25% of recommendations were adopted only in certain respects**, insufficiently, or not realised at all (or measures no longer needed to be adopted).

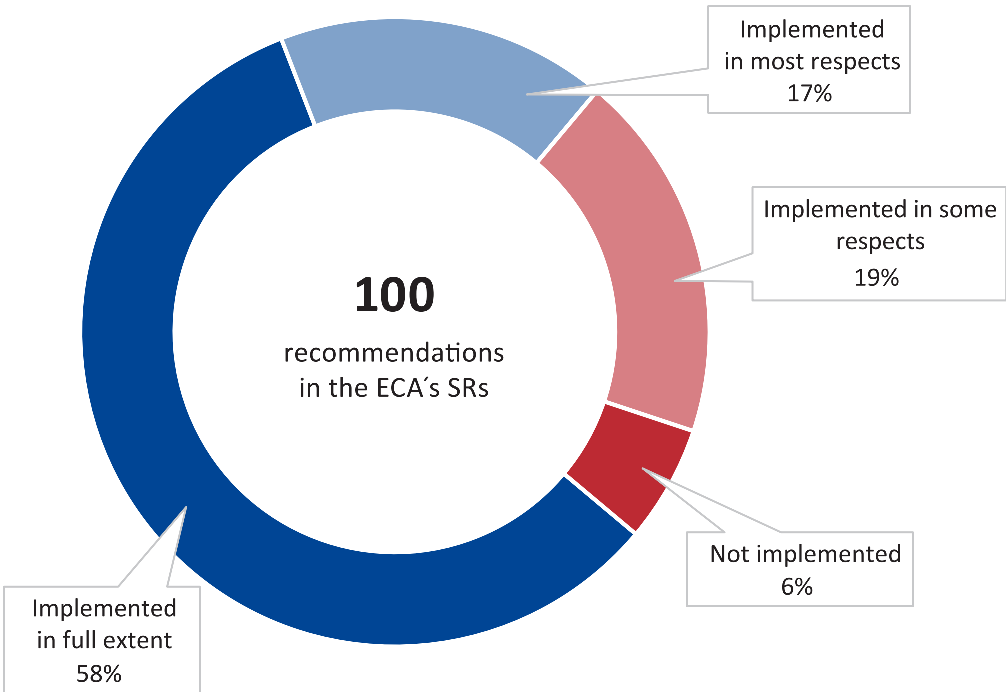
In comparison with the results published in the *EU Report 2018* it can be stated that in terms of the overall number of detected deficiencies recorded in the AIS, **the ratio between the individual categories with regard for adoption/non-adoption of corrective measures has remained the same.**

An analysis of the risks arising from failure to implement corrective measures is one of the bases for planning audit activities for the following period. An assessment of the sufficiency of measures adopted to rectify the shortcomings found by a previous audit generally becomes an integral part of the programme for thematically similar audits, so-called follow-up audits.

Comparison of results of SAO and ECA analyses

The European Court of Auditors regularly analyses the level of fulfilment of its recommendations contained in the SRs by the competent Commission bodies. The last analysis from 2018 focused on 100 recommendations formulated in SRs published in the year 2014. By the end of 2017 the responsible Commission authorities had enacted a total of 75 recommendations (75%) to their full extent or in most respects and 25 recommendations (25%) only in certain respects or not at all.

Chart 5: Overview of the implementation of the ECA's recommendations by the Commission bodies



Source: *2017 – EU Audit in short. Presentation of annual ECA´s reports for 2017*, Publications Office of the European Union, 2018.

Despite the diverse nature of the data evaluated by the ECA in comparison with the data monitored by the SAO, which are mostly measures just being adopted on the part of Czech executive bodies[67], the similarity of results of both analyses is surprising.

67 Considering the short period of time, the SAO has been collecting these data (since 2015), implementation of measures cannot yet be seriously evaluated.

B. Audit work of other audit bodies in 2018

B.1 Results of work of the Audit Body[68] for 2018

In 2018 the main activities of the AB were focused on performing audits of operations, audits of systems and audits of financial statements, primarily for OPs under PP14+.[69] The AB performed a total of 385 audits, of those 373 audits of operations, 11 audits of systems and one audit of financial statements, which concerned ten OPs. The data on the results of these audits are listed in the following tables.

As part of the audit work for OPs of cross-border cooperation and international cooperation, the *Cooperation Programme Czech Republic – Free State of Saxony 2014–2020* was audited, with one system audit and 24 operations audits performed, resulting in 22 findings (four of those with a financial impact) for a total of EUR 40 190.48.

Table 3: Audits of systems performed by the Audit Body

OP	Acronym	Category of MCS	Findings	Findings' gravity		
				High	Middle	Low
Integrated Regional Operational Programme	IROP	2	6	0	1	5
OP *Enterprise and Innovation for Competitiveness*	OP EIC	3	23	2	7	14
OP *Employment*	OPEm	2	4	0	2	2
OP *Prague – Growth Pole CR*	OP PGP	2	4	0	2	2
OP *Research, Development and Education*	OP RDE	2	12	0	4	8
OP *Environment*	OPEn	2	7	0	3	4
OP *Transport*	OPT	2	5	0	2	3
OP *Technical assistance*	OPTA	2	4	0	1	3
Interreg V-A Czech Republic – Poland	INTERREG CR–PL	2	8	0	1	7
OP *Fisheries 2014–2020*	OPF	2	6	3	2	1
Total			**79**	**5**	**25**	**49**

Source: AB´s information from April 2019.

Explanatory notes for the evaluation of the MCS:

1 – Functioning well. Only some minor improvements needed or none	Reliability level - high
2 – Functioning. Some improvements needed	Reliability level - average
3 – Functioning partially. Substantial improvements needed.	Reliability level - average
4 – Basically not functioning.	Reliability level - low

68 The activity of Audit Body in terms of the cohesion policy in the Czech Republic is performed by the Ministry of Finance – Department 52 Audit Body.

69 The main activities of the AB were focused on work towards issuing the annual audit report for individual programmes, i.e. both audits of operations and assessing the functioning of the MCSs for individual OPs on the basis of conducted system audits and audits of financial statements for the accounting period 1 July 2017 – 30 June 2018.
Audits of operations focused on expenditures reported to the Commission for the given accounting period used a representative sample and were based on statistical or non-statistical methods of sample selection; the whole population (100% of samples) also ended up being audited. In terms of verifying the accuracy of reported expenditures, the audits were focused on compliance of realised operations with the legislation of the EU and Czech Republic, the rules of publicity, the adequacy of the audit trail, fulfilment of applicable monitoring indicators, etc.
The AB checked whether the MCSs functioned effectively in terms of meeting the requirements laid down by Regulation (EU) no 1303/2013 of the European Parliament and of the Council (the General Regulation) and provided reasonable assurance that the reported expenditures submitted to the Commission were accurate and the associated transactions legal and proper, and the AB stated this evaluation of the Operational Programme MCSs in the audit opinion.

Table 4: Audit of financial statements performed by the Audit Body

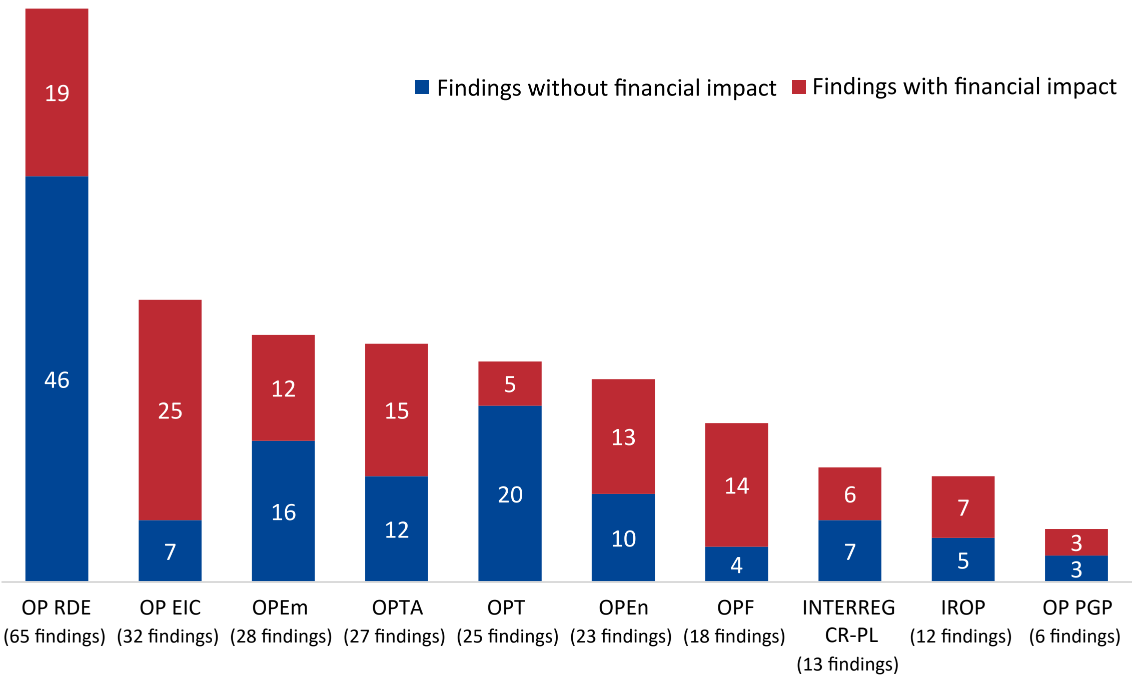
OP	Opinion	Irregularities		Project error rate
		EUR	CZK	
IROP	Unmodified	148 713.08	3 871 672.93	0.27%
OP EIC	Qualified	2 651 487.83	69 284 482.46	7.80%
OPEm	Unmodified	105 440.83	2 744 865.30	0.15%
OP PGP	Unmodified	9 796.77	249 141.06	0.41%
OP RDE	Unmodified	142 913.96	3 728 118.26	0.14%
OPEn	Unmodified	28 595.93	743 826.92	0.16%
OPT	Unmodified	2 734 277.30	70 962 310.68	0.93%
OPTA	Unmodified	51 714.59	1 332 726.55	0.59%
INTERREG CR–PL	Unmodified	15 220.16	393 921.61	0.43%
OPF	Qualified	490 488.80	12 494 620.80	7.31%

Source: AB´s information from April 2019.

According to the findings of the AB, the MCSs (with the exception of OP EIC and OPF) functioned effectively and provided reasonable assurance that the expenditure reports submitted to the Commission were accurate and the associated transactions legal and proper. Comparison of two consecutive accounting periods showed that the situation for OP Transport had improved.

The volume of audited funds in the transaction audit that the AB selected for the 2018 sample for all the OPs totalled EUR 2.05 billion, i.e. approx. CZK 53.02 billion (28% of expenditures reported to the Commission was audited). The identified ineligible expenditures totalled EUR 6.38 million, i.e. approximately CZK 165.81 million, which is roughly 1.13% of the audited expenditures.

Chart 6: Audits of transactions performed by the Audit Body in 2018

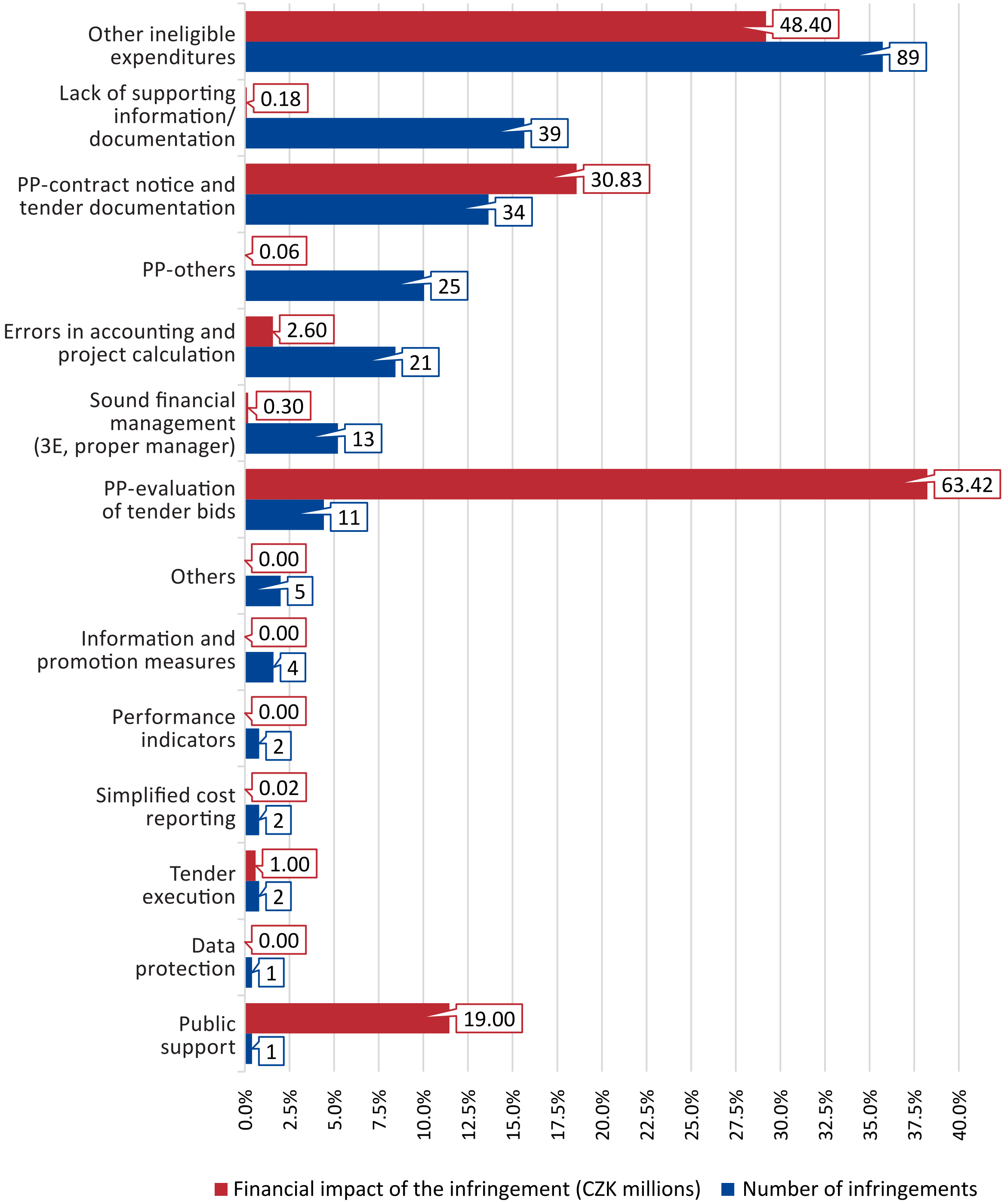


Source: AB´s information from April 2019.

According to Chart 6, in 2018 a total of 249 findings were identified, of those 119 with a financial impact. The total calculated value of deficiencies reached CZK 165 805 687.

The most errors with a financial impact was found for OP EIC, OP RDE, OP *Technical Aid* (OPTA), OPF, OPEn and OPEm.

Chart 7: Audits of operations – numbers and financial volumes of breaching funding conditions identified broken down by area of error



Source: AB´s information from April 2019.
Note: The horizontal axis provides an overview on the percentage of individual areas of identified errors in relation to the total number of findings (249), or the share of these areas in the overall financial volume of detected deficiencies (CZK 165.81 million).

In terms of number, the most deficiencies were found in the area of other ineligible expenditures (in particular salary expenditures), which accounted for 35.74% of all cases. In financial terms this was 29.19% of the total calculated amount. (The greatest share of this comprised cases where the beneficiary did not fulfil the status of an SME.)

The most financially significant area of ineligible expenditures comprised deficiencies in public procurement. These errors reached 57.48% of the total ineligible expenditures, accounting however for only 28.2% of the cases of breaching the conditions for funding. The second most frequent subject of findings was a lack of supporting documentation (15.66%). In terms of the financial impact on the eligibility of expenditures, significant shortcomings were also identified in the area of breaching the rules for public aid.

While **for OPF, the AB** did not issue an opinion in 2018 because no certification took place for the 2017–2018 financial year, **in 2019 it did issue a qualified opinion and noted six findings, of those three of high significance and high error rate.**

The situation did not change overly **for OP EIC,** for which **a qualified opinion was issued** as in the previous year **and a high error rate was found.**

The categorisation of errors used by the AB (category *"other ineligible expenditures"*) does not allow for certain areas of errors to be precisely defined. What does follow from the information presented however is the indisputable fact that errors in procurement, errors in accounting and in project calculations continue, that a **new significant category** of errors in **violation of the public aid regulations** has emerged[70] and that a number of errors were uncovered that resulted in ineligible expenditures. **The total error level is however under the two-percent level of materiality.**

B.2 ECA audit work in relation to the Czech Republic

The ECA plays an essential role in the field of external audit of EU budget funds. In 2018 a total of seven ECA audit missions took place in the Czech Republic. The SAO coordinated exchange of information between the ECA and audited entities and in the majority of cases SAO auditors took part in the mission as observers.

In selected cases the SAO assists the ECA in obtaining documents for studies being done in conducting research or verifying information. A summary of the ECA audit missions is provided in Annex 1.

B.2.1 ECA Special Reports in the period under scrutiny

In the period under scrutiny the European Court of Auditors published a total of 26 special reports. The most SRs concerned the budget headings *Smart and inclusive growth* (eight) and *Sustainable growth: natural resources* (six). **The Czech Republic and its entities were included in the audit sample of six of these audits.**

70 The issue of public aid was accented on the basis of the results of SR no 24/2016: *More efforts needed to raise awareness of and enforce compliance with State aid rules in cohesion policy.* In this audit the ECA assessed the level of compliance with state aid rules in the cohesion policy in PP7+ and the extent to which the Commission was aware of the cause of this lack of compliance.

SR no 8/2018: EU support for productive investment in businesses – greater focus on sustainability needed

The goal of the audit was to assess whether the financing of productive investment in business was managed in a manner ensuring sustainability of outputs and results, and to determine the main factors that influence durability.

The auditors checked a total of 41 completed productive investment projects co-financed from the ERDF in 2000–2013 under eight OPs in the Czech Republic (*Regional Operational Programme NUTS II Southeast* and OP *Enterprise and Innovation*), as well as in Italy, Germany, Poland and Austria. Subject to audit were both the projects themselves and the procedure for project selection, monitoring, submitting reports and evaluation.

The auditors came to the conclusion that the majority of audited projects had sustainable results. For certain audited projects however the results were not sustainable or were only partially sustainable.

For roughly one fifth of the audited projects, the results that had been achieved at the time the project ended did not persist. Moreover, for nearly half the audited projects it was not possible to assess the sustainability at the end of the sustainability period, because the information was not always collected during project implementation and after it had ended, or because the relevant documents were not available at the time of the audit due to the archiving period having ended.

This unsatisfactory situation was often caused by shortcomings at the level of the OP, where sufficient emphasis was not placed on sustainability on the part of the Commission or the national or regional authorities (in preparing the OP, in the selection phase or during monitoring and evaluation). This concerned primarily the following problems:

- The OPs did not ensure sustainability in an effective manner.
- The selection procedures did not sufficiently take into account the conditions for achieving good long-lasting results.
- Monitoring and reporting of results after the project had ended was weak and the performance indicators used insufficient.
- Corrective measures in the case that targets were not achieved or legislative requirements regarding sustainability not fulfilled were not applied thoroughly.
- In approving the OP, the Commission did not place sufficient emphasis on aspects of sustainability.

Despite this, the authors of the SR also stated that the regulatory framework for the period 2014–2020 has brought improvements in this respect.

The auditors recommended that MSs support sustainable results with a greater focus on determining and mitigating risks and through better analyses of the needs of various business types. It also recommended they improve the selection procedures and selection criteria and also the procedures for monitoring and reporting. It also addressed recommendations to Member States for establishing clear corrective measures and thorough application thereof based on the reaching of target values at the project level if they have been set out.

The ECA recommended that in the process of approving OPs the Commission devote special attention to how the MSs approach the issue of the sustainability of project results. It also recommended ensuring MSs thoroughly apply clear corrective measures, including recovery arrangements where projects fail to comply with EU legal sustainability requirements.

Both the Commission and MSs were also called upon, in the interest of better preparing future support mechanisms for businesses in the EU, to provide for a system of evaluation that focuses more systematically on the sustainability of project results.

The SAO has been devoting significant attention to the issue of sustainability (see e.g. audit no 15/06[71] or audit no 16/32[72]). The SAO conclusions are similar to those listed in SR no 8/2018.

SR no 17/2018: Commission's and Member States' actions in the last years of the 2007–2013 programmes tackled low absorption but had insufficient focus on results

The purpose of this audit was to assess whether the measures of the Commission and Member States led to effective drawing of funding from the ERDF, *European Social Fund* (ESF) and CF over the course PP7+. The auditors also compared data for PP7+ to comparable data for preceding and following programming periods.

This audit in seven MSs analysed a total of 16 OPs with support from the ERDF and CF and four OPs with support from the ESF. Four MSs (Czech Republic, Italy, Hungary and Romania) were also examined by audit visits.

Spending was slow to get started under PP7+, in part due to the late adoption of the legislative framework, the OP programme documents and the overlap with the previous programming period. This also led to delays in implementing individual OPs and drawing of aid. The authors of the SR also found that the start to PP14+ was even slower than PP7+. In this regard the SR warns against the increased pressure that will once again be placed on the OP implementation structure at the conclusion of the current programming period. As a result, the risk of efforts to quickly use up the remaining allocation will once again grow, which can lead to lower effectiveness of aid provided.

The ECA is of the opinion that the Commission was late in starting to address the problems with absorption under certain programmes (such activities only got rolling around 13 months before the end of the eligibility period). In the opinion of the Czech Republic and Hungary, which began implementing measures to increase absorption sooner (the Czech Republic as far back as 2011), the Task Force for Better Implementation[73] was established by Commission authorities too late. The measures adopted (by both the Commission and MSs) did have a positive impact and led to significant increase in funding absorption. Some of these measures however focused primarily on absorption and compliance, but not very much on results.

In order to increase the drawing of funds, Member States implemented programme revisions[74], divided projects into multiple phases (carried out over two successive programming periods), co-financed projects that had previously been realised using domestic funds, placed advances in financial instruments and made use of contractual advances[75]. The Commission did not

71 Audit no 15/06 – *Funds from European Union structural funds and the state budget earmarked for financing operational programmes in terms of project sustainability*; audit report published in part 1/2016 of the *SAO Bulletin*.

72 Audit no 16/32 – *Funding of the European Union and state budget earmarked for supporting development of mutual cooperation between municipalities and development of local partnerships*; audit report published in part 1/2017 of the *SAO Bulletin*.

73 The Task Force for Better Implementation was established to help Member States that are encountering problems with absorbing remaining funds from the 2007–2013 programme period. It focused on 38 OPs financed from the EFRD or CF in eight MSs.

74 Frequent revisions of OPs cast doubt on the merits of the analyses that were the basis for the programmes' planning process and the ability to achieve the goals of the OPs and the Cohesion Policy itself.

75 Contractual advances were eligible if they were paid out to suppliers by 31 December 2015 and transferred to actual expenditures before 31 March 2017.
The Managing Authority for OP *Environment* in PP7+, which was the MoE, stated that up until September 2016 the advance invoices provided represented EUR 133 million (in EU contributions). This is approximately 5% of

however have a comprehensive overview of all the measures applied (for example retrospective projects and contractual advances) and their impact due to insufficient information provided by Member States and certain limitations in terms of reporting.

The ECA recommended that the Commission draw up a timetable setting out key dates (e.g. for proposal and adoption of the legal framework). This should ensure that execution of the OP begins on time, right at the start of the programming period. The Commission should submit this timetable to the Council and the EP for assessment in light of the necessity of reaching an agreement on it.

Before adopting its decisions on revision of OPs that will impact key elements of performance, the Commission should also ensure that:

a. the revision request is based on a sound and comprehensive assessment of the OPs, partnership agreements and related needs at the time of revision
b. the revision is primarily undertaken to provide better results and that changes to the funding level of priorities are reflected in the performance indicators

The Commission should also ensure it has the means to:

a. obtain the information necessary for thorough and comprehensive monitoring of absorption under OPs
b. identify the causes of both slow and rapid absorption while also keeping in mind that expenditures should be legal, proper and efficiently spent
c. assess ex-ante the need and the impact of measures to increase absorption of funds to know whether to use them or not

Henri Grethen, ECA member responsible for this SR, stated: *"It is crucial to avoid a situation where large amounts of money need to be used in a rush at the end of a programme period, because insufficient consideration may be given to value for money. Making use of the money becomes an end in itself, rather than a means of achieving policy objectives".* The SAO also concurs fully with this conclusion, having regularly pointed out this risk since as far back as 2014.[76]

SR no 21/2018: Selection and monitoring for ERDF and ESF projects in the 2014–2020 period are still mainly outputs oriented

This audit determined how well MSs focused on results in selecting projects supported from ERDF and ESF in PP14+ and how well the Commission and MSs can demonstrate through their monitoring that the EU budget is being spent properly.

The auditors reviewed 34 projects supported from seven programmes in four MSs, specifically the Czech Republic, France, Italy and Finland. In the Czech Republic, projects from OPEm and OP EIC were reviewed.

In its SR the ECA stated that although the Commission had adopted various measures to increase performance-orientation (introduction of ex-ante conditionalities and performance reserves) and the OPs under PP14+ are more results-oriented and use stronger intervention logic along with a more extensive set of indicators, the selection of projects under the

the total absorption in 2014 and 2015. In these years it was possible to provide contractual advances of up to 90% of the contractual value without supporting billing invoices. After November 2015, advances of 100% of the contractual value were permitted. On this matter the MoE stated that no amounts could be certified without proof of invoices billed. This procedure exceeds what the Commission laid down as market practice. In terms of drawing funds, a high percentage of the contract value increases the risk that the advance will not be used by the given deadline, which can lead to the loss or improper paying out of EU funds.

76 E.g. in *EU Report 2015* (point B.4.1) or *EU Report 2016* (point B.3.1).

ERDF and ESF is still not fully results-oriented and the monitoring in place is still more outputs-oriented.

Relevant procedures to select projects in terms of the OPs' objectives were used in the audited OPs. However, they did not systematically include selection criteria requiring the definition of quantified result indicators at project level corresponding to those at OP level. Consequently, result indicators were rarely[77] included in project applications; even when this was the case, they did not necessarily correspond to the OP indicators, or had not been quantified. The auditors thus stated that the selection of projects continued to place emphasis more on outputs and absorbing funds than on results.

Out of the twenty project selection procedures examined, ten were temporary calls for proposals, six were permanent calls, three direct awarding procedures (two of those under OPEm) and one a reiterated call for proposals. Fifteen of the twenty selection procedures were based on the principle of "first come, first served" and an application was selected provided that it met the criteria and that sufficient funding was available. Of these, thirteen included a formal or informal pre-selection, with some of the procedures requiring a certain score to be reached for selection (two of those from OP EIC). The SR authors found that only for one OP (Italy) was a comparison of project applications made in the project selection process. As a result, the risk cannot be ruled out that support may not have been provided to the best projects.

The ECA auditors also pointed out shortcomings in the field of monitoring, as a result of which it was not possible to assess to what extent financing from the EU contributed to meeting the objectives of the MSs and EU as a whole. One of the reasons for this not overly satisfactory state is the fact that the monitoring systems in individual MSs only started to function in the later phases of PP14+, primarily because of delays in adopting the EU legal framework. One example included in the SR was the Czech Republic (specifically problems with data transfer between the beneficiary and OPEm). Further risks in this area concerned the quality of data acquired during monitoring, because these data continued to be based primarily on output indicators. In the set-up of the logical framework for the ERDF, many result indicators at OP level are not directly related to the funded interventions. As a result of this, these indicators are often national indicators which take into account the influence of various external factors and do not isolate the impact attributable to the ERDF interventions, and cannot therefore be considered immediate results of the OPs.[78]

The annual reports on implementation of the individual OPs that are sent to the Commission for evaluation are then also based on data obtained during monitoring. Shortcomings found in the annual reports raise questions about the reliability of the information provided as well as the level of progress achieved to date.

It is worth noting that with the exception of OP EIC[79] no change requests in the sense of modifying objectives to more realistic values were submitted for any of the audited OPs.

The SR authors recommend that MSs ensure comparison between individual projects in the project selection process and require beneficiaries to set at least one real result indicator for each project. This indicator, which the MS would then incorporate into the grant agreement, will contribute to the assessment of result indicators set at the level of the whole OP. It was recommended that the Commission define common result indicators for the ERDF and improve reporting on performance.

77 Only four of the twenty selection procedures contained criteria requiring quantification of results indicators at the project level.

78 As one of the examples the authors mention OP EIC.

79 The Commission approved the Czech Republic's request mainly concerning modification of allocation under the priority axes of OP EIC.

Again in the case of this SR, the ECA emphasised similar risks as the SAO, which addressed the issue of poorly set monitoring indicators for example in audit no 14/03[80] or audit no 16/01[20]. The SAO mentioned the insufficient functionality of *MS 2014+* particularly in the audit report for audit no 16/12[81].

SR no 23/2018: Air pollution: Our health still insufficiently protected

The ECA auditors assessed the concept for the Ambient Air Quality Directive[82] of 2008, as well as whether MSs had effectively implemented it and also how the Commission monitored and promoted this implementation. They focused on urban areas where air pollution has the greatest impact on health. They investigate how six urban centres in the EU (Brussels, Krakow, Milan, Ostrava, Sofia and Stuttgart) dealt with this problem and how funding from Cohesion Fund programmes and the LIFE programme was utilised.

The auditors found that certain quality standards contained in the aforementioned Directive are much weaker than the guidelines of the World Health Organisation (WHO) and do not reach the level suggested by the latest scientific evidence. Moreover, they came to the conclusion that EU measures to protect human health from air pollution have not led to the expected impact. For example, in 2016, 13 Member States including the Czech Republic breached the PM (particulate matter) limit values, 19 Member States, again including the Czech Republic, the NO_2 (nitrogen dioxide) limit values, and one the SO_2 (sulphur dioxide) limit values. All Member States with the exception of Estonia, Ireland, Cyprus, Lithuania, Latvia and Malta were in breach of one or more of these limit values. On top of this, there is the risk that air pollution has been underestimated, or monitoring may not have taken place at the proper sites.

With reference to information from the WHO, the Special Report provided a highly unflattering international comparison for the Czech Republic of the *Disability Adjusted Life Years* (DALY) index, which calculates the years of life lost as a result of illness. Within the EU the Czech Republic placed second with nearly two lost years (Bulgaria ranked worst with a value of almost 2.5 years), while the EU average is only approximately nine months.

The authors of the SR also recalled the growing significance of the activities of citizens and NGOs, as evidenced by the recent court cases launched against their national authorities over public health. In the Czech Republic, France, Italy, Germany and the UK, national courts have ruled in favour of citizens' right to clean air and required the MSs concerned to take further action to tackle air pollution.

In evaluating individual projects, the auditors stated that the funded projects were not sufficiently well targeted. The exception in this regard were projects supported under the LIFE programme, which is run directly by the Commission.

To improve the state of air quality in the EU the auditors recommend that the Commission adopt more effective measures and update the Ambient Air Quality Directive. In the opinion of the ECA, the air quality policy must be prioritised and taken into account in other EU policies as well.

80 Audit no 14/03 – *Funds earmarked for development and modernisation of waterways and ports and to support multimodal freight transport*; audit report published in part 4/2014 of the *SAO Bulletin*.

81 Audit no 16/12 – *Preparation of a single methodological environment for drawing EU support in the programme period 2014+*; audit report published in part 4/2017 of the *SAO Bulletin*.

82 Directive 2008/50/EC of the European Parliament and of the Council of 21 May 2008 on ambient air quality and cleaner air for Europe.

SR no 25/2018: Floods Directive: progress in assessing risks, while planning and implementation need to improve

The ECA auditors checked whether prevention, protection under preparedness under the Floods Directive[83] are based on proper analysis and whether the used approach could be effective. They visited projects in river basins in nine MSs: Bulgaria, Italy, Netherlands (pilot audit), Portugal, Austria, Romania, Slovenia, Spain and the Czech Republic (Danube river basin – four projects).

The ECA found that the Directive had had overall positive effects, for example improving coordination among MSs and the Commission, in particular thanks to Commission supervision and monitoring and sharing of knowledge and best practices. All the visited MSs had begun to implement plans for handling flood risks, but further improvement is still necessary. The ECA came to the conclusion that weaknesses in allocating funding are having a negative impact on the implementation of preventive measures. The flood risk management plans of six of the nine visited MSs did not clearly identify the source and amount of funds required for their financing. For example, in the national plan of the Czech Republic for managing flood risks, only the cost of the preventive measures is determined, but not the sources of funds.

According to the SR authors, the issue of climate change must be incorporated into the flood risk management plans. The auditors for example stated that the Czech authorities have forecast more precipitation in the spring and autumn and less in summer and winter and the Czech national meteorological institute did not intend to increase the probability of floods due to climate change in their models.

Another important problem is the issue of flood insurance. The auditors discovered that insurance against floods is not very widespread. Despite the fact that there are various insurance models, the most frequently used model in MSs was optional private flood insurance. This model is used in the Czech Republic (in 2016, 54% of households had natural disaster insurance, not limited to floods), Bulgaria, Italy, Portugal and Slovenia.

The ECA found further shortcomings in the area of land use planning. For example, the flood risk management plans in Bulgaria, Czech Republic, Portugal and Romania included measures, not yet implemented, to update planning regulations or to better integrate land use planning in flood risk management. Moreover, the plans of two thirds of the visited MSs did not focus on green infrastructure projects, which are a cost-effective means to reduce flood risk. For example, in the Czech Republic green infrastructure accounted for only 15% of protection measures (in Italy only 1%).

The ECA also found weaknesses in the allocation of funding. Sources of funding had only been partially identified and secured in the flood risk management plans, funding for cross-border investments was limited and in general funds were not allocated in accordance with the priorities.

SR no 30/2018: EU passenger rights are comprehensive but passengers still need to fight for them

The Commission has provided a set of basic rights for passengers in the EU which are common to the four modes of public transport: air, rail, boat and bus. According to the ECA auditors however, passengers are often not aware of their rights and lack practical information on how to obtain them.

83 Directive 2007/60/EC of the European Parliament and of the Council of 23 October 2007 on the assessment and management of flood risks.

The auditors visited the Czech Republic[84], Finland, France, Ireland, Italy, German, the Netherlands, Poland, Greece and Spain and carried out two surveys of passengers. They also conducted interviews with representatives of 21 national authorities entrusted with passenger rights and 27 carriers.

The ECA found that thanks to the scope of the regulation, the EU framework is unique on a global scale. A number of the provisions of this regulation can however be interpreted differently and the amount of compensation has not retained its value as the regulations do not adjust it for inflation. In the SR, the authors state that the scope of passenger rights is significantly narrowed by numerous limitations on the jurisdiction of national authorities entrusted with protecting rights, as well as various derogations. What is more, the current system of compensation significantly burdens both carriers and passengers and the procedures are not sufficiently transparent.

The auditors presented a whole range of recommendations that should help improve the situation. For example, they proposed increasing the coherence, clarity and effectiveness of passenger rights in the EU by having carriers explain within 48 hours the causes of the travel disruption and automatically pay out compensation. They also proposed strengthening the position of national authorities and also the Commission's mandate. A necessary condition for improvement in this area is increasing passenger awareness.

B.3 Audit missions of the European Commission in relation to the Czech Republic

Over the course of 2018 the Commission performed five audit missions in the Czech Republic; SAO auditors were not called upon to participate in any of them.

The focus and dates of the Commission audit missions performed in the years 2017 and 2018 in the Czech Republic are listed in Annex 2.

84 In the Czech Republic, the audit dealt only with air and bus transport.

C. Significant accomplishments and ongoing obstacles in the fight against fraud

Measures to protect the financial interests of the EU and the Czech Republic by means of criminal law from the perspective of a state prosecutor and a member of the OLAF Supervisory Committee Petr Klement

Mr. Petr Klement has been with the state prosecutor's office since 2000, in the function of a state prosecutor since 2004. He first worked at the Municipal State Prosecutor's Office in Brno, where he dealt with economic crime, since 2006 he has been a state prosecutor of the Supreme State Prosecutor's Office, where he worked in the International Affairs Department at the Cabinet of the Supreme Public Prosecutor, and to date he works at the Department of Serious Economic and Financial Crime with a specialisation on protecting the financial interests of the EU and cybercrime. His foreign missions include working in a Eurojust unit in 2007 in the function of delegated national expert and in particular his deployment to the EULEX *EU Rule of Law Mission in Kosovo*, where he carried out an executive mandate in the region of Kosovska Mitrovica from October 2010 to January 2012. Later, from April 2013 to May 2014, he also acted in the function of a delegated state prosecutor for the EU project – *IPA 2010* for combating organised crime and corruption in Albania.

In January 2017, Petr Klement was elected by the European Parliament, the Council and the Commission onto the Supervisory Committee of the European Anti-Fraud Office (OLAF[85]), where he has been serving a five-year mandate. As part of this he deals with investigation priorities, the systemic functioning of OLAF, protecting its independence, as well as important cases that the Supervisory Committee asks for. In 2017 Petr Klement was the rapporteur for the Supervisory Committee Opinion no 2/2017 accompanying the Commission Evaluation report on the application of the Regulation (EU, Euratom) of the European Parliament and of the Council No 883/2013[86].

Petr Klement is the national correspondent of the *Eurojust* unit for combating cybercrime, protecting intellectual property rights and cybersecurity, a member of the European Judicial Cybercrime Network (ECJN) and European Intellectual Property Prosecutors Network (EIPPN) and himself coordinates a similar national network of prosecutors. Since 2013 he has also been active in training state prosecutors and judges as the general coordinator for the European Judicial Training Network.

85 Office européen de lutte antifraude.

86 Regulation (EU, Euratom) no 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) no 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) no 1074/1999.

Number of criminal cases against the financial interests of the EU and the Czech Republic

The number of criminal cases concerning crimes that disrupt the financial interests of the EU at first grew considerably in the Czech Republic following 2009, but in recent years it has stabilised at around 50 newly initiated criminal cases a year. In the year 2018 and the several years before that, the prosecuting authorities dealt with around 160 to 170 cases in total,[87] which corresponds to the size of the Czech Republic, the amount of grant funds that flow into it, and with the principle of legality, i.e. the obligation to punish all criminal acts.[88] The vast majority of these cases concerned fraud in drawing European grant funds derived from individual programmes.

It can certainly be considered a success that the state authorities are increasingly able to detect and seize the proceeds of crime and uncover sophisticated money-laundering schemes. One of the factors that has influenced this trend is cooperation between prosecuting authorities and the Financial Analytical Office, the financial offices, and the parallel course of criminal and financial investigations. Since 2011, CZK 8.9 billion has been permanently drawn off from the seized asset values. Comparing the value of property seized in criminal proceedings in the years 2010 and 2018, the amounts are several times higher.[89] In 2010 for example, the criminal authorities seized assets of CZK 1.28 billion, in 2014 this was already CZK 7.79 billion, much like in 2018, when the total value was nearly CZK 7.90 billion. The seized property is either returned directly to the injured parties, or if this is not possible it serves to satisfy their claims in other ways, for example through proceeds of selling the seized items. On the basis of a court decision, seized property can also go to the state. A considerable portion of seized property however has not yet been ruled on by courts and thus remains seized.

Damage caused to the financial interests of the EU and double jeopardy against the offender

For many years fundamental issues could not be resolved satisfactorily, for example calculating the damages caused by the crime of damaging the financial interests of the EU under Section 260 of the Criminal Code[90] (CCo) or the possibility of this crime overlapping with the crime of subsidy fraud under Section 212 of the CC, or potentially the crime of evading a tax, fee or other compulsory payment under Section 240 of the CC.

Several years were needed for the case law to come to the conclusion that damage within the meaning of Section 260 of the CC must be considered to be the whole amount of the subsidy going to a beneficiary of the EU budget, for example on the basis of inaccurate, forged documents, or on the basis of incorrect facts that the entity claimed in order to obtain the subsidy. This conclusion was first made in part by the Supreme Court in its resolution of 16 December 2016, ref. no 5 Tdo 1502/2014. This resolution supports the calculation of damages from the value of subsidy funds that would be spent on projects that have won the rigged tender, and did not obtain the required funds in the subsequent re-evaluation process as they were not selected by the relevant evaluators or were not approved by a resolution of the board for the Regional Council for the *Southwest* cohesion region.

---

87 Data on the number of frauds uncovered in 2018 are not available, and in previous years the data were incomplete or misleading. Comparison with the total number of criminal cases dealt with in the whole EU can thus not be reliably conducted. For more on this see SR no 01/2019: *Fighting fraud in EU spending: action needed.*

88 See Section 2 (3) of Act no 141/1961 Coll., on Criminal Judicial Procedure (Code of Criminal Procedure).

89 See *Report on work of state prosecutor's office for 2017,* as well as the SAO press release from 29 January 2019, available at: http://www.nsz.cz/index.php/en/tiskove-zpravy/2253-v-trestnim-izeni-se-dai-zajiovat-stamilionove-vynosy-z-ekonomickych-zloin.

90 Act no 40/2009 Coll., the Criminal Code.

The Supreme Court then endorsed the calculation of damages in the aforementioned manner and rejected arguments that labelled it merely "hypothetical". This opinion, including the fact that the damages are occurred at the moment of unauthorised drawing of subsidy funds (and not only when the Czech Republic is obliged to either return the provided funds or the funds are not provided to the Czech Republic) was subsequently also endorsed by the Constitutional Court in its several decisions[91] and this issue can currently be considered resolved.

The calculation of damages is also directly related to the prohibition of double jeopardy[92] and the possibility of concurrent crimes. Only a recent opinion of the Criminal Division of the Supreme Court of 26 April 2018, ref. no Tpjn 300/2017 shed light on this issue, which harmonised the inconsistent practice of prosecuting authorities. In its opinion the Supreme Court stated that the joinder of offences for subsidy fraud under Section 212 of the CCo and damaging of EU financial interests under Section 260 of the CC is possible.[93] If the constituent elements of both these crimes are committed in part to the detriment of the EU and in part to the detriment of another entity (usually the Czech Republic or a self-governing territorial unit), the perpetrator must be charged for the whole damage caused under the provisions of Section 212 of the CCo (i.e. the sum of both amounts), while under Section 260 of the CCo only the part caused in relation to EU funds. The justification for this approach stems primarily from the unsustainability and criticism of the previous model, under which the damages in the case both these crimes were committed were calculated separately. In specific cases this led to the fact that the severity of the act was not captured, as a result of the artificial division the damages did not reach the cut-off for major, considerable or great damages, which in fact had been exceeded, and due to the vague provisions of the law, the culprit was groundlessly given the advantage of being punished with a milder sentence.

Success of OLAF investigations in proceedings before national authorities

The ability of MS judicial authorities to reach a conviction is monitored on an ongoing basis and criticised by OLAF, as it follows from OLAF's annual reports and other documents that nearly 50% of cases in which OLAF has issued a recommendation to launch criminal proceedings end with the matter being shelved by the national authorities. Although it is not possible to agree with measuring the success of the judiciary by number of convictions issued, considering to the effort expended by OLAF investigators and EU funds put into running this authority it is appropriate to pose questions as to the quality of OLAF final reports, to the attention given to these reports by MSs, and also to the adequacy of the legislation adopted by MSs. Despite the fact that OLAF final reports accompanied by evidence should automatically be admissible in criminal proceedings[94], in some MSs that is not the case due to lacking or insufficient national legislation, and evidence (in the form of documents, accounting records, etc.) must be procured again in order to be able to be used in further proceedings.[95]

91 See for example the resolutions of the Constitutional Court under ref. no IV. ÚS 688/17 of 18 May 2017, ref. no II. ÚS 920/2017 of 11 April 2017, ref. no I. ÚS 893/17 of 24 April 2017, ref. no IV. ÚS 929/17 of 10 May 2017 and ref. no IV. ÚS 902/17 of 18 May 2017.

92 A principle meant to prevent one and the same fact of a certain quality being assessed and attributed to a perpetrator twice, expressed in Section 39 (4) of the CCo.

93 The Supreme Court thus indirectly endorsed the opinion of the Supreme Administrative Court published in opinion ref. no 1SL 770/2010 issued under item no 3/2011 in the *Collection of Expository Opinions of the Supreme State Prosecutor's Office*.

94 Article 11 (3) of Regulation (EU, Euratom) no 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) no 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) no 1074/1999.

95 This problem does not concern the Czech Republic, where OLAF reports and their annexes are commonly accepted by courts as evidence. Their value as evidence can be compared to reports and materials from national state administration bodies.

This thus leads to situations where valuable evidence is lost, hidden or deliberately destroyed by the perpetrators, whose goal is to avoid criminal prosecution. Higher quality of investigations led by OLAF and subsequently by national prosecuting authorities can only be achieved by improving communication and cooperation with national authorities from the very start of investigations led by OLAF. This is the only way to avoid legal uncertainties (on the part of OLAF) resulting from specific features of national legislation, unrealistic expectations (in cases where it is evident that at the national level criminal prosecution has for example expired, or the matter is not a crime) and the already mentioned extreme cases such as loss of important evidence.[96]

Establishing of the European Public Prosecutor's Office and the impact of its activity on investigations led by OLAF and national authorities

The possibility of overcoming the above obstacles and rectifying the errors in communication with OLAF is however transforming into new challenges arising along with the launch of the EPPO[97]. According to the planned date, at the end of 2020 this will take over the most important part of the agenda concerning criminal law protection of the EU's financial interests. For matters over which the EPPO will have jurisdiction, OLAF will no longer be able to carry out parallel investigations[98], although on the other hand the Regulation establishing the EPPO does give the EPPO the option under Article 101 (3) c) of asking OLAF to complement the EPPO's activity by conducting an administrative investigation. It is apparent that this is an investigation conducted at the request of the public prosecutor's office in order to procure evidence in criminal proceedings (moreover for example on the territory of a state that is not participating in the EPPO project), which with the differing standard of procedural safeguards in proceedings conducted by two bodies, i.e. OLAF under Regulation (EU, Euratom) of the European Parliament and of the Council No 883/2013 and EPPO under its own regulation and national criminal codes, can lead to problems with the admissibility of procured evidence.[99]

The establishment of the EPPO is without a doubt the greatest breakthrough in the field of criminal law policy, as the Czech Republic and other MSs participating in this project will lose influence on the proceedings of investigations of the most important cases of one type of crime, only the jurisdiction of national courts and police authorities will be retained, managed by the instructions of the delegated prosecutors of the uniformly functioning EPPO. In short this concerns the most serious cases with damages caused of over EUR 10 000 (in practice over EUR 100 000[100]) and VAT carousel fraud with damages over EUR 10 million.

Although it is evident at this point that establishment of the EPPO will bring about many legal pitfalls and that the constitutionality of this office´s existence will be attacked, the use of centrally gathered information from various MSs can provide certain advantages. One of these is the uncovering of multinational organised crime groups who try out one *modus operandi* of committing fraud in one MS and if they succeed, they found domestic and foreign legal entities in other MSs in order to repeat this fraud. Another advantage for investigations

96 On this cf. for example the *OLAF Supervisory Board Activity Report – 2018, Official Bulletin of the European Union,* C 398, of 26 October 2018.

97 The European Public Prosecutor's Office

98 Cf. Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU, Euratom) no 883/2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) as regards cooperation with the European Public Prosecutor's Office and the effectiveness of OLAF; see also Recital 103 of Council Regulation (EU) 2017/1939 of 12 October 2017, implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office.

99 For more details see Klement, P. (2017): *OLAF at the Gates of Criminal Law,* 10.30709/eucrim-2017-02, available at: https://eucrim.eu/articles/olaf-gates-criminal-law/.

100 See Article 27 (8) of Council Regulation (EU) 2017/1939 of 12 October 2017, implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office.

conducted by EPPO could be a completely new system of international cooperation among the MSs that take part in the project. It is based on the idea of a single authority (EPPO) with territorial jurisdiction in all the given countries. Thus if for example it is necessary to interrogate a witness in another MS, the delegated prosecutor acting for example in the Czech Republic asks another delegated European prosecutor, for example in Spain, to conduct the interrogation while observing certain requirements of the Czech legislation, for example informing the witness properly. Thus it will not be necessary to send a traditional request for legal aid and it will be clear in advance who specifically is responsible for carrying out an act, while the gradual building of personal work contacts among delegated prosecutors can also help out. Whether this model is successful in practice, that will only be shown again by the future case law on admissibility and evaluation of evidence so acquired.

A great role in the success of the European Public Prosecutor's Office will also be played by the willingness of MSs that do not take part in the project. Among these is Poland, the largest recipient of subsidies, Hungary, where major cases reaching circles close to the government have been being looked into for some time now[101], and Ireland, where the data servers of major foreign service providers Google and Microsoft are located.

The map of the system of fighting fraud that damages the financial interests of the EU has already been rewritten. The immediate future will provide completely new approaches and with them legal issues evidently never before addressed related to the entrance of a multinational public prosecution body into MS criminal proceedings. What is more important now than analysing past decisions and the ties of individual institutions, is to prepare in many ways for building new relationships and fighting important and, without exaggeration, historical key legal battles.

101 Cf. e.g. the *OLAF Report 2017*, available at: https://ec.europa.eu/anti-fraud/sites/antifraud/files/olaf_report_2017_en.pdf.

SECTION II

FINANCIAL MANAGEMENT OF EU FUNDS IN THE CZECH REPUBLIC IN THE EUROPEAN CONTEXT

D. EU budget and its relationship to the Czech Republic

The EU budget is a direct instrument for the implementation of individual EU policies and at the same time it complements MSs´ budgets, thereby significantly contributing to fulfilment of the shared EU political priorities and considerably increasing the ability of the EU and MSs to react to current problems.

D.1 EU budget for 2017

The EU budget for 2017 took into account the situation caused by the migration and refugee crisis, allocating Members States a more than 11% higher amount than in 2016 in funds for commitments in this area. A 12% year-on-year increase was aimed at strengthening economic growth and creating new jobs.

D.1.1 Budget approval

The process for adopting the EU budget is relatively complicated. The negotiations leading up to approval of the budget also tend to be problematic, as is evident from the following information:

- The Commission prepared a draft general budget for the budget year 2017 and submitted it for discussion to the other EU bodies on 18 July 2016.
- The Council accepted the draft general budget on 12 September 2016 and two days later passed it along to the EP.
- On 17 October 2016 the Commission submitted a proposal for Amendment 1/2017 to the draft general budget.
- On 26 October 2016, the EP adopted a resolution on the stance of the Council on the draft general EU budget and also the amendment to the draft general budget. At the same time the President of the Council informed by letter that the Council could not accept all the amendments adopted by the European Parliament, whereupon the Conciliation Committee was convened.
- Based on the results of Conciliation Committee talks, a joint proposal was created within 21 days, which was approved by the Council on 29 November 2016 and the EP on 1 December 2016.

Thus was the process of approving the EU general budget for 2017 completed.[102] **The total amount of funds for commitments was set at EUR 157.85 billion and funds for payments at EUR 134.49 billion; a reserve was also left for unforeseeable needs amounting to EUR 1.1 billion.**

Table 5: Summary of the approved EU budget 2017 **(EUR billions)**

Appropriations by heading	Commitments	Payments
1. Smart and inclusive growth:	74.90	56.52
a) Competitiveness for growth and jobs	21.31	19.32
b) Economic, social and territorial cohesion	53.59	37.20
2. Sustainable growth: natural resources	58.58	54.91
3. Security and citizenship	4.28	3.79
4. Global Europe	10.16	9.48
5. Administrative expenditures (for all EU institutions)	9.40	9.40
Special instruments	0.53	0.39
Total appropriations	**157.85**	**134.49**

Source: Official Journal of the European Union, L 51, 28 February 2017.

102 Definitive adoption (EU, Euratom) 2017/292 of the European Union's general budget for the financial year 2017 of 1 December 2016, *Official Bulletin of the European Union*, L 51/1, of 28 February 2017.

D.1.2 Budget priorities for the EU budget for 2017

There was a marked increase in appropriations from which expenditures for EU budget priorities were paid in the budget for 2017.

This primarily concerned funds earmarked for **dealing with migration pressure and ensuring a safe life for European citizens**, where **growth of nearly EUR 6 billion** in funds for commitments was approved (an increase of more than 11%).

For boosting economic growth and creating new jobs, EUR 21.3 billion was set aside in the funds for commitments, which is a year-on-year **increase of around 12%.** In this area the budget was primarily raised for the instruments *Erasmus+* (increase of 19% to EUR 2.1 billion) and the *European Fund for Strategic Investments* (increase of 25% to EUR 2.7 billion).

Another EU priority was **support for young people.** Here the budget for the *Erasmus+* programme increased, and EUR 500 million was also added for the *Young Employment Initiative* (YEI).

Another EUR 500 million from the budget was earmarked for supporting milk-producing farmers and other farmers in livestock production.

D.1.3 Amending budgets

Adapting the budget to current developments over the course of the year is done through “amending budgets”, which are adopted at the Commission’s proposal by the Council and EP.

Over the course of 2017, six amending budgets were approved:

- Amending budget No 1[103] allocated the UK, Cyprus and Portugal EUR 70.40 million in funds for commitments and payments from the *European Union Solidarity Fund* (EUSF) with the goal of helping rehabilitate damages caused by natural disasters.
- Amending budget no 2[104] entered into the EU budget the budget surplus for 2016 in the amount of EUR 6.40 billion.
- Amending budget no 3[105] increased the commitment appropriations for the YEI by EUR 500 million and approved the amendment of the job plans for the Agency for Cooperation of Energy Regulators and the joint undertaking SESAR 2.
- Amending budget no 4[106] freed up EUSF funds of nearly EUR 1.20 billion to assist Italy hit by a series of earthquakes between August 2016 and January 2017.
- Amending budget no 5[107] provided funding for the *European Fund for Sustainable Development* after the EP and Council had adopted its legal base. This amending budget also took into account the results of the mid-term revision of the Multiannual Financial Framework and increased the annual amount of the Emergency Aid Reserve by EUR 20 million in 2011 prices. Together these two measures led to an increase in commitment appropriations of EUR 297.8 million without increasing the level of payment appropriations.

103 Definitive adoption (EU, Euratom) 2017/851 of amending budget no 1 of the European Union for the financial year 2017 of 5 April 2017, *Official Bulletin of the European Union,* L 136/1, of 24 May 2017.

104 Definitive adoption (EU, Euratom) 2017/1487 of amending budget no 2 of the European Union for the financial year 2017 of 4 July, *Official Bulletin of the European Union,* L 227/1, of 1 September 2017.

105 Definitive adoption (EU, Euratom) 2017/2120 of amending budget no 3 of the European Union for the financial year 2017 of 13 September 2017, *Official Bulletin of the European Union,* L 330/1, of 13 December 2017.

106 Definitive adoption (EU, Euratom) 2017/2121 of amending budget no 4 of the European Union for the financial year 2017 of 13 September 2017, *Official Bulletin of the European Union,* L 330/14, of 13 December 2017.

107 Definitive adoption (EU, Euratom) 2018/30 of amending budget No 5 of the European Union for the financial year 2017 of 24 October 2017, *Official Bulletin of the European Union,* L 9/1, of 12 January 2018.

- The goal of amending budget no 6[108] was to adapt the revenue and expenditure sides of the budget to the latest developments. On the expenditure side the volume of payment appropriations was reduced (for most EU budget headings), and commitment appropriations (for the heading *Sustainable growth – natural resources*) and unused commitment and payment appropriations for advances (that will no longer be needed in 2017) were released for the EUSF. On the revenue side of the budget, the forecast for individual types of EU revenues and inclusion of recovered fines into the revenue side of the budget were revised, reducing accordingly the contributions from MSs to the EU budget.

D.1.4 Implementation of the EU budget

2017 was the fourth year of the current Multiannual Financial Framework (MFF). Among the priorities of the EU budget for 2017 was above all the **sustainability of economic recovery and dealing with complex problems in competitiveness, migration and security.** Along with many unexpected challenges, the importance of a flexible approach to implementing the budget was reaffirmed. **The mid-term revision of the MFF provided further funds necessary for addressing unforeseen situations.**

The information provided in this subsection comes from the data published in the annual financial report on implementation of the EU budget[109] and other data published by the Commission.

D.1.4.1 EU budget revenue

The amount of overall EU budget revenue decreased year-on-year from EUR 144.09 billion in 2016 **to EUR 139.02 billion** in 2017, which is a drop of more than 3.5%. This decrease is primarily related to the lower need for resources as a result of low absorption of ESIF funds.

The decisive part of EU budget revenue comes from what are called **own resources** (see below), the volume of which cannot exceed 1.20% of the Gross National Income (GNI) of the European Union as a whole. In the financial year 2017, this revenue reached **83% of the total revenue** of the EU budget, which in comparison with previous years is however a relatively low value. In 2016 own resources made up for nearly 92% and a year earlier 94% of the total EU revenue. The volume of the **budget surplus from the previous year**[110] **also fell slightly (from over 7% to just under 5%),** but remains at a relatively high level. **The lower level of own resources was made up for by the amount of other revenue**[111]**, which rose from not quite 1% in 2016 to more than 12% in 2017.**

EU budget own resources are further subdivided into three categories. While **traditional own resources** (TOR) are collected on behalf of the EU by Member States, the remaining two categories of own resources are funded from the national budgets of MSs.

TORs are historically the oldest component of own resources. They consist primarily of customs duties and sugar levies. MSs keep 20% of collected customs as compensation for the costs associated with their collection. This budget resource did not see significant changes in amount compared to 2016. **TORs represented 14.72% of the total EU budget revenue.**

108 Definitive adoption (EU, Euratom) 2018/91 of amending budget No 6 of the European Union for financial year 2017 of 30 November 2017, *Official Bulletin of the European Union,* L 21/1, of 25 January 2018.

109 *EU Budget 2017 – Financial report*, Publications Office of the European Union, 2018.

110 MS contributions in the current year are reduced by the budget surplus for the previous year.

111 Other revenue includes for example revenue from fines imposed for breaching competition rules or other regulations, as well as revenues from income tax and other deductions from EU institution employees or contributions from third countries to EU programmes.

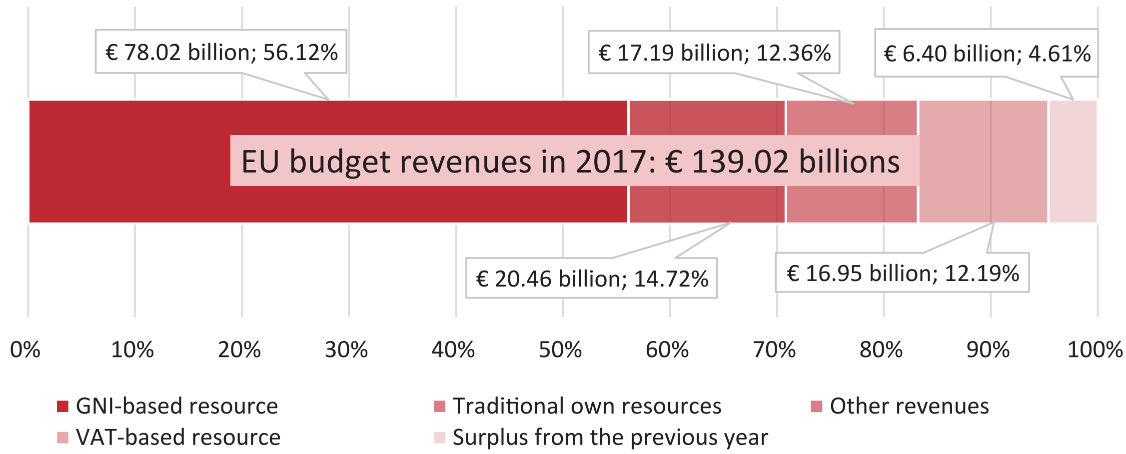
In terms of volume, the most important resource of the EU budget, since as far back as 2000, has been the **GNI-based resource**. The amount of this resource is variable and depends on the size of the difference between the total EU budget expenditure and the amount of all other revenue, with the overall EU budget being compiled as a balanced budget. The GNI-based resource comes from applying a single rate to all MSs[112], with this rate being applied to the harmonised VAT assessment base. **The relative volume of income from this resource in 2017 had dropped year-on-year by more than 10 percentage points to 56.12%.**

The base value for the **VAT-based resource** for every MS is based on the harmonised VAT base, which is limited to 50% of the GNI of the given MS[113]. The actual amount of the levy is calculated by applying a uniform rate of 0.3% of this base value.[114] **The relative value of this resource was practically unchanged year-on-year and in 2017 accounted for 12.19% of all EU budget revenue.**

EU income is also influenced by corrective tools, on the basis of which certain MSs make reduced payments from the VAT and GNI resources into the EU budget. In 2017 this included the UK rebate[115] and the reduced payment of Denmark, Ireland and the UK due to their non-participation in certain areas of the security and citizenship policy[116].

The following chart shows the relative and absolute volumes of individual resources with respect to the overall EU budget income in 2017. The aforementioned corrections and adjustments to the organisation of VAT- and GNI-based own resources from the previous budget years are reflected in the chart at the expense of the GNI-based resource.

Chart 8: Structure of the EU budget revenues in 2017



Source: *EU budget 2017 – Financial Report*, Commission 2018.

112 In 2017 this rate was set at just over 0.5% of the GNI. Denmark, the Netherlands and Sweden made use of the option of reducing the annual gross contribution.

113 Thanks to this "cut-off", six MSs reduced their contribution in 2017: Estonia, Croatia, Cyprus, Luxembourg, Malta and Portugal.

114 Germany, the Netherlands and Sweden use a reduced rate of 0.15%.

115 In 2017 the rebate totalled nearly EUR 4.94 billion. The costs for these measures are borne by the other MSs based on their share of their own GNI in the GNI of the EU as a whole. The share of financing this mechanism is however reduced for Germany, the Netherlands, Austria and Sweden to one quarter of their share. The remaining three quarters of their share is paid by other MSs based on the proportion of their GNI in the GNI of the EU as a whole.

116 The payments of Denmark, Ireland and the UK are reduced in connection with their refusal to participate in certain areas of legal and security cooperation. This reduction does not however affect the related administrative costs. The Commission calculates this adjustment over the course of the year following the given financial year, thus the budget for 2017 contains a reduction in payments for 2016 of EUR 133.27 million.

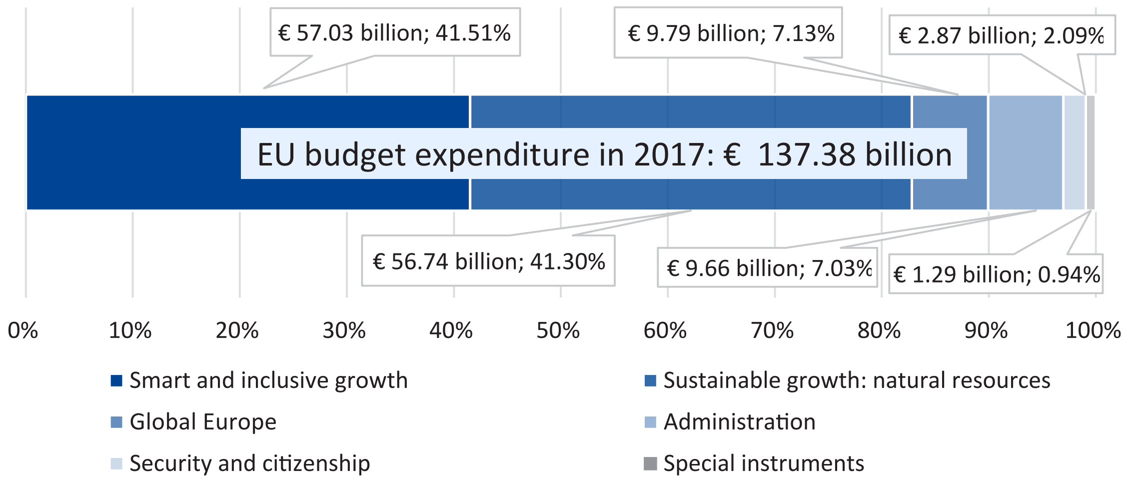
D.1.4.2 EU budget expenditure

The European Union budget expenditure serves to cover the needs of implementing the objectives of individual EU policies and to cover the costs associated with the activities of EU institutions.

The expenditure side of the EU budget has two general levels: **commitments** (i.e. amounts to be paid in the current year or future years) and **payments** (i.e. payments in the current year), with **a payment only able to be made if there is a valid commitment for it.**

The total EU budget expenditure for payments in 2017 totalled nearly EUR 137.38 billion. This amount also includes EUR 8.58 billion that went to countries outside the EU, as well as EUR 11.07 billion for expenditures related to assigned revenue and expenditures related to the EFTA[117] (EUR 0.36 billion) and also EUR 6.12 billion in other expenditures. The greatest portion of the EU budget expenditure every year however goes to MSs. In 2017 this expenditure totalled EUR 111.60 billion. A total of EUR 1.29 billion was paid out in 2017 from special instruments[118]. The expenditure of the *European Development Fund* falls outside the EU budget.

Chart 9: Structure of the EU budget expenditure in 2017



Source: *EU Budget 2017 – Financial Report*, Commission 2018.

Chart 9 shows the expenditure for payments broken down by budget headings (budget chapters). These headings financially cover the individual EU policies or sets of policies[119]:

117 The EFTA is the European Free Trade Association, the members of which are Iceland, Liechtenstein, Norway and Switzerland.

118 These instruments are the *Emergency Aid Reserve, European Globalisation Adjustment Fund, European Union Solidarity Fund* and the *Flexibility instrument*.

119 The expenditure amounts listed in footnotes 119 to 124 also include the Commission’s expenditures for its decentralised agencies.

1. *Smart and inclusive growth*, with subheadings
   1a *Competitiveness for growth and jobs*[120]
   1b *Economic, social and territorial cohesion*[121]
2. *Sustainable growth: natural resources*[122]
3. *Security and citizenship*[123]
4. *Global Europe*[124]
5. *Administration*[125]
6. *Compensations*

The comments and charts under point D.1.4 and subheading D.3 that are focused on expenditures that go to MSs do not include the expenditure for the activity of the Commission's decentralised agencies and expenditures paid through an allocation from the assigned revenue[126], which are reported by the Commission separately[127].

D.1.4.3 Member States in relation to the EU budget

While the preceding two parts of subsection D.1.4 offered the view of the EU budget on the part of the Commission, here we will present the 2017 EU budget from the perspective of individual MSs.

Chart 10 shows for one thing the size and structure of payments of individual MSs to the EU budget, and for another absorption from the EU budget broken down by individual expenditure headings (both in million of euros). It also shows however the net position of individual MSs adjusted for administration expenses (expenditure heading 5) and calculated per capita (in EUR). Just as in 2016, the Czech Republic ranked seventh (more on the net position of the Czech Republic under point D.3.2). Net beneficiaries, i.e. Member States that withdraw more funds from the EU than they pay into it, are found in the left part of the chart (having a positive value listed above the horizontal axis).

---

120 Funds put primarily into research, innovation and technological development, lifelong learning, support for SMEs and development of transport, energy and digital networks for better connecting people in Europe. In 2017 nearly **EUR 21.38 billion** was paid out from this subheading (year-on-year increase of just under 15.79%).

121 Funds for building new infrastructure, educational programmes and cross-border cooperation, and funds that are to be invested with the goal of bolstering economic, social and territorial cohesion and increasing growth and development of regions that are lagging behind the others. The expenditure of this subheading totalled **EUR 35.65 billion** (year-on-year decrease of nearly 5.69%).

122 Funds for agriculture, food production, rural development, fisheries and environmental protection. In 2017 **EUR 56.74 billion** was paid out from this heading (year-on-year drop of not quite 1.17%).

123 Funds for combating terrorism and crime, managing migration flows and creating a common asylum system, as well as for protecting consumers in the EU and supporting European culture. This expenditure **totalled EUR 2.84 billion** (year-on-year decrease of nearly 6.84%).

124 Funds for financing the EU's external policy (expenditure for EU cross-border activities, EU expansion, bilateral relations and humanitarian and development aid). IN 2017 **EUR 9.79 billion** was issued from this heading (year-on-year drop of 4.79%).

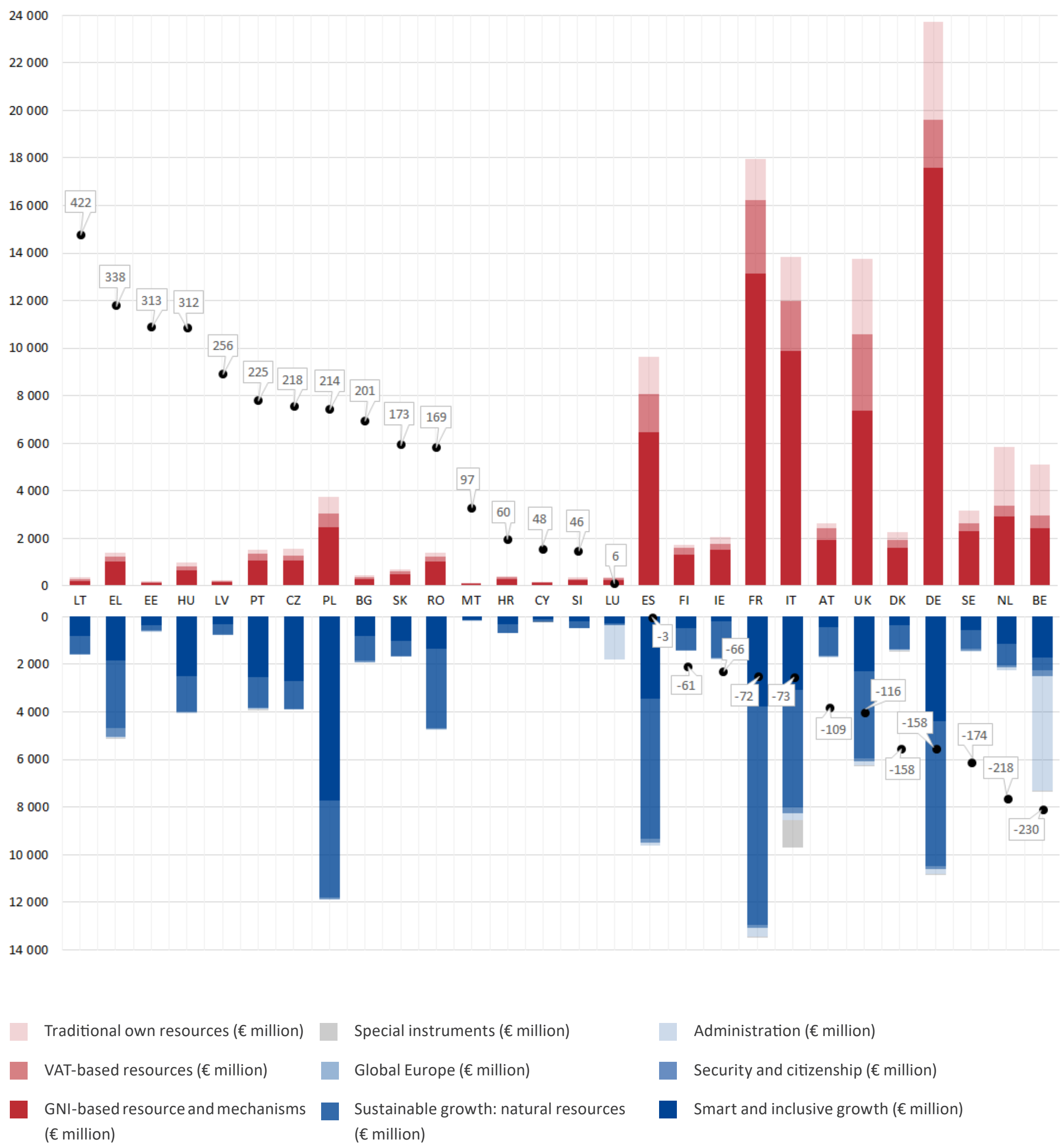
125 The expenditure primarily funding employee salaries and administration of EU institution buildings totalled nearly **EUR 9.66 billion** (year-on-year increase of 3.56%).

126 Expenditures regularly made by the Directorate-General for Agriculture and Rural Development (DG AGRI) and Directorate-General for Maritime Affairs and Fisheries (DG MARE) from income stemming primarily from refunds during settling of accounts. These expenditures are thus not funded from the EU's own resources.

127 See *EU budget 2017 – Financial Report*, Annex 2d, Commission 2018.

Adjusting MS revenue net of payments from the *Administration* heading (i.e. of payments for the administrative costs of the Commission and its bodies as well as other EU bodies) and the expenditure for the Commission's decentralised agencies led to a noticeable drop in the value of the net per capita position essentially only in the case of Luxembourg (from EUR 2 501.97 to EUR 6.40) and Belgium (from EUR 194.96 to EUR -229.97).

Chart 10: Structure and volume (in EUR million) of revenue and expenditure side of the EU budget in 2017 and net position of individual MS (without administrative costs and expenditure of the Commission´s decentralized agency) per capita (EUR)



Source: *EU budget 2017 – Financial Report*, Commission 2018.

Note: The red part of the bar chart shows the volume (in million of euros) and structure of EU budget income from individual MSs, the blue part shows the volume (in million of euros) and structure of EU budget expenditure to individual MSs. The scatter chart shows the net position (in EUR) of individual MSs per capita after adjusting for Commission expenditures for payments from the *Administration* budget heading.

D.1.5 EU budget audit

The European Court of Auditors is the external auditor of the EU. Its position and tasks are defined in Section 7 of the TFEU[128]. According to the provisions of Article 287 of the TFEU, the ECA is obliged to provide the European Parliament and the Council with a Statement of Assurance as to the reliability of the accounts (DAS)[129], that examines the reliability of the annual accounts of the European Union and the legality and accuracy of operations performed.

At its session of 12 July 2018, the ECA adopted the *Annual report on the EU budget for the financial year 2017.*[130] This annual report, along with the responses of the competent bodies to the comments of the ECA, was passed along to the EP and the Council for approval confirming that the Commission performed its duties properly in implementing the budget.

The European Court of Authors issued a "clean opinion" on the reliability of the European Union accounts for 2017: "*In our opinion, the consolidated accounts of the European Union (EU) for the year 2017 present fairly, in all material respects, the EU's financial position as at 31 December 2017, the results of its operations, its cash flows and the changes in its net assets for the year then ended, in accordance with the Financial Regulation and with accounting rules based on internationally accepted accounting standards for the public sector."* The ECA has been issuing such a clean opinion continuously since 2007.

The revenue for 2017 as a whole was, as in previous years, **legal and regular:** *"In our opinion, the revenue underlying the accounts for the financial year 2017 is legal and regular in all material respects."*

The payments for 2017 were legal and regular with the exception of reimbursements: "*In our opinion, except for the effects of the matter described in the 'Basis for qualified opinion on the legality and regularity of payments underlying the accounts' paragraph, the payments underlying the accounts for the financial year 2017 are legal and regular in all material respects."*

Aside from the above statements, the annual report also contains a detailed evaluation of the implementation of the budget and relevant operations. The ECA stated inter alia that **estimated level of error[131] for payments made from the EU budget continues to decrease.** In 2017 it was 2.4%, which is a noticeable reduction from 3.1% in 2016 and 3.8% in 2015. **A significant portion of the expenditures audited in 2017 – mainly those on an entitlement basis – were not affected by a material level of error, thus for the second year now a qualified opinion was issued.**

The revenue-related systems that the ECA examined were overall effective. The auditors did however also determine that **certain control systems focused on traditional own resources were only partially effective. Revenue was not burdened by significant (material) error and the estimated error rate was 0.0%** (just as in 2016).

---

128 Article 285 et seq. of the consolidated wording of the TFEU, *Official Bulletin of the European Union*, C 115, of 9 May 2008.

129 Déclaration d'assurance.

130 *Official Bulletin of the European Union,* C 357/01, of 4 October 2018.

131 The ECA estimates the error rate using standard statistical procedures. With a 95% degree of certainty it is of the opinion that the error level in the given base set ranges between the upper and lower error rate.
The estimate of the error rate in the EU budget is not a measure of fraud, inefficiency or waste. It is the estimated volume of funds that should not have been paid out because they were not used in accordance with the relevant rules and regulations.

The situation in terms of expenditure was somewhat more complicated. Even in the years 2015 and 2016 the auditors found that the method of reimbursement of expenditures has an impact on the risk of errors occurring and this finding was reaffirmed in 2017.

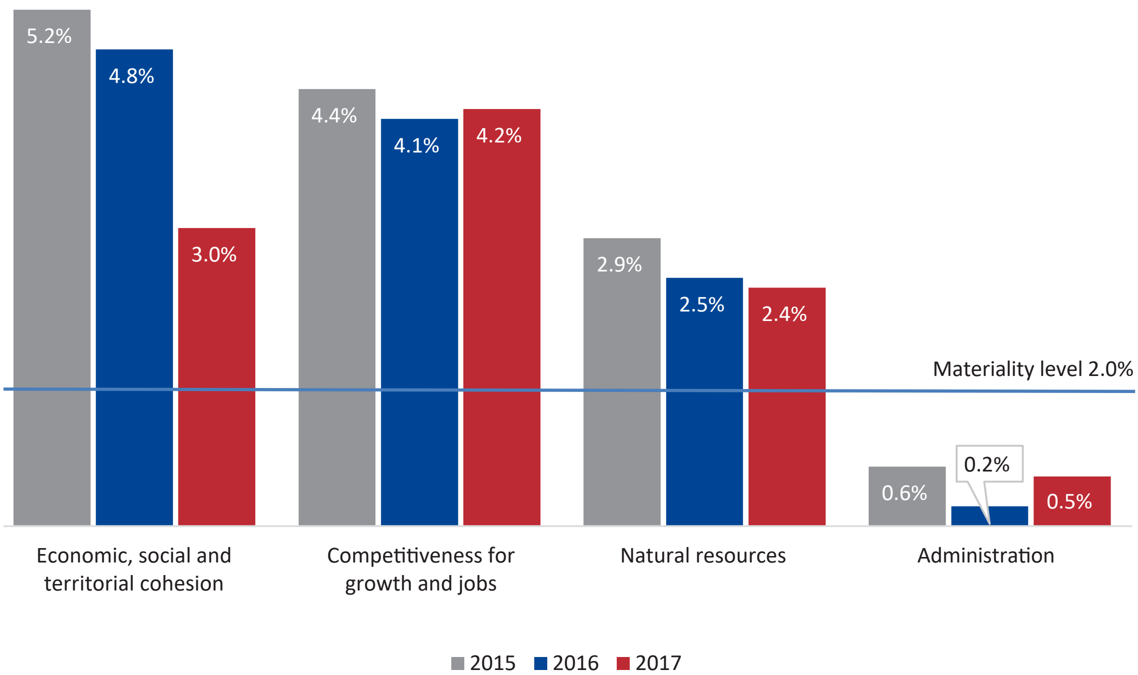
The first method of covering expenditures is **entitlement-based payments**, received by beneficiaries that meet certain stipulated conditions, thus it is not reimbursement. This group includes primarily direct support for farmers, agroenvironmental measures (expenditure heading *Sustainable growth: natural resources*), as well as student and research scholarships (*Competitiveness for growth and job*) and salaries and pensions of EU employees ("Administrative expenditure"). The **estimated error level** in the areas of "Natural resources: direct aid" and "Administrative expenditure" was **below the two percent threshold of significance** (materiality).

The second manner in which expenditures from the EU budget are made are **reimbursement-based payments**, with the EU reimbursing beneficiaries for eligible costs of eligible activities. This category of expenditure includes for example research projects (under *Competitiveness for growth and jobs)*, investment in regional and rural development and educational programmes (headings *Economic, social and territorial cohesion* and *Sustainable growth: natural resources)* and development aid projects (*Global Europe*). This group of costs includes **expenditures in areas with the lowest error rate** (*natural resources: rural development, market measures, environment, climate and fisheries* and *economic, social and territorial cohesion*), specifically **3.7%** (4.8% in 2016).

Overall however the ECA auditors came to the conclusion that errors do not have an extensive impact and that with the exception of reimbursements, payments for 2017 are legal and regular.

The ECA also evaluates the error level by individual expenditure areas (without distinguishing entitlement-based payments and reimbursement-based payments). A summary of the error levels in the largest expenditure headings is presented in Chart 11.

Chart 11: Comparison of the estimated error rates for EU spending areas in 2015–2017



Source: Annual Report on the Implementation of the EU Budget, Commission 2018, the Official Journal of the European Union C 357/01 of 4 October 2018.

The ECA stated in the annual report for 2017 that the **MS** authorities **had sufficient information at their disposal to prevent the occurrence of a significant portion of errors, to detect these errors or to fix them before they were reported to the Commission.** If the national authorities were to truly utilise this information to rectify the shortcomings, the estimated error rate in the total expenditure *on competitiveness for growth and jobs* would be 2.7% and under *sustainable growth: natural resources* it would even fall below the two-percent threshold of significance.

D.2 Budget 2018

On 30 November 2017, the Council and the EP separately approved the agreement reached 18 November 2017 in the Conciliation Committee and adopted the EU budget for 2018.[132]

The budget was approved at **EUR 160.1 billion in commitments**, which is a year-on-year increase of 0.2%. A much more significant increase occurred in the funds for payments (14.1% compared to 2017), with the overall **payment appropriations totalling EUR 144.7 billion.** The reason for this growth was primarily the reasonable expectation that in 2018 absorption of the allocation under programmes for the 2014–2020 period will finally reach full speed.

Table 6: Summary of the approved EU budget for 2018 **(EUR billions)**

Appropriations by heading	Commitments	Payments
1. Smart and inclusive growth:	77.53	66.62
a) Competitiveness for growth and jobs	22.00	20.10
b) Economic, social and territorial cohesion	53.53	46.52
2. Sustainable growth: natural resources	59.28	56.08
3. Security and citizenship	3.49	2.98
4. Global Europe	9.57	8.91
5. Administrative expenditures (for all EU institutions)	9.67	9.67
Special instruments	0.57	0.42
Total appropriations	**160.11**	**144.68**

Source: Official Journal of the European Union, L 57, 28 February 2018.

D.2.1 Budget priorities of the EU budget for 2018

The main priorities of the EU budget for 2018 primarily included **investments in competitiveness, employment and growth.** The budget provided EUR 11.2 billion to *Horizon 2020* (the EU's research and innovation programme), with this figure representing a year-on-year increase of 8.4%. The *Connecting Europe Facility* (serving to fund major projects in transport, energy and information and communication technology) also saw a significant boost (increase of 7.9%), with EUR 2.7 billion at its disposal.

In 2018 one of the budget priorities was once again **support for young people.** Here the most notable boost went to the *Erasmus+* programme, up to EUR 2.3 billion (year-on-year increase of 12.1%). The budget also took into account the creation of a new *European Solidarity Corps* providing opportunities for young people under 30 to volunteer or work on projects that benefit communities across Europe.

132 *Official Bulletin of the European Union*, L 57, of 28 February 2018.

In 2018, **the expenditure associated with addressing the issue of migration and security** also **increased** by 8.9%. The competent agencies received EUR 940 million for their activities in the budget. Also registering an **increase** was the **area of the environment and climate,** where EUR 523 million was set aside for LIFE programme projects, 5.9% more than in 2017. The EU budget for 2018 also **bolstered the strategic communication capacity** of the *European External Action Service*, which received EUR 0.8 million to **intensify the fight against disinformation.**

In contrast, the EU budget **reduced** the amount of **pre-accession aid to Turkey** by EUR 105 million (keeping another EUR 70 million in reserve). The reason for this was the unsatisfactory situation in terms of implementation of democracy, human rights and freedom of the press in this country.

D.2.2 Amending budgets for 2018

By the editorial deadline for *EU Report 2019*, six amending budgets had been approved:

- Amending budget no 1[133] released over EUR 104 million from the EUSF to assist Greece, France, Portugal and Spain, which were hit by natural disasters in 2017.
- Amending budget no 2[134] entered the 2017 budget surplus of EUR 555.5 million into the EU budget.
- Amending budget no 3[135] added EUR 500 million in commitment appropriations to the *Facility for Refugees in Turkey*. This is the first contribution to the "second tranche" of this facility, with the second to be charged to the EU budget in 2019.
- Amending budget no 4[136] released funds of nearly EUR 34 million from the EUSF for assistance to Bulgaria, Greece, Lithuania and Poland in connection with natural disasters that took place there in 2017.
- Amending budget no 5[137], which was neutral from a budget perspective, led to the following:
  - cancelling the reserve for pre-accession aid to Turkey (see D.2.1 above) due to failure to meet the conditions laid down for the beneficiary by the European Parliament and the Council
  - reinforcing, in commitment appropriations, the *European Neighbourhood Instrument* to fund actions linked to the Central Mediterranean migratory route and to help rebuild Syria
  - reinforcing payment appropriations, in connection with the previous reinforcing of commitment appropriations (at the end of 2017), to cover aid needs for emergency situations
  - modifying the job plan of the Innovation & Networks Executive Agency (INEA) in connection with the WiFi4EU initiative

---

133 Definitive adoption (EU, Euratom) 2018/1024 of amending budget of the European Union no 1 for the financial year 2018 of 30 May 2018, *Official Bulletin of the European Union,* L 191/1, of 27 July 2018.

134 Definitive adoption (EU, Euratom) 2018/1140 of amending budget of the European Union no 2 for the financial year 2018 of 4 July 2018, *Official Bulletin of the European Union,* L 213/1, of 22 August 2018.

135 Definitive adoption (EU, Euratom) 2018/1141 of amending budget of the European Union no 3 for the financial year 2018 of 4 July 2018, *Official Bulletin of the European Union,* L 231/20, of 22 August 2018.

136 Definitive adoption (EU, Euratom) 2018/1577 of amending budget of the European Union no 4 for the financial year 2018 of 11 September 2018, *Official Bulletin of the European Union,* L 266/1, of 24 October 2018.

137 Definitive adoption (EU, Euratom) 2018/1691 of amending budget of the European Union no 5 for the financial year 2018 of 2 October 2018, *Official Bulletin of the European Union,* L 289/1, of 16 November 2018.

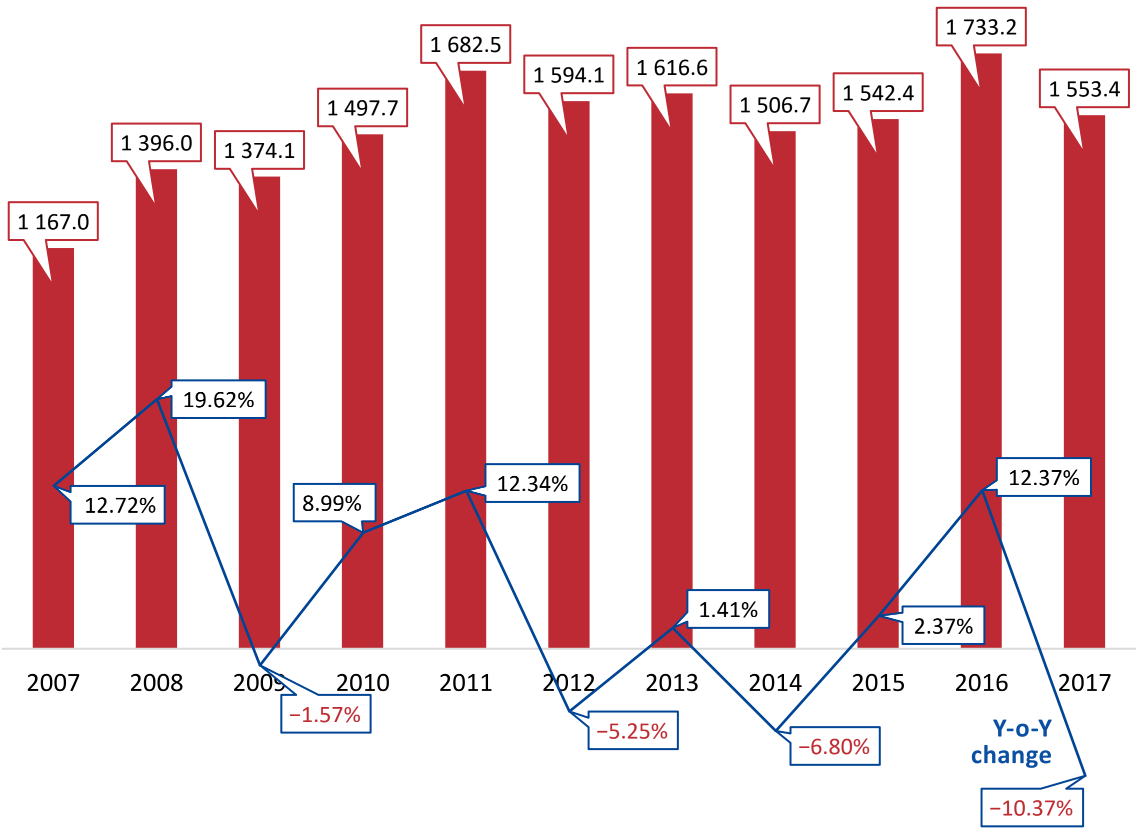
- Amending budget no 6[138] adapted both the revenue and expenditure side of the budget to current developments:
  - on the expenditure side it released commitment and payment appropriations for the budget headings *Competitiveness for growth and jobs* and *Sustainable growth: natural resources*
  - on the revenue side, it revised the forecast of EU budget own resources and recalculated the United Kingdom correction facility and distributed it among MSs

D.3 EU budget and its relationship to the Czech Republic

D.3.1 Financial relations between the EU budget and the Czech Republic up to 2017

During its membership in the EU, i.e. for the period 2004–2017, **the Czech Republic has paid a total of almost EUR 19.3 billion into the common budget,** taking into account all own resources including TOR. **In 2017 the Czech Republic's payment into the EU budget was just under EUR 1.6 billion, which is a year-on-year decrease of 10.4%.** In this context it is important to note that revenue from own resources fell nearly 12.7% Europe-wide in 2017. The relatively lower decrease in the Czech Republic's contribution is due to the faster growth of the national economy, which was reflected in higher contributions from both GNI and VAT resources.

Chart 12: Overview of the Czech contributions to the EU Budget (EUR million) and their year-on-year changes (in %) in the years 2007–2017



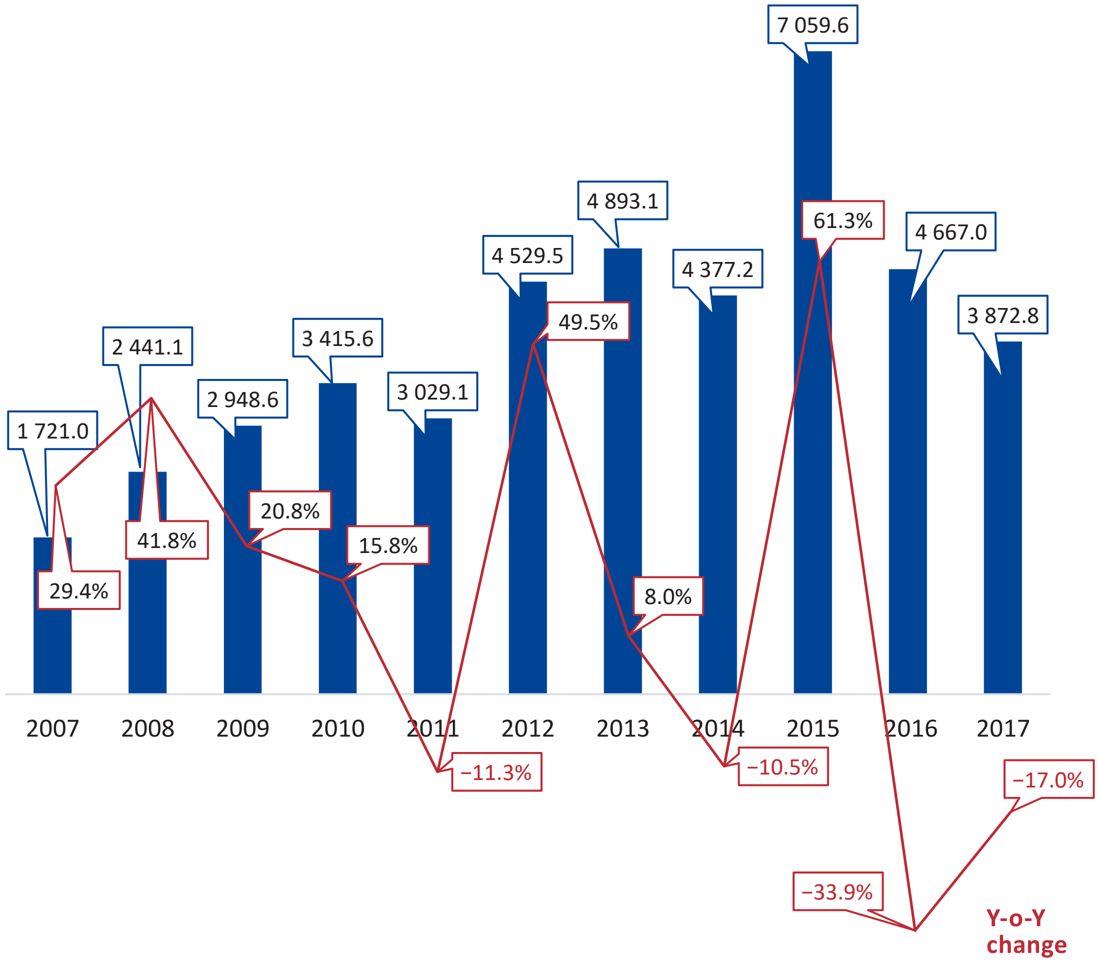
Source: *EU budget 2017 – Financial Report*, Commission 2018; previous reports on the EU budget 2008–2017.

138 Definitive adoption (EU, Euratom) 2019/259 of amending budget of the European Union no 6 for the financial year 2018 of 12 December 2018, *Official Bulletin of the European Union,* L 52/1, of 22 February 2019.

It is evident from Chart 12 that the **trend of payments contributed to the EU budget by the Czech Republic is relatively uniform.** The amount of contributions corresponds to the development of the Czech economy. **The significant fluctuations recorded particularly in 2011, 2014 and 2016 were due to extraordinary factors**, be they a revision of national accounts on the part of the Czech Statistical Office or for example the implementation of massive interventions on the foreign exchange market on the part of the Czech National Bank (CNB). These cases were commented on in more detail in the previous annual EU reports.

Since its accession to the EU, **the Czech Republic has numbered among the net beneficiaries**, i.e. the MSs that receive more from the EU budget than they pay into it. **The Czech Republic's income from the EU budget for the years 2004–2017 reached a total of nearly EUR 46.2 billion, of that just under EUR 3.9 billion in 2017.** Year-on-year, the Czech Republic's income from the EU budget decreased by 17.0%. **A drop in the Czech Republic's income was primarily registered in terms of resources from the ESIF.**

Chart 13: Czech revenues from the EU budget (EUR million) and their year-on-year changes (in %) in the years 2007–2017



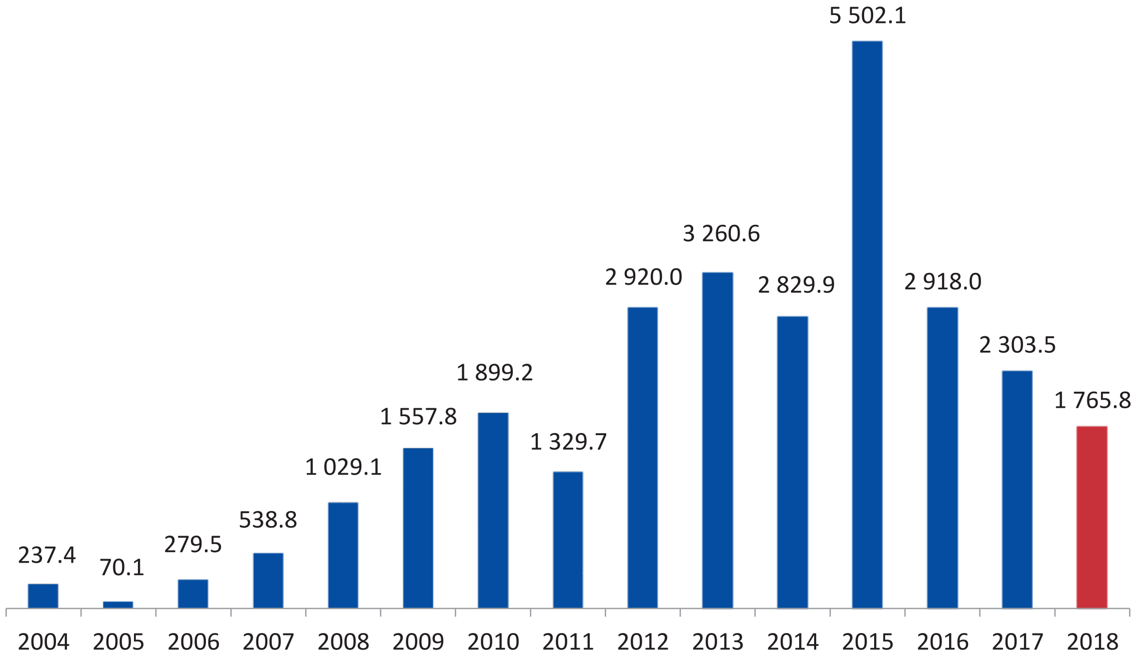
Source: *EU budget 2017 – Financial Report*, Commission 2018; previous reports on the EU budget from the years 2008–2017.

A look at the above graph shows that **following the extreme growth in income in 2015 associated with the considerable final absorption of the PP7+ allocation, a notable decline followed in further years. This is primarily due to the slow onset of PP14+.** It can be expected that this trend will turn around over the coming two years and **the Czech Republic's income from the EU budget will again grow considerably,** as the proportion of the amount with concluded legal acts on provision of support in the relevant programmes is growing rapidly.

D.3.2 Development of the Czech Republic's net position in relation to the EU budget up to 2018

The Czech Republic numbers among the MSs with the highest net position[139] per capita. In 2017 it ranked 7th with a value of **EUR 218.17 per capita** (see point D.1.4). **The total value of the Czech Republic's net position in 2017 was EUR 2.3 billion.** This value is the **lowest since 2011,** when the funding of the financially significant OPs was stopped by the Commission. The reason for the significant year-on-year decrease in 2017 (by nearly 21.1%) can be found both in the relative growth in VAT and GNI own resource payments, and in the low level of absorption from ESIF funds. Both these main reasons are described under the previous point.

Chart 14: Czech Republic's net position in 2004–2017 (with the MoF´s data for 2018) (EUR million)



Source: *EU budget 2017 – Financial Report*, Commission 2018 and Commission´s previous reports on the EU budget from the years 2005–2017; MoF´s data for 2018 published on 31 January 2019.

Note: Data for 2004–2006 also include contributions to the Commission's decentralised agencies.

On 31 January 2019 the Ministry of Finance published a press release: *The Czech Republic acquires CZK 45.3 billion more from the EU budget in 2018 than it paid*.

The report states that the **net position of the Czech Republic for 2018 reached CZK 45 280 830 000, which corresponds to EUR 1 765 800 000**[140]. It is likely that a further marked drop in net position[141] will once again be due to the growth of EU contributions[142] while absorption of ESIF funds allocated to the Czech Republic under PP14+ will still not be at full strength.

The Commission had not published the relevant data by the editorial deadline of *EU Report 2019*, but the official EU data generally do not differ overly from the MoF data.

139 The net position is calculated as the difference between the overall income of the Czech Republic from the EU budget adjusted for income earmarked for covering administrative costs and covering the costs of decentralised Commission agencies, and the overall payments of the Czech Republic into the EU budget including TOR, adjusted for the costs associated with collection of duties (20%).

140 Using the annual CNB exchange rate for 2018 of 25.643 CZK/EUR.

141 The net position of the Czech Republic has fallen three years in a row now.

142 In 2018 the contributions were higher for one thing due to the improved economic situation in the Czech Republic and for another due to the increased amount of the EU budget (and the associated need to cover it).

D.4 Protection of EU financial interests in 2017

The Commission considers the protection of EU financial interests to be of paramount importance, working closely with MSs on this issue and putting out an annual report on it every year in accordance with Article 325 of the TFEU. The *Annual Report 2017 on the protection of the EU's financial interests*[143] (Annual Report) was issued in September 2018.

The Annual Report states that two important legislative acts were adopted in 2017 that will bolster convergence towards effective and equal level of protection of the EU budget, in particular against fraud of a cross-border nature. **These are the Directive on the fight against fraud to the Union's financial interests by means of criminal law**[144] **and the Regulation implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office**[145]**.** These acts will require modification of the existing framework for the fight against fraud.

In the field of revenue the Commission adopted a legislative proposal[146] to ensure that **the VAT system in the EU is simpler and more resistant to fraud** and remove gaps in cross-border trade by strengthening instruments in the field of administrative cooperation among tax administrators and other enforcement authorities. **OLAF coordinated or supported eleven joint customs operations that focused on various threats** (including cigarette smuggling, income fraud, counterfeit goods, illegal movement of cash and drugs).

In terms of individual problematic commodities, **the largest volume of fraud and irregularities was recorded for solar panels.**

Infringement proceedings were launched in connection with the undervaluation of the customs value of goods found in the UK. The infringement had an effect on revenue from TOR and VAT.

In terms of expenditure, the Financial Regulation[147] **was amended** with **new provisions concerning agriculture** being adopted in 2017 (the other areas were modified in 2018).

An analysis of irregularities of both a fraudulent and non-fraudulent nature confirmed the effectiveness of methods used to uncover them. These methods include primarily risk analysis, tips from informants, whistleblowing and information from the media. The analysis also demonstrated the positive effects of closer coordination between judicial and administrative authorities.

In 2017 **a total of 15 213 cases of fraud and other irregularities** were reported to the Commission, i.e. 20.8 percentage points more than in 2016. These **irregularities reached a total amount of approximately EUR 2.58 billion,** which is a year-on-year decrease of 8.6 percentage points.

There were 1 146 irregularities of a fraudulent nature (total for revenue and expenditure) reported **and their value totalled approximately EUR 467 million.**

143 Report from the Commission to the European Parliament and the Council: *29th Annual Report on the Protection of the European Union's financial interests – Fight against fraud – 2017,* COM(2018) no 553 in final wording of 3 September 2018.

144 Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law.

145 Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office.

146 Proposal to amend Council Regulation (EU) no 904/2010 of 7 October 2010 as regards measures to strengthen administrative cooperation in the field of value added tax.

147 Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) no 1296/2013, (EU) no 1301/2013, (EU) no 1303/2013, (EU) no 1304/2013, (EU) no 1309/2013, (EU) no 1316/2013, (EU) no 223/2014, (EU) no 283/2014, and Decision no 541/2014/EU and repealing Regulation (EU, Euratom) no 966/2012.

Member States administer approximately 75% of the EU budget expenditure under the shared management, and have an obligation to report fraud and other irregularities to OLAF[148] through the IMS[149].

Table 7: Numbers and amounts of cases of fraud suspicion and other irregularities reported by EU Members in 2017 though IMS and their YoY change (change)

Budget sector (expenditure/revenue)		Number of fraud suspicions		Volume of fraud suspicions		Number of other irregularities		Volume of other irregularities	
		2017	Change (in %)	2017 (EUR mil)	Change (%)	2017	Change (%)	2017 (EUR mil)	Change (%)
Agriculture	EU	276	-33	59.88	-3	3 054	-11	210.40	0
	Out of which CR	8	-43	0.49	-42	25	-40	1.08	-61
Cohesion policy and fisheries	EU	345	-15	320.39	35	5 129	-37	1 395.86	-24
	Out of which CR	33	-11	6.61	-78	282	-32	60.95	-46
Internal policy total	EU	0	-	0.00	-	3	-25	0.99	55
	Out of which CR	0	-	0.00	-	0	-	0.00	-
Pre accession policy	EU	2	-67	0.65	-65	25	-42	1.39	162
	Out of which CR	0	-	0.00	-	0	-	0.00	-
Total expenditure	**EU**	**623**	**-25**	**380.92**	**27**	**8 211**	**-29**	**1 608.64**	**-21**
	Out of which CR	**41**	**-20**	**7.10**	**-77**	**307**	**-33**	**62.03**	**-46**
Total revenue	**EU**	**441**	**-14**	**76.39**	**-8**	**4 195**	**1**	**425.26**	**-6**
	Out of which CR	**0**	**-100**	**0.00**	**-100**	**89**	**11**	**8.61**	**62**
Total	**EU**	**1 064**	**-21**	**457.31**	**19**	**12 406**	**-21**	**2 033.90**	**-18**
	Out of which CR	**41**	**-23**	**7.10**	**-77**	**396**	**-26**	**70.64**	**-41**

Source: Report from the Commission to the European Parliament and the Council: *29th Annual Report on the Protection of the EU´s* financial interests – Fight against Fraud *2017,* COM(2018) no 553 in final version of 3 September 2018.

Note: The table does not include irregularities detected/reported in non-Member States (pre-accession policy) or direct expenditures.

The change is the year-on-year change 2017/2016 of the described value expressed as a %.

Irregularities concerning expenditures incurred under the direct management of the European Union budget by the Commission are reported through the accounting system ABAC[150].

Table 7 presents the data for 2017 for the whole EU-28 as well as separately for the Czech Republic. **It is evident from the data listed in the table that the Czech Republic has recorded a moderate to considerable decrease in all monitored categories, both in terms of volume and number of all (fraudulent and non-fraudulent) reported irregularities.** The only exception are other irregularities in the field of EU budget revenue.

Another view of the issue of irregularities is provided by a **comparison of the volume of irregularities reported for the Czech Republic** referenced to the total volume of irregularities for the EU-28 **and the volume of total EU expenditures to the Czech Republic** in the field of "cohesion policy and fisheries" and "agriculture" (only rural development), **or the overall EU revenue coming from the Czech Republic** again **referenced against the EU-28 as a whole. The volume of EU expenditures** to the Czech Republic in project measures **in agriculture represents 2.36% of all EU expenditures** in this area sent to MSs, **while the volume of irregularities is only 0.58%** of all irregularities in this area for the whole EU-28. **Similarly, in the field of "cohesion policy and fisheries" the volume of expenditures to the Czech Republic is 6.04% of the expenditures to the EU-28 and the volume of "Czech" irregularities is only**

148 MSs have the duty to notify the Commission of every suspicion of fraud and all irregularities that exceed the amount of EUR 10 000 from EU resources.

149 *Irregularities Management System.*

150 *Accrual Based Accounting.*

3.94% of all irregularities in the EU-28 in this area. In terms of revenue the situation in 2017 was the opposite. **The volume of EU budget revenue from the Czech Republic totalled 1.34% compared to the whole EU-28, while the "national" volume of irregularities was 1.72% of the whole EU-28.**

The essential part of communication between the Czech national authorities and OLAF takes place on two basic levels concerning regular reports of **criminal law irregularities and administrative law irregularities.**

The first area is provided for autonomously by the Supreme State Prosecutor's Office (SSPO), which serves as the exclusive contact point for the AFCOS[151] network for criminal law irregularities. Cooperation with OLAF in reporting this category of irregularities, or in communicating and exchanging information, is specifically performed by the SSPO Department of Serious Economic and Financial Crime. **The SSPO submits notifications in the form of regular quarterly reports** that contain information on the ongoing criminal proceedings on matters where the damaging or threatening of EU financial or economic interests have taken place or could take place. In carrying out this agenda, the SPPO works within the framework of the standard jurisdiction of a state prosecutor's office as a criminal justice authority and mediates information exchange among Czech criminal authorities and the investigating authorities of OLAF.

The second area mentioned, i.e. notification of administrative law irregularities, is provided for by the **MoF** (Department 69 – Analysis and Notification of Irregularities) **which acts as the central contact point for the AFCOS network (AFCOS CCP).** The AFCOS CCP collects information from individual contact points and notifies the Commission and OLAF of cases of irregularities detected in implementing the ESIF, CAP funds and the PHARE pre-accession instruments[152].

In 2017 the AFCOS CCP sent a total of 348 cases of notifications of new **irregularities** with an affected amount of **EUR 69 136 252** through the IMS information system. In connection with the pre-accession instruments no new irregularity was reported to OLAF.

Table 8: Numbers and financial amounts of reported irregularities by individual programmes

Programming period	Number of irregularities	Amount of irregularities (EUR)
2004–2006	3	298 536
2007–2013	334	67 890 313
2014–2020	11	947 403
Total	**348**	**69 136 252**

Source: Report on the results of financial inspections in the public sector in 2017, MoF, Central Harmonization Unit, April 2018.

Of the total amount of reported cases during PP7+, 34 cases were classified as suspicion of fraud and two as confirmed fraud. In both cases the fraud consisted of submitting falsified documentation.

In 2017, OLAF contacted the AFCOS CCP with two requests for documentation or specific materials for a single project and two promotional programmes. OLAF also sent information on the conclusion of investigations without recommendation for six cases and in two cases sent a final report with a recommendation.

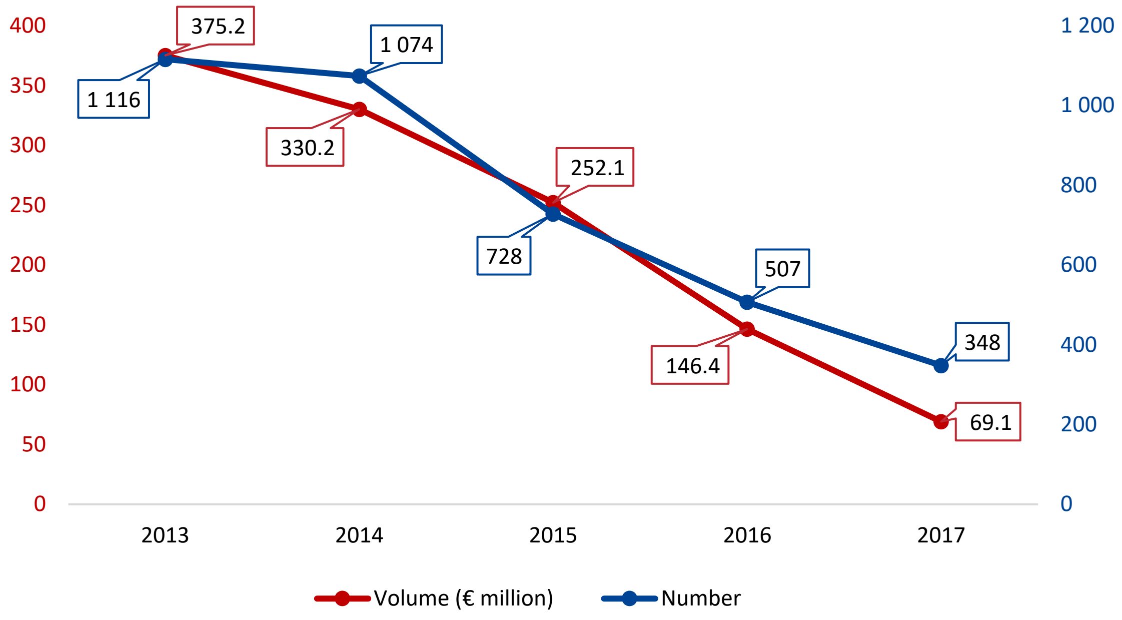
In connection with the end of PP7+, the AFCOS CCP assessed the *National Strategy for Protecting the Financial Interests of the EU*[153] (Strategy) and adjusted its content. The amended version of the Strategy, which the SAO also helped revise, was issued and took effect 1 September 2017.

151 Anti-Fraud Coordinating Structure.

152 *Poland and Hungary Aid for Restructuring of the Economy.*

153 *National Strategy for Protecting the Financial Interests of the European Union* approved by Czech Government Resolution No 535 of 14 May 2008.

Chart 15: Development of irregularities reported to CKB AFCOS in the area of expenditures in terms of their number and financial volumes in 2013–2017



Source: Reports from the Commission to the European Parliament and the Council: protection of the European Union´s financial interests – Fight against fraud, annual reports for the years 2013–2017.
Note: The left-hand vertical axis represents the values of the amounts of detected irregularities expressed in million of euros and the right one the number of reported irregularities.

On the basis of a data analysis concerning notifications of irregularities **in terms of expenditure** for the years 2013–2017 **in the Czech Republic a permanent decline can be seen** both **in the number of reported** cases of **irregularities** and in the **relevant financial volume,** this despite the fact that the discipline of MAs in reporting irregularities is, according to the SAO's preliminary findings, quite good.

D.5 Measures for implementing the EU 2018 budget

D.5.1 Coordinated measures of the EU economic policy

In accordance with its economic and social priorities[154] the Commission launched the coordination cycle of the economic, fiscal and social policy under the **European Semester for 2018** by issuing the **2018 Growth Survey**[155]. In the 2018 Growth Survey the Commission states that the growth of the economy in the EU has exceeded expectations, employment has been falling long-term, investments are starting to rise and public finances are improving. The Commission also warned however that it is necessary to ensure through structural reforms that the European economy is more stable, more inclusive and more resistant. Member States should set up their fiscal policies so as to ensure an adequate balance between securing the sustainability of public finances, particularly by reducing public debt, and supporting economic recovery.

154 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: *Commission Work Programme 2018*, COM(2017) 650 in the final wording of 24 October 2017.

155 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: *Annual Growth Survey 2018*, COM(2017) 690 in the final wording of 22 November 2017.

The guidelines and recommendations for the euro area and MSs are based in part on an analysis on the state of the EU in 2017, the European Pillar of Social Rights[156], the *White Paper on the Future of Europe* with annexes[157] and five follow-up discussion documents. **In the 2018 Growth Survey the Commission called on MSs to undertake the following steps:**

1. **boosting investment to support the recovery and to increase long-term growth**
   - *using reforms to support investment reform* – activating public funds to mobilise private investment and improve the business environment by simplifying the tax system, streamlining public administration and removing inflexibility on the goods and labour market, intensifying the integration of financial markets and ensuring greater transparency of capital flows
   - *making the most of EU and national budget opportunities* – in order to stimulate private investment, the investment plan for Europe is being strengthened with an increase in the EU guarantee from EUR 16 billion to EUR 26 billion and the capital of the European Investment Bank from EUR 5 billion to EUR 7.5 billion, which is meant to mobilise public and private investment of EUR 500 billion; investments in education, vocational training, labour productivity growth and active labour market policies are also of fundamental importance
2. **carrying out structural reforms for inclusive growth, upward convergence and competitiveness**
   - *promoting well-functioning labour markets and modern welfare systems* – with regard for ongoing globalisation and technological progress reflected in the polarisation of skills and incomes, it is necessary to adopt labour regulations in the field of social protection, at the same time adopting measures to incorporate young people (15–24 years) into the labour process and education or vocational training, as well as to create new forms of social dialogue to involve social partners in producing and implementing reforms
   - *equal opportunities and access to the labour market* – supporting training and requalification, increasing worker mobility, implementing more effective public employment services (creating a European body for job opportunities), increasing the quality and relevance of professional training and qualifications through learning digital skills, modernising professional training and bolstering quality apprenticeship training
   - *job creation and fair working conditions* – ensuring fair and equal treatment, dealing with the balance between flexibility and job security through segmentation of the labour market, shifting the tax burden of labour to other areas, ensuring balance between work and private life, pursuing integration on the labour market combined with support for social integration (child care, healthcare access, access to housing, inclusion of vulnerable groups)
   - *social protection and inclusion to tackle inequality and poverty* – dealing with inequality, in part through reform of national tax and welfare systems taking into account their distribution impact, adapting social welfare systems to new manners of work and ensuring the transferability of claims after transferring from one job to another, introducing measures to ensure sustainability of public pension systems, increasing the cost-efficiency of healthcare systems and ensuring timely access to affordable and high-quality preventive and curative health care

156 Approved on 17 November 2017 by the European Parliament, the Council, and the Commission in a declaration signed at the social summit held in Göteborg on the topic of equitable jobs and growth.

157 *White Paper on the Future of Europe. Reflections and Scenarios for the EU27 by 2025,* COM(2017) 2025 of 1 March 2017.

- *innovation and competitiveness* – innovating through investment in new technologies and introducing digitisation and decarbonisation, ensuring sustainability and more effective use of resources including broader use of digital technologies, creating the conditions for consolidation and rapid expansion of start-ups, removing the persistent regulatory and administrative barriers in the service sector, supporting industrial competition, productivity growth, cross-border access and cooperation among SMEs in the supply chain

3. **responsible fiscal policies to support sustainability and convergence**
   - *fiscal policy to be tailored to country-specific circumstances* – reducing public debt and thus avoiding the high cost of debt financing, setting the fiscal policy based on the situation in accordance with the *Growth and Stability Pact*, maintaining or increasing public investment to enhance the growth potential of economies
   - *more efficient and fairer taxation and better quality public spending* – introducing measures for preventing corruption and for dealing harshly with unfair procurement, also setting tax systems that support growth, employment, private investment and improving the business environment, as well as assessing public expenditures to preserve a responsible fiscal policy

4. **Further steps:**
   - taking into account the above priorities by speeding up execution of reform programmes and fully utilising the political and financial instruments available at the EU level
   - ensuring that national social partners and national parliaments have been fully involved in the reform process
   - introducing a coordinated and comprehensive approach for further development taking into account a common approach to protection and development of social rights according to the European Pillar of Social Rights

In accordance with the social priorities laid out in the 2018 Growth Analysis, the Czech Republic drew up conceptual documents for the National Programme[158] and Convergence Programme[159] and on 30 April 2018 submitted them to the Commission for evaluation. The Commission evaluated both documents at the same time and issued its recommendation[160] for the Council.

On the basis of the Commission's recommendation, the Council issued a recommendation/ opinion on both conceptual documents at the same time[161] with reference to their interdependence. The Council stated that the Czech Republic, to which the preventive arm of the *Stability and Growth Pact* applies, **plans in the years 2018–2021 to achieve an overall budget surplus** and reduce the ratio of public debt to gross domestic product (GDP). **The Council also came to the conclusion that the Czech Republic**, according to the Commission forecast, **will comply with the provisions of the *Stability and Growth Pact* in the years 2018 and 2019.** In terms of fiscal sustainability, the Czech Republic will face midsized risks in the

158 *National Reform Programme of the Czech Republic 2018* drawn up by the Office of the Government and approved by the government committee for the European Union on 30 April 2018.

159 *Convergence Programme of the Czech Republic* for 2018–2021 drawn up by the Ministry of Finance in April 2018, approved by the government of the Czech Republic by Resolution No 281 of 30 April 2018 along with the *Budget Strategy for the Public Institution Sector of the Czech Republic.*

160 *Recommendation for a Council Recommendation on the 2018 National Reform Programme of the Czech Republic and delivering a Council opinion on the 2018 Convergence Programme of the Czech Republic*, COM(2018) 403 in the final wording of 23 May 2018.

161 Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of the Czech Republic and delivering a Council opinion on the 2018 Convergence Programme of the Czech Republic (*Official Bulletin of the European Union*, 2018/C 320/03, of 10 September 2018).

long-term perspective in connection with the aging population. The growing costs will be a challenge for dealing with health and long-term care and focus attention on the necessary changes to the pension system. **The Council positively evaluated the adoption of the Act on the Rules of Budgetary Responsibility**[162], on the basis of which an independent budget council was formed. In contrast, despite certain measures it stated that the **Czech Republic continues to encounter problems in terms of increasing transparency and efficiency of public procurement and preventing corruption. According to the Council's opinion, legislative measures were adopted to increase the performance of electronic public administration and in the field of investments** a new legal amendment to the Building Act[4] was adopted that simplified the procedure for issuing of building permits. Despite this, major infrastructure projects in particular are still held back by a certain administrative and regulatory burden. **The Council reiterated that the functioning of the research and innovation system is influenced by slow implementation of reforms and fragmentation of its administration.** In contrast the **labour market has good results,** employment is constantly growing, **though differences remain between men and women in terms of employment rates and salaries.**

With regard to the analysis of the Czech economic policy carried out by the Commission and also with regard to the above statements, **the Council recommended the following to the Czech Republic for the period of 2018–2019:**

1. **improving long-term sustainability of public finances,** in particular of the pension system; **dealing with shortcomings in the public procurement procedures,** especially through support for competition more based on criteria of quality and introducing anti-corruption measures
2. **reducing the administrative burden for investment,** including by accelerating permit procedures for infrastructure projects; **removing barriers to research, development and innovation,** in particular by increasing the innovation capacity of domestic enterprises; **bolstering the ability of the education system** to provide quality inclusive education, inter alia by supporting the teaching profession; **supporting employment of women, persons with low qualifications and persons with disabilities**, inter alia by increasing the effectiveness of active policies on the labour market.

D.5.2 Assessing the progress of the Czech Republic in structural reforms and preventing and correcting macroeconomic imbalance for the year 2018

In February 2019, the Commission published a working document of its staff entitled *Country Report Czech Republic 2019*[163] (Report 2019), in which it assessed the country's economic situation and outlook in terms of the annual growth survey, evaluated progress in terms of the recommendations for the Czech Republic and reviewed the reform priorities. The Report 2019 states inter alia the following:

1. Economic situation and outlook

Though economic growth slowed down in 2018, it remained at a solid level (2.9%) thanks to household consumption. The balance of exports was negative after several successful years as a result of external demand slowing and the CZK appreciating. **The Czech Republic**

162 Act no 23/2017 Coll., on the Rules of Budgetary Responsibility.

163 Accompanying document to Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank and the Eurogroup, *2019 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) no 1176/20111,* SWD(2019) 1002 in final wording of 27 February 2019.

significantly closed in on the EU-28 average[164] **and economic convergence will continue in future years.** Potential growth will fall to 2% in the coming years. Future growth of the small, open Czech economy could however be limited by labour shortages with contributions from the uncertainty in global demand. The main economic risk will consist of considerable dependence on export and direct foreign investment. **The driving force of economic growth will be household consumption due to high employment and wage growth.** The outlook in terms of investment is positive with an expectation of sustaining the growing trend of recent years, which was largely due to investment in automation and robotisation in the automotive industry and public investment supported from EU funds. Consumer price inflation has remained within the tolerable zone of up to 3%. **In the second half of 2018, the unemployment level reached 2.1% and was the lowest in the EU.** Unemployment of young people (5.3%) and long-term unemployment (0.7%) also fell. On the other hand, the **employment level of people with low qualifications has stagnated and the difference in employment levels for people with disabilities has also remained high.** The banking sector is still highly profitable, real estate prices are slightly overinflated (up to 10%) and household debt has remained moderate in comparison with the EU average. The balance of the government institution sector should continue to fall, with measures adopted to reduce tax evasion (electronic evidence of sales and VAT control reports) have had a positive effect.

2. Progress on recommendations for the Czech Republic

The Commission stated that since the start of the European Semester in 2011, 68% of all recommendations addressed to the Czech Republic have recorded at least "some progress"[165]**, 28% "limited progress" and 4% "no progress".**

In fulfilling the **Council recommendations of 2018** the Commission issued the following evaluation for the Czech Republic:

- **for Recommendation 1 – limited progress** (no progress in addressing long-term sustainability of public finances, particularly in connection with valorising pensions, and some progress in addressing the weaknesses in public procurement practices)
- **for Recommendation 2 – some progress** (some progress in reducing the administrative burden for investment, limited progress on removing the bottlenecks hampering research, development and innovation, some progress in strengthening the capacity of the education system, and some progress in fostering employment of underrepresented groups)

3. Reform priorities of the Czech Republic

In the Report 2019, the Commission stated the following on the priorities formulated in the National Programme:

- **Public finances and taxation**

Tax revenues have continued to increase in 2017, reaching 35.4% of the GDP (the EU average was 40.2%). Along with economic growth this situation led to a surplus in public finances and a reduction of the state debt below 35% of the GDP. Receipts from both

164 GNI per capita adjusted for purchase power parity reached 82.7% of the EU-28 average in 2017.

165 For assessing progress the categories are: **no progress** – no measures adopted or announced, **limited progress** – measures announced that address the recommendations to a limited extent, **some progress** – measures adopted that partly address the recommendations or a fair amount of work is still needed to fully address the recommendation, **substantial progress** – measures adopted to address the recommendations and mostly already implemented, **fully addressed** – all measures reacting to the recommendations have already been carried out.

taxations of labour and consumption taxes have been increasing, while revenues from direct taxes have remained below the level common in the EU. Tax evasion on VAT was reduced considerably (around 14% in 2016), but is slightly above the EU average (12.3%). Taxation of labour remains high however, both for low and high wage earners.

From the start of 2018 the National Budget Board has begun work as an independent fiscal institution that evaluates the fiscal framework and assesses the macroeconomic prognoses. To date the Czech Republic has not yet fully transposed Council Directive 2011/85/EU[166] into the national legislation, and in particular no legal act concerning MCSs in public administration has yet been adopted. There are no fiscal sustainability risks in the short run, long-term sustainability of public finances may however worsen (by 0.2 to 0.3 pps of the GDP) due to demographic development (aging population) creating higher pension expenditure if the same policy is retained. The aging population will also mean an expected growth in public spending on health care resulting in reducing long-term fiscal sustainability and creating a further burden in the field of long-term and social care.

- **Financial sector**

The financial system is well capitalised and shows stable profits. Czech banks have one of the highest profit rates in Europe, with the non-performing loans ratio remaining low. A more significant risk is the growth of private sector loans, with the rate of mortgage loans growing significantly in connection with spiralling property prices. The cumulative growth of property prices had reached 23% by the start of 2015 and was among the highest in the EU, which the lower wage growth has worsened housing affordability. The risks associated with the ability of debtors to pay off their loans was addressed by recommendations issued by the CNB, with expansion of its powers to issue binding macro-prudential recommendations being in the legislative process.

- **Labour market, education and social policies**

The Czech labour market is one of the best performers among MSs, with the unemployment rate the lowest in the EU (2.1%). Economic growth has led to a labour shortage and at the end of 2018 the number of job vacancies was more than twice as high as the number of unemployed. For example, the percentage of businesses that had problems with a shortage of employees specialised in ICT reached 79% and was the highest in the EU.

Women are underrepresented in the labour market, particularly due to a lack of formal childcare facilities. For example, the percentage of children under three enrolled in formal childcare reached only 4.7% in 2016 and was assessed as critical. With the support of ESF funds, a total of 18 000 new places have been created in childcare facilities over the last three years, cutting the shortage in half.

Groups with combined handicaps on the labour market were placed in public works programmes and contributing to their integration has also been a growing number of social enterprises for long-term unemployed and persons with disabilities. The regulatory framework for proper functioning of social enterprises is however still lacking.

Although a single contact point for distributing employment and social benefits has been established, its potential for sharing information has not been fully utilised due to the absence of a systemic framework for interoperability among the IT systems of public employment services and other partners on the labour market.

Though technological changes including robotisation and automation will compensate for the anticipated reduction in labour force as a result of demographic prospects, but new

166 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

jobs will require new competences and large investment particularly in digital skills. For adapting to future changes it will be necessary to adopt a comprehensive strategy, but no system has yet been created for producing and interpreting skills intelligence in the form of a national Skills, Competences, Qualifications and Occupations classification.

The share of people at risk of poverty or social exclusion is among the lowest in Europe, but the differences across population groups and regions have increased. A slightly worsening trend has been recorded for the elderly (aged 65+) and in the regions *Northwest* and *Moravia-Silesia*. The threat of poverty could also be increased by private indebtedness, with the legislation on debt-relief being adopted in a lighter version. The number of socially excluded localities has continued to grow, practically doubling in the years 2006–2014. Housing exclusion among low-income households has deepened, with the Act on Social Housing not being adopted again in 2018.

The health status of the population has improved, but it is still slightly below the EU average, and there are regional disparities correlating with the level of unemployment. To further improve this, investment is necessary in primary and integrated care, including the requisite infrastructure.

The government expenditure on education as a share of GDP continue to decrease and is below the EU average (4.5% compared to 4.7% in 2016). Teacher salaries are among the lowest, both on an international scale, and in comparison with other professions that require tertiary education. Though a 15% salary increase was postponed until January 2019, there is a consensus on further gradual increases. There is no career system for teachers, which along with the low prestige of the profession leads to a greater level of employees leaving the school system.

The early school leaving rate has been gradually increasing since 2010 (6.7% in 2017), but is still below the EU average. The reasons were specified as the result of regional differences and the high proportion of early leavers among Roma pupils. Among Roma families that participated in a survey conducted in 2016, this indicator reached 57%.

The impact of inclusive education reform on the participation of Roma children in mainstream education was positive overall, but remained limited. Investment in skilled pedagogical staff, training tools, teaching materials or technological equipment is needed to meet the reform objectives.

The increase in tertiary education attainment has been among the fastest in the EU in the past decade, particular in the case of women.

- **Competitiveness and investment**

Labour productivity per worker increased by 72% in the years 2000–2017 and the gap versus the EU average was only 24% in 2017. Growth of total-factor productivity was less marked and its cumulative annual increase in recent years reached only 2%. The driving force of the economy was manufacturing with a contribution of foreign direct investment primarily into manufacture of motor vehicles.

Investment is needed into new technology with increased innovation performance of companies, as well as into education and developing skills to prepare the Czech Republic for future technological changes. Public and private investment is also needed in connection with decarbonising the energy intensive economy and protecting the environment. Though the investment level is high (27.5% of the GDP in 2000–2017), the financial instruments and *European Strategic Investment Fund* are not yet sufficiently utilised.

Further investment is needed in developing road, railway and broadband networks, the insufficiency of which hinders development of business in peripheral regions. The transport infrastructure is incomplete, particularly the road network, both in coverage and in quality. The completion of the TEN-T core network is far from complete, yet the Czech Republic is an important transit country. The National Investment Plan, supported by a large amount of funding, should address this.

The Czech Republic still lacks a fully functional innovation ecosystem based on domestic research and development. The gap from the EU average has widened, particularly in terms of SMEs' innovation and collaboration. Experimental development dominates over industrial research. Public investment in research and development reached only 0.66% of the GDP in 2017 and meeting the *Europe 2020* target of 1% of the GDP by 2020 is in danger.

Energy efficiency is improving slowly and improving the energy performance of buildings is also slow, despite the availability of public funds. The technical and legal barriers to home energy production from renewable resources have not been removed in the Czech Republic, particularly with connection to the grid. Despite these facts the Czech Republic is meeting the national target for the *Europe 2020* strategy.

There are problems with meeting environment policy targets, particularly in terms of recycling of municipal waste and air pollution, as coal technology dominates in the energy sector and the volume of car traffic is growing. Greenhouse gas emissions are rising, particularly in transport. There are disaster risks in connection with floods, drought, soil erosion and urban sprawl. A primary task is to reduce the negative impact of agricultural production on the quality of surface and ground waters.

The Czech Republic only takes partial advantage of the opportunities afforded by the single market as a result of slow transposition of the relevant directives into national law. What is more, limited coordination of market supervision can disrupt economic competition. On the other hand, the Czech Republic is well connected within the internal electricity market.

Partial regional convergence is evident in the Czech Republic, with less developed regions having recorded a higher rate of per capita GDP growth in the past decade compared to more developed regions. Nevertheless, growth has been faster in the regions of neighbouring states and the considerable gap between Prague and Brno on the one hand and other regions on the other is widening. The convergence process could be accelerated by investments in infrastructure, an appropriate combination of social and educational policies, and improving public administration by increasing the level of digital services. Integrated tools such as integrated territorial investments for urban areas or community led local development plans for rural areas have the potential erase differences.

A new Building Act to simplify permit proceedings is being prepared to reduce the administrative burden, and the legal framework for procurement has been modified. In order to increase the expertise of authorities, a multi-level training programme has also been introduced. The transparency of procurement has increased, the handling of complaints has improved and greater emphasis is placed on environmental and socio-economic aspects. In accordance with the EU directives on public procurement, all affected purchase have become subject to electronic procedures and the government sector has the obligation to use the *National Electronic Procurement* system for procurement.

The Corruption Perception Index has seen only slight fluctuations over the past five years (55–59 points) and progress in the adoption of anti-corruption measures has slowed, but in December 2018 the Czech Republic approved the government concept for fighting corruption for the years 2018–2022. The Czech government has, inter alia, submitted a proposal to Parliament for extending the role of the SAO to regions and municipalities.

E. Sector matters 2018

E.1 Revenue related to EU budget resources

E.1.1 Development in EU revenue sources

In 2018 the Commission continued in steps towards reforming the EU budget in line with the recommendations contained in the final report of the high level group made up of representatives of the EP, the Council and the Commission in January 2017[167]. In May 2018 the Commission submitted a **proposal to reform the own resources of the EU.**[168] EU own resources should consist of the following items:

- traditional own resources – levies, premiums, duties and fees, fees from the sugar market
- use of a uniform call rate on the share of VAT receipts collected from the standard rated taxable supplies divided by the national VAT standard rate; the actual call rate shall not exceed 2%
- use of a uniform call rate on the share of taxable profits attributed to each MS pursuant to EU rules on the Common Consolidated Tax Base; the actual call rate shall not exceed 6%
- use of a uniform call rate on the amount representing the revenue generated by allowances to be auctioned referred to in Article 10(2)(a) of Directive 2003/87/ES[169] and the market value of transitional free allowances for the modernisation of the energy sector as determined in Article 10c(3) of that Directive; the actual call rate shall not exceed 30%
- use of a uniform call rate on the weight of plastic packaging waste that is not recycled; the actual call rate shall not exceed EUR 1.00 per kg
- use of a uniform call rate to be determined pursuant to the budgetary procedure in the light of all other revenue to the sum GNI of all MSs

Furthermore, the **Commission proposed the phasing out of corrections and rebates for individual MSs and increasing the own resources ceiling for annual calls for Own Resources** from 1.20% of the GNI to 1.29% of the GNI for payments and to 1.35% of the GNI for commitments. EU budget own resources will also consist of payment from any new fees introduced under a certain common policy[170]. The planned date for introducing these measures is 1 January 2021. On 30 May 2018 the EP issued a resolution on the MFF for the period 2021–2027[171], in which it expressed support for the Commission's proposal regarding the reform of EU own resources.

The Commission's annual activity report on taxation of June 2018[172] outlined tax issues that must continue to be dealt with and addressed. Among the specific objectives are e.g. **the fight**

167 For more detail see *EU Report 2018 (subheading B.1)*.

168 Proposal for a Council decision on the system of Own Resources of the European Union, COM(2018) 325 in the final wording of 3 May 2018.

169 Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

170 In accordance with the *Treaty on the Functioning of the European Union*, if the process under Article 311 is observed.

171 European Parliament resolution on the 2021–2027 multiannual financial framework and own resources 2018/2714(RSP), 2018.

172 *Annual activity report 2017 - Taxation and Customs Union*, of 6 June 2018, online at: https://ec.europa.eu/info/publications/annual-activity-report-2017-taxation-and-customs-union_en

against tax fraud and aggressive tax planning. In light of revelations concerning these areas in particular, the fight against this phenomenon has become a priority for the current legislative period lasting until 2019.

Additionally, **work continued on reforming the framework for corporate income tax** with the goal of achieving a more equitable taxation of corporate income and better adaptation to the modern digital economy under the EU common market. Among the further priorities are the **proposal for a final VAT regime**[173]**.** One of the important objectives of the VAT reform package is to eliminate what is called "carousel fraud". **The new rules concerning VAT should be simpler and more unified and should introduce a new and final EU VAT area.** The new VAT system aims to **improve security against fraud** while **keeping pace with today's digital and mobile economy.**

To improve the functioning of VAT in the EU, the Commission continued in 2018 by presenting proposals to modify the rules in this area:

- A Commission proposal[174] for a new simplification of the rules to help reduce costs for complying with VAT regulations for small enterprises, for which this activity is more costly than for other taxable entities. An update was proposed for the special scheme for SMEs allowing MSs to introduce simplified procedures for the calculation and collection of VAT and exempting SMEs from charging and deducting VAT if their annual turnover is below a certain threshold.
- A Commission proposal[175] for introducing greater flexibility for MSs to change the VAT rates applicable to different products.
- A Commission proposal[176] concerning the period of application of the optional reverse charge mechanism and the Quick Reaction Mechanism against VAT fraud. The goal of the proposal is to prolong the possibility for MSs to use the reverse charge mechanism and the Quick Reaction Mechanism in order to fight against VAT fraud (the original deadline expired in 2018). The application of this proposal is limited up to 30 June 2022, because on 1 July 2022 the definitive VAT regime should enter into force.
- A Commission proposal[177] concerning the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between MSs. The transition to the definitive VAT system based on the principle of taxation in the MS of destination will consist of two steps: the first step will deal with intra-Union B2B supplies of goods and the second will cover provision of services. The first step was divided into two sub-steps. The first sub-step was the proposal outlining the cornerstones for a simpler and fraud-proof definitive VAT system for intra-Union trade[178] and the second step is presenting the aforementioned Commission proposal containing the detailed arrangements to put these cornerstones in place for intra-Union B2B supplies of goods.

---

173 *Action plan on VAT – Towards a single EU VAT area*, COM(2016) 148 in final wording of 7 April 2016.

174 Proposal for a Council directive amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises, COM(2018) 21 in final wording of 18 January 2018.

175 Proposal for a Council directive amending Directive 2006/112/EC as regards rates of value added tax, COM(2018) 20 in final wording of 18 January 2018.

176 Proposal for a Council directive amending Directive 2006/112/EC on the common system of value added tax as regards the period of application of the optional reverse charge mechanism in relation to supplies of certain goods and services susceptible to fraud and of the Quick Reaction Mechanism against VAT, COM(2018) 298 in final wording of 25 May 2018.

177 Proposal for a Council directive amending Directive 2006/112/EC as regards the introduction of the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between Member States, COM(2018) 329 in final wording of 25 May 2018.

178 Proposal for a Council directive amending Directive 2006/112/EC as regards harmonising and simplifying certain rules in the value added tax system and introducing the definitive system for the taxation of trade between Member States, COM(2017) 569 in final wording of 4 October 2017.

In March 2018, the **Commission proposed new rules on taxation of digital activities**[179] **and a common system of a digital services tax**[180]**.**

The first proposal would allow MSs to **tax profit generated within their territory, even if the company does not have a physical presence there.** In this case a digital platform would have a taxable "digital presence" in the MS or a virtual permanent establishment if it met at least one of the following criteria:

- it exceeds EUR 7 million in annual revenue in the given MS
- it has more than 100 000 users in the given MS in the year of the tax period
- more than 3 000 business contracts for digital services are produced between the company and commercial users in the tax period

The new rules would also change the manner in which profits are divided among MSs to better reflect how companies can create value online – for example depending on where the user is located at the time of consumption.

The second proposal is a **provisional tax on certain revenue from digital activities, which would ensure immediate taxation of the revenue from certain digital activities that are currently untaxed** (e.g. online sale of advertising space, sale of data generated from information provided by the user). Tax revenue would be collected by the MS in which the users were located, but would apply only to companies with total global annual revenue of at least EUR 750 million and revenue within the EU of at least EUR 50 million. The expected increase in EU revenue with a 3% tax could reach EUR 5 billion a year.

On 2 October 2018 the Commission[181] praised the progress achieved on the road to a reformed EU VAT system. On this day the MS finance ministers formally adopted **stricter rules for controlling illegal cash flows to and from the EU** and new **rules for the exchange of information and boosting cooperation among national tax and law enforcement authorities on VAT-related fraud.** Also agreed were new rules for improving the everyday functioning of the existing VAT system and new measures that allow MSs to harmonise VAT rates for electronic publications.

A newly introduced measure[182] in the EU is the **generalised reverse charge mechanism over the threshold of EUR 17 500.** The Czech Republic has long been pushing for this generalised mechanism to be introduced and is considering implementing it into the VAT Act[183]. It must however be mentioned that this is a short-term solution (up to June 2022) and that this system will only be able to be utilised by those countries that meet a number of predetermined conditions related to tax evasion. These conditions include a VAT gap for 2014 of at least 5% above the median VAT gap in the EU as a whole (according to data published in the Commission's final report[184]), and a share of carousel fraud in the total VAT gap exceeding 25%. The MS must also demonstrate that other control measures to tackle carousel fraud have not been sufficient or that the estimated benefit of tax regulation compliance and tax collection

179 Proposal for a Council directive laying down rules relating to the corporate taxation of a significant digital presence, COM(2018) 147 in final wording of 21 March 2018.

180 Proposal for a Council directive on the common system of a digital services tax on revenues resulting from the provision of certain digital services, COM(2018) 148 in final wording of 21 March 2018.

181 The Commission, press release of 2 October 2018, online at: http://europa.eu/rapid/press-release_IP-18-5966_en.htm.

182 Council Directive (EU) 2018/2057 of 20 December 2018 amending Directive 2006/112/EC on the common system of value added tax as regards the temporary application of a generalised reverse charge mechanism in relation to supplies of goods and services above a certain threshold (*Official Bulletin of the European Union,* L 329, of 27 December 2018).

183 Act no 235/2004 Coll., on Value-Added Tax.

184 Commission Final Report, TAXUD/2015/CC/131 of 23 August 2016.

resulting from introducing this mechanism exceeds the anticipated overall supplementary burden on businesses and tax administrators by at least 25%. The last important condition is proving that businesses and tax administrators would not incur costs as a result of introducing the generalised mechanism that are higher than the costs incurred as a result of applying other control measures. From the data contained in the Commission final report it is evident that the Czech Republic meets the first condition. The fulfilment of the other conditions should be checked by the MoF. Ultimately, the application of this regime is subject to the Council's approval of the Member State's request.

The European Parliament, in reaction to the information on tax evasion[185] that has been appearing in the media over the past five years (Luxleaks, Panama Papers, Football Leaks and Paradise Papers), **decided** on 1 March 2018 **to establish a special committee on financial crimes, tax evasion and tax avoidance (TAX3).**[186] This committee should follow up on the activity of the special committees TAXE 1 and TAXE 2, as well as the PANA investigative committee. The committee's draft evaluation report[187] was submitted for official presentation and discussion in November 2018. The warnings concerned the necessity of reforming the obsolete international and national tax rules.

The special committee welcomes the Commission's action plan concerning VAT reform and emphasises the problem of money laundering and tax evasion. The estimate of crime proceeds in the EU is, according to the final report of the OCP project (*Organised Crime Portfolio*)[188], EUR 110 billion a year, which corresponds to 1% of the total GDP of the European Union. In addition, the Commission estimates that as many as 70% of cases of money laundering have a cross-border dimension. On the basis of these facts and more sufficient resources should be provided to the European supervisory authorities (ESA[189]) so they can fulfil their supervisory functions and improve supervision of the fight against money laundering. **The report also points out the problem of the high proportion of foreign direct investment held for special purposes** (SPE[190]) concentrated in just a few EU states (in particular Malta, Luxembourg and the Netherlands).

E.1.2 Development in budget revenue in the Czech Republic

Over the course of 2018 the Czech government prepared the "government tax package", which foresaw amendments to the tax laws as at 1 January 2019. The legislative process was only completed at the start of 2019, and thus the amendments will only take effect (with several exceptions) starting on 1 April 2019. In relation to the EU **the directive against tax avoidance practices**[191] **was implemented** into the Income Tax Act[192]. This directive applies only to legal entities and is enshrined in the Income Tax Act in the form of **restrictions on the deductibility of excessive borrowing costs, taxation on transfer of assets without change of ownership**

185 European Parliament, committees, TAX 3, online at: http://www.europarl.europa.eu/committees/cs/tax3/home.html.

186 Decision of the European Parliament of 1 March 2018 on setting up a special committee on financial crimes, tax evasion and tax avoidance (TAX3), and defining its responsibilities, numerical strength and term of office, 2018/2574(RSO).

187 *Draft report on financial crimes, tax evasion and tax avoidance*, 2018/2121(INI), 9 November 2018.

188 *From illegal markets to legitimate businesses: the portfolio of organised crime in Europe*, Final report of Project OCP – Organised Crime Portfolio, OCP, 16 March 2015.

189 ESA – European Supervisory Authorities.

190 SPE – Special Purpose Entities.

191 Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.

192 Act no 586/1992 Coll., on Income Tax.

(including dividing up payment of tax into instalments), **dealing with the results of differing legal qualifications and taxation of controlled foreign companies.**

Changes to the VAT Act contain both substantive changes and changes of a terminological or technical legislative nature. The amendment also modified the area of VAT, reflecting changes carried out by amendments to the Council Directive on VAT[193] effective from 1 January 2019. The Council Implementing Regulation (EU) 282/2011[194] was amended effective from 1 January 2019 on the matter of defining the state of establishment of the recipient of an electronically provided service (new wording of Art. 24b). **Changes in electronic commerce** concern electronically provided services and other services provided remotely to non-taxable persons (services listed under Section 10i of the VAT Act) – e.g. for a fee a business allows a person from another MS to download an application electronically onto their mobile phone for their own private purposes. Before the amendment to the Directive and Council Regulation took effect, the provider of such a service (if not a taxpayer) became an identified person by providing it and was obliged to pay VAT to the state where the customer was established. From 1 January 2019 the service provider (provided they do not exceed the financial limit) can choose whether to act under this model or to apply the Czech tax; the condition is that the provider may not have an establishment in other MSs. The financial limit is EUR 10 000 per calendar year and concerns services provided remotely to non-taxable persons in other MSs. Because this new approach has been dealt with since 1 January 2019 by the EU directive on VAT, it could be applied in the Czech Republic from that date, even though the 2019 tax package only inserted it into the VAT Act on 27 March 2019.

In terms of excise duties, an important change is the **introduction of taxation of heated tobacco products.** This taxation eliminated their tax advantage over other tobacco products, though the tax will be lower than for cigarettes in acceptance of the fact that heated tobacco products should be less damaging to health than cigarettes.

In September 2018 the European Affairs Committee of the Chamber of Deputies discussed the **proposal for a directive regarding the introduction of the detailed technical measures for the operation of the definitive VAT system**[195] and the corresponding opinion of the Czech government. The Czech government supports simplifying the VAT system and increasing its resistance to tax evasion. It does however consider several of the cornerstones of the proposed changes problematic and incompatible with the declared objective of the definitive VAT system. **The Czech government takes a reserved position on a VAT system that is based on the taxing supply of goods within the EU by the supplier and using a one-stop-shop scheme.** It expressed a dissenting opinion against the Commission's claims that such a system should be more resistant to VAT fraud, on the contrary being of the opinion that it opens up room for new types of fraud. **Under the future VAT system, the Czech government supports as broad application as possible of the reverse charge mechanism**, which it considers an effective preventive instrument in the fight against VAT tax evasion. The European Affairs Committee noted the proposal for a Council directive and the general position of the Czech government on this proposal on 26 September 2018.

193 Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax.

194 Council Implementing Regulation (EU) 282/2011 of 15 March 2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax.

195 Proposal for a Council directive amending Directive 2006/112/EC as regards the introduction of the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between Member States, COM(2018) 329, in final wording of 25 April 2018.

E.2 Expenditure co-financed from European Structural and Investment Funds

E.2.1 Development of the policy of economic, social and territorial cohesion, rural development programme and the common fisheries policy in the Czech Republic

The European Structural and Investment Funds finance joint projects of the Czech Republic and EU in the field of the cohesion policy, including CFP projects and project measures from the rural development programme.

E.2.1.1 Closure of programming period 2007–2013[196]

The 2007–2013 programming period and its closure were dealt with in detail in Section II of *EU Report 2017*, though considering certain OPs had still not been closed by the Commission by the *EU Report 2019* editorial deadline, PP7+ is also not closed as a whole. For this reason, we present some current information from this area.

At the beginning of PP7+, the allocation set aside from the Czech Republic **totalled** more than **EUR 29.64 billion.** In connection with absorption problems in the years 2013 and 2014, the **Commission's commitment** to the Czech Republic was **withdrawn** due to failure to meet the n+3/n+2 rule for **a total amount of EUR 720.81 million**. Aside from these funds, the Czech Republic also lost part of its allocation at the very end of PP7+ as a result of **underspending**. The final amount of this underspending will only be known after the definitive closure of all PP7+ programmes by the Commission. The PCA anticipates that the Czech Republic did not manage to absorb **EUR 277.87 million.** In July 2017 the estimate of this amount was EUR 18.51 million lower, with more than 94% of this difference being due to OP *Technical Assistance* from PP7+.

It follows from the above that the **Czech Republic** very likely **did not use nearly EUR 1 billion,** which represents **3.37% of the total allocation set out for PP7+.**

Table 9 shows how the individual programmes contributed to the overall loss of allocation in the various phases of PP7+.

196 Source: MoRD information provided upon the SAO request of April 2019.

Table 9: Total expected loss of the allocation for individual programmes in PP7+ (EUR million)

Programme PP7+	Allocation before 1st recommitment	1st recommitment (2013)	2nd recommitment (2014)	Expected non-utilized allocation (2019)	Expected loss of allocation in total	
OPEn	4 917.87	274.66			**274.66**	5.58%
OP HRE	1 901.19	4.35			4.35	0.23%
OP RDI	2 070.68		242.53	67.47	**309.99**	**14.97%**
IOP	1 619.02	1.56	2.31	41.49	45.35	2.80%
OP EC	1 771.81	110.34		64.46	**174.80**	9.87%
OPTA	175.90	20.46	9.70	33.04	63.20	**35.93%**
ROP NW	762.77		54.64	38.78	93.42	**12.25%**
ROP SW	633.65			4.25	4.25	0.67%
OPPA	114.80		0.28	12.87	13.15	11.45%
INTERREG IV-A CR—PL	219.46			8.38	8.38	3.82%
OPF 2007–2013	27.11			2.68	2.68	9.90%
RDP 2007–2013	2 857.51			4.46	4.46	0.16%
Other OPs	12 571.96				0.00	0.00%
Total	**29 643.72**	**411.37**	**309.44**	**277.87**	**998.68**	**3.37%**

Source: *EU report 2017* (part II., E.1.3) and underpinning documents from PCA of April 2019.

Closed OPs

Since December 2017 the Commission has sent the Czech Republic proposals to close **eight OPs or regional operational programmes** (ROPs) for PP7+, specifically OP *Transport* (OPT7+), *Interreg IV-A Czech Republic–Poland*, ROP *Northeast,* ROP *Central Moravia*, OP *Environment* (OPEn7+), ROP *Central Bohemia*, ROP *Southeast* and ROP *Moravia-Silesia*. For some projects audits continued to take place during the sustainability period. The Commission subsequently sent the OP managing authorities' information on the date of closure, thereby informing them that all operations related to closure of these programmes had been performed.

Partially closed OPs

A proposal for preliminary closure had been received by eight OPs or ROPs as at 31 December 2018, specifically the ROP *Southwest*, OP *Education for Competitiveness*, OP *Prague – Competitiveness* (OPPC), OP *Prague – Adaptability* (OPPA), the *Integrated Operational Programme*, OP *Technical Assistance*, OP *Human Resources and Employment*, OP *Research and Development for Innovation* (OP RaDfI) and OP *Fisheries 2007–2013*[197] (OPF7+). **With the exception of OPPC, the MAs accepted the Commissions demands,** of which they informed it.

Unclosed OPs

In the case of **OPPC, the Commission proposed deducting the expenditure of a project,** which the MA however does not consider ineligible or even potentially ineligible, and the **Czech Republic rejected this proposal.**

OPPI and ROP *Northwest* will be closed after resolution of the ongoing police **investigations**, OLAF investigations, ECA audits and other circumstances preventing closure of the OP.

197 After the editorial deadline date, information was published on the closure of this OP on the part of the Commission, on 11 July 2019.

Staged projects

Staged projects[198] are recorded for three OPs. If the second stage of the projects under PP14+ is not completed, there is a danger of financial corrections being applied in the second stage that can also retroactively affect absorption in the first stage. According to the investigations of the MoRD at the MA, as at 31 March 2019 the state of such projects is as follows:

- Under **OPEn7+** there are ten small staged projects registered, of those eight projects have already completed the second stage. **The remaining two projects are almost completed.**
- Under **OPT7+** there are six major staged projects registered, of those four are already materially (but not financially) completed. Another **two major projects are in full material and financial realisation**. Under this programme 20 small staged projects are also being implemented, of those 18 projects have completed implementation of the second stage. **For the remaining two small projects, the legal acts have already been issued and the projects are in full material and financial realisation.** Compared to the state published last year[199], over the past year, two major projects and one small project were completed.
- Under **OP RaDfI** there are **two major staged projects** registered. The second stages of the projects "ELI" (*Extreme-Light-Infrastructure*) and "SUSEN" (*Sustainable Energy)* are being financed. For the first, on 1 November 2018 **the final report was approved** for the whole project realisation period, for the second the **final report was submitted** for the whole project realisation period on 28 February 2019.

E.2.1.2 ESIF – programming period 2014–2020

Allocation according to Commission´s data

According to the data available on the Commission´s website at the time of the editorial deadline, **the Czech Republic is currently utilising ESIF funds amounting to EUR 24.09 billion through 11 national and regional programmes**, which along with EUR 8.91 billion in national funds represents a total of EUR 33.01 billion.[200]

The current budget is presented in the following tables (not including a programme in territorial cooperation, because the Commission monitors territorial cooperation separately).

Allocation by funds

It follows from the table below that ERDF and CF funds form a dominant share of the overall allocation (nearly 76%). In contrast, ESF and YEI funds are less significant in terms of amount.

Table 10: Total allocation for the Czech Republic by EU funds (EUR million)

Funds	Abbrev.	Allocation EU	National resources	Total
European regional development fund	ERDF	11 940.69	5 526.77	17 467.46
Cohesion Fund	CF	6 143.95	1 084.22	7 228.17
European social fund	ESF	3 416.40	786.16	4 202.56
European agricultural fund for rural development	EAFRD	2 305.67	1 464.97	3 770.64
European maritime and fisheries fund	EMFF	31.11	10.05	41.16
Youth Employment Initiative	YEI	27.20	2.40	29.60
Total		**23 865.02**	**8 874.57**	**32 739.59**

Source: see https://cohesiondata.ec.europa.eu/countries/CZ, May 2019.

198 Staged projects are projects where realisation was divided up among two programming periods (PP7+ and PP14+).

199 *EU Report 2018* (point B.2.1).

200 Including INTERREG CR–PL.

Allocation by topics

The most funds of the overall allocation are earmarked for building network infrastructure in transport and the energy sector, for measures for achieving a "low carbon economy", for measures to protect the environment, for research and innovation and for ensuring resource efficiency.

Table 11: ESIF allocation by topics **(EUR million)**

Topics	Allocation EU	National resources	Total
Promoting climate change adaptation, risk prevention and risk management	1 256.81	463.01	1 719.82
Increasing the competitiveness of SMEs	1 471.81	975.95	2 447.76
Old commitments	9.90	10.10	20.00
Investments in education, vocational education, including vocational training to obtain skills and lifelong learning	2 134.92	509.94	2 644.86
Increasing the institutional capacity of public authorities and improving the efficiency of public administration	141.41	30.25	171.66
Protecting the environment and promoting resource efficiency	3 030.33	777.32	3 807.65
Improving ICT access, use and quality of ICT	833.37	406.95	1 240.33
Support towards a low carbon economy	2 578.98	1 769.76	4348.74
Promoting sustainable transport and key network infrastructures	5 592.93	1 191.35	6 784.28
Strengthening research, technological development and innovation	2 525.44	1 835.25	4 360.70
Promoting social inclusion and combating poverty	2 095.95	422.15	2 518.09
Promoting sustainable and quality employment and promoting labour mobility	1 348.81	305.45	1 654.26
Technical assistance	844.36	177.09	1 021.45

Source: see https://cohesiondata.ec.europa.eu/countries/CZ, May 2019.

Allocation of programmes according to data of Czech implementing bodies

On 15 March 2018, the **Commission approved the fourth revision of the Partnership Agreement.** This revision consisted primarily of removing the expected result in the field of developing inland waterways of the TEN-T network, expanding the focus of the expected result in equal access to quality educational infrastructure to include study programmes focused on research, updating the texts concerning inland water transport and energy use of waste. It also included introducing support from the YEI for the Moravia-Silesia Region, updating information on the complementarity between ESIF and the new *Clean Sky 2* programme under the *Horizon 2020* programme and added information on fulfilment of preliminary conditions. The fourth revision of the Partnership Agreement **had no influence on the size of the allocation of individual programmes.**

In June 2018 the Czech Republic submitted a request to the Commission for a change to the IROP. The change consisted primarily **of reallocating nearly EUR 78.75 million from IROP** (specific objective 2.5 *Reducing energy consumption in the housing sector*) **to OPEn** (specific objective 1 *Reducing energy consumption of public buildings and increasing the use of renewable energy sources*). This change also contained a reallocation within IROP and modifications to the performance framework. **The Commission approved this change on 29 October 2018.**[201]

201 Commission Implementing Decision of 29 October 2018 amending implementing decision C(2015) 3865, approving certain elements of the operational programme "Integrated Regional Operational Programme" for the purposes of support from the European Regional Development Fund under the Investment for Growth and Jobs goal in the Czech Republic, C(2018) 7231 in final wording of 29 October 2018.

In September 2018 the Czech Republic sent the Commission background material[202] in which it informed it of its interest in performing a **further reallocation**, this time **between EP EIC, IROP and OPEn** and also among the specific objectives of OP EIC, the Council for ESIF approved the proposal based on the MoIT action plan, which consisted of reallocation of nearly half the resources **(approximately EUR 240.53 million)** originally intended for support of high-speed internet for other projects, primarily for supporting coal regions. **The Commission approved the reallocation on 20 February 2019.**[203]

The table below compares the allocation of the individual programmes in the original Partnership Agreement, in its fourth revision and after the last reallocations approved by the Commission.

Table 12: Total allocation of EU funds for the Czech Republic by individual programmes (EUR millions)

Programme	Allocation of EU funds acc. to the Partnership Agreement			Change in the allocation	
	Original	4th revision	After reallocation	29 October 2018	20 February 2019
IROP	4 629.2	4 640.7	4 763.2	-78.7	201.3
OPT	4 695.8	4 559.8	4 559.8		
OP EIC	4 331.1	4 331.1	4 090.5		-240.5
OP RDE	2 779.6	2 768.1	2 768.1		
OPEn	2 636.6	2 671.6	2 789.6	78.7	39.3
RDP	2 170.3	2 305.7	2 305.7		
OPEm	2 145.7	2 145.7	2 145.7		
OPTA	223.7	209.7	209.7		
OP PGP	201.6	201.6	201.6		
OPF	31.1	31.1	31.1		
Total	**23 844.7**	**23 865.0**	**23 865.0**	**0.0**	**0.0**
INTERREG CR–PL	226.2	226.2	226.2		

Source: Partnership Agreement and its 4th revision, *Planned reallocation between OP EIC, IROP and OPEn in relation to the promotion of coal regions, Commission Implementing Decision C (2018) 7231 in final wording of 29 October 2018, Commission Implementing Decision C (2019) 1552 final of 20 February 2019.*

Note: Territorial cooperation programmes (including INTERREG CR–PL) are not included in the Partnership Agreement.

E.2.2 Absorption of allocation earmarked for the Czech Republic and meeting of milestones in programming period 2014–2020

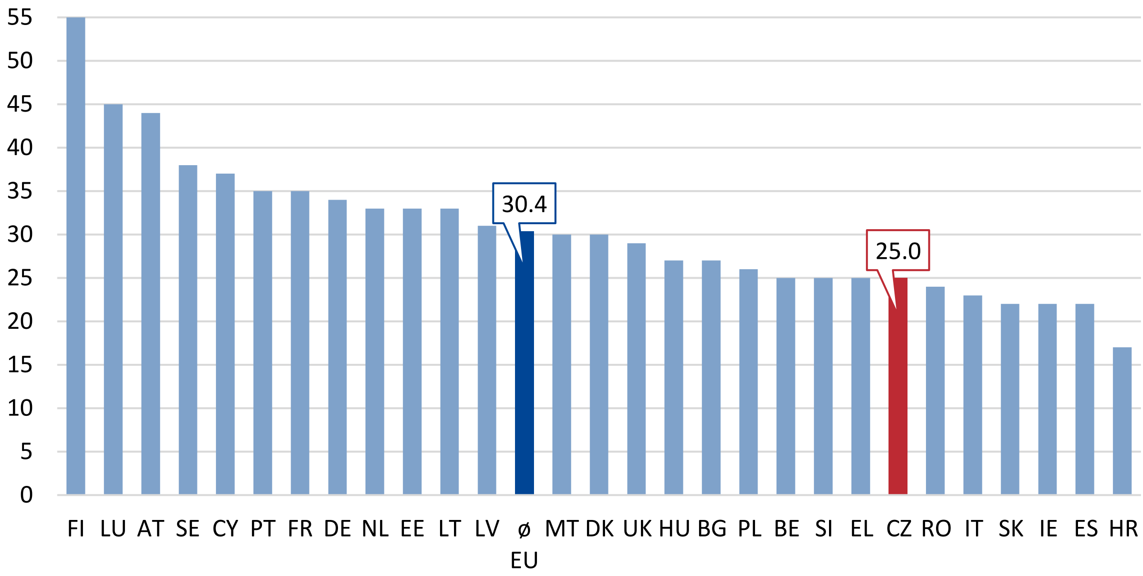
Absorption of main allocation according to the Commission

According to Commission data, the **Czech Republic,** along with Belgium, Slovenia and Greece, **is in the 19th-22nd spot among other MSs in terms of drawing its allocation,** which can be evaluated as below-average.

202 *Planned reallocation between OP EIC, IROP and OPEn in connection with support for coal regions.* Material for the European Commission, NCA, September 2018.

203 Commission Implementing Decision of 20 February 2019 amending Implementing Decision C(2015) 3039 approving certain elements of the operational programme "Enterprise and Innovation for Competitiveness" for support from the European Regional Development Fund under the Investment for Growth and Jobs goal in the Czech Republic, C(2019) 1552 in final wording of 20 February 2019.

Chart 16: Drawing main allocation by MSs as at 31 December 2018 (%)



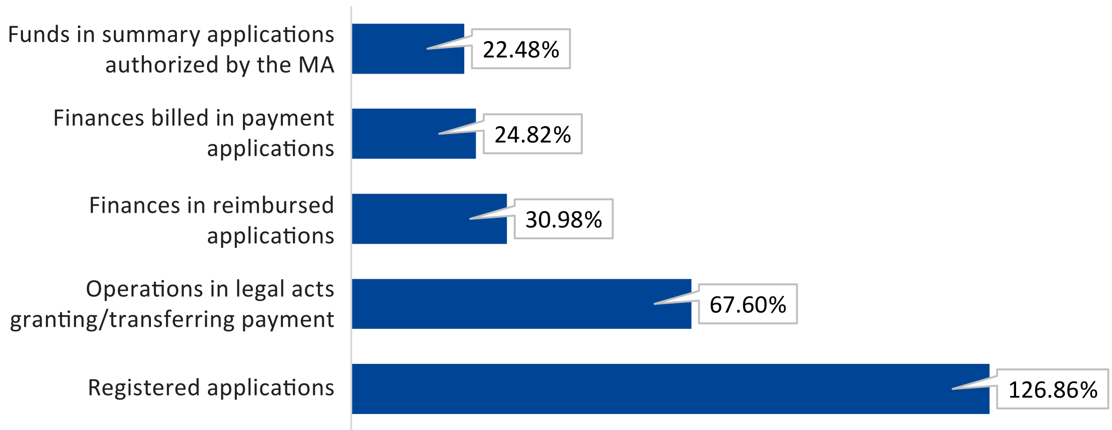
Source: see https://cohesiondata.ec.europa.eu/countries/CZ, May 2019.

While Finland, Luxembourg and Austria drew more than 40% of their allocation, **in the first five years of PP14+ the Czech Republic had drawn just 25% of the allocation.**

Absorption of the allocation according to MS2014+ [204]

The value of absorption reported in MS2014+ as at 31 December 2018 for all Czech programmes aside from the territorial cooperation programme INTERREG CR–PL corresponds to the above Commission data.

Chart 17: Drawdown of ESIF funds in % of main allocation as at 31 December 2018 (%)

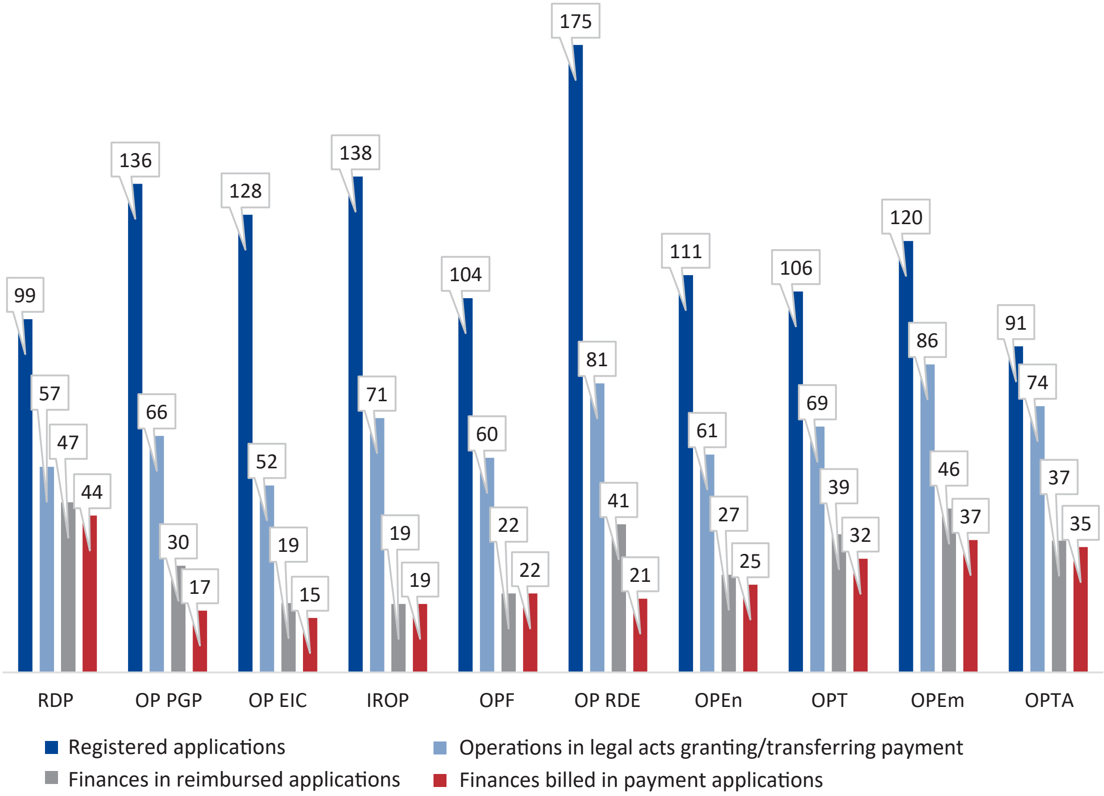


Source: *MS 2014+*, data on EU funds drawing as at 31 December 2018.

204 According to Quarterly report on implementation of ESI funds in the programming period 2014–2020, Q4 2018 issued by the NCA on 21 February 2019; data source: MS2014+; in the case of the programmes in the goal European Territorial Cooperation (except INTERREG CR–PL) the source of data are the MAs of those programmes. In the case of programmes co-financed from EAFRD and EMFF, the data are provided from the IS SAIF on the basis of agreements between the MoA and MoRD.

The low level of the current absorption of funds from ESIF is due inter alia to OP EIC, IROP and OP RDI, which in terms of allocated resources form 49% of the total allocation.

Chart 18: Drawdown of ESIF funds in % of main allocation as at 31 December 2018 by programmes



Source: Quarterly report on implementation ESI funds in 2014–2020 programming period, IV quarter 2018, NCA, 21 February 2019.

From the start of the programming period to 31 December 2018, the MA had announced a **total of 834 calls for proposals. The EU contribution in these calls** represents nearly **CZK 690 billion, i.e. 118.2% of the EU contribution** (relative to the main allocation[205]) for PP14+ (CZK 583.2 billion[206]). The highest volume of calls in relation to the main allocation were declared by OPF, OPT a OP PGP.

Up until 31 December 2018 **legal acts had been issued** for provision of support **representing a volume of approx. CZK 391.4 billion, i.e. 67.1% of the main allocation** of the Partnership Agreement. While the greatest share of funds in legal acts compared to the main allocation were reported by OPEn, OP RDI, OPTA and IROP, the lowest were reported by OP EIC, PPG and OPF.

On the basis of beneficiary payment requests for reimbursement of eligible project expenditures, **CZK 185.3 billion** had been **paid out** by the end of December 2018, **i.e. 31.8%**. The most funding was paid out in the case of RDP, OPEm, OP RDI and OPT, the least in the case of IROP, OP EIC, and OPF.

The volume of charged funds in payment requests as of the end of December 2018 **totalled CZK 150.1 billion, i.e. 25.7% of the main allocation.** The highest amount of funds was charged under RDP, OPEm and OPTA. In the case of OP EIC, OP PGP, IROP and OP RDI, the lowest volume of funds was billed.

205 The main allocation and the performance reserve in an amount of approx. 6% from the total allocation.

206 For conversion the exchange rate of 25.967 CZK/EUR was used (December 2018).

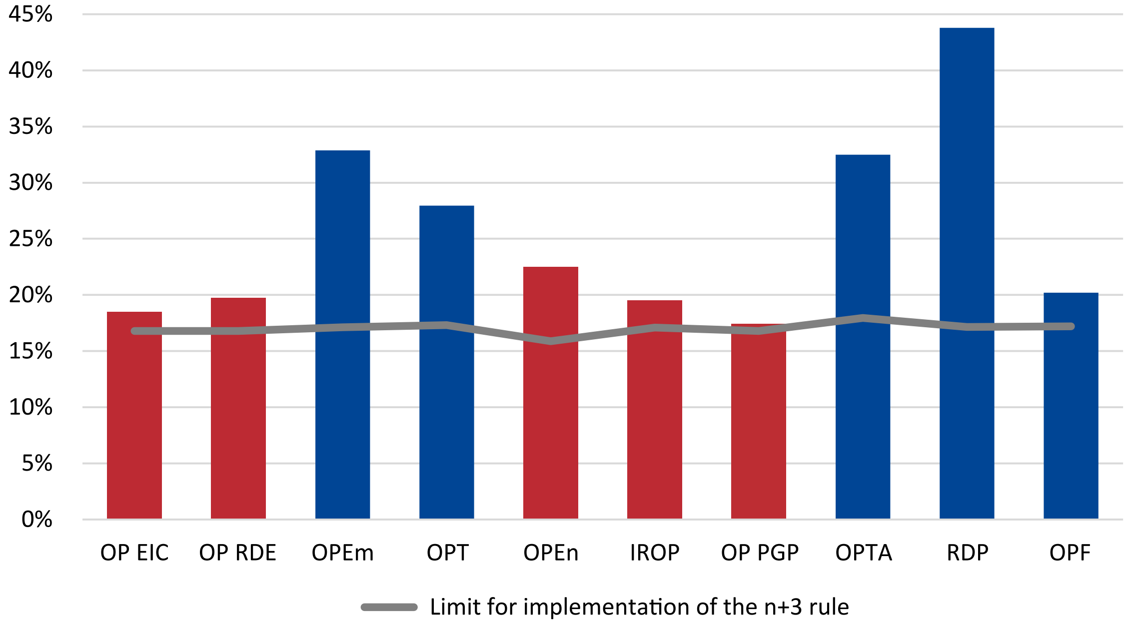
The quarterly report on implementation of ESI funds in the Czech Republic for the programming period 2014–2020 for the first quarter of 2019 states: "The managing authorities (including the managing authority for the RDP[207]) after pay-out and billing submits the funds for certification, what are called single aid applications, to the Commission. By the end of December 2018, applications for all programmes had been sent to the Commission for a total value of CZK 145.6 billion, i.e. 25.0% of the main allocation of the Partnership Agreement (including the RDP)."

At the end of March 2019, i.e. **in the sixth year of the seven-year programming period, the volume of funds in applications for interim payments had reached 27.4% of the main allocation.** An analysis of the data listed for the individual programmes shows that the least successful is OP EIC, followed by IROP, OP PGP and OPF.

Compliance with n+3 rule[208]

The year 2018 was the first year the Czech Republic was confronted with having to meet the n+3 rule.[209] Failure to meet the n+3 rule would mean the loss of funding. Compliance with the rule as at 31 December 2018 is shown in the chart below.

Chart 19: Implementation of the n+3 rule in 2018 (in % to the main allocation)



Source: *MS 2014+*, as at 31 December 2018.

207 MoA as the managing authority of RDP uses the payment agency of SAIF for administration of payments.

208 The n+3 rule is a control instrument to ensure the continuity of drawing of funds from the ESIF. According to this rule, the allocation for year "n" must be drawn by the end of year "n+3". If this condition is not met, there is a danger of losing the undrawn funds, i.e. automatic termination of the commitment, or a reduction of the allocation for year "n" by the undrawn funds and the inability to utilise these funds under ESIF absorption by the Member State, i.e. by the specific programme. Under the new settings for assessing compliance with the n+3 rule on the part of the Commission, compliance is assessed at the programme level.

209 In light of the fact that no programme under the objective *Investment for Growth and Employment* had been approved by the Commission in 2014, the allocation for 2014 was transferred to the allocation for 2015, thus reporting on the n+3 rule has only been underway since 2018.

The rule was successful met in implementation of all programmes financed from the ESIF. The programmes marked with a red column in the graph were evaluated at the start of 2018[210] as at-risk in terms of meeting the given rule. It is apparent from Table 19 that this risk did not materialise.

While OPEm, OPT, OPTA and RDP will certainly have met the n+3 rule by 31 December 2019, **the risk remains particularly for OP EIC, OP PGP and OPF.** Materialisation of this risk would result not only in the Commission commitment being cancelled (corresponding reduction of the allocation), but also endangering the fulfilment of Czech Republic commitments under the *Europe 2020* strategy in the area of energy efficiency or level of public expenditure on investment in science and research.

Compliance with the performance framework as at 31 December 2018

In the second half of 2019, the Commission will perform a review of programme performance[211] and decide on allocation of the performance reserve.

According to the MoRD[212] as at 31 December 2018, 95 of the total 134 milestones had been met (35 financial, 60 material) and **39 milestones had not been met** (15 financial, 24 material). OPT and OPEm had already met all milestones by the above date.

Commission Implementing Regulations[213] (EU) 2018/276 and 2018/277 allow managing authorities to include the value of all eligible expenditures spent by beneficiaries in 2018 in 2019 provided that it is important for these expenditures to be included in the single aid applications and certified before the deadline for handing in the annual report on programme implementation for 2018. For meeting the milestones, it is then possible to include the final value during the course of operation realisation if the nature and options of the specific milestone allow for it.

In attempt to avoid non-fulfilment of the performance framework, the NCA, particularly in the *integrated risk management system*, focused on problematic areas and regularly monitored current non-fulfilment of the milestones and the prediction values for fulfilment as at 31 December 2018. In the case of an identified issue, the NCA and MA worked together to adopt corrective measures, including revision of the performance framework (PF), which was pre-consulted with the Commission and subsequently also approved thereby. In certain cases, steps were also taken to reallocate funding from an area with a low absorption capacity. The majority of OPs will thus achieve the required values in the end.

Fulfilment of the PF appears to be **problematic** only for **OP PGP and OP EIC**, for which non-fulfilment of the PF is anticipated in two priority axes.

---

210 In the first quarter of 2018, the MoRD in cooperation with other entities conducted an implementation structure for evaluating Partnership Agreement compliance and submitted information about this in the *Quarterly Report on Implementation of ESI Funds in the Czech Republic in 2014–2020, Fourth Quarter 2017* (data as of 31 December 2017), NCA 13 March 2018.

211 On the basis of the annual reports on programme implementation for 2018, which are to be submitted by the end of June 2019.

212 Ref. no MoRD-18036-2019-27, see Annex 1.

213 Commission Implementing Regulation (EU) No 215/2014 of 7 March 2014 laying down rules for implementing Regulation (EU) no 1303/2013 of the European Parliament and of the Council with regard to methodologies for climate change support, the determination of milestones and targets in the performance framework and the nomenclature of categories of intervention for the European Structural and Investment Funds.

For OP PGP failure to meet the PF is expected for:

- PA 1 – *Enhancement of research, technological development and innovation* (PF value is EUR 3 749 580)
- PA 2 – *Sustainable mobility and energy savings* (PF value is EUR 3 406 400)

OP EIC anticipates non-fulfilment of the PF under:

- PA 3 – *Efficient energy management, development of energy infrastructure and renewable energy sources, support for the introduction of new technologies in the management of energy and secondary raw materials* (PF value is EUR 76 000 000)
- PA 4 – *Development of high-speed internet access networks and information and communications technologies* (PF value is EUR 29 568 000)

For the operational programmes where it is expected that the performance reserve will not be allocated under the given PAs, negotiations are underway with the Commission on where to place them. The priority of the NCA and MAs is to place funds under the given OP so that they are utilised for activities with a high absorption capacity and thereby programme funding is not lost.

Risk level of programmes

According to the *Annual Report on Implementation of the Partnership Agreement for 2018*[214] (data as at 31 December 2018) a multicriteria evaluation of the risk level of programmes for PP14+ was carried out, leading to **dividing up the programmes into risk categories:**

- **high-risk programmes: OP EIC**
- **medium-risk programmes: OP PGP**
- programmes with low risk: IROP, OPT, OPF, OPTA, OP RDI, OPEn, OPEm and RDP.

The report states the following more specifically on the risks:

*"Among the greatest risks of the Operational Programme Enterprise and Investment for Competitiveness (OP EIC) are the **risk of the legality and accuracy of expenditures** implied by the audits conducted on the basis of the high error rate established for 2018. **Also problematic is absorption,** particularly **in the area of high-speed internet, the energy sector, and now also in the supply of risk capital.***

*One of the largest risks of Operational Programme Prague – Growth Pole of the Czech Republic (OP PGP) at the end of 2018 was the threat of **not meeting certain milestones of the performance framework.** Among the highest risk areas are the activity of **high-capacity P+R lots and implementation of pilot projects focused on producing intelligent buildings in terms of energy savings.***

*The Integrated Regional Operational Programme (IROP) continues to encounter a **low level of absorption in reducing energy consumption** in the housing sector and **delayed implementation of financial instruments** (FI).*

*The most significant risk of Operational Programme Fisheries (OPF) is the **risk of legality and accuracy of expenditures** implied by the audits performed on the basis of the **high error rate** established for 2018, as well as the low potential for **meeting financial milestones** under Supporting the implementation of common fisheries policy and Supporting marketing and processing."*

214 NCA, April 2019.

Flat-rate and individual corrections

Flat-rate corrections are financial corrections that are generally applied to errors (irregularities) of a systemic nature[215]. Individual corrections are imposed for errors at the project level.

In 2018 **extrapolated corrections were applied** due to high error rate **for OPT in the amount of CZK 381.3 million** (EU share) and for OP EIC of CZK 86.7 million (EU share). Furthermore, **for OP EIC a flat-rate correction** was applied due to systemic errors found by the Audit Authority totalling **CZK 462.0 million** (EU share).

The total amount of individual corrections applied for all OPs in 2018 **was CZK 561.2 million** (EU share).

In 2018 no financial corrections or penalties were assessed or imposed by the Commission.

E.3 Expenditure for the Common Agricultural Policy

E.3.1 Current development of the CAP

The Common Agricultural Policy has been implemented practically since 1962 and during its existence it has been reformed several times. The most recent changes took place in 2013 and the current form of the CAP for 2014–2020 did not begin until 2015 due to delays in the whole legislative process. With the exception of direct payments, subsidies actually did not start being paid out to farmers until 2016.

The CAP is one of the EU policies that takes up the largest part of the EU budget. Support is provided from two European funds. The *European Agricultural Guarantee Fund* (EAGF) pays farmers direct payments and aid under the common market organisation (CMO). This aid occupies nearly 75% of the budget earmarked for the CAP. The remaining money goes to supporting rural development financed from the EAFRD.

European agricultural subsidies help stabilise the income of farmers, fund the operation of agricultural enterprises, and also help them to modernise. The level of agricultural income thus largely depends on the amount of the subsidies. The distribution of subsidies is however uneven due to the differing structure of agricultural entities in individual MSs. In terms of size categories, in the Czech Republic it is small businesses, primarily consisting of family farms, that have by far the lowest income.

The EU agricultural policy prepared for the future programming period should reduce these differences in allocation. Aside from this, the new form of CAP will place greater emphasis on food quality and safety, environmental friendliness, protecting the climate, soil and water sources, and dealing with agricultural risks and crises.

The Czech Republic is actively preparing for the future form of the CAP, which should take affect from the start of 2021. The most significant topics that the MoA along with the SAIF and other professional bodies are dealing with are **setting up IS and monitoring, simplifying the rules for providing subsidies, defining a "real farmer", capping direct payments for a single agricultural entity, setting up ecoschemes and tying them to the environmental measures of the RDP** and last but not least **great utilisation of knowledge and innovation**. Analyses of the needs that the proposed interventions and financial strategies will be based on are also being prepared.

215 Systemic errors can be uncovered from the findings of audits by the audit authority, ECA, Commission or other bodies authorised to provide control under the ESIF.

E.3.2 State of absorption of CAP funds allocated to the Czech Republic

According to SAIF data[216] **in 2018 nearly CZK 36.61 billion was paid out in the Czech Republic under the CAP** (including the *Horizontal Rural Development Plan* from PP4+ and RDP7+), with **EU funds totalling CZK 30.36 billion.** Contributing the most to these pay-outs were direct payments. More detailed data are presented in Table 13.

Table 13: Overview of the funds paid in the main areas of the CAP for 2018 (CZK million)

Expenditures	EU´s contribution	CR´s contribution	Total
Direct payments	21 610.85	730.18	22 341.03
CMO	408.57	647.34	1 055.91
RDP*	8 316.59	4 857.78	13 174.37
Horizontal plan of the rural development	20.46	14.99	35.45
Total	**30 356.47**	**6 250.29**	**36 606.76**

Source: SAIF – *CAP budget and marketing for 2018 and its drawdown as at 31 December 2018*.
Note: *This includes subsidies paid under RDP7 + in the total amount of CZK 134.64 million.

E.3.2.1 Direct payments

Direct payments are **entitlement-based payments that are paid out to farmers based on compliance with the stipulated conditions for farming.** They have been being provided to farmers in the Czech Republic since the country's accession to the EU in 2004. They are a certain source of money for farmers, regardless of their agricultural production. Direct payments account for the **largest share of subsidies paid out in agriculture.** Direct payments **fall under the "first pillar" of the CAP** financed from the EAGF.

For the period of 2015–2020, the structure of direct payments has changed significantly. This was caused primarily by the shift to a multi-component payment that contains both obligatory and voluntary payments. The **largest obligatory component** (at least 50% of what is called the "annual envelope"[217]) remains the **single area payment** (SAPS), which is paid out to farmers per hectare of farmed land registered in the *Land Parcel Identification System* (LPIS). SAPS is not tied to production and is fully paid from EU funds. Other obligatory components of the direct payments are the payment for agricultural processes that are good for the climate and environment, or greening, which forms 30% of the direct payment envelope, and the payment for young farmers, which is paid out as a 25% bonus on the SAPS payment. **The voluntary component of direct payments**, also fully covered from EU funds, is **support linked to the production of selected sectors/commodities of animal or vegetable production** that are experiencing certain hardships. Each MS decides independently on which sectors/commodities are to be supported. The national budget then pays farmers transitional national aid, which serves to balance out certain commodities that are disadvantaged in the SAPS system. This payment replaces the previously provided national top-up payments.

In 2018 a significant change took place in the Czech Republic, which was **eliminating the "active farmer" condition,** i.e. the condition for allocating direct payments and subsidies within organic farming. The **requirement for intensity of livestock farming for selected aid was cancelled**, as were the **limits on cultivated arable land for greening** and **the use of products to protect plants on nitrogen-binding crops was banned.** Since January 2019 **new limitations on land threatened by erosion** are in place and buffer zones must be made on sloped land, thereby protecting arable land.

216 Data source is SAIF – document *Budget for Common Agricultural Policy and Marketing for 2018 and its Absorption as of 31 December 2018*.

217 Annual framework allocation for direct payments.

The SAIF paid out direct payments to farmers both on the basis of applications from previous years and on the basis of requests from 2018. **In total CZK 22.34 billion was paid out on direct payments in 2018**, which in comparison with 2017 is roughly CZK 0.8 billion lower. The cause was primarily the fall in the exchange rate set by the European Central Bank that is binding for paying out direct payments[218] and also the drop in unit rates for all direct payment aid, which was once again boosted in particular by the strengthening of the CZK in 2018.

In 2018 **SAPS** formed roughly 53% of the total direct payment envelope. **30 143 payment requests were put in for a total area of 3.54 ha of agricultural land.** The subsidy rate was CZK 3 388.15/ha. As of 31 December 2018, the SAIF had paid out **nearly CZK 11.78 billion** under SAPS for applications from 2018 and from previous years. The second most significant component was the payment for **greening**, which is paid out based on SAPS allocation. In 2018 the subsidy rate was CZK 1 877.38/ha of agricultural land and in total **CZK 6.44 billion was paid out**, which is roughly 29% of the direct payments. For another component of direct payments, **payments for young farmers, 5 304 applications** were submitted and a total of **CZK 62.94 million** paid out. Under **voluntary couple aid** for a selected 12 commodities, **CZK 3.05 billion** was paid out in 2018, i.e. just under 14% of the total amount paid out as direct payments.

In 2018 again farmers were also provided with national support, **transitional national aid.** Nearly **CZK 730.18 million** was paid out of the state budget for it.

E.3.2.2 Common market organisation

Although the CMO is a financially less significant area under the CAP, it does have quite extensive legislation. The EU applies the CMO to selected agricultural commodities for which it lays out certain binding conditions of production and trade, and supports them with financial instruments such as financial aid, subsidies, intervention purchases, storage assistance and support for promotion of agricultural products. The goal of the CMO is to regulate the agricultural product market, minimise fluctuations in the supply of individual commodities, and stabilise buying-in and consumer prices. This support is incorporated into the **first CAP pillar** and financed from the EAGF.

In 2018 the MoA paid out nearly CZK 1.06 billion for the CMO, of that CZK 0.41 billion from the EU budget. The greatest proportion was **financial aid** provided in an amount of CZK 721.49 million. These funds were primarily paid out to support the programme *Fruits and Vegetables in Schools* and *Support for Consumption of School Milk.* Other funds paid out under the CMO amounting to CZK 132.11 million were used to support restructuring and transforming vineyards and supporting the wine market. In 2018 two promotional programmes were realised: *Promotion of Dairy Products in Third Countries* and *Promotion of Protected Geographical Designations of Origin II – Quality from Europe*. The MoA spent CZK 39.38 million on these programmes.

In comparison with 2017, **CMO expenditures fell by roughly 10.5%.** The reason was the termination of extraordinary support for livestock production (for dairy cattle and hog farmers) and end of extraordinary measures in the dairy sector.

218 In 2018 this rate was set at 25.731 CZK/EUR, whereas in 2017 it was 25.981 CZK/EUR.

E.3.2.3 Rural Development Programme

The EU rural development policy was **incorporated into the second pillar of the CAP** with a reform under the *Agenda 2000*. Rural development is financed from EAFRD funds.

In 2018 the pay-out of aid from RDP7+ ran down, with the SAIF paying out beneficiaries' commitments from previous years. These were funds provided under axes I and II of RDP7+, in particular agroenvironmental measures, afforestation of agricultural land and early cessation of farming activities (under which the SAIF pays farmers subsidies for up to 15 years, at the longest up to 70 years of age of the applicant).

Overall, nearly **CZK 135 million** was paid out for **RDP7+** in 2018. The programme as a whole was absorbed successfully from a financial standpoint. The Czech Republic could have gained roughly EUR 2.86 billion from the EU budget for realising RDP7+ and the MoA utilised over EUR 2.85 billion of this amount, i.e. 99.84%.

RDP was approved by the Commission for the programming period 2014–2020 in May 2015. In June 2016 the Commission approved an update to the programme document, which included an increase in the allocation from the original EUR 3.04 billion to nearly EUR 3.55 billion. Of this amount, the EU share is nearly EUR 2.31 billion. The greatest part of the allocation (approx. 65%) is earmarked for general (not project-based) measures. **As at 31 December 2018, the Czech Republic had drawn nearly EUR 1.01 billion from EARDF, which is 43.72% of the allocation of the EU share**.[219] Comparing it to other programmes co-financed from the ESIF, the RDF is the most successful programme in the Czech Republic. The predominant role in this is the pay-out of entitlement-based general aid that is paid out to farmers on the base of a single application at regular intervals.

In 2018 the SAIF paid out **CZK 13.04 billion** through the **RDP**, of that more than CZK 8.23 billion from the EU budget. **General (not project-based) measures** accounted for roughly **CZK 7.57 billion,** i.e. 58% of the total aid paid out. Of this amount, the largest volume of subsidies was paid for agroenvironmental-climate measures (CZK 3.28 billion), measures for areas with natural or other limitations (CZK 2.17 billion) and for organic agriculture (CZK 1.37 billion). **CZK 5.47 billion** was paid from the RDP for **project measures**, with by far the most subsidies being paid out for investment in tangible assets. This amount was CZK 4.20 billion, which totals 77% of the funds earmarked for project measures.

In 2018, the 6th and 7th rounds of grant applications were launched for RDP project measures. The MoA regularly declares two rounds each year, in the spring and in the autumn. In 2019–2020 just one round will be announced for the remaining RDP allocation. Individual applications for general/non-project RDP measures are accepted year-round.

The continuous intake of applications for land modification projects, RDP technical assistance and applications under the LEADER measures also continued.

Since the start of the programming period, a total of CZK 38.47 billion had been paid out under the RDP by 31 March 2019, of that CZK 10.08 billion for project measures and CZK 28.39 billion for general (non-project) measures. More than 132 000 subsidy applications were paid out. More detailed information is provided in the following table.

219 Data from the *Capping Control Report – capping including 2018/4.Q* (produced by the Commission 30 January 2019).

Table 14: Overview of the number of reimbursed applications/projects and disbursements under the RDP as at 31 March 2019 (CZK million)

RDP´s non-project measures		Number of applications	Disbursements		
			EU contribution	CR contribution	Total
M8.1	Forest investments	260	8.94	2.98	11.92
M10	Agro-environment climate	43 925	7 809.90	2 603.31	10 413.21
M11	Organic farming	13 940	3 404.43	1 134.81	4 539.24
M12	Natura 2000	1 750	36.79	12.26	49.05
M13	Payments for areas facing natural or other constrains	62 921	8 544.72	2 848.24	11 392.96
M14	Animal welfare	2 426	970.20	989.82	1 960.02
M15	Forest-environmental and climate-friendly forestry and forest protection	69	21.09	7.03	28.12
Non-project measures in total		**125 291**	**20 796.07**	**7 598.45**	**28 394.52**
RDP´s project measures		**Number of applications**	**Disbursements**		
			EU contribution	**CR contribution**	**Total**
M1	Knowledge transfer and information actions	39	7.00	7.14	14.14
M4	Investments in physical assets	4 066	3 760.78	3 836.76	7 597.54
M6	Farm and business development	1 062	389.33	397.20	786.53
M8	Investments in forest area development and improvement of the viability of forests (without M8.1)	759	272.40	277.91	550.31
M16	Cooperation	24	302.59	308.71	611.30
M19	Rural Development Programme LEADER	783	211.96	119.19	331.15
M20	Technical assistance	174	92.07	93.93	186.00
Project measures in total		**6 907**	**5 036.13**	**5 040.84**	**10 076.97**
Total RDP		**132 198**	**25 832.20**	**12 639.29**	**38 471.49**

Source: SAIF documents from April 2019.

In comparison with the state of RDP absorption as at 31 March 2018, a significant growth in the number of submitted and paid out subsidy applications and volume of paid subsidies occurred in 2019. In particular, greater absorption went to implementation of investment projects. The volume of funds paid out for general measures was almost unchanged, with the amount being roughly CZK 7.6 billion every year.

E.3.3 Current development in the Common Fisheries Policy

The current goal of the EU's Common Fisheries Policy (CFP) is focused on sustainable use of living aquatic resources from an ecological, economic and social standpoint.

In the Czech Republic the FCP is implemented through the OP *Fisheries 2014–2020* (OPF) focused on creating sustainable and competitive aquaculture. OPF interventions aim to strengthen domestic demand for freshwater fish species and products made from them through marketing and promotional activities.

The OPF is financed from the *European Maritime and Fisheries Fund* (EMFF). The allocation for the whole PP14+ totals EUR 41.2 million[220], of that EUR 31.1 million being the EU contribution. **As of 31 December 2018 the Czech Republic had drawn nearly EUR 7.88 million[221], which represents 19% of the total allocation (national and European share).** The greatest volume of funds was drawn under "Union priority"[222] (UP) 2 – *Supporting environmentally sustainable, resource-efficient, innovative, competitive and knowledge-based aquaculture*, EUR 7.29 million.

From the start of OPF implementation **until 31 March 2019**, the MoA had announced 15 calls for grant applications. As at the same date, the MoA had approved 559 subsidy applications for an amount of CZK 629 million and **paid out 264 projects for a total of nearly CZK 250.23 million.**

Milestones for performance review

Under OPF, the MoA set material and financial milestones for reviewing performance (see following table).

Table 15: Overview of fulfilling OPF´s material and financial milestones as at 31 December 2018

Material and financial indicators	UP 2		UP 3		UP 5	
	Reality	Set value (milestone)	Reality	Set value (milestone)	Reality	Set value (milestone)
Certified expenditure (EUR million)	7.29	3.92	0.06	0.10	0.27	0.74
Number of projects	179	110	4	1	18	50

Source: MoA – MA for OPF from April 2019.

The data in Table 15 shows that:

- The financial milestone and material milestone for UP 2 reached the highest values, having been considerably exceeded as at 31 December 2018 (the financial milestone was fulfilled with 186% of the set value).
- In the case of UP 3 – *Supporting the implementation of common fisheries policy*, the financial milestone had not been met at the end of 2018 (the fulfilment level was 63%). In contrast, the material milestone for this UP was met, but is set for the value of just a single project.
- The lowest performance was reported for the financial and material milestones of UP 5 – *Supporting marketing and processing*; both milestones were fulfilled only to 36% of their set values.

Execution of OPF and fulfilment of the performance framework is negatively influenced in particular by the delay in commencing project implementation, with the first subsidy applications only being submitted in October 2015. Low interest has also been recorded for the declared measures, particularly for UP 3.

---

220 Converting using the rate 25.967 CZK/EUR, valid in December 2018, the allocation for the whole programming period is nearly CZK 1.07 billion.

221 Material from the MoA, Department of the Managing Authority for OP Fisheries, May 2019.

222 Under OPF, UPs are the equivalent of "priority axes".

E.4 Other EU financial instruments

This group of expenditures consists of several dozen "Union" (formerly Community) programmes and other expenditures (including those under the budget heading *Special instruments*), which are rather small in terms of volume and all are run directly by the Commission, or rather the individual Directorate-Generals (DG).[223] These expenditures are included in all expenditure headings of the EU budget with the exception of the headings *Administration, Compensations* and *Negative reserve*.

Included among these expenditures are also all expenditures of the heading *Special instruments*, which includes the items *Emergency Aid Reserve, European Globalisation Adjustment Fund, EU Solidarity Fund* and the *Flexibility Instrument*. In contrast, this does not include the expenditures for decentralised Commission agencies (the Commission's direct expenses for the activity of independent legal entities directly subordinate to it that the Commission has established to carry out specific tasks according to EU law).[224]

Funds from other financial instruments (OFIs) of the EU are not allocated to applicants from the allocation earmarked for individual MSs, but directly from the EU budget on the basis of public tenders.[225] If an applicant wants to use these resources, its project must in most cases succeed in direct international competition. Supported projects have a significant European added value (generally they must be of international significance and tend to be based on partnership among entities in various MSs).

E.4.1 Other financial instruments in the EU-28 in 2017

In 2017 a total of EUR 19.49 billion was provided to MSs in terms of OFIs. This amount represents nearly 17.5% of the EU budget earmarked for use in the EU-28. The expenditure for OFIs within the EU-28 rose by over 7% compared to 2016.

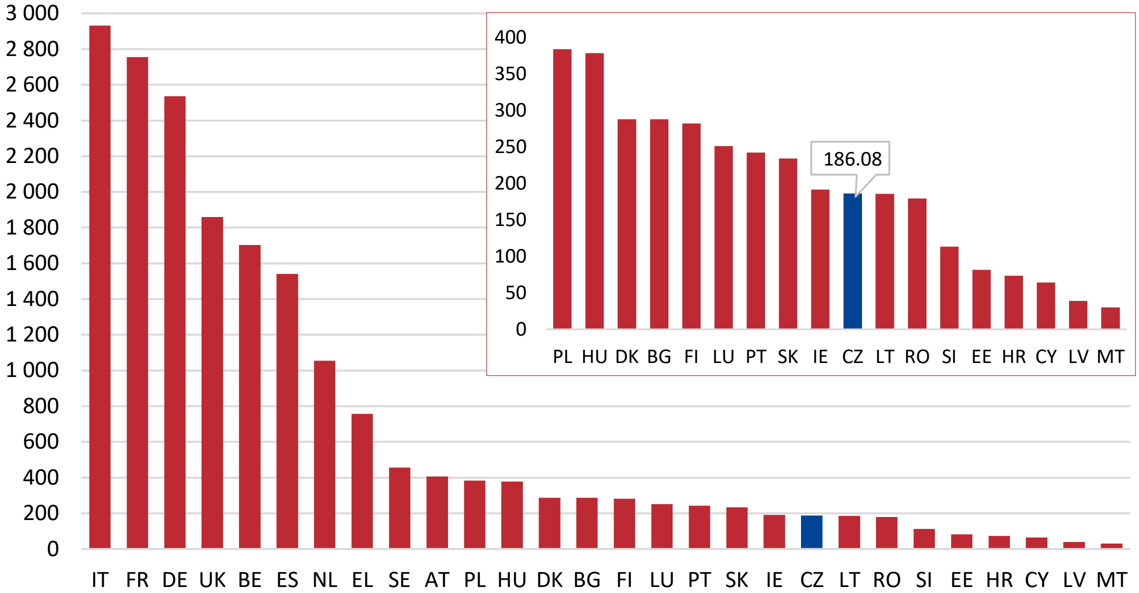
Traditionally the most important in terms of amount was the *Framework Programme for Research and Innovation (Horizon 2020)*, under which nearly EUR 8 611 240 000 was paid out. A considerable distance behind it were the *EU programme for education, training, youth and sport (Erasmus+)* with an expenditure of EUR 1 814 590 000, the *Connecting Europe Facility* (CEF) with an amount of EUR 1 609 220 000 and funds combined under the budget heading *Special instruments* with a comprehensive payment amount exceeding EUR 1 272 840 000. The expenditure did not exceed EUR 1 billion within the EU-28 for any other OFIs.

223 In 2017 these funds represented an amount of EUR 35.66, which was nearly 26% of the total EU budget.

224 The only decentralised agency based in the Czech Republic is GNSS (Global Navigation Satellite System), which manages public interests in connection with the programmes of the European global navigation satellite systems, the European Geostationary Navigation Overlay Service (EGNOS) and the *Galileo* system.

225 OFIs also include EU programmes of which some function on the principle of national envelopes, or contain certain amounts directly allocated for the given state/area.

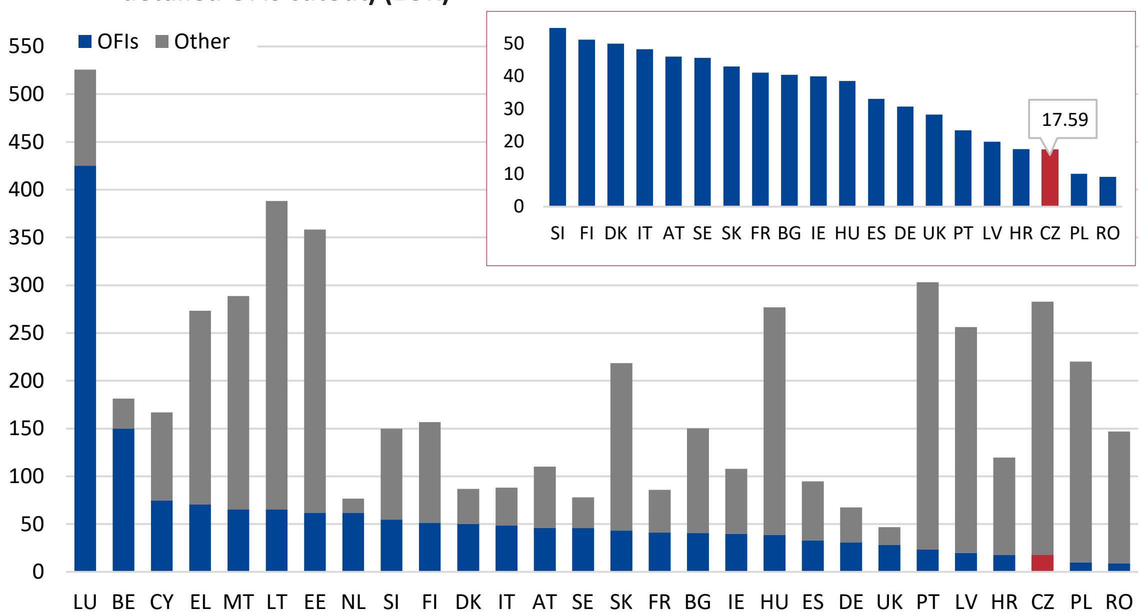
Chart 20: Utilization of other financial instruments´ finances by MSs in 2017 (with the detailed cutout) (EUR million)



Source: *EU budget 2017 – Financial Report*, Commission 2018.
Note: The bars in graph 20 represent the volume of funds received from OFIs by aid beneficiaries based in individual MSs.

In light of the nature of aid provided from OFIs described above and the significant differences in the population of individual MSs, the monitoring of the amount of OFIs drawn per capita for each MS paints a better picture. To allow for comprehensive comparison, the following graph also presents the absorption of individual MSs in all other resources of the EU budget with the exception of the *Administration* heading, costs of decentralised Commission agencies and direct agricultural payments (other resources).

Chart 21: Utilization of funds from OFIs and other sources per capita in 2017 (with the detailed OFIs cutout) (EUR)



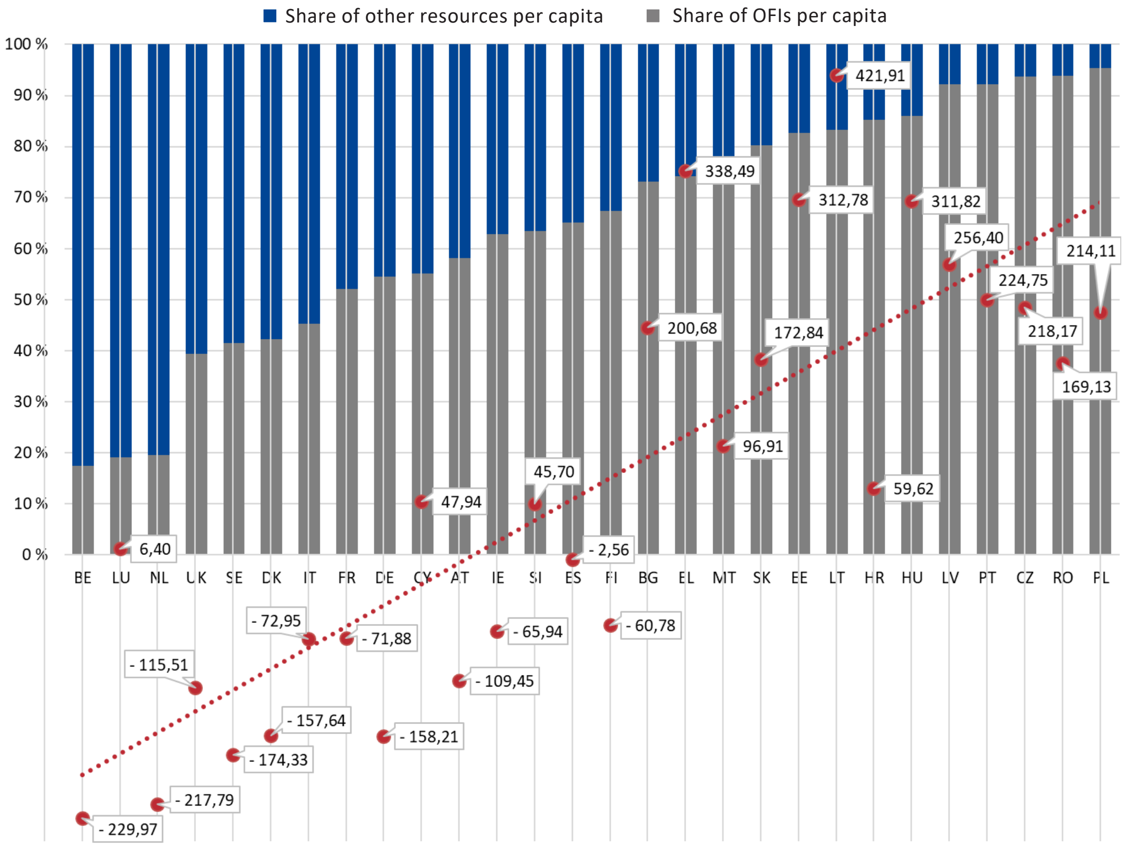
Source: *EU budget 2017 – Financial Report*, Commission 2018.

Regularly leading the MS ranking in terms of utilizing OFIs per capita by a wide margin is Luxembourg (EUR 424.92 in 2017), followed by Belgium (EUR 149.98 in 2017). This is helped considerably by the fact that a number of EU institutions that are significant aid beneficiaries are located in these countries.

The average value for the utilization of funds from OFIs in the EU-28 in 2018 was EUR 38.10 per capita, or EUR 35.10 per capita not including the extreme values of Luxembourg and Belgium.

The following chart compares the reduced net position of MSs[226] per capita with the utilization of funds from OFIs and other resources.

Chart 22: Share of drawdown of funds from OFIs and other resources in total drawdown of MSs per capita and value of reduced net position per capita (in EUR) in 2017



Source: *EU budget 2017 – Financial Report*, Commission 2018.
Note: The scatter chart shows the reduced net position per capita. Negative values indicate net payers, positive values net beneficiaries.

It is clear from the chart that the line going through the net position scatter chart essentially copies the curve representing the boundary between utilization of funds from OFIs (blue bars) and other resources (grey bars) in the individual MSs. It can be stated that there is a strong negative correlation between the value of the reduced net position and the percentage of expenditures funded from OFIs compared to MSs´ expenditures covered from other EU budget resources.

There are several reasons why the OFIs are not used more in certain MSs. One of the most significant is the preference for utilize financial aid for projects primarily from funds allocated

226 The reduced net position is the value of the net position adjusted for payments from the budget heading *Administration,* the costs of decentralised Commission agencies and direct agricultural payments.

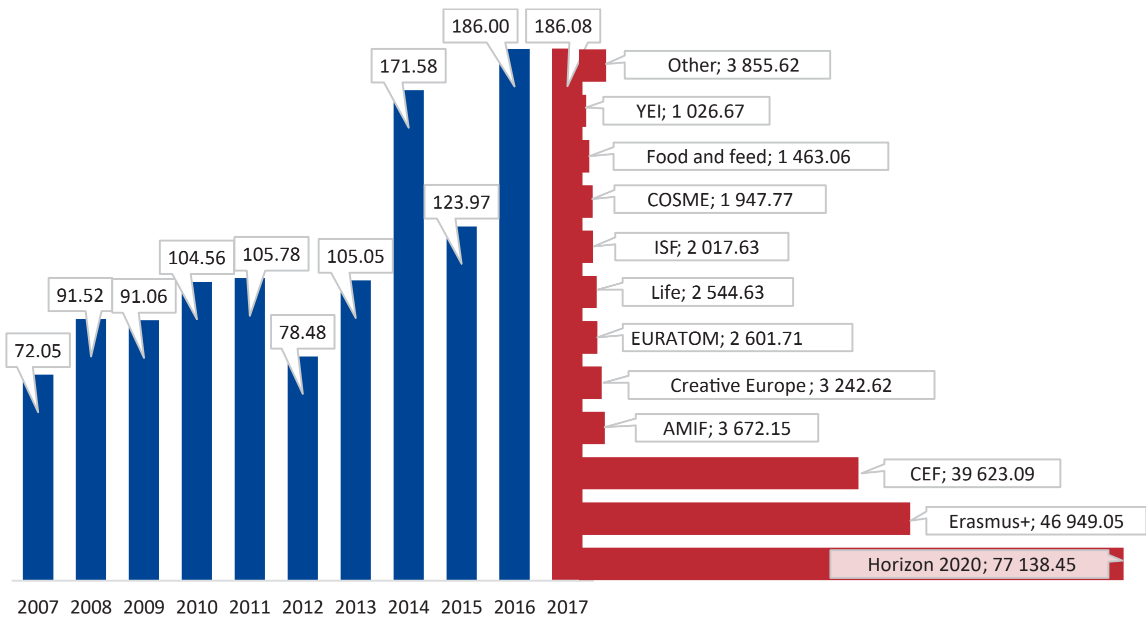
to the OPs of the Member State. This particularly concerns MSs that have a high number of regions with GDP under the EU average, i.e. especially the "new MSs", but also for example Portugal. If applicants seek support from OP resources, they are not exposed to competition at the EU level and the likelihood of obtaining aid is thus considerably higher.

E.4.2 Other financial instruments in the Czech Republic in 2017

As indicated in the charts above, the **Czech Republic has long numbered among the MSs** (along with Poland and Romania) **whose entities obtain relatively little funding from OFIs, particularly on a per capita basis.** Starting in 2015 the EU budget started allocating considerably higher amounts to OFIs (by approximately 50%) than was the case in previous years. This fact also had a positive effect in the case of the Czech Republic.

While the average value of OFIs going to the Czech Republic was only EUR 102.51 million in 2004–2014 (not including the exceptionally successful year of 2014 it was even only EUR 92.61 million), in the period 2015–2017 it was already EUR 165.35 million. Although the growth of funds acquired from OFIs is higher in the case of the Czech Republic than in the EU-28 as a whole, the placement of the Czech Republic among the lowest MSs in utilizing OFIs per capita did not change. Specifically, **in 2017 entities in the Czech Republic acquired a total of EUR 186.08 million in EU budget funds earmarked for OFIs, which is EUR 17.59 per capita and third last in the ranking of MSs** (just behind Croatia only slightly short of Latvia).

Chart 23: Development of the total utilization of OFIs´ funds by entities in the Czech Republic (EUR million) and the value of drawdowns from individual EU programmes (EUR thousand) in 2017.

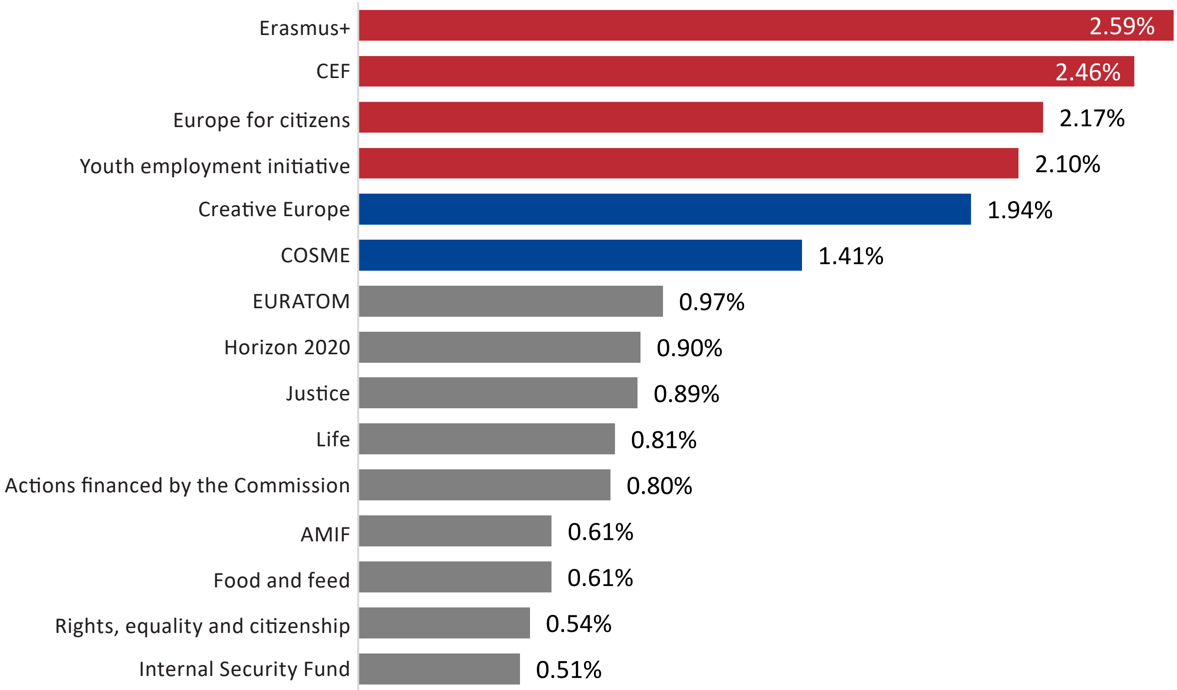


Source: EU budget 2017 – Financial Report, Commission 2018.
Note: Horizon 2020 – Framework Programme for Research and Innovation (Horizon 2020), Erasmus+ – *EU Programme for Education, Training, Youth and Sport* (Erasmus+), *CEF – Connecting Europe Facility*, AMIF – *Asylum, Migration and Integration Fund*, EURATOM – *EURATOM – programme for atomic energy, research and training*, Life – *Life+ (environment and climate action)*, ISF – *Internal Security Fund*, COSME – *Programme for Competitiveness of Enterprises and Small and Medium-sized enterprises*, YEI – *Youth Employment Initiative*.

It can be clearly seen in chart 23 that **under the OFIs Czech subjects draw the most funding from the programmes *Horizon 2020*, *Erasmus+* and CEF. The remaining OFIs only contributed a combined 12% to the overall income of the Czech entities.**

Chart 24 offers another view of the utilization of funds from individual OFIs. It is based on the fact that the population of the Czech Republic represents approximately 2% of the total EU-28 population.

Chart 24: Relative volume of OFIs´utilization by entities in the Czech Republic in 2017 in relation to the share of the Czech population in the EU-28 population.



Source: *EU budget 2017 – Financial Report*, Commission 2018; Eurostat, 12 January 2019.

Note: Red marks the programmes under which Czech entities utilized more funding in 2017 than corresponds to the size of the Czech population compared to the EU-28 population, blue marks the programmes for which the Czech absorption corresponds to at least half the allocation share of the Czech population in the EU-28 population and grey indicates those programmes where the Czech Republic does not even reach that amount.

The graph only presents those programmes where Czech entities obtained at least 0.5% of the total volume in 2017.

F. Further activities in the field of financial management

F.1 Legal matters

F.1.1 SAO's recommendations on changes to the legal environment in 2018

According to the provisions of Section 6 of the Act on SAO[1] both chambers of the Parliament of the Czech Republic and its bodies are entitled to request the SAO's opinion on draft legislation that concerns budget management, accounting, state statistics and execution of control, supervisory and inspection activity. The bodies in question did not make use of this right in 2018 in the manner of submitting a formal request. **SAO's findings on the necessary legal modifications were presented in connection with the discussion of audit reports from audits at meetings of the parliamentary control committee.**

In the interministerial comments proceedings as per the *Government Legislative Rules*, the SAO commented on the draft legislation related to its jurisdiction or which concerned it as a state organisation. In 2018 the SAO received a total of 137 legislative proposals for assessment as well as further materials relating to legal regulation. SAO submitted specific comments on 50 proposals, based primarily on findings from audits. It was primarily the draft amendments to government orders that aimed to provide for implementation of new Commission regulations governing CAP conditions submitted by the MoA that concerned the issue of financial management of EU funds.

Of the bills commented on by SAO in previous periods, the legislative process was not completed in 2018 for the Act on Personal Data Processing[227], which adapts Czech law to the directly applicable General Data Protection Regulation[228] (GDPR), which took effect 25 May 2018.

F.1.2 SAO's recommendations on changes to the legal environment in 2014–2017

The SAO presented its recommendations on changes to the legal environment in relation to financial management of EU funds in the Czech Republic in the period 2014–2017 for one thing in the form of comments made on draft legislation that were submitted under the *Government Legislative Rules*, and for another as part of its representatives attending meetings of the parliamentary control committee in connection with discussing the audit findings of individual audits.

Of the realised legislative changes, we can mention e.g.:

- In 2015 **Act no 24/2015 Coll.**[229] was adopted. Its wording took into account the SAO comment, which following on the findings of Audit 09/26[230] pointed out the issue of subsidies provided by regional councils of cohesion regions on the basis of private law contracts. According to the adopted amendment, subsidies or refundable financial

227 Act no 110/2019 Coll., on Personal Data Processing, which entered into force 24 April 2019.

228 Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

229 Act no 24/2015 Coll., amending Act no 250/2000 coll., on the Budgetary Rules of Territorial Budgets, as amended, Act no 128/2000 Coll., on Municipalities (Establishment of Municipalities), as amended, Act no 129/2000 Coll., on Regions (Establishment of Regions), as amended, and Act no 131/2000 Coll., on the City of Prague, as amended.

230 Audit 09/26 – *Funds earmarked under the regional operational programmes for transport infrastructure projects,* audit report published in part 1/2011 of the *SAO Bulletin*.

assistance provided under the Act on Budgetary Rules of Territorial Budgets[231] shall be provided on the basis of public law contracts.

- Also adopted was **Act no 25/2015 Coll.**[232], the aim of which, in relation to subsidies co-financed from the EU budget, was the possibility of setting reduced payments for breach of budgetary discipline also by using a fixed percentage and applying the subsidy reduction before its payment also to cases other than there are cases of violation of public procurement rules. The government proposal of this act was in part a reaction to the demands of the EU expressed in the *Action plan on improving the functioning of management and control systems for structural funds in the Czech Republic*, as well as to the SAO findings contained in audit reports related to this issue.
- In 2016, the legislative process was completed for a new public procurement act, which transposed into Czech law the content of three EU directives regulating public procurement. The **act** was issued **under no 134/2016 Coll.**[233] and took effect on 1 October 2016. The majority of comments brought to bear by the SAO on the government proposal of this act were taken into account in its text.
- In 2017, **Act no 367/2017 Coll.**[234] was adopted. This act, which addressed in detail the process of providing subsidies and refundable financial assistance from the state budget in connection to the ruling of the Supreme Administrative Court of ref. no 9 Ads 83/2014 – 46, entered into force on 1 January 2018. Comments on this bill made by the SAO were accepted by the submitter.

In the period under scrutiny, the SAO also participated, in the form of making specific comments and discussing them with submitter representatives, in preparing the government **draft Act on Management and Control of Public Finances**[235], which following on the directly applicable EU regulations was to address the management and control of public finances and replace the Act on Financial Control[27].

The SAO also helped evaluate and revise the *National Strategy for Protection the Financial Interests of the European Union* in connection with the end of PP7+, which was organised by the AFCOS CCP. The comments brought to bear by the SAO were accepted and a modified version of the strategy was issued with force from 1 September 2017.

F.1.3 Implementation and transposition of European Union law

F.1.3.1 Transposition of legal commitments in the Czech Republic

Transposition deficit

With accession to the EU, the Czech Republic accepted the obligation to fulfil all MS obligations. Among these there were the obligations arising from Article 4 (3) of the *Treaty on the European Union*[236] (TEU), which obliges MSs to carry out all appropriate measures to fulfil the

231 Act no 250/2000 Coll., on the Budgetary Rules of Territorial Budgets.

232 Act no 25/2015 Coll., amending Act no 218/2000 Coll., on Budgetary Rules and Amending Certain Related Acts (the Budgetary Rules), as amended.

233 Act no 134/2016 Coll., on Public Procurement.

234 Act no 367/2017 Coll., amending Act no 218/2000 Coll., on Budgetary Rules and Amending Certain Related Acts (the Budgetary Rules), as amended, and other related acts.

235 Act no 126/2019 Coll., amending Act no 320/2001 Coll., on Financial Control in Public Administration and Amending Certain Acts (the Act on Financial Control), as amended, was approved in April 2019 and takes effect on 1 January 2020.

236 *Treaty on the European Union* (consolidated wording), *Official Bulletin of the European Union,* C 326/13, of 26 October 2012.

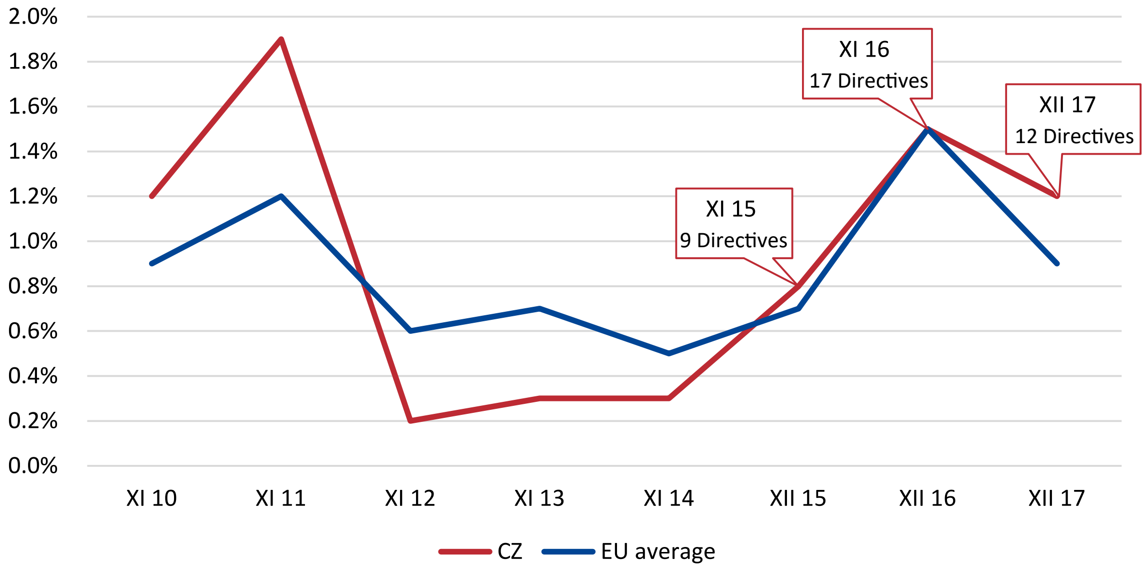
commitments arising from contracts or legal acts of EU bodies. If the nature of EU legislation so requires, it must be put into the national law in a due and timely manner. Implementation and the monitoring thereof are conducted in differing manners depending on the type of EU legal act. For EU directives, not only is transposition by the Member State evaluated, but also subsequent notification of the national transposition regulations to the Commission.

MS transposition activity is monitored by the Commission and the results are incorporated into the ongoing evaluations entitled *Single Market Scoreboard* (SMS), which are published twice a year on the relevant Commission web portal. The most recent data on the Czech Republic were published in the *Government Report on the Transposition of Legislative Commitments Ensuing from Membership of the Czech Republic in the European Union for 2018* (Transposition Report).

The first of the two assessments published in 2018 was published on 12 July 2018. Its subject was internal market directives, the transposition deadline of which expired on 30 November 2017, though the fully transposed directives for which the transposition regulations were notified by 11 December 2017 were not reflected in the transposition deficit. In this assessment, the Czech Republic, with a transposition of 1.2%, which corresponded to 12 untransposed directives, placed 19th–21st in the ranking of MSs.

In the following SMS, on the results of which the Czech Republic was informed on 7 November 2018, the transposition of directives with a transposition deadline on 31 May 2018 was assessed, though the fully transposed directives for which MSs notified the relevant transposition regulations up to 11 June 2018 were not counted. **In this assessment the Czech Republic placed 24th among MSs. According to the statistics of DG GROW[237] as at the given date, the Czech Republic had not transposed 14 internal market directives, which corresponded to a transposition deficit of 1.4%.**

Chart 25: Evolution of the transposition deficit in the Czech Republic in 2010–2017 compared to the EU average



Source: see http://ec.europa.eu/internal_market/scoreboard, July 2018; Report on transposition.
Note: The data in the chart labels represent the numbers of EU directives not transposed into Czech law and the month to which the given value applies.

237 Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs.

Also monitored in the SMS is the number of proceedings underway due to failure to notify transposition regulations or improperly made transpositions for internal market directives. Here the **Czech Republic placed 20th among MSs in the most recent SMS assessment with 30 unfinished proceedings.**

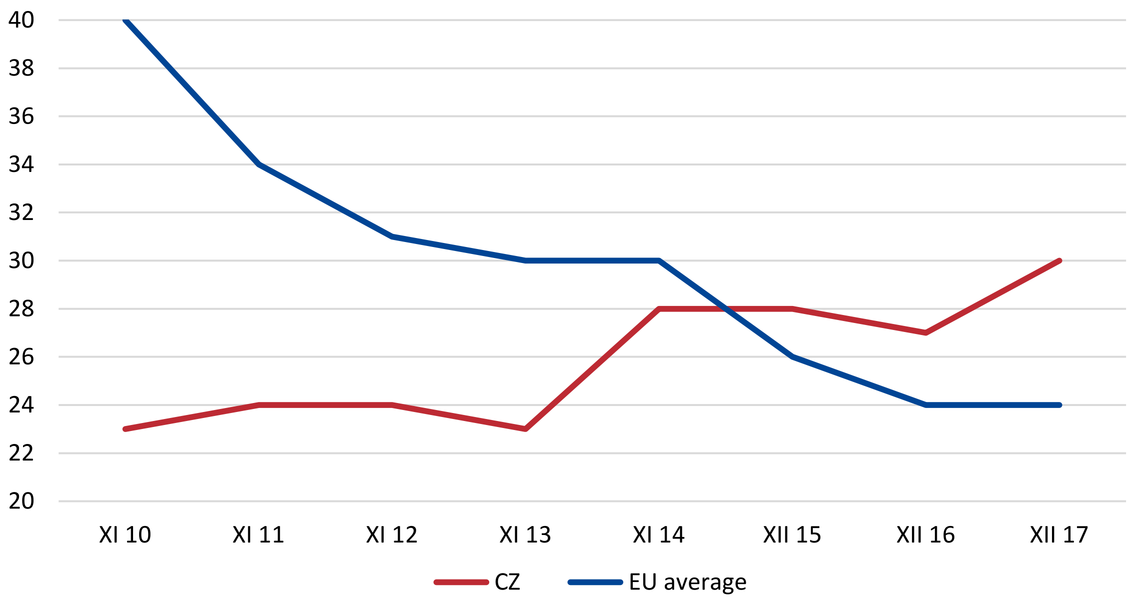
It is evident from the above results of the SMS assessments in 2018 that the Czech Republic has not yet managed to significantly reduce the growth of the transposition deficit that took place in 2016.

Under subsection G.1.1 of *EU Report 2018*, a directive on requirements for MS budget frameworks[238] was mentioned, having meant to be transposed under the coordination of the MoF by 31 December 2013. The draft act amending the Act on Financial Control[226] that should have completed the transposition did not however become part of Czech law in 2018 either (see above).

Infringement procedures

Infringement procedures are a mechanism through which the Commission executes its obligation to watch over the application of EU law. If, in the Commission's opinion, a MS breaches EU law, under Art. 258 of the TFEU[239] it has the option of launching proceedings divided up into several phases, which can lead to submitting an action to the ECJ.

Chart 26: Evaluation of infringement proceedings against the Czech Republic in 2012–2017 compared to the EU average



Source: see http://ec.europa.eu/internal_market/scoreboard/performance_by_member_state/czech_republic/index_en.htm#maincontentSec1, July 2018.

In principle an infringement procedure can be launched for failure to transpose an EU directive, or to notify national transposition regulations on the EU directive in question, or for improper transposition of an EU regulation, or application of legislation in conflict with EU law.

238 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

239 *Treaty on the Functioning of the European Union* (consolidated wording), *Official Bulletin of the European Union*, C 326/49, of 26 October 2012.

If the Commission identifies a violation of the law or is notified of it in a complaint, it seeks an agreement to eliminate the cause with the MS in the form of a structured dialogue (EU-Pilot). Member States may provide further factual or legal information at this stage. The aim is to find a swift solution in line with EU law and to avoid infringement proceedings. If MS does not agree with the Commission's position or does not take corrective action, the Commission may initiate formal infringement proceedings. This involves the following steps:

- The Commission will invite the government of the MS to comment on the case within two months.
- If the Commission does not receive the reply or the reply is unsatisfactory, the Commission shall state the reasons for its opinion that the MS has infringed EU law. Governments have two months to secure a remedy.
- If the Commission does not receive a reply or the reply is unsatisfactory, the Commission will ask the Court to open legal proceedings. Usually, however, the issue is resolved earlier. If the MS fails to inform on the measures to implement the directive, the Commission may at this stage ask the Court to impose a lump sum and/or a penalty payment.
- Generally, within two years the ECJ will decide whether or not the MS has violated EU law. The government of the given MS is then obliged to adapt national rules or practices and to resolve the problem as soon as possible.
- If the MS continues to fail to make a remedy, the Commission sends another call. If the Commission does not receive a reply or the reply is unsatisfactory, the Commission may refer the matter to the ECJ and propose a flat-rate fine and/or a penalty payment to be imposed.

In the period under scrutiny, one action under Article 258 of the TFEU was delivered to the Czech Republic and two judgments were passed in proceedings against the Czech Republic before the ECJ.

The **action** on Case C-719/17 (proceedings no 2017/2092 under the MoI) was delivered to the Czech Republic on 8 January 2018. According to the Commission's claims, the **Czech Republic**, by **failing to notify at regular intervals, i.e. at least every three months, the relevant number of asylum applicants that could be quickly relocated to its territory,** breached the obligations imposed under Article 5 (2) of Council Decision (EU) 2015/1523[240] and Article 5 (2) of Council Decision (EU) 2015/1601 of 22 September 2015[241], and thus also the obligations concerning relocation laid out in Article 5 (4) to (11) of both the above Council Decisions. **The ECJ has not yet ruled on the case.**

On 25 January 2018 **a judgment was passed** on Case C-314/16, in which the **ECJ ruled that the Czech Republic failed to fulfil obligations** under Directive 2006/126/EC[242] **by not expressly distinguishing groups D1 and D from groups C1 and C , and also by restricting the definition of category D1 to motor vehicles designed and constructed for the carriage of more than eight passengers.** This state was **rectified with the adoption of Act no 199/2017 Coll.**[243]

240 Council Decision (EU) 2015/1523 of 14 September 2015 establishing provisional measures in the area of international protection for the benefit of Italy and of Greece.

241 Council Decision (EU) 2015/1601 of 22 September 2015 establishing provisional measures in the area of international protection for the benefit of Italy and Greece.

242 Directive 2006/126/EC of the European Parliament and of the Council of 20 December 2006 on driving licences.

243 Act no 199/2017 Coll., amending Act no 361/2000 Coll., on Road Traffic and Amendments to Certain Acts (the Road Traffic Act), as amended, Act no 247/2000 Coll., on the Acquisition and Improvement of Professional Qualification to Drive Motor Vehicles and Amending Certain Acts, as amended, and Act no 634/2004 Coll., on Administrative Fees, as amended.

On 15 March 2018 a **judgment was passed** on Case C-575/16 in which the **ECJ ruled that the Czech Republic**, by **placing a condition of nationality for acting as a notary, failed to fulfil an obligation under the freedom of establishment** (Art. 49 of the TFEU). According to the ECJ, the activity of notary is not tied to execution of public power in the Czech Republic, thus no exception on the prohibition of limiting freedom of establishment (Art. 51 of the TFEU) can be applied. **Compliance** of the Czech legal treatment with the above ECJ judgment **was achieved by adopting Act no 7/2019 Coll.**[244]

As of 30 November 2018, 65 infringement procedures were underway against the Czech Republic, which is 13 procedures less than in the previous year. Under the EU-Pilot system there were also 20 procedures against the Czech Republic, which is 6 fewer than in the previous year.

According to the updated data **as of 31 March 2019, 66 procedures on infringement of the TEU (or TFEU) against the Czech Republic were underway, of those 52 being at the phase of a formal notice, 12 at the phase of a reasoned opinion, and in two cases the matter was referred to the ECJ**[245]**.** In terms of the type of infringement, failure to notify national transposition regulations was reflected in 32 procedures, improper transposition was found by the Commission in 14 procedures, application errors are the subject of 10 procedures and failure to fulfil the demands of regulations, treaties (TEU or TFEU) and decisions the subject of another 10 procedures.

As part of interministerial comments proceedings, the SAO commented inter alia on the draft government order on the conclusions of the *Clean Air Dialogue and Proposal of Further Steps*. **The Commission has two infringement procedures underway with the Czech Republic on failure to fulfil commitments to the EU over poor air quality** (failure to meet emission limits for particles PM_{10}[246] and NO_2[247]). The Commission provided the Czech Republic with sufficient time to quickly achieve the emission limits. In November 2018, a *Clean Air Dialogue* took place in Prague. At the talks, the Commission formulated a demand to quickly implement measures identified in the dialogue on achieving emission limits. The identified measures concerned the transport sector, household heating, industry and the energy sector, and agriculture. The aforementioned government resolution on this issue has not yet been adopted. **Due to poor air quality, the Czech Republic is in danger of proceedings before the ECJ for failure to fulfil obligations under EU law.**

The transposition deficit of the Czech Republic and number of infringements has remained below the EU average during the period under scrutiny. The SAO has repeatedly (in the previous three editions of the EU Report) brought up the risks faced by the Czech Republic on this account. Results of lacking or incorrect transposition of EU directives include direct application of the directives, the risk of liability for damages caused by the lacking or incorrect transposition to natural and legal persons, and proceedings for violating the TFEU with possible financial consequences.

244 Act no 7/2019 Coll., amending Act no 358/1992 Coll., on Notaries and their Activities (Notary Code), as amended.

245 The procedures are as follows:

- Procedure 2017/2092 (action on Case C-719/17) concerning insufficient implementation of Council Decisions 2015/1523 and 2015/1601 o relocation, the responsibility of the MoI;
- Procedure 2016/2131 (action on Case C-305/19) concerning incorrect transposition and application of certain provisions of the Directive of the European Parliament and of the Council 2010/31/EU of 19 May 2010 on the energy performance of buildings, the responsibility of the MIT.

246 Airborne particles or also particulate matter (PM) are small particles smaller than 10 μm able to freely move about in the atmosphere.

247 Nitrogen dioxide.

F.1.3.2 Evaluations performed by the Czech government

Through regular reports on the status of responsibilities allocation and compliance with the legislative obligations arising from the Czech Republic's membership of the European Union, for each quarter and each year the state of compatibility of CR's legislation with EU law is comprehensively assessed. These reports are designed to show the results of the legislative activities of individual ministries, both in relation to the transposition of directives and in terms of adapting Czech legislation to EU regulations. Reports are always submitted to a session of the government. *The government report on the acceptance of legislative commitments resulting from the Czech Republic's membership of the European Union for 2018* was discussed by the Czech government on 21 January 2019 (Government Resolution No 55).

F.1.3.3 Fulfilment of notification obligation under the Tax Code14 and overview of criminal charges

In accordance with the provisions of Section 59 of the Tax Code, in the period under scrutiny the SAO passed along to **tax administrators a total of 15 notifications from seven audits that focused either partially or fully on funds from the EU budget.** These notifications to tax administrators concerned a total amount of CZK 42 166 743.

For the audits under scrutiny, the SAO submitted **one notification of a fact indicating that a crime had been committed** in accordance with Section 8 (1) of the Criminal Code[248], specifically from Audit no 17/33. This concerned suspicion of the crime of breaching regulations on the rules of economic competition.

F.2 SAO international activity within the EU

In 2018 the SAO participated in cooperation within the Contact Committee (CC), which is made up of leading representatives of the Supreme Audit Institutions (SAIs) of MSs and the ECA. The annual CC meeting took place in October 2018 and the main topic was interaction between SAIs and EU citizens. Representatives of some SAIs presented innovative approaches in communication and tools for improving collaboration with citizens. The SAO president and representative of the BRH presented a joint audit of electronic trade at a CC meeting (Audit no 17/12 – see sub-chapter A.2), the joint report for which will come out in 2019. The SAI presidents took part in a second *in camera* meeting, where they debated about why the CC meeting is extraordinary and important in comparison with similar events of other international organisations and what future *in camera* meetings should look like.

The SAO is actively involved in the *Working Group on Value Added Tax* established under the CC. In April 2018 a meeting of *working sup-group 2* set up under this working group in Vienna. This meeting was attended by SAO representatives, who presented the ongoing results of an audit of electronic commerce VAT and informed on the current situation of the fight against fraud in the Czech Republic.

SAO representatives also attended the plenary session of the *Working Group for Value Added Tax*, which took place in September 2018 in Warsaw. Presented at the meeting were tax administration procedures in terms of introducing new measures in the fight against VAT tax evasion, legislative changes on VAT and experiences in the fight against VAT tax evasion over the past decade. Questionnaires concerning e-commerce that had been sent out to individual MS tax administrations were also evaluated.

248 Act no 141/1961 Coll., on Judicial Criminal Procedure (Criminal Procedure Code).

Sources and references

1. The 2017 EU audit in brief. *Presentation of the European Court of Auditors' annual reports for 2017*, Publications Office of the European Union, 2018.
2. *Annual activity report 2017 – Taxation and Customs Union*, of 6 June 2018.
3. *White Paper on the Future of Europe. Reflections and scenarios for the EU27 in 2025*, COM(2017) 2025 of 1 March 2017.
4. *Capping Control Report – capping including 2018/4.Q*, Commission, 30 January 2019.
5. *Quarterly report on the implementation of ESI Funds in the 2014–2020 programming period, IV. quarter 2018*, 21 February 2019.
6. *Partnership Agreement for the 2014–2020 programming period, Czech Republic,* 26 August 2014 – Version approved by the European Commission.
7. *Partnership Agreement for the 2014–2020 programming period, Czech Republic*, 15 March 2018 – 4th Revision approved by the European Commission.
8. Recommendation for the Council Recommendation on the National Reform Programme of the Czech Republic for 2018 and Council Opinion on the Convergence Program of the Czech Republic for 2018, COM (2018) 403 final wording of 23 May 2018.
9. Council Recommendation of 13 July 2018 on the Czech Republic's National Reform Programme for 2018 and Council Opinion on the Czech Republic´s Convergence Programme of 2018 (*Official Journal of the European Union*, 2018/C320/03 of 10 September 2018).
10. *EU Budget 2017 – Financial report*, European Union Publications Office, 2018; previous Commission reports on the EU budget 2008-2017.
11. EU reports 2013–2018.
12. *From illegal markets to legitimate businesses: the portfolio of organised crime in Europe*, Final report of Project OCP – Organised Crime Portfolio, OCP, 16 March 2015.
13. *Audit Information System of the SAO.*
14. *Convergence Programme of the Czech Republic* approved by Resolution of the Government of the Czech Republic no 281 of 30 April 2018.
15. *National Reform Program of the Czech Republic 2018,* approved by the Government Committee for the European Union on 30 April 2018.
16. *National Strategy for the Protection of the European Union's Financial Interests* approved by Government Resolution no 535 of 14 May 2008.
17. *OLAF at the Gates of Criminal Law, 10.30709/eucrim-2017-02*, P. Klement, 2017.
18. *Planned reallocations between OP EIC, IROP and OPEn* in connection with support of coal regions, underlying document for the Commission, NCA*,* September 2018.
19. Documents of MoF-AB of April 2019.
20. Documents of MF-PCA of April 2019.
21. Documents of MoRD of April 2019.
22. Documents of MoA of April 2019.
23. Documents of SAIF of April 2019.
24. Data from *MS 2014+*.

25. Commission Implementing Decision of 29 October 2018 amending Implementing Decision C (2015) 3865 approving certain elements of the *'Integrated Regional Operational Programme*' for the support from the European Regional Development Fund under the Investment for growth objective and Employment in the Czech Republic, C (2018) 7231 final wording of 29 October 2018.
26. Commission Implementing Decision of 20 February 2019 amending Implementing Decision C (2015) 3039 approving certain elements of the 'Enterprise and Innovation for Competitiveness' operational programme for the support from the European Regional Development Fund under the Investment for growth and jobs in the Czech Republic, C (2019) 1552 final wording of 20 February 2019.
27. *R Budget of the Common Agricultural Policy and Marketing for 2018 and its utilization as at 31 December 2018*, SAIF.
28. Collection of Laws.
29. Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on the VAT Action Plan: *Towards a single EU VAT area*: *Time to adopt a decision,* COM (2016) 148 final wording of 7 April 2016.
30. Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: *Annual Growth Survey 2018*, COM (2017) 690 final of 22 November.
31. Approved programming documents for programmes co-financed by the EU budget.
32. *Single Market Scoreboard, Performance per Member State, Czech Republic (Reporting period: 2004–2017)*.
33. *Study and Report on the VAT GAP in the 28-EU Member States: 2018* Final Report, TAXUD 2015/CC/131.
34. Press Release of the MoF of 31 January 2019. *In 2018, the Czech Republic received CZK 45.3 billion more from the EU budget than it had paid.*
35. *Official Journal of the European Union.*
36. *Journal of the European Court of Auditors.*
37. *Bulletin of the SAO.*
38. *Annual Report on the implementation of the EU budget for the financial year 2017, Official Journal of the European Union*, C 357/01, of 4 October 2018; previous annual reports.
39. Report from the Commission to the European Parliament and the Council: *29th Annual Report on the protection of the European Union's financial interests* - Fight against fraud - 2017, COM (2018) 553 final of 3 September 2018; annual reports for previous years.
40. *Report on the Czech Republic 2019,* Accompanying document to the Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank and the Euro Group, European Semester 2019: *Assessing progress in structural reforms and preventing and correcting macroeconomic imbalances and the results of the in-depth reviews of structural reforms* under Regulation (EU) No 1176/2011, SWD (2019) 1002 final wording of 27 February 2019.
41. *Report on the activities of the OLAF Supervisory Committee - 2017*, Official Journal of the European Union, C 398, of 26 October 2018.

42. *Report on the Results of Financial Controls in Public Administration 2017*, MF - Central Harmonization Unit, April 2018.

43. *Report of the Government on the Acceptance of Legislative Commitments Resulting from the Membership of the Czech Republic in the European Union for 2018*, approved by Resolution of the Government of the Czech Republic on 21 January 2019 no 55.

Web site used:

http://ec.europa.eu/competition/state_aid/scoreboard/index_en.html

http://ec.europa.eu/internal_market/scoreboard

http://ec.europa.eu/internal_market/scoreboard/performance_by_member_state/czech_republic/index_en.htm#maincontentSec1

http://europa.eu/rapid/press-release_IP-18-5966_en.htm

http://www.eagri.cz

http://www.europarl.europa.eu/committees/cs/tax3/home.html

http://www.mfcr.cz

http://www.nku.cz

http://www.nsz.cz/index.php/en/tiskove-zpravy/2253-v-trestnim-izeni-se-dai-zajiovat-stamilionove-vynosy-z-ekonomickych-zloin

http://www.szif.cz

http://www.vlada.cz

https://cohesiondata.ec.europa.eu/countries/CZ

https://ec.europa.eu/anti-fraud/sites/antifraud/files/olaf_report_2017_en.pdf

https://ec.europa.eu/info/publications/annual-activity-report-2017-taxation-and-customs-union_en

https://eucrim.eu/articles/olaf-gates-criminal-law/

https://eur-lex.europa.eu/homepage.html

https://www.dotaceeu.cz

https://www.eca.europa.eu/cs/Pages/ecadefault.aspx

https://www.eca.europa.eu/cs/Pages/ecadefault.aspx

Appendix 1: Overview of audit missions of the European Court of Auditors conducted in the Czech Republic in 2017 and 2018

Year		Date of the mission	Audit subject (programme)	Audit type (DAS/ performance audit)	Audit form (on-the-spot/ questionnaire)
2017	1	16 – 20 Jan.	*Integrated Operational Programme* – ERDF	DAS	on-the-spot
	2	31 Jan. – 3 Feb.	OP *Human resources and employment*	DAS	on-the-spot
	3	6 – 10 Feb.	Support for rural development from *the European Agricultural Fund for Rural Development*	DAS	on-the-spot
	4	27 – 31 March, 24 – 28 April	Focus on results in the selection and monitoring of the projects co-financed by the European Structural Funds and the *European Social Fund*	performance audit	on-the-spot
	5	4 – 7 April	ROP *South-West*	DAS	on-the-spot
	6	4 – 8 Sept.	Audit on air quality in Europe, in particular Directive 2008/50/EC, on outer air quality and cleaner air for Europe	performance audit	on-the-spot
	7	11 – 15 Sept.	Audit of the Assurance Statement for 2017 (DZS, MoEYS, Independent Audit Body)	DAS	on-the-spot
	8	3 – 4 Oct.	Audit of the Assurance Statement for 2017 (Masaryk University)	DAS	on-the-spot
	9	9 – 13 Oct.	Audit of the Statement of Assurance on the Traditional Own Resources for the financial year 2017	DAS	on-the-spot
	10	16 – 20 Oct.	Audit of Commission systems to obtain assurance in connection with the work of certification bodies.	DAS	on-the-spot
	11	24 – 25 Oct.	Audit of the 2017 Assurance Statement (BIC Plzeň, Limited Liability Company).	DAS	on-the-spot
	12	4 – 6 Dec.	Audit of Flood Prevention, Flood Protection and Flood Preparedness in the EU	performance audit	on-the-spot
	13	July	Problems of emission measurement		questionnaire
	14	Sept.	Reporting and management of greenhouse gas emissions in Member States		questionnaire
2018	1	5 – 9 Feb.	Audit of the control system for organic production and labelling of organic products	DAS	on-the-spot
	2	5 – 9 Feb.	OP *Environment*	DAS	on-the-spot
	3	5 – 9 Feb.	OP *Transport* EFRR/FS	DAS	on-the-spot
	4	22 – 23 Feb.	Audit on the Statement of Assurance 2017 - Erasmus+	DAS	on-the-spot
	5	12 – 13 Sept.	Audit concerning the Statement of Assurance 2018 - FP7 - PROHEALTH	DAS	on-the-spot
	6	1 – 5 Oct. 6 – 9 Nov.	OP *Transport*	DAS	on-the-spot
	7	8 – 11 Oct.	Audit on the implementation costs of Cohesion Funds	performance audit	on-the-spot

Appendix 2: Overview of the Audit and Verification Missions of the European Commission carried out in the Czech Republic in 2017 a 2018

Year	DG	Date of the mission	Auditee	Audit no	Audit subject	State of the contradictory proceedings	Main findings	Measures taken
2017	DG EMPL		OP HRE	MAPAR EMPG307CZ0193	Review of AB´s activities	Finished	Identified shortcomings in the methodological part and in identification of ineligible expenditure	Fulfilled
	DG REGIO		IROP	REGC414CZ0062	Early Prevention System Audits under the memorandum of planned investigations – PP14 +	Finished		
	DG REGIO		IROP	REGC414CZ0093	Audit of reliability of performance data under the memorandum of planned investigations – PP14+	Finished	Without findings	
	DG REGIO		OP EIC	REGC414CZ0018	Audit of early prevention system under PP14+	Finished	Identified shortcomings	Fulfilled
	DG EMPL		OPPA, OPEC, OP HRE	EMPG307CZ0212	Missions to verify the annual audit report	Finished	Without findings	
	DG MARE		OPF	2017/CZ/MARE/E1/1	Missions to verify the annual audit report	Finished		
	DG MARE		OPF	2017/CZ/EPSA/MARE/E1	Preventive System Audit – PP14+	Finished		
2018	DG REGIO	22 – 26 Oct.	OPEn	REGC414CZ0123	*Review of ABs´ activities / compliance audits in 2014–2020* under the memorandum of planned investigations	Draft report		
	DG EMPL	1 – 26 Oct.	OP RDE	EMPG314CZ0264	*Early Prevention System Audits 2014–2020.* Thematic audit of projects using simplified cost reporting	Draft report		
	DG REGIO	9 – 16 Nov.	IROP	REGC414CZ0093	Audit of reliability of performance data (2014–2020)	Final report		
	DG REGIO	9 – 16 Nov.	IROP	REGC414CZ0062	Early prevention system audits 2014–2020	Final report		
	DG EMPL	18 – 19 April	OP RDE, OPEm, OP PGP	EMPG314CZ0222 Missions to verify the annual audit report		Finished		

Czech Republic | Supreme Audit Office | EU REPORT 2019